Rautaruukki Annual report 2005

more with metals

Ruukki in brief

Ruukki supplies metal-based components, systems and integrated systems to the construction and mechanical engineering industries. The company has a wide selection of metal products and services. Ruukki operates in 23 countries and employs 12,000 people. The share is quoted on the Helsinki Exchanges (Rautaruukki Corporation: RTRKS). Rautaruukki Corporation was established in 1960. The corporation has used the marketing name Ruukki since 2004.

Ruukki has three divisions with customer responsibility: Ruukki Construction, Ruukki Engineering and Ruukki Metals. The fourth division Ruukki Production is responsible for cost-effective production.

Ruukki Construction

Ruukki Construction supplies metal-based solutions for building construction, especially for the retail, industrial and logistics construction, as well as for infrastructure construction.

Ruukki Engineering

Ruukki Engineering supplies metal-based solutions for lifting, handling and transportation equipment industry as well as for paper and wood processing, marine and off-shore industries.

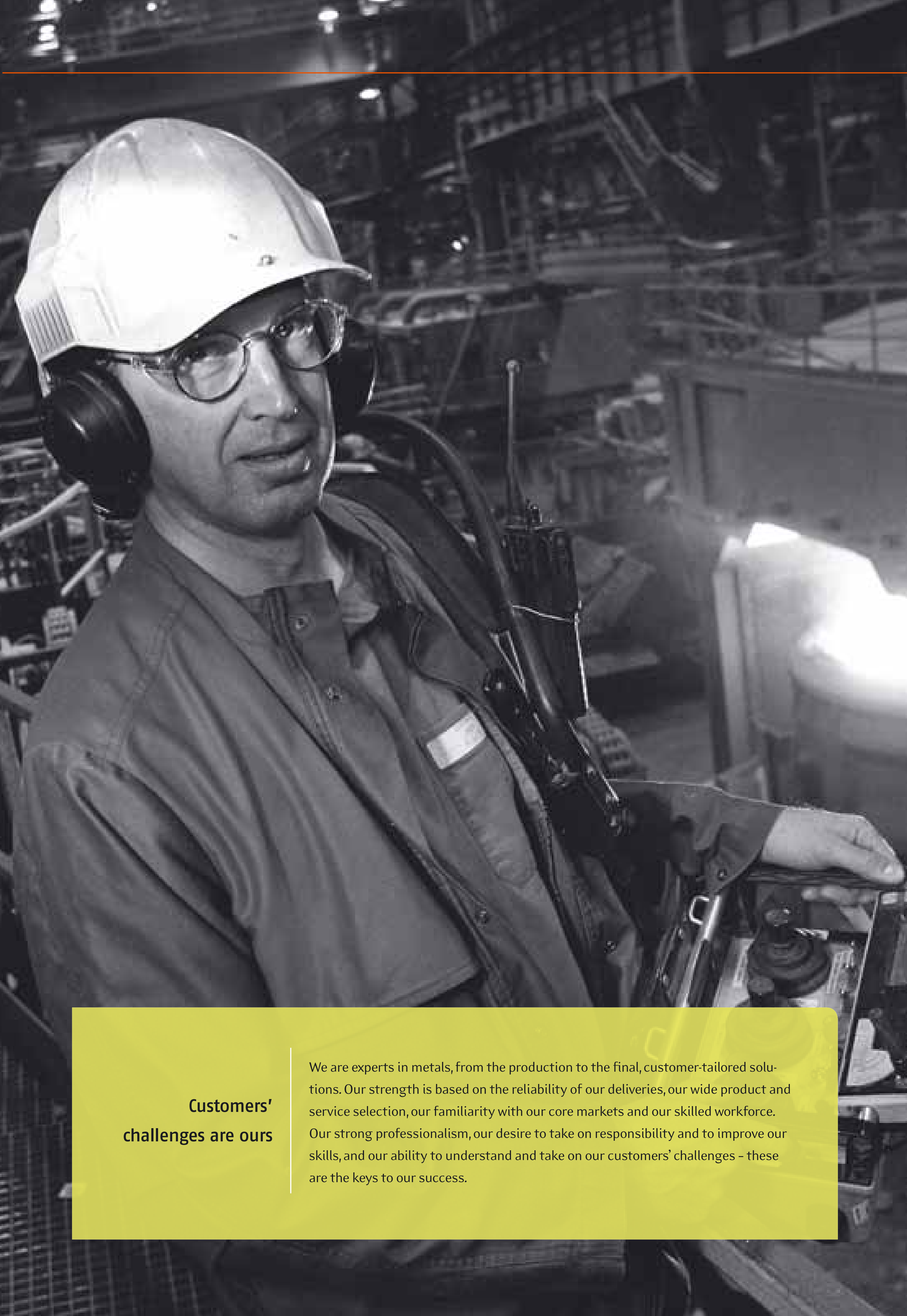
Ruukki Metals

Ruukki Metals supplies a wide selection of steel, stainless steel and aluminium as standard and special products, parts and components.

Ruukki Production

Ruukki Production manufactures hot-rolled, cold-rolled and coated plate and strip products, steel tubes and reinforcing steel for Ruukki's divisions with customer responsibility.

Ruukki's strategic intent



Customers' challenges are ours

We are experts in metals, from the production to the final, customer-tailored solutions. Our strength is based on the reliability of our deliveries, our wide product and service selection, our familiarity with our core markets and our skilled workforce. Our strong professionalism, our desire to take on responsibility and to improve our skills, and our ability to understand and take on our customers' challenges – these are the keys to our success.

In-depth knowledge of materials

Ruukki's metal-based solutions rest on our in-depth knowledge of materials. We are concentrating on serving our solution customers especially in the Nordic, Baltic and central eastern European countries. In addition we offer metal products and related services, special products primarily to our key customers in western Europe, and tailor-made metal products via our service centres.

Innovative solutions just in time

We meet our customers' needs with wide-ranging, innovative and high-quality components, systems and integrated systems. Our well-placed, smoothly operated service centres and production units together with our reliable logistics ensure swift deliveries at just the right stage in the customer's production process, and accurate, on-site installations. We help our customers to streamline their operations by speeding up projects and increasing cost efficiency.

Customers' needs foundation for our operations

We develop our product range and ability to deliver for the benefit of our customers. Our development work is founded in a deep understanding of our customers', as well as our customers' customers' needs. Our customer relationships are based on mutual trust, and we are continuously developing our customer service to be better and more efficient. We aim to be a one, unified company with whom our customers are easy to deal with.

Rautaruukki
Annual report 2005

Contents

www.ruukki.com

Ruukki operates in 23 countries and employs about 12 000 people.
On the cover some of them.

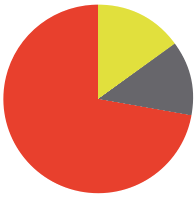
Excellent year 2005

- Market situation in most important customer sectors remained good
- Rautaruukki's profitability was excellent
- The company's balance sheet structure is now good
- Solutions businesses boosted by acquisitions
- Long steel business were transferred into Oy Ovako Ab

Key figures

	2005	2004
Net sales, M€	3,654	3,564
Operating profit, M€	618	493
Operating profit, % of net sales	16.9	13.8
Profit before taxes, M€	612	443
Return on capital employed, %	32,8	26.0
Return on equity, %	34.7	33.8
Equity ratio, %	56.0	41.7
Gearing ratio, %	22,8	68.0
Interest-bearing net debt, M€	341	761
Earnings per share, €	3.31	2.40
Dividend per share, €	1.40*	0.80
Equity per share, €	10.98	8.29
Personnel on average	11,684	12,273

* Board proposal



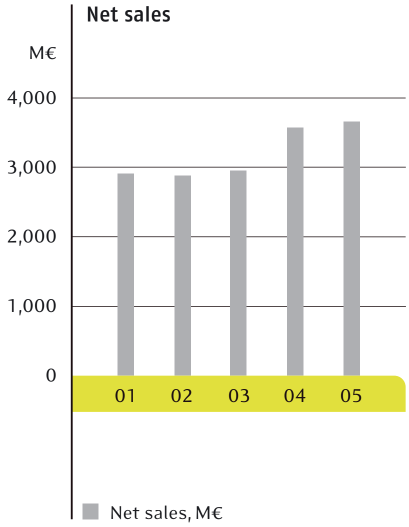
Net sales by division 2005

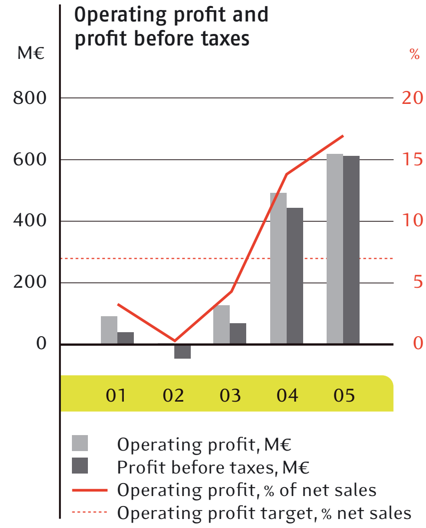
- Ruukki Construction 15%
- Ruukki Engineering 13%
- Ruukki Metals 72%

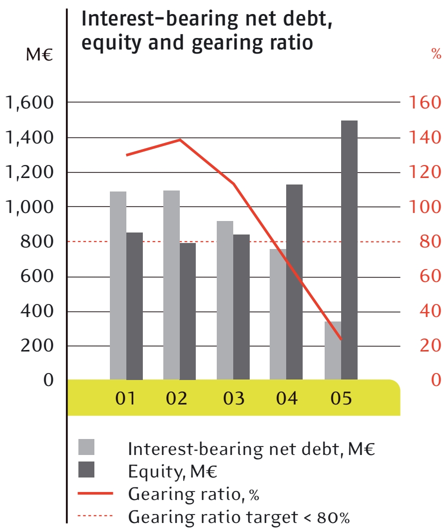
Net sales by market area 2005

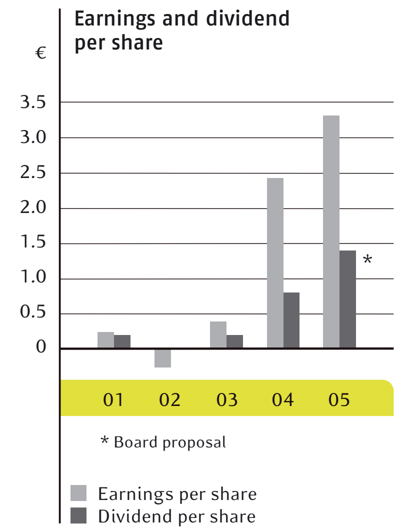
- Finland 29%
- Scandinavia 30%
- Central eastern Europe 12%
- Other Europe 26%
- Other countries 3%

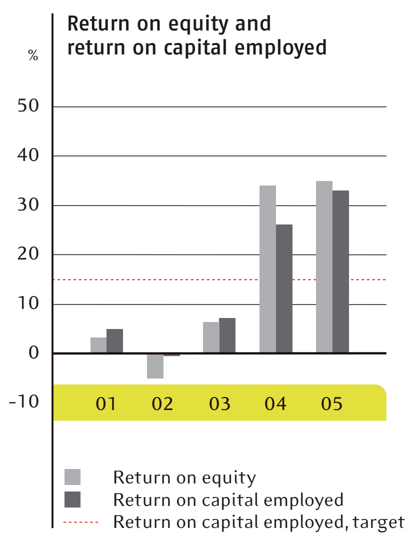
Financial statements for 2001-2003 according to Finnish (FAS) and for 2004-2005 according to international IFRS standards.

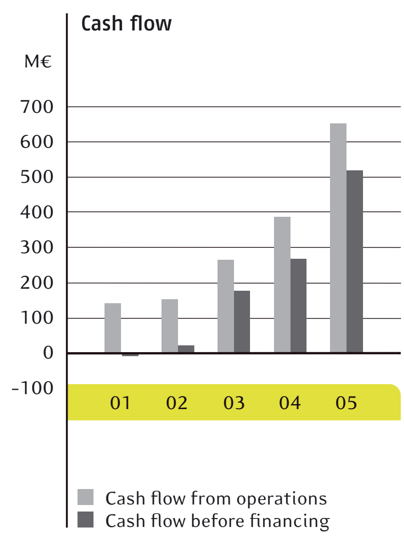












Now we have the foundation for profitable growth

During 2005 we focused on implementing our new strategy. We pushed ahead with measures to gear operations towards the solutions businesses and to improve the sales structure, whilst adjusting production in line with profitable demand. The Group's profitability in 2005 was excellent and the balance sheet structure is now good.

Our objective is to be the most desired solutions supplier to our customers in the construction and engineering industries by the end of this decade. Furthermore, we want to be the leading supplier of metal products and related services. By focusing on two customer industries and channelling resources into special products and into customised metal products that are sold through our service centres, we are seeking to build a customer-oriented way of working and better customer service along with clearly improved and more stable profitability.

We have worked purposefully to revitalise Ruukki's strategy and business model. 2005 saw many of the projects we have launched take shape, and our strategic decisions began to be realised in practice. During last year, at the latest, our strategy moved from the planning stage to become a part of day-to-day operations. A significantly improved balance sheet structure together with know-how that has been strengthened by our recent acquisitions have laid a solid foundation enabling us to concentrate now on growing our business profitably.

Better capabilities to meet the customers' needs

The acquisitions carried out in 2005 strengthened our solutions businesses. They also created a basis for organic growth of business. Within Ruukki Construction, the acquisitions greatly strengthened our expertise, our product range and our presence in the important market in central eastern Europe, Russia and Ukraine. Our capability to deliver integrated systems improved. We are now able to supply our construction customers with foundation, envelope and frame structures and to take on an increased role in design and total projects. For our customers, this means a shorter construction time and smaller risk.

Our customers in the engineering industry are concentrating on their core businesses and are outsourcing operations. Ruukki Engineering's product selection for the lifting, handling and transportation equipment industry has been bolstered through acquisitions, giving it the readiness to meet the customers' needs and to deliver larger solutions ranging from cabins, frames, masts and booms all the way to completely assembled end products such as the drilling rig from Kurikka.

The Group's structure became much more balanced following the spin-off of the long steel business into Oy Ovako Ab together with Wärtsilä of Finland and SKF of Sweden.

At present, solutions – components, systems and integrated systems to the construction and engineering industries – account for about a third of the Group's net sales. We are fast approaching our interim objective for 2007: striking a balance between our solutions businesses and metal products.

Good demand in core markets

Demand remained strong in the Group's most important customer sectors. Within traditional steel industry products, the situation was more challenging, but started to strength-

en towards the year-end. We continued to make inputs into a customer-oriented way of working and profitability-driven control of sales and production activities. The Group's profitability improved on the previous year and was excellent.

In the beginning of 2006, the market situation in the Group's core markets has been good. Demand is expected to hold up well within construction and engineering industry, and prices of steel products are set to strengthen.

Focus on production flexibility and working safety

Within production, we still pursuing our objectives of improving flexibility and cost-effectiveness as well as delivery accuracy.

Making a concerted effort to improve working safety was a Corporate-wide theme last year. We did achieve results, because accident frequency fell from 32 accidents per million hours worked in 2004 to 24 accidents in 2005. The amount of accidents is still high, and this is why our single-minded target is zero accidents. A key emphasis this year will be safety management, aided by the comprehensive safety management training that was started last year.

Ruukki United brings cost efficiency

We reassessed the financial objectives of the Ruukki United programme that aims to unify the Group's ways of working and to bring about a continuous improvement in operations. By the end of 2008, the improvement of cost-efficiency is expected to add about 150 million euros to operating profit, and efficiency-boosting is estimated to free up capital an additional 150 million euros. The Ruukki United programme aims at improving customer service through the continuous development of our ways of working, so that it would be easy and convenient for our customers to work with us.

We fulfill the promises given to our customers

For our personnel, the past year has been full of work and demanding. Each and every one of our people has had to demonstrate their commitment and flexibility. For many, job tasks and the way they are done have changed, and nearly 1,800 new employees have joined Ruukki through acquisitions. Apart from the most important work – customer service – just about everybody has also had to find time for joint development projects. In order to be able to meet our customers' growing requirements, for example better delivery accuracy and reliability, we must act as a united Ruukki team.

I wish to express my warm thanks to everyone at Ruukki for their fine efforts on behalf of our customers and our company.

Helsinki, 8 February 2006
Sakari Tamminen
President and CEO

A growth focus on central eastern Europe

- Customer focused operating model
- Profitable growth from solutions
- Growth focus on central eastern Europe
- Strong position and know-how in the nearby markets
- Profitability across business cycles

Major changes have taken place in the steel industry over the past years. In customer industries, companies are concentrating on their core businesses, building their service businesses and outsourcing manufacturing. In the mature markets of Europe and the USA, companies are seeking new growth areas. Steel companies are adopting a basic strategy of either taking an active part in the consolidation process or else specialising in niche areas.

> Objective is to be the most desired supplier of metal-based solutions

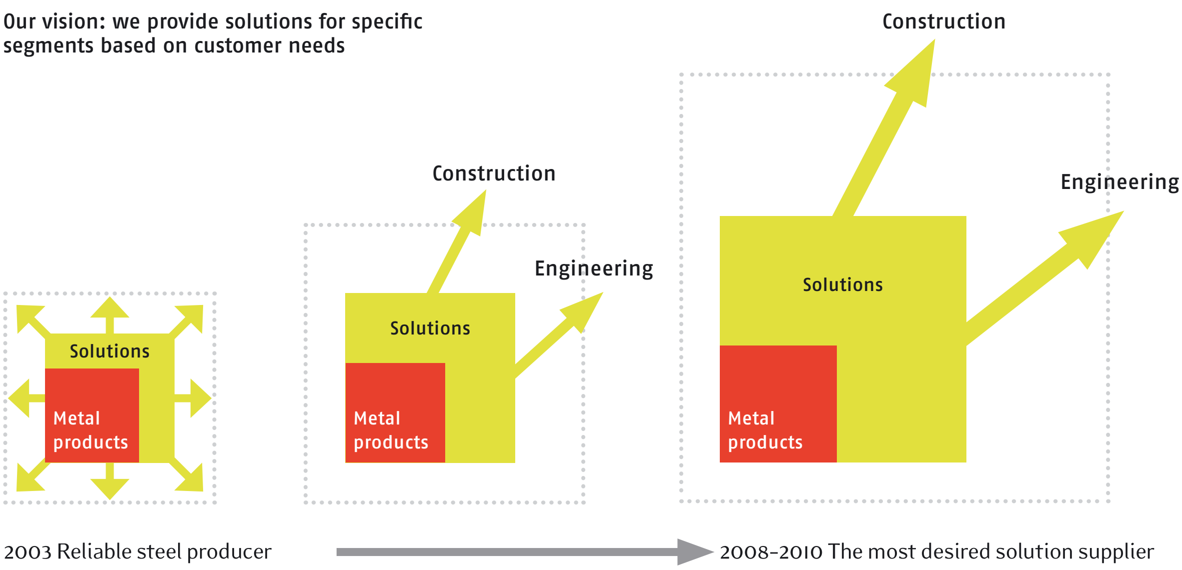
Ruukki's objective is to specialise by changing from being a reliable steel supplier to become the preferred supplier of metal-based solutions for selected customer segments by 2008-2010. The solutions business will enable the company to achieve profitable growth over the longer term, reduce exposure to cyclical fluctuations and tie up less capital than is required in traditional steel production.

A customer orientation underpins operations

Ruukki's new way of working focuses on customer orientation. The Ruukki Construction, Ruukki Engineering and Ruukki Metals divisions are managed focusing on customer segments and market areas. Ruukki Production and the Group's support functions work in unison with the customer-aligned divisions. A special emphasis in competence development is put on thorough knowledge of customer industries and the demands of solutions business.

Forecasts and orders steer the optimisation of production, purchasing and transports. Concentrating on market and customer needs also calls for greater flexibility in steel production in line with profitability criteria and demand.

Our vision: we provide solutions for specific segments based on customer needs



Acquisitions and divestments

Acquisitions		Net sales 2004 (M€)	Closing
Metalplast-Oborniki	know-how of construction systems	65	6/2005
Syneco Industri	components for the lifting, handling and transportation equipment industry	37	10/2005
PPTH	construction project know-how and total deliveries	101	1/2006
Steel-Mont	construction project know-how and total deliveries	15	*

Divestments	Net sales 2004 (M€)	Closing
Ruukki's long steel products to Ovako	600	5/2005
Froh HouseTech (vacuum cleaner tubes)	10	9/2005
Halikko Works	13	10/2005

*requires approval from competition authorities

Growth from solutions

Ruukki's customers concentrate on their own core businesses and are looking for highly competent, reliable partners who are strong component and system suppliers.

Ruukki has set the target of generating half of its revenue and earnings in 2007 via its solutions divisions – Ruukki Construction and Ruukki Engineering – and half of Ruukki Metals. Solutions comprise deliveries of parts, components and systems to selected customer segments.

The organic growth and the development of the solutions businesses will be supported through acquisitions. The companies acquired must be profitable and growing, and they must have know-how that supports Ruukki's strategies. Ruukki Construction reinforces the know-how particularly within construction project management, construction design and the fabrication of steel structures. Ruukki Engineering specialises in the manufacture of components and systems for the lifting, handling and transportation equipment industry.

The structural transformation is supported by divesting non-core units.

Fast-tracking profitable growth in central eastern Europe, Russia and Ukraine

Strong market growth in eastern Europe is a major opportunity for all Ruukki's businesses. Ruukki's objective in central eastern Europe, Russia and Ukraine is to gain market share and to achieve strong revenue growth from the 400 million euro level seen in 2005.

Profitability over the cycles

Strategic actions	
Customer oriented approach	– Optimising the total profitability of the value chain together with customers – Longer contracts even out price fluctuations
Growth in solutions and special products	– The cyclical standard products' share of sales and profit decreases – The share of steel in the final product costs decreases – Growth in construction and engineering evens out the effects of cyclical fluctuations
Growth in eastern Europe	– Generates new business – Evens out cyclical fluctuations
Ruukki United	– Enhancing customer service – Eliminating overlaps
Flexible production	– Continuous market-based optimising of steel production and upgrading – Increasing subcontracting

Enhancing profitability

Less vulnerable to cyclical fluctuations

Profitable growth

Improving cost-competitiveness

Less capital intensive

More flexibility in capacity utilization

Growth will be boosted in all the countries of central eastern Europe by strengthening sales and marketing, investing in local production and acquiring companies that bolster our growth. New projects will be launched, particularly in the large, growing markets of Russia and Ukraine.

A strong position and know-how in nearby markets

Ruukki's objective is to strengthen its position as the leading supplier of metal-based solutions in the Nordic countries and the Baltic area. This will be done by improving customer service and continuously developing supply chain management.

Ruukki Metals is developing its services and is increasing the volume of its customer-specific steel service products, constantly looking for ways to add value. Delivery accuracy is being improved especially by increasing the joint efficiency and flexibility of the Ruukki Metals service centres and Ruukki Production's plants.

Target: to lower the cost level by 150 million euros

An important aim for Ruukki is to reduce exposure to fluctuations in the business cycle by augmenting sales of solutions and speciality products and reducing the proportion of price-sensitive standard products within sales. Production will be driven by market demand and profitability instead of trying to maximise volumes. Flexibility in the use of capacity will be developed in all stages of production and processing.

Customer service, delivery capability and operational efficiency will be improved by means of the Group-wide Ruukki United programme. A further objective of the project is to improve the cost structure. By the end of 2008, the

Implementation of stategy advances according to plan

Actions supporting strategy implementation

	2003	2004
Ruukki	Change of the business model	New financial targets Legal structure of the Group simplified New marketing name Ruukki Ruukki United programme commenced
Ruukki Construction		Production concentrated in Finland and Sweden
Ruukki Engineering		Acquisition of Velsa Oy Holding raised in Presteel Oy
Ruukki Metals	Acquisition of two steel wholesalers in Norway	Acquisition of TP-teräskeskus Oy New service center opened in Estonia
Divestments		Technology Sales, Star Tubes Ltd and welding wire operations sold

Financial targets

Financial targets and outcome

	Target	Outcome 2005	2004	2003
Return on capital employed (ROCE)	15%	32.8%	26.0%	7.1%
Operating profit (EBIT), % of net sales	>7%	16.9%	13.8%	4.3%
Gearing ratio	< 80%	22.8%	68.0%	112%
Ruukki has adopted a competitive and stable dividend policy, which takes into account the company's earnings trend and adequate development of equity ratio.				
dividend per share, €		1.40*	0.80	0.20
dividend, M€		191*	109	27

* Board proposal

Group's cost level is expected to be permanently about 150 million euros lower compared with the costs of the business structure in 2004. Savings will be sought mainly in basic steel production and by enhancing the supply chain, centralising purchases and winding down overlapping functions. It is estimated that the efficiency-boosting programme will free up about 150 million euros of capital by the end of 2008, especially through optimising stocks and stepping up the working capital turnover ratio.

2005	2008–2010
Strategy fine-tuned; Ruukki United's cost saving targets defined	THE MOST DESIRED SOLUTIONS SUPPLIER
Acquisition of Metalplast-Oborniki; Decision to acquire PPTH; Decision to acquire Steel-Mont	A LEADING METAL BASED CONSTRUCTION SOLUTION PROVIDER IN NORDIC AND CENTRAL EASTERN EUROPEAN COUNTRIES
New service center opened in Raahe; Acquisition of Syneco Industri AB	A LEADING SOLUTION PROVIDER FOR SPECIFIC ENGINEERING CUSTOMERS IN NORTHERN EUROPE
Operations of the service centre in St Petersburg expanded	LEADING METAL PRODUCTS SUPPLIER IN NORDIC AND BALTIC COUNTRIES
Production of long steel products transferred to Ovako; Halikko Works and Froh HouseTech GmbH (vacuum cleaner tubes) sold	DIVESTING NON-CORE OPERATIONS

Strong growth in Ruukki's customer industries

- **Construction markets in central eastern Europe, Russia and Ukraine grew strongly**
- **Engineering industry grew globally**
- **Steel companies adjusted their production levels**
- **Companies in the steel industry continued to consolidate and increase internalisation**

The world economy grew at a slightly weaker rate than a year ago. Economic growth in Ruukki's core markets in the Nordic and Baltic countries and central eastern Europe was stronger than elsewhere in Europe. China's economic growth remained robust and affected the growth rate of the global economy. Industrial output increased most in the United States and China.

Construction market growing in eastern Europe

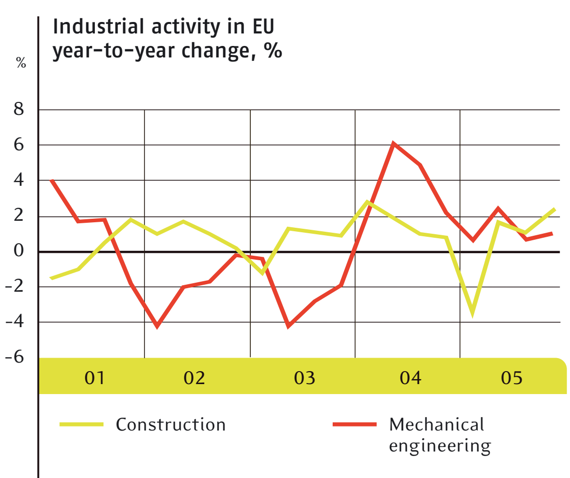
There is strong construction activity in Ruukki's core market. The West European construction market is clearly larger than its counterpart in eastern Europe, but the East European market is growing considerably faster. In the old EU countries, building construction centres on repair and renovation projects. In eastern Europe and Russia, the emphasis is on creating new commercial and logistics buildings. Supported and funded by the EU, infrastructure works are booming in eastern Europe.

West European construction companies have bolstered their market positions in eastern Europe by acquiring local companies and by investing in their own operations. Because the markets in eastern Europe are very fragmented, further consolidation among companies within construction industry is to be expected. In central eastern Europe and the Baltic countries, a shortage of skilled labour on construction sites has increased the demand for prefabricated building products that speed up the construction process and boost efficiency. The use of steel in construction has outpaced overall construction growth in several countries in eastern Europe.

The engineering industry powers ahead

Engineering companies have performed well, and this is reflected in their increased production volume. Growth has been especially strong in China, but the sector has also grown in Europe. Outsourcing of component manufacture in the engineering industry is spreading as companies concentrate on their core businesses. A greater amount of purchasing is now done in countries with lower production costs.

Demand has held up well in the lifting, handling and transportation equipment industry, where companies have



Source: Eurofer January 2006

Source: Consensus Forecasts

prospered. In the light of market growth and order books, they can look forward to robust sales. The forest machine market is growing worldwide, but fastest of all in Russia. The biggest growth in the construction and mining machinery market is in Asia (China and India). There has also been high activity in the shipbuilding industry in Europe.

Companies in the steel industry consolidate and increase internalisation

Efforts to reduce cyclicality have led to consolidation in the steel markets. In 2005, the creation of the world's largest steel company took place, when ISG was merged into Mittal Steel. The steel markets are going through a realignment into global giants that are seeking economies of scale and smaller specialised steel companies. Many of the larger steel companies are striving to safeguard the availability of raw materials by increasing their holdings in mining companies, whereas other companies are looking for strong niches by investing either in special products or in a higher degree of upgrading in selected customer industries.

European and US steel companies, whose domestic markets are seeing moderate growth have turned their gaze towards the growing markets of China, South America and eastern Europe. These markets are attractive not only because of their strong growth, but also because of readily available raw materials and low production costs. In the steel industry's customer sectors, particularly in the automotive and electronics industries, there has been a clear trend towards moving operations to countries with lower production costs.

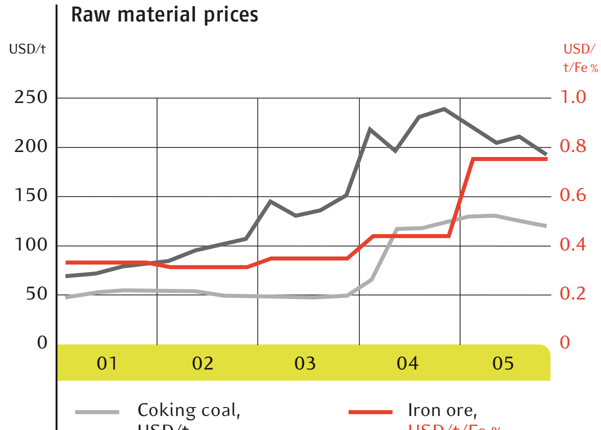
Adjusting steel output in line with demand

Deliveries of standard steel products were in decline in the early part of the year, especially in Europe, because wholesalers had topped up their stocks at the end of 2004. Steel prices were at record high levels at the beginning of 2005 but receded as destocking set in. By scaling back crude steel output in Europe, steel producers adjusted their production in line with demand. In the third quarter the world markets started slightly to grow as demand picked up, producers' order books got thicker and the price of recycled steel rose.

China's growth propelled a large part of the increase in world steel output in 2005. China's own output has headed sharply upward and the country's position as a net importer or exporter of steel has moved back and forth during the year. Transport costs are constraining extensive exports of basic steel products to distant overseas destinations.

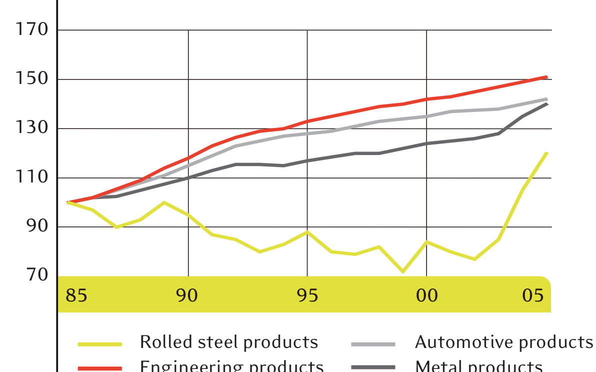
Prices of raw materials (concentrated iron ore and coal) and energy are heading upwards in the steel markets. Coke costs and freight charges, however, are decreasing. The added value contributed by the steel industry shows up more in customers' product prices than in the real prices of standard steel products.

Raw material prices



Sources: Coal Week International, Australia Queensland Metal Bulletin, HMS 1&2 fob Rotterdam LKAB, Kiruna KBF

Product prices in Germany
Index, 1985 = 100



Source: Statistiches Bundesamt, Germany

Ruukki Construction

Metal-based solutions for construction

Ruukki's expertise and wide selection of metal-based products speed up construction. Our innovative components, systems and total deliveries including foundations, frames and shells provide cost-efficiency. The precision of our deliveries, our use of off-site construction and the speed of our installations ensure the smoothness of operations even in challenging environments. We are able to support construction projects of a variety of scales, from plans to installation.


A11

Strategy advances, accelerated by acquisitions

- Market situation good
- Increased deliveries and improved profitability
- Acquisitions and organic growth boosted business volume
- Customer focus and efficiency enhanced

Construction is one of the two solutions businesses in which Ruukki is looking for strong growth. Ruukki Construction's core market is the Nordic countries, the Baltic countries, central eastern Europe, Russia and Ukraine. Ruukki Construction's strategic intent is to become the leading supplier of metal-based construction components, systems and total deliveries in the market area.

Our goal is to produce for the customers solutions that speed up construction process at the construction site and reduce risks in construction projects. The critical success factors are a thorough knowledge of customers, a strong local presence in the core market area, good awareness among the customers and an extensive range of products and services. The highly prefabricated solutions speed up the construction process at the site. When providing total deliveries, the importance of design and project management know-how are emphasized.

Selected customer segments and customer focus are basis for operations

The targets set for system and total deliveries are reached by concentrating on selected customer segments. Ruukki Construction's main customer groups are comprised of private and public-sector developers, construction companies and distributors. The focus in building construction is on retail, industrial and logistics construction as well as office facilities. In infrastructure construction, the focus is on road and railway construction and harbour projects.

Customers are served by local experts and units in each country. Products are manufactured in accordance with the requirements for each project, and a significant portion of processing operations is done close to the customer, creating a good basis for meeting customers' even more tighter delivery time requirements. The processing is managed centrally, enabling production and logistics efficiency to be optimised.

Net sales and operating profit on the rise

In 2005 Ruukki Construction reported a net sales increase of 46 per cent to 550 million euros (377). Operating profit was 86 million euros (57). The division's share of consolidated net sales was 15 per cent.

> Objective is to be one of the leading suppliers of solutions for metal-based construction

Net sales and operating profit were improved by the actions taken in order to expand selected business areas, coupled with a good market situation,an increased production efficiency and an improved sales structure.

A good market situation

Demand for industrial, retail and logistics premises grew strongly in central eastern Europe, Russia and Ukraine. There was also good demand in the Nordic countries.

Several traffic infrastructure and harbour projects were under construction in the Nordic countries, creating good demand for foundation and traffic structures.

The exceptionally cold winter in central eastern Europe was reflected in demand for roofing products. When the season got started, the demand was good.

Progress made in total deliveries

In central eastern Europe and Ukraine, total deliveries of frame and envelope structures for industrial, retail and logistics construction increased substantially. During the

Key figures

	2005	2004
Net sales, M€	550	377
Operating profit, M€	86	57

year about a hundred frame and envelope deliveries were made in the area. The envelope structures include external wall and roofing structures. In Russia, good progress was made in deliveries of envelope structures. External wall elements, in which cladding and windows are pre-installed in the elements at the plant, were well received by customers and deliveries of them showed an increase in the Nordic countries.

Ready-to-install retaining wall structures were delivered for a number of harbour projects in the Baltic sea area. The pile delivery to Skandia Harbour of Gothenburg, the biggest deep-sea harbour of the Nordic countries, was a long-term and demanding project delivery. In central eastern Europe and Ukraine, Ruukki received its first orders for component deliveries for bridge projects in the area. In Finland, a total delivery of noise barriers for the railway line project Oikorata between Kerava and Lahti got started in the autumn.

Strategy accelerated by acquisitions

During the year one acquisition was completed and two new ones were started. The acquisitions strengthen Ruukki's position in its core markets, extend its product range and bring in new know-how.

In June Ruukki acquired Metalplast-Oborniki Holding Sp. z o.o, Poland's leading manufacturer of metal-based construction panels. The acquisition has strengthened the division's delivery and service capability in central eastern Europe and the Baltic countries. The acquisition made Ruukki one of the leading suppliers of sandwich panels with a mineral wool core in Europe. In addition, the product range was expanded with sandwich panels with polyurethane and polystyrene cores. Ruukki is now more capable of offering customers the wall and roof delivery that are best suited to their needs in each project.

In September Ruukki announced it was acquiring PPTH Steelmanagement Oy, the leading steel constructor in the Nordic countries. The acquisition was closed in January 2006. In December, Ruukki announced it was acquiring Steel-Mont a.s., Slovakia's leading steel constructor. The acquisition still requires approval from competition authorities. The acquisitions will bring Ruukki steel structure fabrication and strengthen significantly knowhow in construction design and project management.

With the acquisition of PPTH, the product range in building construction extends from facades and roofs to frame structures. In infrastructure construction, the product range expands from foundations, noise barriers and guard rails to steel structures for bridges. The acquisition strengthens Ruukki's position within total deliveries in the Nordic countries and provides a knowledge-based platform for growth in construction solution business in central eastern Europe. The acquisition of Steel-Mont, together with the factory in Hungary that will be opened in summer 2006, will enhance Ruukki's delivery capability substantially in total deliveries throughout central eastern Europe.

Efficiency further increased

New investments in production will lay the groundwork for organic growth. The enlargement of the plant in Estonia brought a doubling of the production capacity for external wall elements. The delivery capability in central eastern Europe was strengthened by adding production capacity for construction components in the Czech Republic and Poland. In Hungary the construction of a new plant was started.

Efficiency was further increased by concentrating the production of construction components in larger units in Finland and Sweden. The actions taken to increase production efficiency lowered production costs and improved the inventory turnover rate.

Ruukki Engineering

Total solutions for mechanical engineering

Ruukki wants to be a strategic system and component supplier for the lifting, handling and transportation equipment industry in particular. Our strength is our in-depth materials expertise combined with our product development, design and outstanding logistics management. To mobile machinery manufacturers we offer total solutions covering frames, cabins, booms and other component assemblies. With the help of our broad network we command of the whole production chain from material procurement and purchasing to production and spare parts services.

A good capability for wider customer co-operation

- Market situation held up well
- Deliveries to main customer sectors grew
- Profitability improved significantly
- Non-core businesses divested

Ruukki is seeking to be one of the leading suppliers to the lifting, handling and transportation equipment industry and is increasing the share of parts, components and systems.

Ruukki focuses on being a solutions supplier to the construction and engineering industries. Within the engineering industry, Ruukki Engineering supplies components and systems to the lifting, handling and transportation equipment industry. For customers in the paper and wood processing industry and the marine and off-shore industry, Ruukki Engineering operates primarily as a supplier of parts and components.

> Objective is to be one of the leading solution suppliers for the lifting, handling and transportation equipment industry

Ruukki Engineering's customers are northern European companies that are leaders in their respective fields and operate globally. The division's objective is to serve customers better through a local presence in their new market areas. The customer benefits from in-depth materials know-how and flexible logistics. Via the acquisitions it has carried out, Ruukki Engineering has obtained a platform on which it can build more extensive solutions, such as frame and boom solutions for customers in the lifting, handling and transportation equipment industry.

Net sales and operating profit on the rise

In 2005 Ruukki Engineering's net sales were up 45 per cent to 476 million euros (329). Operating profit was 96 million euros (53). The division's share of consolidated net sales was 13 per cent.

Apart from the good market situation, net sales were lifted by the inclusion of Velsa Oy in the division in November 2004 and by adding Syneco Industri AB in October 2005. Operating profit was lifted by positive price development coupled with improved operations and sales structure.

Good demand in the engineering industry

Demand in the lifting, handling and transportation equipment industry has been at a very good level all year long and deliveries grew substantially, particularly to manufacturers of materials handling equipment and forest machines.

Demand in the paper and wood processing industry was strong in 2005. New investments were made mainly in Asia, China, eastern Europe and Russia. Deliveries were up on the previous year. Roll blanks were delivered for new applications in the pulp and paper machine industry.

The market for wind power plants grew substantially and there was rising demand for the frame components for wind power plants.

Within the shipbuilding industry, order books were at a very good level around the world and some customers had orders for several years ahead. The rise in the price of oil has led to more new offshore projects.

Moving up the value chain through acquisitions

In October 2005 Ruukki acquired Syneco Industri AB, which manufactures frame structures and other large steel components for the lifting, handling and transportation equipment industry. Syneco Industri's operating subsidiaries are in Sweden, Poland and China. Companies have used marketing name Weibulls. Syneco Industri and its subsidiaries have

Key figures

	2005	2004
Net sales, M€	476	329
Operating profit, M€	96	53

been integrated into Ruukki Engineering and they have adopted the Ruukki marketing name. The clientele includes many of the world's leading manufacturers of end products, whose products are used in materials handling, the mining industry and the heavy vehicle industry.

The acquisition of Syneco Industri AB is a follow-up to the purchase of the cabin manufacturer Velsa Oy that was carried out in 2004. Through these acquisitions, Ruukki Engineering has speeded up implementation of its strategy of being a supplier of solutions for the lifting, handling and transportation equipment industry. Having combined Velsa's and Syneco Industri AB's know-how and products for the lifting, handling and transportation equipment industry, Ruukki is now ready to serve its customers better than ever before by delivering larger solutions ranging from cabins, frames, masts and booms all the way to completely assembled end products. An example of a system delivery is a materials handling machine for which Ruukki supplies the frame, mast and cabin. For forest machines, we supply cabins and parts of the frame.

> Being located close to the supplier network guarantees flexible logistics

Ruukki Engineering's strategic value chain has a fabrication capability for customised parts, components and systems. Ruukki Engineering's four service centres occupy a key position in the value chain. The newest of these service centres started up in Raahe in summer 2005 and it concentrates on delivering parts to the lifting, handling and transportation equipment industry. The location close to the supplier network guarantees flexible logistics. Because Ruukki Production has raised its quenching capacity for steel plates, Ruukki Engineering will be able to increase its deliveries of components made from high-strength steels.

Ruukki Engineering is building additional capacity in Kurikka in order to be able to meet increased demand and raise the efficiency of its cabin production. The additional capacity is set to go into operation in the second quarter of 2006.

Non-core operations and businesses divested

During the year, two non-core operations were divested and in May 2005 parts of Ruukki Engineering were transferred to Ovako, which was established jointly by Rautaruukki, SKF and Wärtsilä. In October, Ruukki sold the Halikko Works business that manufactures dished ends for tanks. The divestment freed up resources for developing the priority areas set out in the company's strategy.

Ruukki Metals

Metals as our customers need them

Ruukki is known in North European markets as a reliable supplier of quality metals. We take responsibility of our customers' metal-related needs by supplying metal products, their related services, and parts and components smoothly and efficiently. Our service centres offer a wide selection of products and a variety of customer-tailored prefabrication services. Efficient logistics ensure punctual deliveries even in demanding projects.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Enhanced efficiency with customer focus

- **Good market situation continued**
- **Market position strengthened further in core markets**
- **Delivery proportion of special products grew as planned**
- **Development of operations continued**

Ruukki has set the target of being the leading supplier of metal products in the Nordic countries and the Baltic Rim. Ruukki Metals supplies various types of steel, stainless steel, aluminium and reinforcement products in the form of standard and special products, parts and components. The network of steel service centres provides a wide range of prefabrication services and stocking of products. Through its products and services, the division also plays an important role in supporting the solutions divisions and rounding out their product lines.

The competitiveness of Ruukki Metals is based on a customer-oriented way of working, a comprehensive range of products and services as well as the speed and reliability that stem from our operational model. The core market area is the Nordic and the Baltic countries and the countries of central eastern Europe.

> Our goal is to be the leading supplier of metal products in the Nordic and Baltic countries

In its core market area, Ruukki Metals' strength lies in its unique integrated-service concept consisting of deliveries from our plants and service centres, supplemented by materials from leading external suppliers. In other markets the division concentrates on highly upgraded special products in selected customer industries.

Operating profit improved

Sales of wire and bar products were transferred from Ruukki Metals to Oy Ovako Ab, which was established at the beginning of May.

In 2005 Ruukki Metals' net sales fell by 8 per cent to 2,625 million euros (2,850). The drop in net sales were largely attributable to the fact that the units that were transferred to Ovako were no longer included in the division's reporting as from 1 May 2005 and to the lower volume due to the adjustment of production. Measured against comparable net sales of 2,522 million euros in 2004, growth was 4 per cent. Operating profit grew by 14 per cent to 486 million euros (425). Comparable operating profit in 2004 was 385 million euros. Operating profit was lifted by higher prices coupled with efficiency-boosting and an improved sales structure. The division's share of consolidated net sales was 72 per cent.

Growing demand and stronger prices

Average prices of metal products were during 2005 clearly higher than in 2004. The rise in prices was affected by continuing good demand and higher raw material prices. Among wholesalers, the overstocking that was done towards the end of 2004 and at the beginning of 2005 depressed deliveries, and in the first half of the year this translated into considerable pressure on spot market prices. The steel industry reacted to the situation by adjusting production to profitable demand. The stock levels were normalised during the autumn and spot market prices began to rise slightly at the end of the third quarter.

The situation in the world markets impacted the availability of materials in Ruukki Metals' market area, and the main operational focus was on meeting the needs of customers in the core market area. Demand held up well in the most important customer industries in the Nordic countries and the Baltic area. In deliveries to central Europe, the volumes of standard products were reduced as planned, and the proportion of special products, such as ultra high-strength steels, was increased. The trend in project sales in different market areas was also positive.

Key figures

	2005	2004
Net sales, M€	2,625	2,850
Operating profit, M€	486	425

Efficiency in operations

The business model was streamlined by organising the division's operations by customer and market area. Development of the sales structure was continued by gearing operations towards the core market area. The product range was optimised with an accent on profitability, and the proportion of standard products was cut back.

During the year the groundwork was laid for expanding the core market area to Russia and central eastern Europe, where the key emphasis in future will be on the development of logistics and Ruukki's steel service centres. Operations of the service centre in St Petersburg were expanded, notably through investments in sheet metal working centres. In addition, the sales organisation in Russia and central eastern Europe was reinforced.

> In Russia and central eastern Europe, the focus is on development of logistics and steel service centres

The delivery process was stepped up by developing logistics functions. The supply chain encompassing the plants and service centres underwent a critical review that led to an improvement in the cost-effectiveness of deliveries and logistics. Enhancing delivery accuracy was made the priority for the latter part of the year, and the development programme to accomplish this will move ahead during 2006.

Further steps were taken to develop and harmonise customer service. During the year preparations were made for taking in use a new operations management system, which will be in use at the steel service centres in the early part of 2006. The research and development effort will focus on customer-oriented special products in co-operation with the solutions divisions and Ruukki Production.

As part of the operational streamlining, the non-core Froh HouseTech GmbH business was sold in September.

Steel service centres form an essential part of Ruukki's integrated service concept. The centres offer versatile prefabrication services such as cutting to length, slitting, sawing, flame cutting, edging and machining. These services in combination with a comprehensive stock programme and well-functioning logistics guarantee fast, accurate and flexible deliveries. Ruukki operates a comprehensive network of service centres comprising more than 20 units in the Nordic and Baltic countries, Russia, Poland and Germany.

Ruukki Production

Quality steel flexibly and cost-efficiently

Ruukki manufactures steel and steel products flexibly and cost-efficiently. Our modern production units ensure that products are of the highest quality and that deliveries are precise. The flexibility of our production enables us to manufacture customised steel grades even to small orders. Based on our customers' requirements, our product development is focused on e.g. high-strength steel grades. We place particular emphasis on work safety and safety management.


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Smoothly running production, added flexibility

- **Production adjusted in line with profitable demand**
- **Launch of safety management programme**
- **Quality and productivity investments at the hot rolling mill reach completion**

The major part of Ruukki's production is organised within the Ruukki Production division, which manufactures hot-rolled, cold-rolled and coated plate and strip products, tubular steel products as well as steel reinforcements. Ruukki Production has two steel mills and 10 other production plants in Finland, Norway, Sweden and Denmark. Wire and bar production operations were transferred to Oy Ovako Ab, which was established at the beginning of May. Sales of products are handled by Ruukki's divisions that serve specific customer segments.

> Target to improve cost-effectiveness and delivery accuracy

Ruukki Production's main objectives are to improve cost-effectiveness and delivery accuracy.

Raw material prices continued to rise

The prices of raw materials used in steel manufacture rose further. The price of concentrated iron ore was about 60 per cent and the price of coking coal 40 per cent higher than in 2004. The price of recycled steel remained almost unchanged.

Purchases of raw materials came to approximately 930 million euros. Ruukki buys concentrated iron ore and pellets from Sweden and Russia. Coking coal is purchased mainly from producers in North America and Australia. The availability of raw materials is guaranteed through long-term delivery contracts.

Production flexibility increased

Production ran smoothly at all the plants and production flexibility was increased. At the production units, the operating reliability of the lines was improved and ways of working were put in place to enable output to be adjusted in line with sales volumes. Steel production at Raahe was 2,747,000 tonnes (2,719,000) and at Mo i Rana 687,000 tonnes (710,000). Steel production at the Koverhar and Smedjebacken works that were transferred to Oy Ovako Ab was 379,000 tonnes in January–April.

Delivery accuracy improved by 2 percentage points on the previous year. The volume of steel slabs purchased from outside suppliers fell to a quarter of the previous year's amount, thereby lowering production costs.

Focus on quality and productivity

Two major investments that will improve the quality of products and productivity went into operation at the hot strip mill in Raahe in early 2005: a new slab reheating furnace and an upgraded automated system. Commissioning went well.

At the plate rolling mill in Raahe, measures were launched for building new direct quenching equipment. The investment will bring a significant increase in the proportion of ultra high-strength steels in the Group's production and will support Ruukki Engineering's business in the fast-growing lifting, handling and transportation equipment sector. The investment is expected to be completed in 2007 at an estimated cost of about 24 million euros. The capital expenditure will support Ruukki's strategy of increasing the amount of special products.

Key figures

	2005	2004
Steel production, 1,000 t	3,813	4,549
Accident rate, No./mill. working hours	25	31

The plants manufacturing wire and bar products were transferred to Oy Ovako Ab, which was established in May. The plants in Toijala, Finland and Fredericia, Denmark, which manufacture cold-formed sections, were added to Ruukki Production from the beginning of 2005.

Emphasis on occupational safety

With a view to improving occupational safety, a safety management development programme was launched Corporate-wide. The programme started off at Ruukki Production, where procedures will be worked out that will later be introduced at the other divisions.

Initially, the principles of safety management were defined, and senior executives gave their full backing to them. Occupational safety was the theme of the year, and it was dealt with extensively in the company's personnel magazine and on the intranet. The development of occupational safety became one of the criteria of performance bonuses. In addition to continuous safety training, all supervisors took part in a two-day training event.

Accident frequency fell by 20 per cent

A clear improvement in job attitudes and ways of working was registered during the year. Ruukki Production's accident frequency fell by 20 per cent compared with 2004 and was 25 accidents per million working hours. The trend in occupational safety is monitored regularly by joint management–personnel co-operation bodies. The objective is to further significantly improve occupational safety.

Ruukki's production capacity – From steel production to products and solutions

Steel production	Standard products		Production site
Raahe, Finland 2,9 Mt steel from iron ore and recycled steel	hot rolled strips	0,6 Mt	Raahe
	plates	0,6 Mt	Raahe
	galvanised strips	0,6 Mt	Hämeenlinna
	cold rolled strips	0,2 Mt	Hämeenlinna
	colour coated strips	0,3 Mt	Hämeenlinna, Kankaanpää
	tubes, pipes and profiles	0,5 Mt	Hämeenlinna, Lappohja, Oulainen, Pulkkila, Gävle, Virsbo, Fredericia
Mo i Rana, Norway 0,7 Mt steel from recycled steel	rebars	0,5 Mt	Mo i Rana
	billets	0,15 Mt	Mo i Rana

New customer applications and solutions

- **Expanded co-operation with customers and end-users**
- **New steel grades for the needs of the solutions divisions**
- **Process development focuses on improving productivity and production flexibility**

Ruukki's R&D activities focus on the development of customer applications and solutions for selected business areas. Process development centres on improving productivity, achieving greater production flexibility and reducing environmental impacts.

In 2005 Ruukki increased its development co-operation with customers and end-users. Research services calling for special expertise were obtained from universities and research institutes. A significant part of the company's longer-term research was done within national and EU joint research programmes.

> R&D activities focus on the development of customer applications and solutions

Rautaruukki spent 22 million euros (17), or 0.6 per cent of net sales, on research and development.

Customer needs drive Ruukki Construction's R&D

Ruukki Construction's R&D work revolved around further developing present products and product systems as well as broadening Ruukki's product families on the basis of customer needs.

The division expanded its total deliveries of frame and envelope structures used in building industrial, retail and logistics facilities. As a result of development work, a hall structure that is suitable for production or warehousing purposes can now be enlarged by means of modular office and other spaces. Projects can be tailor-made to customers' needs.

The external wall system based on a steel thermoprofile was developed to be better in line with increasingly versatile requirements, and the system was expanded by new surface material options. The new cladding systems were developed jointly with customers in different construction projects. In multi-storey projects load-bearing frame was made an integral part of the external wall. Prefabricated load-bearing external wall panels make possible large floor-to-ceiling glass surfaces and windows, and they can be erected quickly and cost-effectively at the site. Customer needs also led to the development of a plastered, self-ventilating facade cladding system. The self-ventilating structure gives the facade much greater functionality.

In answer to customers' needs, the division developed a partition wall structure that is lighter to handle at the worksite, easier to install and with excellent acoustical properties. The optimisation of technical characteristics such as the thickness and strength of the material also improves the product's overall economy.

The fire-resistant properties of sandwich panels with a mineral wool core were enhanced significantly, making them better suited to demanding applications in industrial and commercial construction. Industrial design expertise and the subcontractor network were strengthened and used to greater effect in product development work.

Ruukki Engineering highlights planning and industrial design

Ruukki Engineering strengthened its research and development organisation in 2005. The network relies on both in-house and, as needed, external resources. When moving forward in the value chain, planning and industrial design also become a critical element of operations. R&D resources will be increased in accordance with customer requirements.

Ruukki Engineering's product development is currently concentrating on developing vehicle cabins. In customer-oriented product design, the division employs state-of-the-art CAD systems and builds prototypes to ensure the functionality of cabins.

During the year the first cabins for mining vehicles were delivered. For the needs of the paper industry, the division produced a new forklift truck cabin with a pivoting floor structure.

Efficiency was enhanced by emphasising the development of welded components in the division's own and customers' production. The use of ultra high-strength steels in mobile work machines is being studied in a wide-ranging research project together with a number of customer companies.

Ruukki Metals developes new special products and coatings

With a view to bringing out new hot-rolled products, Ruukki Metals launched an extensive four-year development project together with key customers and Ruukki's solution divisions. The projects will focus on new applications for high-strength, hot-rolled special products, whilst the strength classes and thickness ranges of the current production programme are further expanded. The usability of completely new steel grades with exceptional strength and high toughness at low temperatures is being tested in the lifting, handling and transportation equipment industry and in marine applications.

During the year work was completed on high-strength formable DP steels (Dual Phase) that comply with Euronorm requirements, and galvanneal-coated DP steels were included in the production programme.

On a pilot basis, customers began taking delivery of chromate-free, colour-coated sheet steel. The products meet the requirements of the EU directive for the electrical and electronics industry, which will enter into force in 2006. At the same time, the division is preparing to comply with any future requirements within the construction industry.

Development work on antifingerprint as well as antibacterial coatings were continued together with VTT Technical Research Centre of Finland. The preliminary results with coatings based on nanotechnology have been very promising. The R&D work is pressing ahead with the aim of finding the best combinations of properties and ensuring lasting durability.

Technology and materials solutions, particularly for demanding component applications, were developed together with selected customers. The emphasis was on thin sheets and tubes as well as techniques for joining components. Within materials development, solutions were sought to the durability of end products.

Ruukki Production focuses on improving flexibility and productivity

Ruukki Production is running a number of process development projects aiming to enhance productivity and cost effectiveness, increase production flexibility and reduce environmental impacts.

The productivity of the coking plant and the properties of coke were improved by studying the effects of different coal grades on graphite formation on the coking oven. Such formations reduce the oven's effective volume. Six Sigma methodology was used in carrying out the study.

In order to lower the costs of the material used in charging the blast furnace, sinter and pellet grades having a different composition were tested and their effect on blast furnace reducing agent consumption was assessed. The melting shop developed a method of preheating scrap whereby the waste heat from the walking beam furnaces is utilised. This cuts down on energy consumption and improves occupational safety. The method is planned to be introduced in 2006.

Ladle metallurgy and the continuous casting process were developed by launching an extensive national research project with the primary aim of evolving techniques for demanding special products. It is forecast that demanding steel grades will occupy a sharply increased share in the Group's sales, in tandem with increasingly stringent requirements.

Thanks to the commissioning of a new walking beam furnace and upgrading of the automation of the roughing stand, considerably better uniformity was ensured for the quality of strip products, thus reducing rejects and improving the usability of products, especially when using automated sheet metal working centres.

Code of Conduct to steer responsible business operations

- The Board of Directors approved Ruukki's Code of Conduct
- New environmental and quality policies published
- New Corporate-wide EHSQ guidelines (Environment, Health, Safety, Quality) published
- Corporate Responsibilty Report updated

Ruukki has given its commitment to honour the principles of sustainable development in its operations. This means that operations must result in good financial performance, burden the environment as little possible and show respect towards people.

Ruukki's operations are steered by the Corporate Governance guidelines that define the tasks and responsibilities of the Supervisory Board, the Board of Directors, the President and CEO and the company's top management. The activities of everyone at Ruukki are steered by the Code of Conduct, which was approved by the Board of Directors in early 2005 and which defines good business practices within Ruukki. The different aspects of responsibility in business operations are detailed in the Group's operating policies.

> Customers' needs at the core of our vision

During 2005, Ruukki fine-tuned the concepts of responsibility in business operations and formed a team to ensure the development of responsible business operations. Environmental and quality policies were updated and the first Corporate-level guidelines for the management of environmental, health, safety and quality issues were published. Additional information about our way of working can be found on our website www.ruukki.com.

A reliable partner

Ruukki aims to be a reliable and responsible partner to its stakeholders and personnel. The company adheres to the principles of good corporate citizenship in all the countries in which it has operations.

Ruukki's Code of Conduct include principles of social responsibility which are based on human rights as defined by the UN as well as the rights of children and workers. Ruukki is committed to equality in recruitment and employment matters. The treatment and assessment of employees and job applicants is to be based on their skills.

Customers' needs

At the core of Ruukki's vision are the customers' needs and meeting them with metal-based solutions. Steel offers environmentally sound solutions for the modern construction and mechanical engineering industries. Due to its high strength, steel is a durable and light material that can be completely recycled after use. The EU's growing product related environmental legislation promotes the use of recyclable materials and solutions.

Responsible partners

Ruukki is a major buyer of raw materials and energy as well as external services. Ruukki's aim is to use only subcontractors and suppliers who are committed to compliance with ethical operating policies and legislation. The principle for making procurements is to invite competitive bids on them. The performance of suppliers is monitored and developed through regular co-operation, with an emphasis on matters relating to the cost and quality of products and services. Moreover, Ruukki monitors the environmental systems of companies supplying raw materials, goods and services.

Taking the needs of society into account

Ruukki is a major local operator in many of its business locations. Regular and open contacts with municipalities and other nearby communities ensure the continuity and development of operations in a way that meets with stakeholders' approval. Ruukki's representatives engage in regular interaction with local officials in matters of importance to the company and the nearby community.

Ruukki's Corporate Responsibility Report will be published in spring 2006.

Common processes for environmental issues

- EU emissions trading begun
- New environmental policy published
- Corporate-wide environmental objectives, targets and guidelines adopted

Ruukki takes the environment into account in all its business operations. At Ruukki, responsibility for the environment means attaining in reducing environmental impacts over the product's entire life cycle as efficient as possible.

Ruukki's Corporate-wide environmental objectives

Developing the management of environmental issues
- operations within the permit limits
- building environmental management systems for the production sites

Developing energy conservation
- reducing specific energy consumption
- creation of energy saving plans

Reducing wastes
- examination of current situation and identification of additional recycling possibilities

Promoting a product related environmental thinking
- taking environmental issues into account in R&D and marketing

In order to develop the management of environmental issues, Ruukki carried out a stakeholder analysis of environmental issues, fine-tuned the certification targets of environmental management systems and drew up a Corporate-wide environment and energy reporting system.

In order to improve energy efficiency, energy audits of the company's sites in Finland were completed. Ruukki carried out a survey of waste generated at its business locations and targets were fine-tuned based on this survey.

In 2005, Ruukki published five environmental declarations outlining the environmental effects during the lifespan of the company's product groups. In addition, the company published an update to the Corporate Responsibility Report as well as Raahe steel works' EMAS report and Mo i Rana steel works' environmental report.

Certified operations

All the sites where operations involve significant environmental impacts have a certified environmental management system. At the end of 2005, 77 per cent of Ruukki's staff and 96 per cent of its operations were covered by certified environmental management systems.

In accordance with the environmental management systems, the business locations have operationally gauged environmental targets that are based on studies of the importance of environmental issues and are monitored at each business location.

Eco-efficient products and solutions

The most significant environmental effects of Ruukki's operations occur as a result of steel production as well as in rolling, galvanising and paint coating. The greatest environmental effects are the consumption of raw materials and energy as well as carbon dioxide and particulate emissions.

Ruukki's aim is to develop eco-efficient products and solutions. In addition to minimising the effects on the environment, the company monitors and develops the products' environmental qualities. The main environmental property of a steel product is that it is fully recyclable, yet does not lose any of its strength through repeated recycling.

The EU Directive on certain electronic and electronical equipments bans the use of hexavalent chromium as from July 2006. Ruukki has made preparations for the protective treatment and pretreatment of steel strip in order to comply with the directive in its galvanised and paint coated products.

Progress on the issue of slags

On 20 September 2005, the Supreme Administrative Court reversed the decicions of the Vaasa Administrative Court and the North Ostrobothnia Regional Environment Centre regarding the environmental permit for slag processing at the Raahe steel works. In the decisions, the authorities had ruled that the fully-recyclable slags formed as a by-product in steel manufacture are a waste. The Supreme Administrative Court has referred the matter to the Northern Finland Environmental Permit Authority in connection with the steel works' new environmental permit. Blast furnace and steel slags are tried-and-tested materials in earthwork and road construction, cement production and soil conditioning. The use of slag products conserves non-renewable natural resources and reduces carbon dioxide emissions. The possible interpretation that slag products are a waste will impede their recycling.

Emissions trading started

Of Ruukki's plants, Raahe and Hämeenlinna in Finland fall within the scope of the EU's emissions trading. A similar system has been developed in Norway whereby the EU's emissions allowances can be utilised unilaterally. The Norwegian system applies to the Mo i Rana Works. Smedjebacken in Sweden, Alblasserdam in the Netherlands and Koverhar in Finland became a part of Oy Ovako Ab, which was established in May.

In the initial allocation, Ruukki receives a total of 18.6 million tonnes of carbon dioxide allowances, of which 6.2 million tonnes were for 2005. Of these, the portion for the units that transferred to Ovako amounted to a total of 3.2 million tonnes, of which 1.1 million tonnes were for 2005.

Emissions trading will improve the profitability of energy saving investments and reduce carbon dioxide emissions. Since Ruukki's steel production is already carbon dioxide efficient, emissions trading has not led to major investments in 2005. Ruukki joined the World Bank's Community Development Carbon Fund (CDCF) with a 4 million dollar participation as part of its carbon dioxide balance management.

At Ruukki, trade in emissions allowances is conducted in a co-ordinated manner in accordance with the company's risk policy. No emissions allowances were traded in 2005. The onset of emissions trading raised the price of electricity, as Scandinavian electricity producers added the costs of emissions rights to the market price of electricity.

In accordance with its national energy and climate strategy, the Finnish government will strive to ensure the competitiveness of the steel industry, notably, by distributing enough emissions allowances to meet the industry's estimated demands.

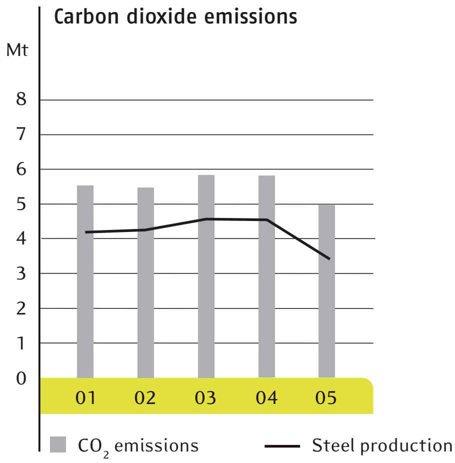
Investments in energy efficiency

Ruukki began major repairs on the air preheaterof the Raahe steel works' blast furnace. The programme is estimated to bring annual energy savings of 20,000 MWh. The repairs are due for completion in 2006. The emissions measuring and reporting systems at the Raahe steel works' power plant were also renewed. Investments were also made in a VOC incineration plant at the Oulainen tube works, a noise barrier at the Lappohja tube works as well as the management of oil and particulate emissions at Mo i Rana. Ruukki spent a total of 5 million euros on environmental investments during 2005.

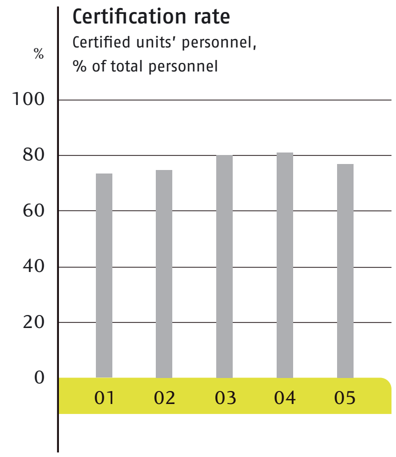
Active participation

Ruukki actively follows upcoming legislation and environmental demands set by stakeholders and develops its operations to meet the challenges of the future.

Additional information on environmental issues is available on Ruukki's website www.ruukki.com.



2005 figures excluding the units transferred to Ovako



2005 figures excluding the units transferred to Ovako

Achievements through personnel's competence

- **Competence development and recruitment underpin growth and internationalisation programmes**
- **Safety management part of Ruukki's management system**
- **Strategy training of key personnel started up**
- **Initial implementation of common human resources processes and employee information system**
- **Personnel and working climate surveys utilised in acquisition processes**

The management and development of Ruukki's human resources is guided by the company's long-term targets. When it comes to human resources management and enhancing our employer image, we aim to be a company that offers challenging and diverse tasks, good career advancement opportunities and a pleasant international working atmosphere.

Building a solutions business with a strong customer focus has steered the competence development both in our coaching and training events and in recruitment. The strengthening of human resources in central eastern Europe and Russia are the clearest indicators of the challenges of internationalisation. Acquisitions, the harmonisation of operations and retirements due in the near future have posed new challenges in managing resources, especially for expanding competence development.

Towards a unified Ruukki

Ruukki operates in 23 countries and had 11,374 employees at the end of the year.

Acquisitions are an essential part of Ruukki's strategy. During 2005, Ruukki gained new personnel in Finland, Poland, Sweden and China through acquisitions. Human resources management's ways of working have been developed in order to ensure the successful integration of the personnel of an acquired business, and this has been supported by a comprehensive personnel survey.

Ruukki Forum's – which developes international co-operation for Ruukki's management and personnel – central themes in 2005 were safety management and communication. Ruukki Forum has representatives from 8 countries and it convened twice in 2005.

The building of a unified Ruukki has been supported by common human resources management processes connected with the management of resources, performance and competence as well as compensation. Ruukki is committed to fairness and equality in its recruitment and employment policies.

Resourcing and competence development

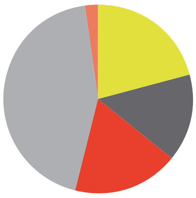
The human resources function and competence development seek to ensure that skilled people are available to meet Ruukki's strategic targets now and in the future. The focus of human resources development in 2005 was on strategy and management, safety and project management. Moreover, Ruukki arranged e.g. professional, language and IT training for its personnel and supported its employees' own training initiatives. A wide-ranging Steelmaster training programme was launched with the aim of securing skilled foremen in the future.

The main programmes for the development of key personnel were the Talent, Excellence and Strategy Training Programmes, the latter of which had about 300 participants in 2005.

Open positions in the company have been filled with Ruukki's own personnel wherever possible. People have also been recruited outside the company, with a special focus on functions in customer interface and different operations development projects.

Over the next few years, a large number of experienced and skilled personnel will retire. This challenge has been met by increasing the recruitment of young people for professional training at the Ruukki Industrial Institute. In summer 2005, young people were recruited for Ruukki's development projects through the Young Professionals Programme.

Ruukki's employer image has been enhanced among selected target groups, which included universities with courses in technology and economics. The divisions' target groups were certain polytechnics, while vocational institutes were targeted locally. The most important forms of co-operation included trade fairs and other recruitment events, research co-operation and traineeships. The aim in enhancing



Personnel by division
at 31.12.2005

Personnel by country at the year-end

	2005	2004
Finland	6,601	7,189
Poland	1,260	207
Norway	834	855
Sweden	865	1,723
Germany	449	517
Russia	216	221
Estonia	203	181
Ukraine	186	176
China	123	–
Denmark	107	121
Hungary	96	87
Latvia	84	86
Lithuania	84	82
Czech Republic	79	61
The Netherlands	71	458
Other countries	116	162
Total	11,374	12,126

Ruukki's employer image is to make the company an attractive employer that appeals to the best professionals on the market.

Compensation centres on meeting strategic targets

The aim of Ruukki's compensation systems is to support the integration of strategy into day-to-day operations and to motivate the personnel in achieving results and targets.

The company supports a corporate-wide development discussion model with the aim of making strategic targets more concrete. The development discussions involved defining joint and individual goals on the basis of which a part of performance bonuses are defined. The performance bonus system applies to salaried employees in Finland.

The profit bonus system encompasses all of Ruukki's personnel. According to this scheme, the bonus calculated on the basis of earnings in 2005 is EUR 19 million.

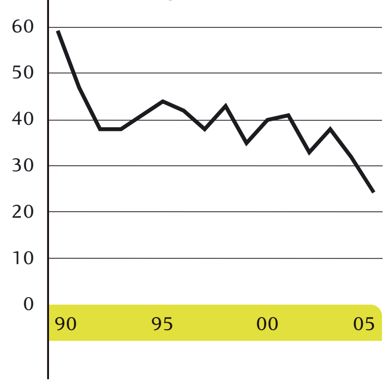
Ruukki's long-term incentive schemes consist of a bond loan with warrants targeted at all personnel and two share bonus schemes for management. More information on these can be found on pages 50–51.

Occupational safety theme of the year

The theme for 2005 was safety management and development. A safe working environment is an important part of corporate responsibility that has a positive impact on the quality of operations. The aim is to achieve a marked improvement in accident statistics by 2008. Safety management is a part of operational management and the responsibility for ensuring rests with each and every Ruukki employee. Pre-emptive actions should be taken in order to prevent hazardous situations and accidents. A pilot scheme for safety management was launched at Ruukki Production, and the operational models developed within the schemes will later be employed across the entire Group.

In 2005, the accident frequency within the Corporate decreased clearly – to 24 from the previous year's level of 32.

Accident frequency
No. of accidents per million working hours



Principles of responsible business operations to be formulated into guidelines

Corporate governance

The Head Office of the Rautaruukki Group is located in Helsinki, Finland. Rautaruukki complies with the Finnish Companies Act, other similar legislation and the Articles of Association of Rautaruukki Corporation. The recommendations on good corporate governance issued by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers in 2003 are taken into account when arranging Rautaruukki's corporate governance.

Rautaruukki is managed in accordance with sound business principles through achieving long-term growth in the Group's shareholder value. In managing the Group's activities, its stakeholders and the principles of sustainable development are taken into account. The guidelines of responsibility in Rautaruukki's business have been compiled in the Code of Conduct, which Rautaruukki's Board of Directors approved in January 2005. The Code of Conduct can be found on Rautaruukki's website at www.ruukki.com.

> Rautaruukki is managed in accordance with sound business principles through achieving long-term growth in the Group's shareholder value

Rautaruukki publishes its annual financial statements in accordance with Finnish legislation in Finnish, Swedish and English as well as interim reports in Finnish and English. International Financial Reporting Standards (IFRS) was adopted in 2005.

Governing bodies

Responsibility for the administration and operations of the Rautaruukki Group is exercised by the administrative bodies of the parent company, Rautaruukki Corporation. These are the General Meetings of shareholders, the Supervisory Board, the Board of Directors and the President and CEO. The Board of Directors is assisted by Audit and Compensation Committees, which prepare matters that are to be dealt with by the Board of Directors. The President and CEO is supported by a Management Group that operates within corporate administration.

Rautaruukki's governing bodies

General Meetings of shareholders

Shareholders' right of decision in the company's affairs is exercised by the shareholders in the General Meeting of shareholders.

The Annual General Meeting is held each year before the end of May. An Extraordinary General Meeting must be held when the Board of Directors deems it necessary or if the auditor or shareholders representing at least one tenth of all the shares outstanding submit a reasoned written statement to the Board of Directors requesting it for dealing with a specified matter.

A notice of an Annual or Extraordinary General Meeting of shareholders is given by the Board of Directors by announcing it in one or more widely circulated daily newspapers, no earlier than two months and no later than seventeen days before the meeting.

To participate in a General Meeting, a shareholder must register with the company no later than on the date stated in the notice of meeting, which must not be earlier than ten days before the meeting.

Any matter which a shareholder wishes to put forward at a General Meeting must be notified in writing to the Board of Directors in time for its inclusion in the notice of meeting.

At the Annual General Meeting, the parent company and consolidated income statement and balance sheet are adopted and a resolution on the dividend distribution is passed. In addition, resolutions are passed on matters such as the number of members of the Supervisory Board and Board of Directors and their emoluments, and the Chairman, Vice Chairman and other members of the Supervisory Board and the Board of Directors are elected as well as the auditor.

Nomination Committee

On 23 March 2005 the Annual General Meeting passed a resolution to set up a Nomination Committee to prepare proposals concerning the members of the Board of Directors and their emoluments for presentation to the Annual General Meeting.

The members elected to the Nomination Committee are the representatives of the three largest shareholders according to the situation at 1 December and the chairman of the Board, as an expert member, who convened meetings of the committee. The Nomination Committee must submit its proposal to the company's Board of Directors no later than on the 1st of February preceding the Annual General Meeting.

Rautaruukki's three largest registered shareholders at 1 December 2005 were the Finnish State, Odin Norden and Esa Rannila, whose representatives on the Nomination Committee are: Markku Tapio (Finnish State), Truls Haugen (Odin Norden) and Esa Rannila (Esa Rannila).

Supervisory Board

Duties of the Supervisory Board are to oversee the company's affairs so that it is managed in accordance with sound business principles, to issue instructions to the Board of Directors on matters of wide scope or fundamental importance as well as to submit statements to the Annual General Meeting in respect of the financial statements, consolidated financial statements and the auditors' report.

The Supervisory Board is elected for a term of one year by the Annual General Meeting. The Supervisory Board has from 5 to 12 members, of whom the Ministry of Trade and Industry is entitled to name one member and the company's founding shareholders three members. In 2005 the Supervisory Board had 10 members. Four representatives of personnel groups take part in the meetings, at which they have the right to be present and to speak.

The Supervisory Board meets as required and its meetings have a quorum if more than half of the members are present. The Supervisory Board met 4 times in 2005. The average attendance rate of the members was 82 per cent.

Emoluments of members of the Supervisory Board

The emolument of the Supervisory Board Chairman is EUR 1,000, that of the Deputy Chairman EUR 600 and the emoluments of other members are EUR 500 a month. A meeting fee of EUR 200 is paid.

Emoluments to the Supervisory Board

euros	Total 2005	Total 2004
Chairman of the Supervisory Board	15,000	16,200
Deputy Chairman of the Supervisory Board	8,000	8,600
Other members of the Supervisory Board	53,000	54,700

Board of Directors

The Board of Directors is responsible for the Group's business management together with the President and CEO.

The Board of Directors is responsible for the company's administration and the due arrangement of its business operations as well as for controlling the arrangement of accounting and treasury functions. Other main duties of the Board of Directors are to set long-term objectives for the Group and the divisions and to approve the basic strategy for achieving these objectives, to approve the annual plans for the Group and the divisions, to decide on the Group's overall capital expenditure and major individual investments, to decide on the company's dividend policy, to present a proposal to the Annual General Meeting on the amount of the dividend to be paid, to decide on the Group's organisational structure and to appoint and dismiss the company's President and CEO and the Group and divisional executives reporting to him. The Board of Directors sets the President and CEO's salary, bonuses and other benefits.

The Board of Directors approves for itself working order, the principles of which are published on the company's website. The Board of Directors defines the profitability and equity ratio targets as the benchmarks for increasing economic value added. The Board of Directors tracks the achievement of these principles and assesses its own ways of working.

The Board of Directors comprises the Chairman and Deputy Chairman as well as from 2 to 6 other members elected by the Annual General Meeting for a one-year term. The President and CEO participates in the meetings of the Board of Directors. During the period of office from 23 March 2005 to 23 March 2006 the Board of Directors had seven members.

The Board of Directors meets at least 6 times a year and has a quorum if more than half of the members are present. In 2005, the Board of Directors met 10 times and 4 meetings were arranged by telephone. The average attendance rate of the members was 98 per cent.

Board of Directors' independence

The Board of Directors has assessed the independence of its members with the recommendation on good corporate governance issued by Hex Plc, the Central Chamber of Commerce of Finland and The Confederation of Finnish Industries EK and observed that all the members are independent of the company and all the members except for Kalle J. Korhonen are independent of the company's major shareholders.

Board of Directors' committees

The Board of Directors committees assist the Board of Directors by carrying out preparatory work on matters within the Board of Directors' competence.

The Board of Directors appoints its number an Audit Committee and a Compensation Committee, both of which have a minimum of three and a maximum of five members who are elected by the Board of Directors each year from amongst its number. The committees report regularly on their work to the Board of Directors.

Audit Committee of Board of Directors

The Audit Committee assists the Board of Directors in carrying out its oversight duties. The Audit Committee prepares and assesses risk management, internal control systems, financial reporting as well as the outside audit and the internal audit.

The members of the Audit Committee must have a wide-ranging grasp of business affairs as well as adequate experience and knowledge of economic, financial and internal control, and a member must not be an employee of a company belonging to the Rautaruukki Group. The Audit Committee meets at least four times a year under the direction of the Committee's chairman.

In 2005 the Audit Committee had three members: Pirkko Juntti (Chairman), Maarit Aarni and Christer Granskog. The Committee met 5 times during the year.

Compensation Committee of Board of Directors

The purpose of the Compensation Committee is to ensure the objectivity of decision-making, to make use of incentive systems to promote achievement of the company's objectives and to see to it that reward and compensation systems are transparent and systematic. The Committee prepares and assesses compensation and appointment matters relating to the President and other members of top management as well as incentive systems for the rest of the personnel.

> The Compensation Committee promotes the transparency and systematic implementation of reward systems

In 2005 the Compensation Committee had three members: Jukka Viinanen (Chairman), Georg Ehrnrooth and Kiuru Schalin. The committee met 4 times during the year.

Emoluments to the Board of Directors

euros	Total 2005	Total 2004
Chairman of the Board	51,500	50,700
Deputy Chairman of the Board	38,600	38,100
Other members of the Board	168,800	156,000

Emoluments of members of the Board of Directors

The emolument of the Chairman of the Board of Directors is EUR 43,200, that of the Deputy Chairman, EUR 32,400 and the emoluments of the other members of the Board of Directors are EUR 26,400 a year. A meeting fee of EUR 500 is paid for Board meetings as well as for Committee meetings.

President and CEO

The President and CEO is responsible for the Group's industrial and commercial operations and for attending to its day-to-day administration in accordance with the instructions and directions given by the Board of Directors.

The President and CEO has the right to retire on a full 60 per cent old age pension at the age of 60. Should the company dismiss the President and CEO, he has the right to severance compensation corresponding to 24 months salary.

The Management Group

In managing the Group, the President and CEO is assisted by the Group's Management Group which comprises the President and CEO and other executives appointed by the Board of Directors at the proposal of the President and CEO.

The Management Group meets regularly chaired by the President and CEO. The Management Group considers corporate strategic issues, annual plans, capital expenditure, company acquisitions, corporate structure and other issues that are important in managing the Group and monitors the Group's operations. The Management Group also prepares matters to be considered by the Board of Directors.

At the end of 2005 the Management Group had seven members. In 2005 the Extended Management Group was made up of the ordinary members and four additional members.

The Group's business organisation

Rautaruukki Group's business operations are organised as per divisions. The Presidents of the divisions report to the President and CEO and are responsible for developing their divisions' operations, for their result and equity, and for arranging the divisions' administration.

In managing the Group, the President and CEO is assisted by the Management Group and the corporate headquarters staff, whose principal functions are strategic planning and business development, logistics, communications, research and development, human resources, finance and treasury, investor relations, IT and legal affairs. The Group's corporate headquarters organisation also comprises functions providing services to the divisions and their units.

Division Steering Groups

Upon a proposal by the President and CEO, the parent company's Board of Directors appoints the Division Steering Groups from amongst Group and divisional senior executives. The employees also have representatives in the Division Steering Groups. The parent company's President and CEO acts as chairman of the Division Steering Groups.

The Division Steering Groups deal with issues related to the development and monitoring of divisions.

Long-term incentive schemes

Rautaruukki's long-term incentive schemes consist of the Group's two share bonus schemes (2000 and 2004) for the key persons and a bond loan with warrants (2003) targeted at the personnel and the Rautaruukki Personnel Fund. Additional information on the long-term incentive schemes is given on pages 50–51.

Emoluments to the President and CEO and the Management Group

euros	Salaries and fringe benefits	Salaries and fringe benefits	Bonuses	Bonuses	Share bonuses	Share bonuses	Total	Total
	2005	2004	2005	2004	2005	2004	2005	2004
President and CEO	426,426	384,474	128,280	58,800	–	–	554,706	443,274
Other members of the Management Group	936,044	1,047,846	285,454	141,717	1,196,676	281,120	2,418,173	1,470,683

Monitoring system

The control and monitoring of the Rautaruukki Group's operations is assured by means of the above-discussed management system. The Group employs the reporting systems necessary for efficiently monitoring operations. The highest responsibility for the due arrangement of accounting and supervision of the management of funds rests with the Board of Directors. The President and CEO is responsible that the accounting is in compliance with legal requirements and that the management of funds is arranged in a reliable manner.

Internal Audit

The Internal Audit examines and evaluates the appropriateness and proper functioning of the Group's internal monitoring system, the suitability and efficiency of functions, the reliability of financial information and reporting and compliance with rules, operating principles and guidelines. The Rautaruukki Group's Internal Audit reports to the President and CEO. The Internal Audit reports are also distributed to the Chairman of the Board of Directors and the Audit Committee, and the audit plans are presented to the entire Board of Directors. As part of their legal oversight, the Group's auditor evaluates the proper functioning of internal control.

Audit

The Group's audit is organised such that a firm of independent public accountants elected by the Annual General Meeting to exercise responsibility for the parent company's audit carries out its audit via its own worldwide organisation across the entire Rautaruukki Group and is responsible for auditing the entire Group. The term of office of the auditor comprises the financial year in course at the time of election and the assignments ends at the close of the first Annual General Meeting following the election.

The firm of public accountants Ernst & Young Oy is Rautaruukki's auditor. The firm's principal auditor is Pekka Luoma, Authorised Public Accountant.

Auditor's fee

The independent auditors' fees for audit services and other services relating to the 2005 financial statements are:
- Audit fees and services connected with the audit 1,293,000 euros (2004: 1,435,000)
- Other services: 468,000 euros (2004: 193,000).

Compliance with insider regulations

Rautaruukki's Board of Directors has confirmed its insider guidelines on securities trading. The Rautaruukki Group observes the insider guidelines issued by the Helsinki Stock Exchange on 9 December 2005. The new regulations concerning insiders entered into force on 1 July 2005 in connection with an amendment to the Securities Market Act. The transition to an insider register in accordance with the new Act was made at the beginning of 2006.

> Rautaruukki observes the insider guidelines issued by the Helsinki Stock Exchange

The persons belonging to Rautaruukki's public insiders are the members of the company's Board of Directors and the Supervisory Board, the President and CEO and his deputy as well as the principal auditor. According to a decision of the Board of Directors, the members of the Management Group and the Extended Management Group are also counted as public insiders. Information the shareholdings of public insiders are public and can be obtained from Finnish Central Securities Depository Ltd and on the company's website.

Apart from the public insider register, the company keeps a non-public company-specific insider register of persons who, by virtue of their position or duties, regularly receive insider information. Insiders are subject to trading restrictions and regulations, including a prohibitation to trade in Rautaruukki shares during the two-week "closed window" period preceding the publication of the financial statement press release and the interim reports. In addition to the regular restrictions, the company sets, as necessary, share trading restrictions in respect of certain projects. Rautaruukki's insider guidelines are updated from time to time and observance of them is monitored regularly.

Supervisory Board 23.3.2005–23.3.2006

Chairman
Turo Bergman, b. 1946, Deputy Head of Department, Central Organisation of Finnish Trade Unions, SAK, Lic. Pol. Sc.

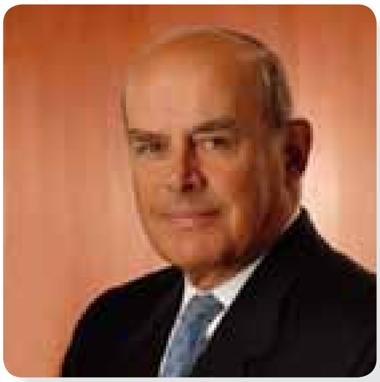
Deputy Chairman
Jouko Skinnari, b. 1946, Member of Parliament, LL.M.

Other members
Heikki Allonen, b. 1954, President and CEO, Fiskars Oyj Abp, M.Sc.(Tech)
Ole Johansson, b. 1951, President and CEO, Wärtsilä Oyj Abp, M.Sc.(Econ)
Inkeri Kerola, b. 1957, Member of Parliament, class teacher
Miapetra Kumpula-Natri, b. 1972, Member of Parliament, B.Sc.(Eng), student of Economics
Tauno Matomäki, b. 1937, Mining Counsellor, M.Sc.(Tech)
Petri Neittaanmäki, b. 1975, Member of Parliament, M.Soc.Sc.
Tapani Tölli, b. 1951, Member of Parliament, M.Pol.Sc.
Lasse Virén, b. 1949, Member of Parliament, police officer

Employee representatives
Salaried employees
Jarmo Kemppainen, b. 1951, chief shop steward
Markku Pelkkikangas, b. 1950, project manager

Workers
Jouko Luttinen, b. 1956, chief shop steward
Eero Raivio, b. 1945, stoker

Board of Directors 31.12.2005




Chairman

Jukka Viinanen

b. 1948

M.Sc.(Tech)

President and CEO, Orion Corporation. Previously: President and CEO, Neste Oyj (1997–1999), Senior VP and Board member, Neste Oyj (1990–1997). Rautaruukki's Board member and Chairman since 2001. Shares: –

Deputy Chairman

Georg Ehrnrooth

b. 1940

M.Sc.(Tech),

Dr.Sc. (Tech) h.c.

Previously: President and CEO, Metra Corporation (1991–2000), President and CEO, Lohja Corporation (1979–1991), executive duties, Wärtsilä Corporation (1965–1979). Principal Board memberships: Assa Abloy Ab (Chairman), Oy Karl Fazer Ab, Nokia Corporation, Sandvik AB (publ.), Sampo Corporation, The Research Institute of the Finnish Economy ETLA (Deputy Chairman), Finnish Business and Policy Forum EVA (Deputy Chairman). Rautaruukki's Board member and Deputy Chairman since 2001. Shares: 1,902

Maarit Aarni

b. 1953

M.Sc.(Tech), MBA

Vice President, Phenol Business Unit, Borealis Group. Previously: different positions in Borealis Group since 1994 and in Neste Oyj (1977–1994). Principal Board memberships: Borealis Polymers Oy (Finland), Vattenfall AB (Sweden). Rautaruukki's Board member since 2004. Shares: 1,000

Christer Granskog

b. 1947

M.Sc.(Tech)

President and CEO, Kalmar Industries AB. Previously: Deputy to the President and CEO, Partek Oy Ab, President and CEO, Partek Cargotek AB (1997–1998), President and CEO, Sisu Group (1994–1997), President and CEO, Valmet Automation Oy (1990–1994). Principal Board memberships: Oy E Sarlin Ab. Rautaruukki's Board member since 2001. Shares: –

Pirkko Juntti

b. 1945

LL.M.

Previously: expert and executive duties of international financing, Senior Advisor, HSH Gudme Corporate Finance Oy (1998–2003), executive, JP Morgan (1983–1998). Principal Board memberships: VPU Pukutehdas Oy, AB Svensk Exportkredit, Boardman Oy, SAI Finland Partners Oy. Rautaruukki's Board member since 2003. Shares: –

Kalle J. Korhonen

b. 1948

M.Sc.(Tech)

Director General, Ministry of Trade and Industry (1999–). Previously different duties in Ministry of Trade and Industry (1973–1999). Principal Board memberships: Finnvera Plc (Chairman), Finnish Industry Investment Ltd, Finnish Foreign Trade Association Finpro. Rautaruukki's Board member since 2005. Shares: –

Kiuru Schalin

b. 1961

Student of

Economics

Managing Director, Oy AGA Ab, Senior Vice President, Human Resources, Safety; Environment & Quality, AGA Region North Europe. Previously: Controller, HR director, Administrative director and Member of the Board, Tecnomen Group (1996–1998), Administrative manager, Oy Kilroy Travels Finland Ab (1990–1996). Principal Board memberships: Oy AGA Ab, Agorum Oy, AGA Gas AB. Rautaruukki's Board member since 2005. Shares: –

Management Group 31.12.2005

Saku Sipola | Olavi Huhtala | Markku Koljonen | Sakari Tamminen | Heikki Rusila | Mikko Hietanen | Marko Somerma

Chairman

Sakari Tamminen
b. 1953, M. Sc. (Econ.), President and CEO.

Joined the company in 2003. Management Group member since 2003. Previous main positions: Executive VP and CFO, Deputy to the President and CEO, Metso Oyj, Executive VP and CFO, Rauma Oyj. Principal Board memberships: SanomaWSOY Oyj, Lemminkäinen Oyj, Confederation of Finnish Industries EK, Technology Industries of Finland, Association of Finnish Steel and Metal Producers (Chairman), Finnish Foundation for Share Promotion, Eurofer, International Iron and Steel Institute. Supervisory Board memberships: Mutual Pension Insurance Company Varma, The Finnish Fair Corporation. Shares: 2,500

Mikko Hietanen
b. 1953, M. Sc. (Econ.), Chief Financial Officer.

Joined the company in 2004. Management Group member since 2004. Previous main positions: CFO, Stonesoft Oyj, CFO, Metsä-Tissue Oyj, CFO, Elcoteq Network Oyj, CFO, Lohja Oyj. Principal Board memberships: Oy Ovako Ab, Lohjan Puhelin Oy. Shares: –

Olavi Huhtala
b. 1962, B. Sc. (Eng), President of Ruukki Metals.

Joined the company in 1987. Management Group member since 2003. Previous main positions: President of Ruukki Fabrication, Sales and executive duties, Rautaruukki Metform. Shares: 6,482

Markku Koljonen
b. 1951,B. Sc. (Eng), President of Ruukki Engineering.

Joined the company in 1989. Management Group member since 2001. Previous main positions: Senior VP, Rautaruukki Steel Structure Division, executive duties, Rautaruukki Steel. Shares: 11,794

Heikki Rusila
b 1949, M. Sc. (Tech), President of Ruukki Production.

Joined the company in 1974. Management Group member since 2001. Deputy to the President and CEO. Previous main positions: Senior VP, Rautaruukki Metform, Senior VP, Rautaruukki Steel. Principal Board memberships: Oy Ovako Ab. Shares: 16,438

Saku Sipola
b. 1968, M. Sc. (Tech), President of Ruukki Construction.

Joined the company in May 2005. Management Group member since May 2005. Previous main positions: Senior VP, Business premises division, YIT Construction Ltd. Shares: –

Marko Somerma
b. 1966, Lic. Tech., Senior Vice Senior VP, Corporate Planning.

Joined the company in 2004. Management Group member since October 2005. Previous main positions: Chief Process & Information Technology Officer, Instrumentarium Ltd, Business development director, Gustav Paulig Ltd. Shares: 3,000

Extended Management Group 31.12.2005

Comprises the members of the Management Group along with:

Terhi Heikkinen b. 1964, M. Sc. (Econ), Senior Vice President, Human Resources. Joined the company in November 2005. Shares: –
Taina Kyllönen b. 1967, M. Sc. (Econ), Vice President, Corporate Communications. Joined the company in 2004. Shares: –
Ismo Platan b. 1953, B. Sc. (IT), Chief Information Officer. Joined the company in 2003. Shares: –
Peter Sandvik b. 1953, Dr. Sc. (Tech), Senior Vice President, Technology. Joined the company in 1983. Shares: 10,652

Ruukki adopts Enterprise Wide Risk Management

- **Main risks identified; assessment made of the state of risk management**
- **Delineation of Enterprise Wide Risk Management and the principles of risk reporting**
- **A Corporate-wide system of monitoring customer-specific trade receivables was introduced**
- **The management of electricity and zinc price risk was stepped up and hedge accounting methods were developed**
- **The cost-effectiveness of insurance policies was improved**

Rautaruukki's Board of Directors approved the Group's risk management policy in January 2006.

Ruukki's Enterprise Wide Risk Management is part of the Group's control system. Risk management is employed as a means of ensuring that risks affecting business operations are identified and monitored. Risk is defined as being an external or internal factor of uncertainty that poses a threat to the implementation of Ruukki's strategy, reaching the company's targets or the continuity of its operations.

A unified Enterprise Wide Risk Management operational model makes possible better decision-making information, better allocation and utilisation of resources as well as the transparency of operations that is essential for good corporate governance.

Ruukki endeavours to master and limit any effects of the main risks for business operations. Should such risks nonetheless materialise, they might have a material adverse effect on the implementation of Ruukki's strategy, the result of its business operations and its financial position.

Risks endangering the implementation of strategy and objectives

Ruukki's objective is to specialise by changing from being a reliable steel supplier to become the preferred supplier of metal-based solutions for selected customer segments by 2008–2010.

The main risks which endanger the implementation of strategy and achievement of objectives relate to the too slow growth of new businesses or a delay in setting up new business processes. Any failure of an acquisition or a protracted integration process also rank as central risks, as do failure or delay encountered in expanding into new markets.

The Group has launched the Ruukki United project, which aims for continuous improvement in operations and unified ways of working. In connection with Ruukki United, the company is running a subproject aimed at revamping business processes and the applications supporting them. Concurrently, IT infrastructure and services will be unified.

In order to ensure that operations run continuously and without disturbance, the Group has made a study of mission-critical systems and solutions that safeguard operations. Work has moved ahead on monitoring the level of overall information security, and the company has circulated information on data security and organised training in data security.

External risks to the result of operations, which are beyond Ruukki's control

Of the external risks endangering the result of business operations, the main ones are connected with price fluctuations of basic steel products. The volatility of foreign exchange rates as well as electricity and zinc price risks are also major risks.

The demand and prices for steel and other metal products vary with business cycles. The situation of the global steel markets is reflected in Ruukki's main market area. Within a number of products in this area, the Group has a strong market position which, coupled with cost effectiveness, strengthens Ruukki's ability to adjust to the conditions of the prevailing business cycle.

Prices, including freight charges, of the raw materials used in steel production – iron ore, coal and other main raw materials – are determined in the world markets. Depending on the business cycle, the price of raw materials can show considerable volatility, and their procurement sources are changed from time to time. Electricity and zinc derivatives are used in managing the price risk over the next three years.

In order to keep availability risks under control, long-term agreements are made for the procurement of the main raw materials and energy that go into steel production. The Nordic electricity market is used in procuring electric energy.

As a manufacturer of steel, Ruukki consumes a large amount of energy. About a third of the electric energy used by the Group is self-generated by utilising the gases that are released in production processes. The remainder of the electricity is purchased at market prices on the Nordic energy market. The costs of purchased energy are estimated to rise over the next few years owing to the effects of the start-up of EU greenhouse gas emissions trading.

Ruukki's financing operations and the management of financial risks are handled centrally by the parent company's Corporate Treasury in accordance with the financing policy approved by the Group's Board of Directors.

> Risk management is part of the Group's control system

The Group's main raw materials are priced in United States dollars. This results in a significant foreign exchange risk, because the Group's sales are denominated mainly in euros as well as partly in British pounds and Nordic kronor/kroner. The interest rate risk related to the Group's loans is managed by keeping 30–70 per cent of the loans at a fixed interest rate. Hedge accounting according to IFRS has been adopted in dealing with the Group's interest rate risk.

Management of the credit risk involved in sales activities has been centralised within Group Treasury. Management of this function was improved in 2005 by introducing across all Group units a comprehensive customer-specific and real-time system of monitoring trade receivables.

Additional information is given in Note 3 to the financial statements.

Risks to the Group's operations, which Ruukki can avert

The main internal and external risks threatening the Group's business operations, which Ruukki can avert, are personnel-related risks as well as a major interruption of production.

The implementation itself depends largely on management and other key personnel resources of the Group and the divisions. The fundamental principle is to build the commitment of key employees to the company and to offer them a competitive bonus system that is in step with the times. A new share-based long-term incentive system was introduced in 2005.

Ruukki's production equipment is in good condition and the Group employs modern and competitive technology. The production units undergo systematic maintenance and the necessary replacement investments are made according to an advance plan. The Group has loss-of-profits insurance to cover an interruption of operations, product liability and operating liability.

The Group's quality and environmental management system fulfils the requirements of the ISO 9001 and 14001 standards. Development of the systems is guided by the EHQS Steering Group (Environment, Health, Quality, Safety). The Six Sigma concept is used as a tool in quality management.

All Ruukki's main production sites operate in accordance with ISO 14001 environmental systems. When modernising production processes or building new processes, environmental risks are assessed as part of the plant's design and planning process. Ruukki operates in accordance with the principles of sustainable development.

The most important initiative within environmental protection in 2005 was the start-up of the EU scheme for emissions trading in greenhouse gases. During the three-year period from 2005 to 2007, it is not estimated that the purchase of emission rights will result in significant cost to the company's steel production from the standpoint of overall operations. The market risk in emissions trading will be handled by means of a Group-wide emissions balance. This will ensure cost-effective emissions trading.

Managing risks connected with property damage and interruption of operations is based on the principle of adequately protecting the Group's profit-making ability and capital adequacy against possible damage or loss. Maintaining proper insurance coverage against property damage and loss of profits is an essential part of the management of property damage and business interruption risks. The cost-effectiveness of insurance policies was improved by overhauling the structures of the Group's insurance programmes in respect of policies taken out in 2006.

Market capitalisation increased

- A dividend of 1.40 euros per share is proposed to be paid
- Share turnover increased by over 100 per cent

Share capital and shares

Under the Articles of Association, the minimum share capital is EUR 200,000,000 and the maximum share capital EUR 800,000,000, within which limits the share capital can be raised or lowered without amending the Articles of Association. Rautaruukki Oyj's fully paid-in share capital entered in the Trade Register at 31 December 2005 was EUR 236,106,956.50. The share capital was divided into 138,886,445 shares. During 2005 no changes were made in the share capital.

Rautaruukki Oyj has in use one series of shares. Each Series K share confers 10 votes at general meetings of shareholders. The accounting countervalue of the share is EUR 1.70. Series A shares, as provided for in the Articles of Association, have not been issued.

Treasury shares

At the end of the year, the company had 2,592,697 of its own shares (treasury shares) in its possession, corresponding to 1.87 per cent of the company's shares outstanding and the votes conferred by the shares.

The State's shareholding

The Finnish State's shareholding at 31 December 2005 was 40.1 per cent. The Government can, subject to an authorisation obtained from Parliament, reduce the State's shareholding in Rautaruukki Oyj such that its holding is nevertheless at least 20 per cent of all the company's shares and the votes they confer. As a shareholder, the State has not given guarantees or otherwise made commitments to assume responsibility for the company's debts and obligations.

Redemption clause

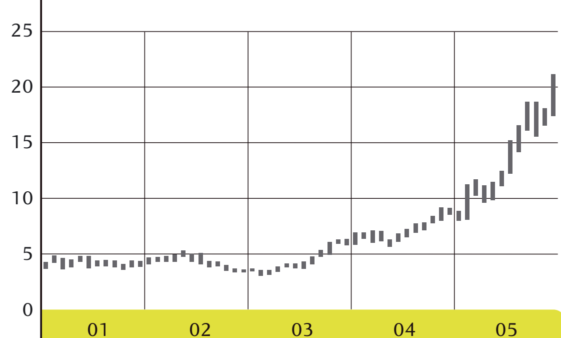
Under the Articles of Association, a shareholder whose proportional holding of all the company's shares or the votes conferred by them reaches or exceeds 33 1/3 or 50 per cent is obligated, upon a demand by other shareholders, to redeem their shares and securities giving entitlement to shares.

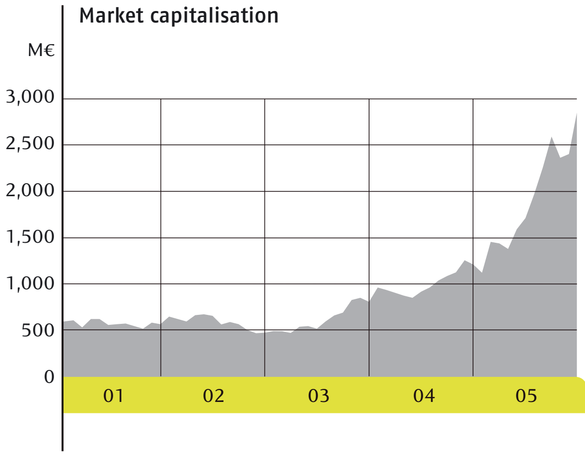
Share info for 2005

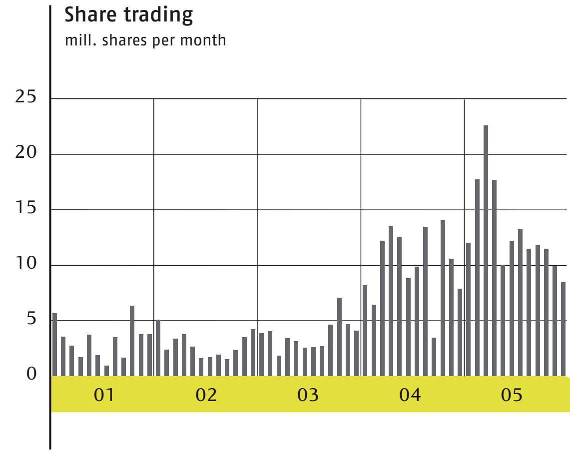
Highest price (in December)	21.15 €
Lowest price (in January)	8.02 €
Average price	12.90 €
Closing price	20.55 €
- year-to-year change	135 %
Market value at the year-end	2,854 M€
Taxation value in Finland	14.42 €

Ownership structure
31 Dec 2005

Share price
monthly high–low







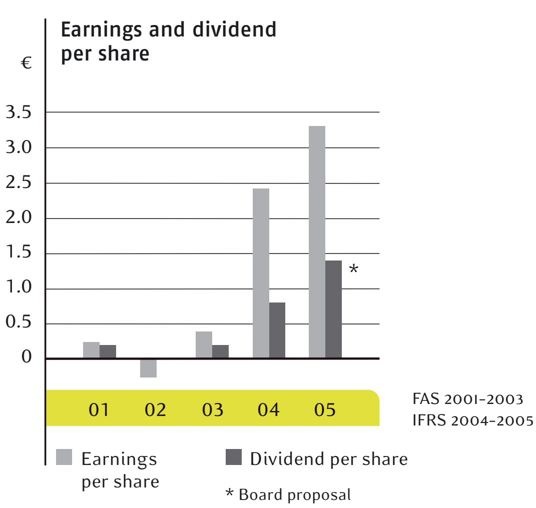
Share turnover on the Helsinki Stock Exchange

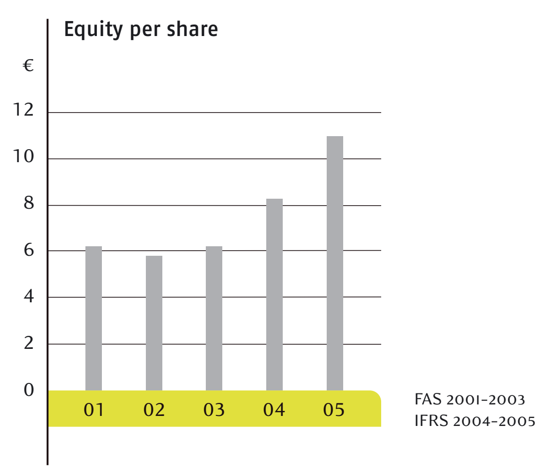
Rautaruukki Oyj's share is listed on the Helsinki Stock Exchange (RTRKS). During 2005 the number of shares traded was 159 million (2004: 127 million), representing 114 per cent of the shares outstanding (92). Shares were traded to a value of EUR 2,041 million (912) and the average intra-day trading volume was 717,692 shares. During 2005 Rautaruukki's share price rose by 135 per cent, the OMX Helsinki CAP Index was up 30 per cent and the OMX Helsinki Index increased by 31 per cent.

Board authorisations

The Annual General Meeting held on 23 March 2005 authorized the Board of Directors to resolve to repurchase a maximum of 3,800,000 Rautaruukki series K shares (2.74% of the total number of shares). The AGM also authorised the Board to decide on the transfer of a maximum of 6,872,960 Series K treasury shares. According to this authorisation, on 29 August 2005 the company transferred 480,263 of its own Series K shares (treasury shares) to persons covered by the Group's share bonus scheme.

Rautaruukki's Board of Directors does not have a valid authorisation to issue convertible bonds or bonds with warrants or to increase the company's share capital.





Dividend policy

Rautaruukki Oyj has adopted a competitive and stable dividend policy, which takes into account the company's earnings trend and adequate development of the equity ratio. The Board of Directors will propose to the Annual General Meeting on 23 March 2006 that a dividend of 1.40 euros per share is paid for the 2005 financial year.

2003 bond loan with warrants

On 26 May 2003 Rautaruukki Oyj issued an EUR 3.5 million bond loan with warrants targeted at the Group's personnel and the Rautaruukki Personnel Fund. The warrants entitle their holders to subscribe for a total maximum of 1,400,000 new Series K shares to be issued by Rautaruukki from 24 May 2006 to 23 May 2009. The subscription price of the shares is EUR 4.40 less the amount of dividends declared after 23 May 2003 and prior to the exercise of the subscription rights. As a consequence of share subscriptions through the exercise of warrants, the company's share capital can be increased by a maximum of EUR 2,380,000, which corresponds to about 1.0 per cent of the currently registered share capital.

Stock options

Rautaruukki does not have stock option programmes that are in effect.

Share bonus schemes

Share bonus scheme 2000

In February 2000 Rautaruukki introduced a share bonus scheme as part of the Group's incentive system for key executives. The scheme comprises three performance periods, the first of which commenced on 1 January 2000. Thereafter the periods have commenced at the start of each year. The last period began on 1 January 2004 and it will run until the end of 2006.

Under the share bonus scheme, the Group's key executives can receive a bonus equal to a maximum of half of their annual salary at the beginning of the performance periods. About 100 people are covered by the scheme. Of the bonus amount, 40 per cent is given in Rautaruukki shares and 60 per cent in cash to cover taxes on the bonus. The employee can sell the shares granted as a bonus no earlier than two years after the end of the incentive period.

It is a condition for receiving the maximum bonus that the Rautaruukki Group's average return on assets during the three-year incentive period is among the best three companies in a peer group. The bonus threshold is that Rautaruukki achieves at least a median ranking, i.e. sixth. In this case, the bonus is 5 per cent of annual salary. The size of the bonus if Rautaruukki places fourth or fifth varies linearly within the above-mentioned limits. The peer group comprises, in addition to Rautaruukki, Arcelor, Corus, Feralpi Group, Ispat International, Outokumpu, Salzgitter, SSAB, Stelco, US Steel and VA Stahl.

Incentive systems

For personnel	Amount of persons	Subscription price	Max. amount	Subscription time		Effect on share capital	Restrictions
Bond loan with warrants, 2003	- personnel - Personnel Fund	€ 4.40 less dividends declared after 23.5.2003	1,400,000	24.5.2006–23.5.2009		+ 1.0%	Could not be subscribed by management
For management	**Amount of persons**	**Condition**	**Bonus**	**Incentive periods**	**Shares transferred**	**Effect on share capital**	**Restrictions**
Share bonus scheme 2000	about 100	Average return on assets during the performance period in a peer group	Half of annual salary, of which – 40% in shares – 60% in cash	1.1.2000–31.12.2002 1.1.2001–31.12.2003 1.1.2002–31.12.2004 1.1.2003–31.12.2005 1.1.2004–31.12.2006	– 197,040 480,263	no effect	The shares can be sold no earlier than two years after the end of each performance period
Share bonus scheme 2004	about 60	Achieving the financial targets gauged by the criteria of earnings per share (EPS) and return on capital employed (ROCE)	Combination of shares and cash	1.1.–31.12.2005 1.1.–31.12.2006 1.1.–31.12.2007		no effect	The shares can be sold no earlier than two years after the end of each performance period
Stock options	–						

Rautaruukki's Board of Directors approved the maximum remunerations for the incentive period 2002–2004. The share bonus scheme for the period 2002–2004 covered 94 persons. As the share part of the total remuneration 480,263 the Company's Series K shares were transferred without consideration to the persons in August 2005.

Share bonus scheme 2004

In December 2004 Rautaruukki's Board of Directors decided on a new share bonus scheme for key executives. The aim of the scheme is to align the objectives of shareholders and key personnel in increasing shareholder value, to ensure the commitment of key employees to the company as well as to offer them a competitive, share ownership-based reward scheme.

The share bonus scheme is divided into three year-long performance periods, which are the years 2005, 2006 and 2007. Any bonuses earned are to be paid out during the year following the performance period. Payment of a bonus is contingent on achieving the financial targets set, which are gauged by the criteria of earnings per share (EPS) and return on capital employed (ROCE). Any bonuses are paid in the form of both Rautaruukki shares and a cash component.

The employee can sell the shares granted as a bonus no earlier than two years after the end of the performance period. However, the President and CEO and the members of the Management Group must retain any shares they have obtained through the scheme at least to the value of their gross annual salary for as long as the CEO's tenure as chief executive continues or the members serve on the Management Board.

The maximum number of Series K shares which may be transferred under the bonus scheme is 1,020,000 shares. The shares to be transferred under the scheme can be treasury shares or they may be Rautaruukki Oyj shares obtained in public trading, and therefore the incentive scheme will not have a dilutive effect on the share value.

Shareholding of directors and management

At 31 December 2005, members of the Supervisory Board and Board of Directors held a total of 3,487 shares, or 0.003 per cent of the company's shares and the votes conferred by the shares. Members of the Group's Management Group owned a total of 40,214 of the company's shares at 31 December 2005, corresponding to 0.03 per cent of the company's shares and the votes conferred by the shares. Management's shareholding is discussed in greater detail on pages 43–45.

Rautaruukki insiders owned a total of 59,560 shares at 31 December 2005, or 0.04 per cent of the company's shares and the votes conferred by them. The shareholdings of Rautaruukki's public insiders are posted on the company's website at the address www.ruukki.com.

Share based key figures (FAS 2001–2003, IFRS 2004–2005)

		2005	2004	2003	2002	2001
Earnings per share, EPS	€	3.35	2.42	0.39	-0.26	0.22
- diluted	€	3.31	2.40	0.39	-0.26	0.21
Equity per share	€	10.98	8.29	6.07	5.81	6.21
Dividend per share	€	1.40*	0.80	0.20	0.00	0.20
Dividend per earnings	%	41.9*	34.7	51.3	0.0	91.9
Price per earnings, P/E		6.1	3.8	15.0	-13.2	18.8
Effective dividend yield	%	6.8*	9.2	3.4	0.0	4.9
Share trading	M€	2,041	912	207	145	162
Average price of the share	€	12.90	7.16	4.66	4.26	4.16
Lowest price of share	€	8.02	5.67	3.05	3.36	3.59
Highest price of share	€	21.15	9.19	6.36	5.30	4.85
Share price at year-end	€	20.55	8.74	5.84	3.44	4.10
Market capitalisation at year-end	M€	2,854	1,214	811	478	569
Average adjusted number of shares	thousands	135,977	135,683	135,616	135,616	136,132
- diluted	thousands	137,377	137,083	136,606	136,016	138,947
Adjusted number of shares at year-end	thousands	138,886	138,886	138,886	138,886	138,886
Number of shares at year-end	thousands	138,886	138,886	138,886	138,886	138,886
- not counting own shares	thousands	136,294	135,813	135,616	135,616	135,616
- diluted	thousands	137,694	137,213	137,016	136,016	138,431
Share trading	thousands	158,463	127,415	44,429	33,902	39,038
Stock turnover	%	116	94	33	25	29

* Board proposal

The biggest shareholders of Rautaruukki Oyj according to the share register at 31.12.2005

Shareholder	Shares, %	Number of shares
1 The Finnish State	40.07	55,656,699
2 Rautaruukki Oyj	1.87	2,592,697
3 Rautaruukki Pension Foundation	1.14	1,585,455
4 Esa Rannila	1.12	1,555,800
5 Odin Norden	0.92	1,281,420
6 Mutual Insurance Company Eläke-Fennia	0.36	500,000
7 Finnish State Pension Fund	0.36	500,000
8 S-stock Oy	0.35	480,000
9 Investment Fund Pohjola Finland value	0.34	477,000
10 Neste Oil Pension Fund	0.32	441,500
11 Onnenmäki Foundation	0.31	435,257
12 Odin Förvaltnings AS	0.28	393,400
13 Pension Insurance Company Ilmarinen Ltd.	0.27	377,890
14 Yleisradio Pension Fund	0.25	348,600
15 Einari Vidgrén	0.22	301,100
16 Åbo Akademi Foundation	0.22	300,000
17 OP-Focus Mutual Fund	0.21	287,000
18 Special Mutual Fund OMX Helsinki 25 Index Share Fund	0.17	237,340
19 OP-Delta Investment Fund	0.14	200,000
20 Technology Industries of Finland	0.14	196,800
Nominee registered shares	38.80	53,885,439
Other shareholders	12.13	16,853,048
Total	100.00	138,886,445

Shareholders by share ownership according to the share register at 31.12.2005

	Shareholders		Shares	
Number of shares	No.	%	Thousands	%
1-100	2,402	15.01	149	0.11
101-1 000	11,342	70.88	4,875	3.51
1 001-10 000	2,055	12.84	5,646	4.07
10 001-100 000	171	1.07	5,232	3.77
100 001-	32	0.20	122,984	88.55
	16,002	100.00	138,886	100.00

Shareholders by sector according to the share register at 31.12.2005

	Shareholders		Shares	
	No.	%	Thousands	%
Companies	505	3.16	4,932	3.55
Banks and insurance companies	49	0.31	2,512	1.81
Public institutions	32	0.20	59,978	43.19
Non-profit institutions	196	1.23	2,717	1.96
Private households	15,134	94.58	12,912	9.30
Nominee registered shares	11	0.07	53,885	38.80
Other international shareholders	75	0.47	1,949	1.40
	16,002	100.00	138,886	100.00

Stock exchange releases 2005

Dec 22	Rautaruukki received approval from competition authorities for purchase of PPTH
Dec 19	Rautaruukki acquires Slovakia's leading steel constructor Steel-Mont
Dec 14	Rautaruukki's nomination committee representatives
Dec 1	Rautaruukki Capital Market Day
Nov 25	Rautaruukki reduces the size of its share's trading lot
Nov 14	FCA continues probe in Rautaruukki's PPTH- acquisition
Oct 26	Rautaruukki Corporation Interim report January–September 2005
Oct 5	Rautaruukki has completed the acquisition of Syneco Industri AB
Sep 30	Rautaruukki has received authority approvals to acquire Syneco Industri
Sep 29	Rautaruukki acquires all of PPTH, largest Nordic steel constructor
Sep 28	Changes in Rautaruukki Corporation Management Group
Sep 28	Terhi Heikkinen to join Rautaruukki Corporation as Senior VP, Human Resources
Aug 31	Rautaruukki: Ruukki Engineering reinforces position by acquiring Syneco Industri
Aug 29	Rautaruukki Board approves the remunerations of the Group's share bonus scheme for 2002–2004
Jul 27	Rautaruukki Corporation Interim report January–June 2005
Jun 23	Rautaruukki raises holding in Metalplast to 99.8 per cent
Jun 6	Rautaruukki Corporation's pro forma information on Ovako arrangement
May 31	Rautaruukki raises holding in Metalplast to 68.7 per cent
May 24	Rautaruukki has received authority approval to acquire Metalplast
May 10	Rautaruukki, SKF and Wärtsilä have completed merger of long steel businesses
May 4	Rautaruukki, SKF and Wärtsilä have received European Commission approval to merge long steel businesses
Apr 27	Rautaruukki Corporation Interim report January–March 2005
Apr 26	Rautaruukki 2004 figures for comparison according to IFRS standards
Apr 22	Rautaruukki, SKF and Wärtsilä have today signed a definitive agreement to merge long steel businesses
Apr 8	Rautaruukille signed EUR 300 million syndicated loan agreement
Apr 6	Rautaruukki: Management Changes at Ruukki Construction
Mar 23	The resolutions of Rautaruukki's Annual General Meeting 2005
Feb 17	Rautaruukki: Notice of Annual General Meeting
Feb 17	Preliminary information about impact of IFRS on Rautaruukki's consolidated financial statements
Feb 17	Rautaruukki Corporation Financial statements bulletin 2004
Feb 17	Rautaruukki, SKF and Wärtsilä to merge long steel businesses
Feb 3	Proposal of the Board composition by the Nomination committee of Rautaruukki
Jan 27	Rautaruukki acquiring Polish Metalplast
Jan 12	Rautaruukki's nomination committee representatives

Annual General Meeting

Rautaruukki Corporation's 2006 Annual General Meeting will be held on 23 March 2006 at 12.00, midday, in Helsinki at the Marina Congress Center, address: Katajanokanlaituri 6, Helsinki. Listing of attendees and the passing out of ballots will begin at 11.30 (a.m.).

Those shareholders are entitled to participate in the Annual General Meeting who have been entered in the Shareholder Register kept by Finnish Central Securities Depository Ltd no later than on 13 March 2006 and have registered for the meeting. A shareholder in whose name the shares are made out is automatically entered in the company's Shareholder Register. A nominee-registered shareholder can be temporarily entered in the company's Shareholder Register, providing this is done by 13 March 2006.

Shareholders wishing to participate in the Annual General Meeting must notify the company of their intention to attend no later than on 20 March 2006 before 4.00 p.m. Registrations can be made via Rautaruukki's website at the address www.ruukki.com, by email on yhtiokokous@ruukki.com, by letter to the address Rautaruukki Oyj, Osakerekisteri, P.O. Box 138, 00811 Helsinki, by fax on +358 20 592 9104 or by phoning the number +358 10 804 430 from Monday to Friday, 9.00 a.m. to 4.00 p.m. It is requested that any proxies be delivered to the company's Shareholder Register before the close of the registration period.

Payment of dividends

The Board of Directors will propose to the Annual General Meeting that a dividend of 1.40 euros per share be paid for the 2005 financial year. The dividend will be paid on 4 April 2006 to a shareholder who, on the record date for the dividend payment, 28 March 2006, has been entered in the Shareholder Register kept by Finnish Central Securities Depository Ltd.

Financial reporting in 2006

Financial Statement Bulletin 2005:
Wednesday, 8 February 2006
Interim Report Q1/2006: Wednesday, 26 April 2006
Interim Report Q2/2006: Wednesday, 26 July 2006
Interim Report Q3/2006: Wednesday, 1 November 2006

The 2005 Annual Report was published in March 2006, week 11. The Annual Report is available in Finnish, Swedish and English and it is also published on the company's website at the address www.ruukki.com. Interim reports are published in Finnish and English as stock exchange releases and on the company's website.

Closed period

Ruukki observes the principle of a 14-day closed period before earnings announcements. During this period Ruukki does not meet with capital market representatives or discuss with them matters related to the company's earnings trend.

Investor Relations

The principal task of Rautaruukki 's investor relations is to maintain regular contacts with the investment community, i.e. current and potential shareholders as well as analysts. This is done by actively communicating information on events having an impact on the company's operations, strategic decisions and other major operational actions. The company also arranges its own events for the investment community as well as one-on-one meetings. The main principles guiding these activities are to provide information, consistently and adequately, on an equal basis and at the same time to all investors in all situations as well as fairness, openness and good service. The aim of investor relations is to make available to investors and analysts the tools for determining the value of Rautaruukki's share.

Investor Relations function is responsible for contacts with the investment community. The company's top management participates actively in, and is committed to, well-run investor relations.

Investment analysis

According to information available to company, the following securities firms have followed the Rautaruukki Group regularly during 2005. The analysts have monitored the Rautaruukki on their own initiative. Rautaruukki Corporation is not responsible for the views they express.
ABG Sundal Collier, Alfred Berg ABN Amro,
Cheuvreux Nordic AB, Credit Suisse First Boston,
D. Carnegie AB, Danske Equities, Deutsche Bank,
Enskilda Securities, eQ Bank Ltd., Evli Securities,
FIM Securities, Handelsbanken Capital Markets,
Kaupthing Sofi, Mandatum Stockbrokers Ltd.,
Opstock Ltd., UBS

Shareholders' changes of address

Changes in a shareholder's address should be notified via the relevant bank or Finnish Central Securities Depository Ltd.

Basic share information

Rautaruukki Corporation has one series of shares. Series K shares are listed on the Helsinki Stock Exchange and they are registered in the electronic book-entry system maintained by Finnish Central Securities Depository Ltd. Series A shares, as provided for in the Articles of Association, have not been issued.

Trading code: RTRKS
Round lot: 50 shares
Codes used by press offices:
Reuters: RTRKS.HE
Bloomberg: RTRKS FH
Startel: RTRKS

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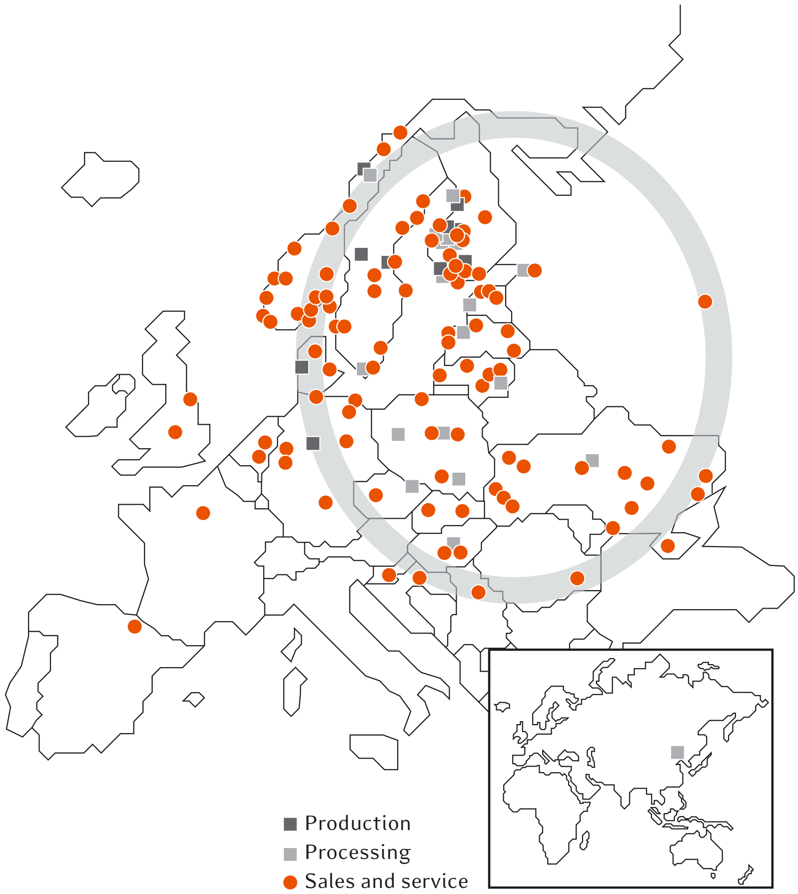

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Rautaruukki Annual report 2005

more with metals

Rautaruukki Financial statements 2005

more with metals

Ruukki in brief

Ruukki supplies metal-based components, systems and integrated systems to the construction and mechanical engineering industries. The company has a wide selection of metal products and services. Ruukki operates in 23 countries and employs 12,000 people. The share is quoted on the Helsinki Exchanges (Rautaruukki Corporation: RTRKS). Rautaruukki Corporation was established in 1960. The corporation has used the marketing name Ruukki since 2004.

Ruukki has three divisions with customer responsibility: Ruukki Construction, Ruukki Engineering and Ruukki Metals. The fourth division Ruukki Production is responsible for cost-effective production.

Ruukki Construction

Ruukki Construction supplies metal-based solutions for building construction, especially for the retail, industrial and logistics construction, as well as for infrastructure construction.

Ruukki Engineering

Ruukki Engineering supplies metal-based solutions for lifting, handling and transportation equipment industry as well as for paper and wood processing, marine and off-shore industries.

Ruukki Metals

Ruukki Metals supplies a wide selection of steel, stainless steel and aluminium as standard and special products, parts and components.

Ruukki Production

Ruukki Production manufactures hot-rolled, cold-rolled and coated plate and strip products, steel tubes and reinforcing steel for Ruukki's divisions with customer responsibility.

Ruukki's strategic intent

A leading metal-based **construction** solution provider in Nordic and Central Eastern European countries

A leading solution provider for specific **engineering** customers in Northern Europe

Leading **metal products** supplier in Nordic and Baltic countries

Rautaruukki
Financial statements 2005

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www.ruukki.com

Report of the Board of Directors

Operating environment

The trend in the overall economy remained positive in Rautaruukki's core market areas in 2005. In the Nordic countries, GDP growth was clearly above the average for the eurozone, and in central eastern Europe and the Baltic countries, economic growth was considerably stronger than elsewhere in Europe. Demand held up well in the Group's most important customer industries. Construction activity was good throughout Rautaruukki's market area, and especially strong in the Baltic countries and central eastern Europe. Within the engineering industry, Rautaruukki's customers saw a very good increase in their order books, particularly within the lifting, handling and transportation equipment industry as well as in the offshore and marine industry. Demand was also strong in the paper, wood-processing and energy industries.

Within standard steel products, the winding down of the excess stocks which wholesalers had built up towards the end of 2004 and at the beginning of 2005 depressed deliveries, and in the first half of the year this translated into considerable pressure on spot market prices. The steel industry responded to the situation by adjusting production in line with profitable demand. The stock situation normalised during the autumn.

World market prices of the concentrated iron ore, iron pellets and coking coal used in making steel rose markedly at the beginning of 2005.

The US dollar strengthened by about 13 per cent from the level of 1.35 euro at the beginning of 2005. The exchange rate of the US dollar against the euro was 1.1797 at 31 December 2005.

Net sales and result for 2005 (comparative figures for 2004)

Consolidated net sales for the full year in 2005, EUR 3,654 million, exceeded the net sales figure of 3,564 million in 2004, despite the fact that the businesses that were transferred to Ovako were excluded from the reported figures as from 1 May 2005. Comparable net sales in 2004 were EUR 3,192 million. Net sales were lifted by a considerably higher price level than in 2004. The solutions businesses accounted for 28 per cent of the net sales (20). The increased share was attributable to the substantially higher volume of the solutions businesses and the acquisitions that were carried out.

Of net sales, 29 per cent came from Finland (26) and 30 per cent from the other Nordic countries (28). Central eastern Europe accounted for 12 per cent of net sales (11), the rest of Europe for 26 per cent (32) and other countries for 3 per cent (3). Sales to the core market areas increased due to the measures that have been carried out to concentrate sales as well as to the Ovako arrangement.

Delivery volumes declined by 19 per cent. The factors underlying the drop in delivery volumes were the non-inclusion of the units that were transferred to Ovako as well as the adjustment of deliveries and production in line with profitable demand. On a like-for-like basis, delivery volumes were down 7 per cent.

Operating profit was EUR 618 million (493), or 16.9 (13.8) per cent of net sales. Comparable operating profit in 2004 was EUR 446 million, or 14.0 per cent of net sales. Operating profit was lifted by the rise in product prices coupled with an improvement in the sales structure. The profitability of solutions businesses improved from 2004 and their share of net sales rose to 29 per cent (22).

Prices of the raw materials used in manufacturing steel rose markedly compared with 2004. Higher raw material prices began to affect earnings from the second quarter on.

Sales and administrative costs increased slightly owing to the change in the Group structure. The good result also increased the costs of the profit bonus and share bonus schemes periodised over the financial year.

The average exchange rate of the US dollar remained at the level seen in 2004. Dollar hedging contributed about EUR 25 million to operating profit compared with 2004. The net effect of foreign exchange rates on operating profit was a gain of EUR 16 million (loss of 5).

Net financial expenses amounted to EUR 30 million (51). Net interest expenses totalled EUR 28 million (46).

The share of associate companies' profit was EUR 23 million (2), of which Ovako accounted for 18 million.

The result before taxes was EUR 612 million (443).

The Group's taxes amounted to EUR 157 million (114), including a change in deferred taxes of EUR 1 million (-4). The effective tax rate was 27 per cent (26).

The minority interest share of the result was EUR 0 million (1). Net profit for the financial period was EUR 455 million (330).

Diluted earnings per share were EUR 3.31 (2.40).

The return on capital employed was 32.8 per cent (26.0) and the return on equity 34.7 per cent (33.8).

Balance sheet

From the end of 2004, the Group's total assets decreased by EUR 11 million to EUR 2,701 million. At the year-end, the equity ratio was 56.0 per cent (41.7) and the gearing ratio 22.8 per cent (68.0).

Cash flow and financing

Cash flow from operations was EUR 652 million (386) and cash flow after investments was EUR 519 million (268).

Interest-bearing net debt at the end of 2005 totalled EUR 341 million (761). Working capital remained unchanged (grew by 152 million in the previous year). In calculating the change in working capital, the effect of acquired companies and the units that were transferred to Ovako have been removed.

At the end of the year the Group's liquid funds amounted to EUR 163 million and it had a total of EUR 300 million of committed unused revolving credit facilities with banks. The average interest rate on loans at the end of the year was 5.2 per cent (4.6), owing to old bonds with a high interest rate. The average maturity of loans at the end of the year was 3.5 years (3.0).

At the end of the financial year, shareholders' equity stood at EUR 1,498 million (1,127), or EUR 10.98 per share (8.29).

Improving cost-effectiveness

In October 2005 Rautaruukki announced savings targets for the Ruukki United programme for unifying ways of working and boosting efficiency. By the end of 2008 the cost savings are expected to add about 150 million euros to the Group's operating profit. It is also estimated that the efficiency-boosting programme will free up about 150 million euros of capital by the end of 2008, especially by optimising stocks and stepping up the working capital turnover ratio. The effects on staffing levels will be ascertained on a project-specific basis, and the reductions are expected to be made primarily by way of retirement and relocation. The non-recurring costs for the projects have been taken into account in setting the above-mentioned savings targets. The investments required for the projects will be about EUR 30 million.

Personnel

During 2005 the Group had an average payroll of 11,684 employees (12,273). At the end of 2005 the entire payroll was 11,374 employees (12,126). The change in the number of employees was a decrease of 752 people. The Metalplast acquisition increased the Group's payroll by 726 employees and the Syneco Industri AB acquisition by 587 employees. During the report period, 1,900 Group staff transferred to the employ of Ovako.

The Group's profit bonus that is calculated on earnings for 2005 is EUR 19 million (15). This bonus system covers nearly the entire personnel. In accordance with the share bonus scheme that is part of the long-term incentive system for key Group personnel, the bonuses paid for the period 2002-2004 were the maximum amounts. The portion of bonuses paid for 2005 was EUR 13 million. The portion of schemes falling due subsequently and periodised to the financial year was EUR 23 million. On the accounting period, the total costs arising from share bonus schemes was EUR 36 million (11) The share bonus scheme covers 94 senior executives or other persons who are classified as key employees.

Research and development

Research and development expenditure in 2005 amounted to EUR 22 million (17), representing 0.6 per cent of net sales (0.5). R&D activities centred on the development of customer applications and solutions for selected business areas. Process development focused on improving productivity, achieving greater production flexibility and reducing environmental impacts.

In 2005 the Group increased its product development co-operation with customers and end users. The construction business area expanded its integrated deliveries of frame and envelope structures that are used in building industrial, retail and logistics facilities. By means of new technical solutions, Rautaruukki will be able to respond to an ever greater range of architectonic requirements, to speed up implementation at the site and to raise the cost-effectiveness of construction projects. Within the engineering business area R&D work centres on developing customised cabins for mobile machines. Efficiency was enhanced by emphasising the development of welded components in the division's own and customers' production. Within steel products, the focus of development work was on new special products and coatings. An example of such a product that reached completion during the year was high-strength galvanised steels which have good formability characteristics and meet Euronorm requirements. Development work on dirt resistant and antibacterial coatings was continued together with VTT Technical Research Centre of Finland. Together with customers, technology and materials solutions were developed, particularly for demanding component applications, in which the critical factor is the forming processes for sheet steel and tubes as well as the techniques for joining components.

M&A arrangements completed

The long steel products business was spun off into Oy Ovako Ab, which is owned jointly by Rautaruukki, SKF and Wärtsilä. The company began operations in May. The units that were transferred from Rautaruukki to Ovako were Fundia Special Bar, Fundia Wire and Fundia Bar & Wire Processing, including their subsidiaries. Rautaruukki has a 47 per cent stake in Ovako. Ovako has been included as an associate company in Rautaruukki's consolidated financial statements as from 1 May 2005. The capital invested by Rautaruukki in Ovako at 1 May 2005 amounted to about EUR 278 million. Of this amount, an EUR 80 million shareholder loan was repaid to Rautaruukki in its entirety during the report period. Additional information on the effects of the arrangement on Rautaruukki's balance sheet and income statement was given in the company's stock exchange release of 6 June 2005.

In order to strengthen its position in the building systems market in central eastern Europe, Rautaruukki Corporation raised its holding in Metalplast Oborniki Holding Sp. z o.o in June from 16.6 per cent to 99.8 per cent. The shares were bought for a price of about EUR 19 million, in addition to which Rautaruukki assumed about 7 million euros of interest-bearing liabilities. The remaining 0.2 per cent of the shares are held by individual shareholders. Metalplast has been included in Rautaruukki's consolidated financial statements as from 1 June 2005.

In October, Rautaruukki Corporation purchased the entire shares outstanding in Syneco Industri AB from AB Pehrson & Lindgren of Sweden with the aim of expanding its component offerings, especially for the lifting, handling and transportation equipment industry. The shares were bought for a price of about EUR 15 million, in addition to which Rautaruukki assumed about 1 million euros of interest-bearing liabilities. Syneco Industri has been included in Rautaruukki's consolidated financial statements as from 1 October 2005.

Ruukki Engineering's Halikko Works business was sold to Halikko Works Oy in an MBO deal in October. Halikko Works had net sales in 2004 of EUR 13 million and a payroll of just over 100 employees.

The vacuum cleaner tube business of Rautaruukki's subsidiary Froh House Tech was sold to FON Telescopic Systems GmbH in September. The divested business had annual net sales of about EUR 10 million and it had a payroll of 54 employees.

M&A agreements

In the latter part of the year, Rautaruukki Corporation announced two acquisitions that will round out its capabilities of deliveries for integrated systems in the construction industry, whilst strengthening the company's project know-how.

In September, Rautaruukki announced it was increasing its shareholding in PPTH Steelmanagement Oy from 20 per cent to 100 per cent. The shares were purchased from funds managed by CapMan, a private equity firm, and from the company's management for a price of about EUR 7 million. As part of the deal, Rautaruukki assumed EUR 24 million of interest-bearing liabilities. The competition authorities gave their approval for the arrangement on 22 December 2005, and the acquisition was completed after the end of the report period. PPTH had net sales in 2005 of just over EUR 100 million and it had a payroll of about 500 employees at the end of the year.

In December, Rautaruukki signed an agreement on purchasing a 100 per cent holding in Steel-Mont a.s. from the company's management and other private individuals. Completion of the acquisition is contingent upon approval by the competition authorities. The acquisition is expected to be completed by the end of March 2006. Steel-Mont's net sales in 2005 is forecast to be EUR 25 million. The company's customers are international and Slovak investors and construction companies that are erecting industrial and retail facilities in Slovakia. The company had a payroll of 129 employees at the end of 2004. The total purchase price was EUR 10 million.

Capital expenditure

Investments in tangible and intangible assets in 2005 totalled EUR 103 million (108). Disposals of property, plant and equipment during the report period amounted to EUR 16 million (24). During the financial year, EUR 31 million (35) was spent on M&A arrangements, less the cash and cash equivalents of the purchased companies at the time of acquisition. The acquisitions increased the Group's interest-bearing net liabilities by EUR 8 million. Via the acquisitions, property, plant and equipment increased by EUR 18 million, working capital by EUR 8 million and goodwill by EUR 13 million.

Ruukki Engineering operates in the lifting, handling and transportation equipment industry, which has grown robustly over the past years. To support these operations, the company took a decision in the second quarter to modernise the direct quenching equipment at the Raahe steel mill. The investment will also raise the proportion of ultra high strength steels within Rautaruukki's steel products and thereby also bolster Ruukki Metals' special product strategy. The capital expenditure is expected to reach completion in 2007. The estimated cost of the investment is about EUR 24 million.

Environmental and safety issues

All Rautaruukki's main production sites operate in accordance with ISO 14001 environmental systems. When modernising production processes or building new processes, environmental risks are assessed as part of the plant's design and planning process. Rautaruukki operates in accordance with the principles of sustainable development. Environmental investments in 2005 came to EUR 5 million.

The most important initiative within environmental protection in 2005 was the start-up of the EU scheme for emissions trading in greenhouse gases. Of Rautaruukki's plants, Raahe and Hämeenlinna in Finland fall within the scope of the EU's emissions trading. A similar system has been developed in Norway, and it will be linked to the EU's emissions trading. The Norwegian system will apply to the Mo i Rana Works. In the initial allocation of emissions rights, Rautaruukki received a total of about 18.6 million tonnes of emission rights, of which about 6.2 million tonnes were for 2005. Of these, the portion for the units that were transferred to Ovako amounted to a total of 3.2 million tonnes, and the portion of emission rights allocated for 2005 about 1.08 million tonnes.

The Group sets up a provision for emission rights to cover the difference between actual emissions and emission allowances. The provision is marked to market price. During the three-year period from 2005 to 2007, it is not estimated that the purchase of emission rights will result in significant costs to the company's steel production from the standpoint of overall operations.

Improving occupational safety was the company's theme of the year. The aim is to achieve a marked improvement in occupational safety. A pilot scheme for safety management was launched at Ruukki Production, and the operational models developed will be employed across the entire Group. In 2005 the accident frequency decreased clearly and was 24 accidents per million working hours (32).

Risks and risk management

The Board of Directors is responsible for the Group's risk management policy and oversees its implementation. The President and CEO ensures that risk management has been arranged duly and appropriately. During 2005, Rautaruukki unified its methods of identifying and prioritising the Group's exposure to risks. On the basis of a unified operational model, the level of risk management within the Group was assessed, the risk management policy was defined and the principles of risk reporting were formulated. According to the frame of reference that was defined, risk management is a part of the day-to-day operations and decision-making of the support functions of the divisions and the entire Group.

Rautaruukki's earnings trend is affected significantly by the changes occurring in the business operations of its main customer industries. Part of the Group's products are standard steel products, the prices of which track the trend in world market prices.

The Group's production can be disturbed if the availability of certain raw materials and energy weakens due to snags in production processes or because of accidents. To cope with disturbances of this kind, the company has anti-accident systems, standby systems and appropriate insurance cover.

Fluctuations in foreign exchange rates can lead to significant fluctuations in earnings. Hedging of currency risks, interest rate risks in financing activities and credit risks is handled in accordance with the treasury policy approved by the Board of Directors.

Shares and share capital

In 2005 the trade volume of Rautaruukki Corporation's share on the Helsinki Stock Exchange was EUR 2,041 million (912). The share registered a high of EUR 21.15 in December and a low of EUR 8.02 in January. The volume weighted average share price was EUR 12.90. The closing price of the share on 30 December 2005 was EUR 20.55 and the Group had a market capitalisation of EUR 2,854 million.

The company's registered share capital at 31 December 2005 stood at EUR 236.1 million. The number of Series K shares issued was 138,886,445. Rautaruukki Corporation's Annual General Meeting, held on 23 March 2005, authorised the Board of Directors to decide on transferring treasury shares. Under this authorisation, on 29 August 2005 the company transferred 480,263 of its own Series K shares (treasury shares) without consideration to persons covered by the Group's share bonus scheme. At the end of the year the company held 2,592,697 treasury shares, corresponding to 1.87 per cent of the company's shares outstanding and the votes conferred by the shares. The treasury shares had an acquisition cost of EUR 11 million and a market value at 31 December 2005 of EUR 53.3 million.

Rautaruukki Corporation's Board of Directors does not have a valid authorisation to issue convertible bonds and/or bonds with warrants or to increase the company's share capital.

Corporate governance and auditors

Rautaruukki Corporation's Annual General Meeting, held on 23 March 2005, re-elected, Turo Bergman, Lic. (Pol. Sc.) as chairman of the Supervisory Board and Member of Parliament Jouko Skinnari as deputy chairman. The following persons were re-elected to seats on the Supervisory Board: Heikki Allonen, President and CEO, Fiskars Oyj Abp; Ole Johansson, President and CEO, Wärtsilä Corporation; Tauno Matomäki, former President & CEO, UPM-Kymmene Corporation; as well as Members of Parliament Inkeri Kerola, Miapetra Kumpula, Petri Neittaanmäki, Tapani Tölli, and Lasse Virén.

The Annual General Meeting re-elected Jukka Viinanen, President & CEO, Orion Group, as chairman of the company's Board of Directors and Georg Ehrnrooth, former President and CEO, Metra Corporation, as deputy chairman. Re-elected to seats on the Board of Directors were Christer Granskog, President and CEO, Kalmar Industries AB, Ms. Pirkko Juntti, LL.M. and Ms. Maarit Aarni, Vice President, Phenol Business Unit, Borealis Group. The new members elected were Kalle J. Korhonen, Director General, Ministry of Trade and Industry, and Kiuru Schalin, Senior Vice President, AGA, Region Europe North.

The members of the Board-appointed Audit Committee during the 2005 financial year were Pirkko Juntti (chairwoman), Maarit Aarni and Christer Granskog. The members of the Board-appointed Compensation Committee during the 2005 financial year were Jukka Viinanen (chairman), Georg Ehrnrooth and Kiuru Schalin.

The Annual General Meeting re-elected as auditors the firm of independent public accountants Ernst & Young Oy, with Pekka Luoma, Authorised Public Accountant, acting as principal auditor.

Resolutions of the Annual General Meeting

Rautaruukki Corporation's Annual General Meeting on 23 March 2005 approved the Board of Directors' proposals concerning the transfer and buy-back of treasury shares for a period of one year from the close of the meeting. The Annual General Meeting passed a resolution to set up a Nomination Committee to prepare proposals concerning the members of the Board of Directors and their emoluments for presentation to subsequent Annual General Meeting. In addition, the Annual General Meeting passed a resolution to amend the Articles of Association such that henceforth a person who has reached the age of 68 may not be elected as a member of the Board of Directors and Supervisory Board.

The Annual General Meeting resolved to pay a dividend of EUR 0.80 per share for the financial year ended 31 December 2004, or EUR 109 million in total amount.

Events after the balance sheet date

The purchase of PPTH Steelmanagement Oy from funds managed by CapMan, a private equity firm, and from the company's management was completed on 18 January 2006. PPTH will be included in Rautaruukki's consolidated financial statements as from 1 January 2006.

At its meeting on 6 February 2006, the Board of Directors of Rautaruukki Corporation approved plans to merge the company's fully owned subsidiaries Velsa Oy, Etnarör Ab, and PPTH Steelmanagement Oy and its subsidiaries, with the parent company. The boards of the subsidiaries have for their part decided on merging on 6 February 2006. All the subsidiaries will be merged without paying any merger consideration and the goal is to complete the mergers by 1 August 2006.

Outlook for 2006

Demand is expected to hold up well on Rautaruukki's core market area. In the Nordic countries, economic growth is expected to be clearly above the average for the euro zone. GDP growth in eastern Europe is estimated to be a good 5 per cent. Construction activity is estimated to be good in Rautaruukki's core market areas and the strong growth in the main business areas within construction is expected to continue. Customers' order books in the engineering industry are healthy and there are good prospects for the current year. The European market situation for standard steel products has normalised and consumption is expected to increase more than in the previous year.

The market situation in Rautaruukki's core market areas has been good in the current quarter. Demand is expected to hold up well within construction and the engineering industry, and prices of steel products are set to strengthen. Net sales for the full year in 2006 are expected to increase on the comparative previous year figure, and operating profit in the first half of the year should come in at the good level reached in the second half of last year. Major factors of uncertainty relate to the way in which the steel product markets in Asia develop and to general trend in the world economy.

Consolidated income statement

IFRS

M€	Note	1.1.–31.12.2005	1.1.–31.12.2004
Continuing operations			
Net sales	5	**3 654**	**3 564**
Other operating income	6	28	19
Variation in inventories of finished goods and work in progress		–31	94
Production for own use		5	6
Usage of materials and services	7	–1 932	–2 077
Salaries and other employee benefits	8	–557	–573
Depreciation, amortisation and impairment losses	9	–156	–175
Other operating expenses	10	–393	–365
Operating profit		**618**	**493**
Financial income	11	19	8
Financial expenses	11	–49	–59
Net financial expenses	11	–30	–51
Share of results in associated companies	16	23	2
Profit before taxes		**612**	**443**
Income tax	12	–157	–114
Net profit		**455**	**330**
Attributable to:			
Equity holders of the company		455	329
Minority interest		0	1
Earnings per share, calculated on the net profit attributable to equity holders of the company:			
Basic earnings per share (€), continuing operations	13	3.35	2.42
Diluted earnings per share (€), continuing operations	13	3.31	2.40

Consolidated balance sheet

IFRS

M€	Note	31.12.2005	31.12.2004
ASSETS			
Non-current assets			
Goodwill	14	47	38
Other intangible assets	14	51	44
Property, plant and equipment	15	1 033	1 192
Investment in associated companies	16	194	17
Available-for-sale investments	17	10	12
Receivables	18	127	74
Deferred tax assets	19	14	41
		1 476	1 417
Current assets			
Inventories	20	534	651
Trade receivables	21	444	536
Other receivables	21	82	48
Tax receivables based on taxable earnings of the period		1	0
Cash and cash equivalents	22	163	60
		1 225	1 295
Assets, total		**2 701**	**2 712**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	23	236	236
Share premium account		220	220
Translation difference		-5	-2
Fair value and other reserves	24,25	31	2
Retained earnings		1 016	671
		1 497	1 126
Minority interest		1	1
Equity, total		**1 498**	**1 127**
Non-current liabilities			
Deferred tax liabilities	19	138	162
Provisions	27	18	12
Non-current interest-bearing liabilities	28	372	619
Other liabilities	29	39	42
		566	834
Current liabilities			
Trade creditors	29	191	252
Other liabilities	29	212	246
Tax liabilities based on taxable earnings of the period		84	44
Current provisions	27	19	7
Current interest-bearing liabilities	28	132	203
		637	751
Liabilities, total		**1 203**	**1 585**
Equity and liabilities, total		**2 701**	**2 712**

Statement of changes in equity

M€	Share capital	Attributable to equity holders of the Company: Share premium account	Treasury shares*	Fair value and other reserves	Translation differences	Retained earn-ings	Total	Minority interest
Equity 31.12.2003 (FAS)	236	220		38	-5	349	838	1
Effect of adopting IFRS standards (Note 4)			-14	-37		34	18	
Equity 1.1.2004	236	220	-14	1	-5	383	820	1
Change in translation difference					3		3	
Net income booked directly to equity	0	0	0	0	3	0	3	
Net profit						329	329	
Total income and expenses booked during the period	0	0	0	0	3	329	332	
Share-based compensation				1			1	
Dividend distribution						-27	-27	
Equity 31.12.2004	**236**	**220**	**-14**	**2**	**-2**	**685**	**1 126**	**1**
Changes from IAS 39 and 32:								
Cash flow hedging				2		-2	0	0
Adjusted equity 1.1.2005	**236**	**220**	**-14**	**4**	**-2**	**683**	**1 126**	**1**
Cash flow hedging								
Increase (hedging reserve)				32			32	
Deferred taxes'				-8			-8	
Change in translation difference					-3		-3	
Net income booked directly to equity	0	0	0	24	-3	0	21	
Net profit						455	455	
Total income and expenses booked during the period	0	0	0	24	-3	455	476	
Treasury shares granted			3			-3	0	
Share-based compensation				4			4	
Dividend distribution **						-109	-109	
Equity 31.12.2005	**236**	**220**	**-11**	**31**	**-5**	**1 027**	**1 497**	**1**

* In the balance sheet, treasury shares are shown subtracted from retained earnings.

** The Board of Directors propose according to the meeting held on February 8, 2006 that a dividend of 1.40 euros per share, totally 191 million euros be distributed.

These financial statements do not include bookings related to proposed dividend distribution.

Consolidated cash flow statement

IFRS

M€	Note	1.1.–31.12.2005	1.1.–31.12.2004
Cash flow from operating activities			
Net profit		455	330
Adjustments			
Non-cash transactions	30	156	177
Interest and other financing expenses		49	59
Interest and other financing income		-19	-8
Taxes		157	114
Other adjustments		-9	-11
Change in working capital			
Change in trade and other receivables		40	-105
Change in inventories		3	-139
Change in trade and other creditors		-50	90
Change in provisions		8	2
Interest paid		-47	-47
Interest received		19	10
Taxes paid		-109	-84
Net cash flow from operating activities		**652**	**386**
Cash flow from investing activities			
Acquisition of subsidiaries less cash and cash equivalents of the acquisition date	31	-31	-35
Disposal of subsidiaries	30	-19	0
Investment in property, plant and equipment		-84	-97
Investment in intangible assets		-19	-11
Sales of property, plant and equipment		16	16
Sales of intangible assets		0	8
Other investments		0	-6
Sales of other investments		1	5
Dividends received from subsidiaries		3	2
Net cash flow from investing activities		**-133**	**-118**
Net cash flow before financing activities		**519**	**268**
Cash flow from financing activities			
Payments from share issue		0	0
Loans drawn down		0	0
Repayments of loans		-301	-225
Buyback of own shares		0	0
Payments of finance leases		-6	-6
Dividends paid		-109	-27
Net cash flow from financing activities		**-415**	**-258**
Change in cash and cash equivalents		**103**	**10**
Cash and cash equivalents* at the beginning of the accounting period		60	49
Cash and cash equivalents* at the end of the accounting period		163	60

* In the cash flow statement, cash and cash equivalents correspond to those in the balance sheet.

Notes to the consolidated financial statements

1. Company information

The Group supplies metal-based components, systems and integrated deliveries to the construction and engineering industries. Within metal products, the company has an extensive range of products and services. The Group operates in 23 countries. The parent company of the Group is Rautaruukki Corporation. The parent company is domiciled in Helsinki and its registered address is P.O. Box 138, Suolakivenkatu 1, 00810 Helsinki. Rautaruukki Corporation's share is listed on the Helsinki Stock Exchange.

The Ruukki business is divided along the lines of its management organisation into the following reporting divisions:

Ruukki Construction
Ruukki Construction supplies metal-based solutions for building construction, especially for the retail, industrial and logistics construction, as well as for infrastructure construction.

Ruukki Engineering
Ruukki Engineering supplies metal-based solutions for lifting, handling and transportation equipment industry as well as for paper and wood processing, marine and off-shore industries.

Ruukki Metals
Ruukki Metals supplies a wide selection of steel, stainless steel and aluminium as standard and special products, parts and components.

Ruukki Production
Ruukki Production manufactures hot-rolled, cold-rolled and coated plate and strip products, steel tubes and reinforcing steel for Ruukki's divisions with customer responsibility.

The customer divisions Ruukki Construction, Ruukki Engineering and Ruukki Metals form the Group's primary segment in segment reporting. Ruukki Production is not reported as an individual segment because the segment does not have sales outside the Group.

The most important information on segment reporting is presented in Note 5.

2. Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the IFRS standards and SIC and IFRIC interpretations in force at 31 December 2005. In the Finnish Accounting Act and the regulations based on it, International Financial Reporting Standards refer to the standards and the interpretations that are issued regarding them, which have been approved for application within the EU in accordance with the procedure prescribed in EU regulation (EC) 1606/2002. The notes to the consolidated financial statements are also in accordance with Finnish accounting and company legislation.

From the beginning of 2005, the Group adopted IFRS and the adoption was done according to *IFRS 1: First-time Adoption of International Financial Reporting Standards.* The transition date was 1 January 2004, except for the IAS standards 32 and 39, which the Group adopted at 1 January 2005. For the financial instruments the Group utilised the exemption for a first-time adopter of IFRS not to restate comparative information for 2004. The comparative figures for 2004 presented in these financial statements have been restated to comply with IFRS. Prior to the adoption of IFRS, the company reported its earnings and financial position in accordance with Finnish Accounting Standards (FAS).

The consolidated financial statements have been prepared based on historical cost (deemed cost), except for the items mentioned below, which are measured at fair value as prescribed in the standards.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts. The most important areas where management's judgement is required are impairment testing (Note 14) and fair value measurement and allocation related to business combinations (Note 31).

The financial statements are presented in millions of euros. For the purposes of presentation, individual figures and totals are rounded off to even millions, which causes rounding-off differences in the totals.

Principles of consolidation

Subsidiaries

The consolidated financial statements include Rautaruukki Corporation and its subsidiaries. Subsidiaries are companies in which the Group has a controlling interest. A controlling interest arises when the Group holds more than half of the voting rights or it otherwise has the power to govern the financial and operating policies of the entity. The existence of potential voting rights is taken into account in assessing the conditions under which control arises whenever instruments conferring potential voting rights can be exercised at the review date.

Intra-Group share ownership has been eliminated by means of the purchase method. Acquired subsidiaries are included in the consolidated financial statements from the time when the Group has obtained control, and divested subsidiaries up to the time when control ceases. Intra-Group transactions, receivables, liabilities and profits are eliminated in preparing the consolidated financial statements.

Subsidiaries observe the same financial period as the parent company as well as the Group accounting policies described here.

Associates

Associates are entities in which the Group has significant influence. Significant influence arises when the Group holds 20-50 per cent of the company's voting rights or when the Group otherwise has a significant influence in the company's operations but does not have control.

Investments in associates are included in the consolidated financial statements using the equity method. If the Group's share of losses exceeds the carrying amount, losses in excess of the carrying amount are not consolidated unless the Group has given a commitment to fulfil the obligations. Unrealised profits between the Group and associates are eliminated in proportion to the company's shareholding. Each investment includes the goodwill arising from the acquisition.

The financial period of associates does not differ from the financial period of Group companies. Insofar as the accounting policies of associates do not substantially correspond to the Group's accounting policies, the necessary adjustments to the figures reported by the associate have been made at the Group level.

Joint ventures

The Group does not currently have investments that are treated in accordance with the rules of Interests in Joint Ventures.

Foreign Currency Transactions

Figures relating to the profit and financial position of Group entities are measured in the currency that is the currency of each entity's main operating environment ("functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Group's parent company.

Transactions denominated in foreign currency are recorded in euros using the exchange rate on the date of the transaction. Monetary items denominated in foreign currency are translated to euros using the exchange rates at the balance sheet date. Non-monetary items denominated in foreign currency, which are measured at fair values, are translated to euros using the exchange rates at the date of measurement. Otherwise, non-monetary items are measured at the rate on the date of the transaction. Gains and losses arising from transactions denominated in foreign currency and the translation of monetary items are recorded in the income statement. Foreign exchange gains and losses on operations (sales and purchases) are included in the corresponding items above operating profit. Foreign exchange gains and losses on financing are included in financial income and expenses.

The income statements of foreign Group companies have been translated to euros at the average rate for the period, and the balance sheets are prepared using the rates at the balance sheet date. Translating the profit for the period using different rates in the income statement and the balance sheet leads to a translation difference that is recorded in equity. The translation differences arising from the elimination of the cost of foreign subsidiaries are recorded in equity. When a subsidiary is sold, the cumulative translation differences are entered in the income statement as part of the capital gain or loss.

The goodwill arising from the acquisition of foreign operations as well as fair value adjustments made to the carrying amounts of the assets and liabilities of said foreign operations in connection with an acquisition are treated as the assets and liabilities of said foreign operations and translated to euros using the exchange rates at the balance sheet date.

If a Group subsidiary prepares its financial statements in the currency of a hyperinflationary country, the financial statements of the subsidiary are translated using the exchange rate at the balance sheet date. The Group does not currently have units reporting in the currency of a hyperinflationary country.

Property, plant and equipment

Property, plant and equipment is measured at historical cost less depreciation and impairment losses. Subsequent costs are included in the carrying amount of an item of property, plant and equipment only when it is probable that future economic benefits from the asset will flow to the Group and that the cost of the asset can be determined reliably. Other repair and maintenance expenses are recognised as an expense in the period in which they are incurred.

Assets are depreciated using the straight-line method over their useful life. Land areas are not depreciated. The estimated useful lives applied by the Group are the following:

Buildings:	10–40 years
Process machinery and equipment, vessels:	20 years
EDP equipment:	3–5 years
Other machinery and equipment:	5–10 years

The residual value of assets and their useful life are reviewed periodically in connection with each set of financial statements and the interim report and, if necessary, they are adjusted to reflect changes that have occurred in the expectations for the asset's useful life. Depreciation of an item of property, plant and equipment ceases when the asset is classified as for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.*

Property, plant and equipment obtained on a finance lease is depreciated over the estimated useful life or the lease term, if shorter.

Intangible assets

Goodwill

After 1 January 2004 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. The goodwill arising from business combinations prior to this represents the amount recorded under FAS at 31 December 2003, which has been used as the deemed cost. The classification and accounting treatment of these business combinations has not been adjusted when preparing the Group's opening IFRS balance sheet. Goodwill is stated at historical cost (or deemed cost) less impairment losses.

Goodwill is tested annually or, if necessary, more frequently to determine any impairment. For this purpose, goodwill has been allocated to cash-generating units that correspond to management's way of monitoring the business and the related goodwill. Within the Group, cash-generating units correspond to reported segments (see Note 14 Intangible assets).

Impairment testing of goodwill as required by the transitional standard has been carried out by applying IAS 36 at the date of transition to IFRS, 1 January 2004.

Research and development expenditure

Research and development expenditure is recorded as an expense in the income statement, except for those development expenses which meet the capitalisation criteria under *IAS 38 Intangible Assets*. Accordingly, expenses arising from development are capitalised as intangible assets in the balance sheet from the time that the product is technically feasible, can be exploited commercially and is expected to generate future economic benefits. Previously expensed development expenditure can no longer be capitalised at a later date. The asset is depreciated from the time when it is ready for use. The estimated time for selling the asset is used as the depreciation period. An asset that is not yet ready for use is tested annually and, if necessary, more frequently to determine any impairment.

Other intangible assets

Purchased patents, trademarks, licences and other intangible assets having a finite useful life are entered in the balance sheet and the amortised expense is recorded in the income statement over their useful life. Intangible assets with an indefinite useful life are not amortised, but are tested annually or if necessary more frequently to determine any impairment. The Group does not currently have intangible assets with an indefinite useful life.

The estimated useful lives of intangible assets are:

Software	3–5 years
Other intangible rights	5–10 years

The cost of intangible assets comprises the purchase price and all expenditure that can be directly attributed to preparing the asset for its intended use.

A gain or loss arising on the sale of intangible assets is presented in other income and expenses in the income statement.

Leases

The Group as lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. A finance lease agreement is recognised in the balance sheet at an amount equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. An asset obtained on a finance lease is depreciated over the useful life of the asset or, if shorter, the lease term. Lease obligations are included in interest-bearing liabilities.

Lease agreements in which the risks and benefits incident to ownership remain with the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense in the income statement on a straight line basis over the lease term. Incentives received are deducted from lease payments on the basis of the time pattern of the user's benefit.

Impairment of assets

At each balance sheet date (including interim reports) the Group estimates whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the higher of an asset's net selling price and its value in use.

Impairment testing in respect of goodwill, intangible assets with an indefinite useful life as well as in-process intangible assets is done annually regardless of whether there are indications of impairment.

An impairment loss is recorded when the carrying amount of an asset item is greater than its recoverable amount. Impairment losses are recorded in the income statement. An impairment loss is reversed if a change has occurred in circumstances and the recoverable amount of the asset has changed since the last impairment loss was recognised. However, the reversal must not cause the adjusted value to be higher than the carrying amount that would have been determined if no impairment loss had been recognised in prior years. An impairment loss recognized for goodwill is not reversed.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred. Transaction expenses directly attributable to the obtaining of loans are included in the original amortised cost of the loan and amortised to interest expense using the effective interest method.

Government grants

Government grants received to cover purchases of property, plant and equipment are deducted from the carrying amounts of the assets they relate to. Grants are recognised as income in the form of smaller depreciation charges over the lifetime of the asset. Other government grants are recorded in other operating income.

Inventories

Inventories are stated at the lower of cost and net realisable value. For raw materials, cost is determined using the FIFO method, and for finished and semi-finished products using the weighted average cost method. The cost of finished and semi-finished products comprises raw materials, direct labour expenses, other direct expenses as well as an appropriate share of fixed and variable production overheads, based on the normal capacity of the production facilities. In ordinary operations the net realisable value is the estimated selling price which is obtainable, less the estimated costs incurred in bringing the product to its present condition and selling expenses.

Employee benefits

Pension liabilities

The Group has various defined contribution and defined benefit pension plans in different countries. In addition, the Group has defined-benefit pension plans in Norway and Germany as well as in Finland in respect of supplementary pension policies. Payments made for the defined contribution plans are recognised in the income statement in the period which they relate to.

The Group's most important defined benefit pension plan is the pension security that is arranged through the pension fund in Finland. The Group's obligations under defined benefit pension plans have been calculated separately for each plan. The calculations have been carried out using the projected unit credit method. Pension expenditure is booked as an expense over the expected average remaining working lives of the employees participating in the plan on the basis of calculations made by authorised actuaries. For each defined benefit plan, the net total of the present value of the obligation and the fair value of the plan assets is stated as an asset or liability in the consolidated balance sheet. The disability liability of the defined-benefit TEL (Employees' Pensions Act) insurance that is arranged through the pension foundation is recorded when an event that causes a disability occurs. Accordingly, a liability for it is not recorded to cover future events.

In accordance with the exemption under IFRS 1, all cumulative actuarial gains and losses have been recognized in retained earnings at the date of transition, 1 January 2004. The actuarial gains and losses that have arisen thereafter are entered in the income statement over the remaining average period of service of employees to the extent that they exceed the greater of the following: 10 per cent of the pension obligation or 10 per cent of the fair value of plan assets.

Share–based payments

The Group has applied *IFRS 2 Share-based Payment* to all share-based schemes in which shares or options have been granted after 7 November 2002 and which have not been vested prior to 1 January 2005. Expenses of option and share incentive schemes prior to this have not been presented in the income statement.

The Group currently has an effective share-based incentive system for management in which part of the bonuses are paid in shares and part in cash. In addition, the company has issued a convertible bond which is targeted at the personnel and includes option rights. (For additional information on share-based schemes, see Note 25 Share-based payments).

Option rights and shares granted are measured at fair value at the time they are granted and entered as an expense in the income statement in even instalments during the vesting period. The expense determined is based on the defined fair value of the stock options and shares as well as on management's estimate of the amount of options or shares to which the employee will be entitled at the end of the vesting period. The fair value of the options is determined by an external valuer on the basis of the Black-Scholes pricing model, and the fair value of the shares is determined according to the company's market capitalisation.

The effects of conditions that are not market-based (for example, profitability and a given earnings growth target) are not included in fair value, but they are taken into account in setting the amounts of options or shares to which the employee is assumed to be entitled at the end of the vesting period. The Group updates the assumption concerning the final amount of stock options and shares at each balance sheet date. Changes in the estimates are recorded in the income statement. When options are exercised, the cash payments received on the basis of share subscriptions (adjusted for any transaction expenses) are entered in the share capital (at nominal value) and in the share premium reserve.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that a payment obligation will be realised and the amount of the obligation can be estimated reliably. If a reimbursement can be obtained from a third party for part of the obligation, the reimbursement is treated as a separate asset when it is virtually certain that the reimbursement will be received.

A warranty provision is booked, based on historical experience of the realisation of warranty expenses, when the product covered by a warranty condition is sold. A restructuring provision is booked when the Group has prepared a detailed restructuring plan and commenced the implementation of the plan or announced the matter publicly. A provision is recognised for an onerous contract when the direct expenses required to meet the obligations exceed the benefits received from the contract.

Taxes

Tax expense in the income statement comprises the current tax and the change in deferred taxes. Current tax is calculated based on the taxable income using the tax rate that is enacted in each country at the balance sheet date. Taxes are adjusted for any taxes for previous periods, except taxes which are to be recorded in equity, for which the corresponding income or expense has been recorded directly in equity.

Deferred taxes are calculated on the temporary differences between the carrying amounts and the amounts used for taxation purposes. The main temporary differences arise from the depreciation difference on property, plant and equipment, fair valuation of derivatives, defined benefit pension plans, provisions, unused tax losses and fair valuation of net assets in acquired companies. Deferred taxes are not recorded for tax purposes on non-deductible impairment losses on goodwill or on the undistributed earnings of subsidiaries to the extent that the difference will probably not be reversed in the foreseeable future.

Deferred taxes have been calculated by applying the tax rates enacted at the balance sheet date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The amount and probability of utilisation of a tax asset are reviewed at each balance sheet date.

Deferred tax assets and tax liabilities are presented as separate items in the balance sheet under non-current assets or liabilities. Deferred tax assets and tax liabilities shall be offset if and only if the entity has a legally enforceable right to set off the recognised amounts, and the deferred tax asset and tax liability relate to income taxes levied by the same tax authority.

The amount of a deferred tax asset and tax liability are recognised in the income statement, except for taxes resulting from a transaction or event that has been credited or charged directly to equity or is due to a business combination.

Value added tax and other similar indirect taxes are deducted from sales revenues. Any other taxes are included in other operating expenses. The amount payable to the tax authority is stated as a current liability under Other liabilities in the balance sheet and the amount to be received from the tax authority is stated as a current receivable under Other receivables in the balance sheet.

Revenue recognition

Goods sold and services rendered

Revenue from the sale of goods is recognised when the significant risks, rewards and actual control connected with ownership of the goods have been transferred to the buyer, the revenue and costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the company.

Revenue is measured at the fair value of the consideration received or receivable. The revenue recognised does not include amounts collected on behalf of a third party, such as value added tax.

Revenue from services rendered is recorded according to the stage of completion when the outcome of the transaction can be estimated reliably. In respect of short-term services, revenue is recognised when the service is rendered. When services are rendered over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion.

Revenue from long-term projects is recognised according to the stage of completion. 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. When the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. The costs of the transaction are recorded as expense in the financial period when they were incurred. An expected loss on a project is recorded as an expense immediately.

Interest, royalties and dividends

Interest, royalties and dividends are recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably. Interest revenue is recognised using the effective interest method. Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement and dividends are recognised when the shareholder's right to receive payment is established.

Assets held for sale and discontinued operations

The Group has applied the standard *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* as from 1 January 2005.

The Group classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition and under customary terms, management must be committed to a plan to sell the asset, an active programme to locate a buyer has been initiated and it is highly probable that the sale will be completed within one year.

Non-current assets and asset items related to discontinued operations, which are classified as held for sale, are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation and amortisation on these asset items is discontinued at the time of classification.

Financial assets and liabilities

The Group has applied *IAS 39 Financial Instruments: Recognition and Measurement* since 1 January 2005. In 2004 financial assets and liabilities were measured in accordance with Finnish Accounting Practice (FAS). From the Group's standpoint, the most significant change caused by the adoption of IAS 39 is the recording of derivatives in the balance sheet at fair value as well as the presentation in equity of the change in the unrealised fair value of derivatives covered by hedge accounting.

The Group's financial assets have been classified according to the standard in the following groups: loans and loan receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification is made on the basis of the purpose for which the financial assets were acquired, and they are classified when the assets are originally acquired.

The Group records purchases and sales of financial assets on the basis of the trade date.

Trade and other receivables

Trade and other receivables are classified in the group Loans and other receivables and are measured at amortised cost using the effective interest method. Current trade receivables are entered in the accounts according to the original invoiced amount less doubtful debts. In valuing non-current receivables, estimated future payments are discounted to present value. The uncertainty related to receivables is estimated regularly and credit losses are recorded as an expense when detected. Loans and other receivables are included in the balance sheet items trade receivables and other receivables.

Other financial assets

At present, the Group's other financial assets are classified as available-for-sale, except for derivatives not designated for hedging purposes, which are classified as financial assets at fair value through profit or loss (see the paragraph Derivative Contracts and Hedge Accounting). Available-for-sale financial assets are stated in the balance sheet on a separate line. Financial assets recorded at fair value through profit or loss are included in other receivables and liabilities.

Available-for-sale financial assets can consist of shares and interest-bearing investments, and they are measured at fair value. Changes in the fair value of available-for-sale financial assets are entered in equity under the revaluation fund. Changes in fair value are transferred from equity to the income statement when the investment is sold or its value has been impaired such that an impairment loss must be recognised on the investment.

Available-for-sale financial assets are included in non-current assets, except when they are to be held for less than 12 months from the balance sheet date, in which case they are included in current assets.

The fair value of financial assets is determined primarily using market values. If these are lacking, the market values of corresponding instruments or discounted cash flows are used to determine fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and demand deposits and other current, liquid investments. Items classified as cash and cash equivalents have a maximum of a three-month maturity from the time of acquisition. Credit facilities used are included in current interest-bearing liabilities.

Financial assets are derecognised in the balance sheet when and only when the contractual rights to the cash flows from the financial asset expire or the Group transfers the item included in financial assets to another party such that the risks and rewards incident to ownership of the item or control over it are transferred to the other party.

Impairment

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. If any such evidence exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses are recorded through the income statement.

Financial liabilities

Financial liabilities are originally entered in the accounts at fair value on the basis of the consideration received. Transaction costs are included in the original carrying amount of financial liabilities, except for binding long-term credit facilities from banks, for which the costs are entered directly in the income statement.

After original measurement, all financial assets are measured at amortised cost using the effective interest method. Financial liabilities are included in non-current and current liabilities.

A financial liability is removed from the balance sheet when and only when it is extinguished.

Derivative contracts and hedge accounting

The Group treats derivative instruments in the manner defined in the standard *IAS 39 Financial Instruments: Recognition and Measurement* as from 1 January 2005.

Derivative contracts are recognised at the original cost, which corresponds to their fair value. After acquisition, derivative contracts are measured at fair value. The gains and losses arising from the measurement at fair value are treated in the accounts in the manner determined by the usage purpose of the derivative contracts. When the Group has entered into derivative contracts, it treats them either as hedges of the fair value of either receivables, liabilities or firm commitments, hedges of the cash flow of a highly probable forecast transaction, as hedges of a net investment in a foreign operation or as derivative contracts which do not meet the criteria for hedge accounting.

At present the Group applies hedge accounting to commodity derivatives (zinc and electricity derivatives) and to certain interest rate swaps. In addition, the company has foreign currency and interest rate derivative contracts to which hedge accounting is not applied.

The profit or loss of derivative contracts constituting a hedging relationship is stated uniformly with the hedged item in the income statement. The unrealised result of derivatives hedging cash flow is entered in the revaluation fund in equity to the extent that the hedge is effective. Gains and losses entered in equity are transferred to the income statement in the period when the hedged item is entered in the income statement. When the hedging instrument that is acquired to hedge a cash flow falls due, is sold or the criteria for hedge accounting are no longer met, the accrued gain or loss on the hedging instrument remains in equity until the forecast transaction is realised. However, if the forecast transaction is no longer assumed to be realised, the gain or loss that has accrued in equity is recognised in the income statement.

Non-hedging derivatives belong to the class financial assets at fair value through profit or loss, for which changes in fair value are entered in the income statement. A change in the fair value of interest rate derivatives is presented in financial income and expenses, and a change in the fair value of currency hedges connected with business operations is stated above operating profit.

The fair values of derivatives are determined by utilising market prices and generally available valuation models. The data and assumptions used in the valuation model are based on verifiable market prices.

The fair value of derivatives falling due in one year is stated in current receivables or liabilities. The fair value of those derivatives falling due in more than one year is stated in non-current receivables or liabilities.

The Group separates embedded derivatives from the host contract and treats them in the same way as other derivatives if the following criteria are met: the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, the terms of the embedded derivative correspond to the definition of a derivative, and a hybrid (combined) instrument contained by a hedge derivative is not measured at fair value through profit or loss.

Treasury shares

The Group states treasury shares as a reduction in equity. A gain or loss on purchases, sales, issuance or cancellation of treasury shares is not recorded in the income statement but the consideration paid for or received is recorded directly in equity.

Introducing new standards and interpretations

The IASB and IFRIC have published the following new standards and interpretations, which the Group will introduce as follows in accordance with the entry into force of the standards:

Adoption on 1 January 2006:
IFRS 4 Insurance Contracts
IFRS 6 Explorations for and of Evaluation Mineral Assets:
IFRIC 4 Determining Whether an Arrangement Contains a Lease
IFRIC 5 Rights to Interests arising from Decommisioning, Restroration and Environmental Rehabilitation Funds
IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Adoption on 1 January 2007:
IFRS 7 Financial Instruments: Disclosures
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies:
IFRIC 8 Scope of IFRS 2

The Group has analysed the effects of the new standards and interpretations, and it is assumed that they do not have any significant effect on profit, financial position or cash flow reported by the Group.

IFRIC has furthermore published the IFRIC 3 Emission Rights interpretation. The Group does not comply with this interpretation because the IASB (International Accounting Standards Board) has rejected the interpretation. The Group sets up a provision for emission rights to cover the difference between actual emissions and emission allowances. The provision is marked to market.

3. Management of financial risks

The Rautaruukki Group's financing operations and the management of financial risks are handled centrally by the parent company's Corporate Treasury in accordance with the financial policy approved by the Group's Board of Directors. The divisions are responsible for the financial risks which are included in their operating profit and carry out their financial transactions within the Group. The objective of the Group's management of financial risks is to minimise the unfavourable effects of financial risks on the Group's earnings, shareholders' equity and liquidity.

Foreign exchange risk

The Group's foreign exchange risk is managed via three separate positions: the balance sheet, equity and cash flow positions. The balance sheet position was on average completely hedged during 2005. The foreign exchange risk for the shareholders' equity amounts of foreign shareholdings was not hedged. In accordance with the Group's operating policy on cash flow exposure, an average of 4–8 months of net cash flows are hedged in full.

Estimated annual net cash flow risk (transaction risk) against euro and the hedging rate at 31.12.2005

	M€	hedging months
USD	-250	7
GBP	90	4
SEK	200	6
NOK	-30	10
DKK	110	0
PLN	25	8
Other currencies	70	
Total	215	

The Group uses forward contracts and options to hedge currency risks.

Interest rate risk

The Group's interest-bearing net debt at 31 December 2005 was EUR 341 million and the average interest rate of interest-bearing debt was 5.2 per cent. The euro represents about 95 per cent of the net debt. Interest rate risk is monitored and managed in terms of interest flow risk and price risk. At 31 December 2005, a one percentage point rise in the interest rate over the next 12 months did not have any significant interest flow risk impact. The duration of the interest rate risk position at the end of the year was 2 years. A change of one percentage point in the interest rate curve would have led to a change of about EUR 5.6 million in the market value.

The Group hedges interest rate risks by means of forward rate agreements.

Liquidity risk

To ensure liquidity the Group had, at the end of 2004, committed revolving credit facilities totalling EUR 300 million, of which EUR 300 million was unused. The Group has several uncommitted short-term credit lines as well as an EUR 250 million commercial paper programme, of which EUR 250 million was unused at the end of the year.

Credit risk

With a view to minimising credit risks in financing, agreements and commitments are made only with leading and financially solid banks and other counterparties. Financial credit risks did not result in losses during the financial year. The major part of unsecured trade receivables is covered by credit risk insurance.

Commodity price risks

Zinc

The raw materials used by the Group involve price risks, for which the established derivatives markets provide only for hedging the price risk of zinc. Approximately 34,000 tonnes of zinc was purchased in 2005. At the end of the year, 45 per cent of the estimated zinc purchases for 2006, 38 per cent for 2007 and 23 per cent for 2008 had been hedged.

Electricity

The price risk for electricity is monitored and managed in accordance with the risk policy approved by Group management. The Group's largest electricity-using units are located in Finland and Norway. In respect of these countries, the price risk is managed centrally by the parent company. About a third of the Group's aggregate electricity consumption is met by its own power generation capacity and the remainder is purchased on the market. The amount of electricity purchased in 2005 was about 1320 GWh.

At the end of the year, electricity derivatives had been employed to hedge 86 per cent of the purchases in Finland and Norway for 2006, 62 per cent for 2007 and 44 per cent for 2008.

Derivative contracts as at 31.12.2005

The following table shows the nominal values and fair values of the Group's financing instruments and commodity derivatives. The calculation of fair values is based on the available market prices or a price given by a bank. For options, general valuation models are used. The nominal amounts do not correspond to the money payments exchanged by the parties and they also include closed contracts.

Cash flow hedges included in hedge accounting

M€	Nominal value	Fair value
Interest rate derivatives		
Interest rate swaps	70	-0.3
Zinc derivatives		
Forward contracts	41,100*	16.9
Electricity derivatives		
Forward contracts	2,344**	18.3

*tonnes
**GWh

The unrealised profit/loss of the cash flow hedges are booked to equity, if the hedge is effective. Other fair value changes are booked to profit and loss.

Derivatives not included in hedge accounting

M€	Nominal value	Fair value
Interest rate derivatives		
Interest rate swaps	309	-1.1
Foreign currency derivatives		
Forward contracts	639	1.5
Options		
Bought	55	1.2
Sold	55	1.0
Total	110	2.2

4. Information on the transition to IFRS financial statements

At the beginning of 2005, Rautaruukki Corporation adopted accounting policies in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS was 1 January 2004, except for IAS 32 and IAS 39, the standards on financial instruments, which were introduced in the Group's reporting at 1 January 2005. The effects on the Group's equity of adopting the standards concerning financial instruments are set out in the Group's Statement of Changes in Equity.

Prior to the introduction of IFRS, Rautaruukki's financial statements have been based on Finnish Accounting Standards (FAS).

As a consequence of adopting the new accounting policies, the Rautaruukki Group's total assets at the end of 2004 increased by EUR 97 million and interest-bearing liabilities by EUR 69 million, due mainly to the inclusion in the balance sheet of assets acquired on finance leases as well as to the manner of calculating defined-benefit pensions according to IFRS.

On 26 April 2005 Rautaruukki published a more detailed press release on the accounting policies to be applied in connection with the transition to IFRS. The press release can be viewed on the company's website at the address www.ruukki.com.

Below is a brief summary of the most significant effects on reported equity and the result for the financial year. The transition did not have a significant impact on the company's cash flow statement.

Effects of the transition to IFRS on reported equity at 1 January 2004 and 31 December 2004

BALANCE SHEET	Ref.	1.1.2004 FAS	1.1.2004 IFRS	Change	31.12.2004 FAS	31.12.2004 IFRS	Change
Non-current assets	1,2,4,5,6	1 329	1 468	139	1 284	1 417	133
Current assets							
Inventories	7	502	508	6	640	651	11
Trade and other receivables	7	523	478	-45	632	584	-47
Cash and cash equivalents		49	49	0	60	60	0
Assets		2 403	2 503	100	2 616	2 712	97
Equity		839	821	-18	1 128	1 127	-1
Non-current liabilities							
Interest-bearing	2	768	846	78	556	625	69
Non-interest-bearing	1,4	220	235	15	213	224	10
Current liabilities							
Interest-bearing		204	204	0	195	195	0
Non-interest-bearing	2	373	396	23	523	541	18
Equity and liabilities		2 403	2 503	100	2 616	2 712	97

EQUITY	1.1.2004	31.12.2004
Equity according to FAS	**838**	**1 127**
Effects of the transition to IFRS		
IAS 18 Net sales	-2	-2
IAS 19 and IFRS 2 Employee Benefits	67	72
IAS 17 Leases	-32	-32
IFRS 3 Business Combinations	0	6
IAS 12 Income Taxes	-3	-1
IAS 32 Treasury Shares Reserve	-15	-14
IAS 16 Property, Plant and Equipment	-33	-32
Other	0	1
IFRS adjustments, total	-18	-1
Equity according to IFRS	**820**	**1 126**

Effects of the transition to IFRS on net profit

INCOME STATEMENT	Ref.	2004 FAS	2004 IFRS	Change
Net sales	7	3 569	3 564	-6
Other operating income	2	16	19	2
Operating expenses	1,2	-2 937	-2 915	23
Depreciation	2,3	-173	-175	-2
Operating profit		475	493	17
Financial income and expenses	2,7	-45	-49	-4
Profit before taxes		430	443	13
Taxes	7	-116	-114	3
Profit after taxes		314	330	16
Minority interest		-1	-1	0
Net profit		313	329	16

Main changes resulting from the transition

1. Employee benefits

Pensions

The Group's pension plans are classified either as defined-contribution or defined-benefit plans. Defined-contribution plans are recorded as an expense. Pension benefits under the Finnish TEL Employees' Pensions Act and supplementary pension benefits falling within the scope of the pension fund are treated as defined-benefit plans, whereas TEL pension policies taken out with an insurance company are as a rule classified as defined-contribution plans. According to the interpretation applied by the Group, in the treatment according to IAS 19 of TEL insurance based on Finnish employment pension legislation and the disability pension arranged through a pension foundation, the expenses resulting from the benefit are recorded when the event that has caused the disability has occurred.

The transition to IFRS has resulted in the recording in the consolidated balance sheet of an EUR 68 million non-current asset (31 Dec 2004), because the fair value of the pension fund's assets exceeds the pension liability calculated according to IAS 19. Non-current liabilities according to the FAS balance sheet included EUR 25 million of pension provisions, which have been taken into account in the above-mentioned asset item in the IFRS balance sheet.

The introduction of IFRS improved net profit for 2004 by EUR 3 million.

Other non-current employee benefits

The most significant of the other non-current employee benefits are years-of-service benefits, which are periodised according to IAS 19 and have the effect of reducing net profit for 2004 by EUR 3 million.

Share bonuses

The share options belonging to the incentive and commitment-building scheme for management as well as other bonuses payable in shares are measured at fair value at the time they were granted. Fair value is booked to expense in the income statement on a straight-line basis over the vesting period. The Rautaruukki Group has complied with the transitional provisions of IFRS 2 and has not recorded as an expense share-based bonuses which were granted on 7 November 2002 or earlier or have vested prior to 1 January 2005.

The adjustment relating to the share-based payment improved net profit for 2004 by EUR 5 million compared with the FAS result.

2. Leases

Leases in which the Group assumes substantially all the risks and rewards incident to ownership of the asset are classified as finance lease agreements and entered in the balance sheet in accordance with IAS 17. Lease payments are split between financial expenses and a reduction in lease liabilities.

Property, plant and equipment in the balance sheet at the end of 2004 includes EUR 57 million of buildings and other property, plant and equipment financed through lease agreements. At the end of 2004 the interest-bearing liability for finance lease agreements was EUR 69 million. In the result for 2004, the change in the way of recording leases improved operating profit and increased financial expenses by EUR 6 million.

The recognition of the capital gain on sale and leaseback transactions has been adjusted by periodising the capital gain over the lease term. Recording these items in earnings added EUR 2 million to operating profit in 2004. The remaining unrecorded capital gain under current non-interest-bearing liabilities in the balance sheet was EUR 19 million at the end of 2004.

3. Goodwill

In accordance with IFRS 3, goodwill is not amortised. Impairment testing was carried out on goodwill amounts in accordance with IFRS 1 at the transition date.

The reversal of goodwill amortisation according to FAS improved the result for 2004 by EUR 6 million. Goodwill at the end of 2004 amounted to EUR 38 million.

4. Income taxes

Income taxes are presented in accordance with IAS 12 and deferred taxes have been calculated for all temporary differences between the tax base amounts of assets and liabilities and their carrying value. The most significant changes in deferred tax liabilities and tax assets arise from defined-benefit pension plans and the reversal of revaluations of property, plant and equipment.

The opening IFRS balance sheet includes an IFRS adjustment of EUR 23 million to the tax asset and EUR 27 million to deferred taxes. Deferred taxes amounted to EUR 162 million at the end of 2004, representing an increase of EUR 18 million compared with the FAS balance sheet at the same date. Tax assets in the IFRS balance sheet were EUR 41 million, an increase of EUR 17 million on the amount in the FAS balance sheet.

5. Treasury shares

In accordance with IFRS practice, treasury shares (with a carrying value of EUR 14 million) have been deducted from investment assets in the balance sheet and from equity.

6. Revaluations

Previously made revaluations of land areas and buildings (to a total of EUR 33 million) have been deducted from assets and the revaluation fund under equity in the balance sheet in accordance with IFRS rules. The corresponding tax liability has been reversed.

7. Other changes

Other changes compared with previous principles are due to certain changes in grouping and to small differences in the definition of time of income recognition and the value of inventories.

The most significant difference in the manner of presentation is that in the IFRS income statement, interests in associates has been moved and placed in their entirety below operating profit. In 2004 the profit booked on interests in associates was EUR 2 million.

5. Segment reporting

Rautaruukki Corporation has defined its business segment as the primary segment and its geographical segment as the secondary segment.

Primary segment

The business segment is composed of the following reporting divisions in accordance with Rautaruukki's organisational and management structure and internal financial reporting:

Ruukki Construction
Ruukki Construction supplies metal-based solutions for building construction, especially for the retail, industrial and logistics construction, as well as for infrastructure construction.

Ruukki Engineering
Ruukki Engineering supplies metal-based solutions for lifting, handling and transportation equipment industry as well as for paper and wood processing, marine and off-shore industries.

Ruukki Metals
Ruukki Metals supplies a wide selection of steel, stainless steel and aluminium as standard and special products, parts and components.

2005 M€	Ruukki Construction	Ruukki Engineering	Ruukki Metals	Other operations	Group
Income					
External net sales	550	476	2 625	3	3 654
Profit					
Operating profit	86	96	486	-50	618
Financing items					-30
Share of results in associated companies				23	23
Taxes				-157	-157
Profit for the financial year				-184	455
Other information					
Segment assets	373	294	1 597	243	2 507
Investment in associated companies				194	194
Segment liabilities	93	58	295	758	1 203
Capital expenditure	41	25	66	0	133
Depreciation and amortisation	24	20	108	3	155

2004 M€	Ruukki Construction	Ruukki Engineering	Ruukki Metals	Other operations	Group
Income					
External net sales	377	329	2 850	8	3 564
Profit					
Operating profit	57	53	425	-42	493
Financing items					-51
Share of results in associated companies				2	2
Taxes				-114	-114
Profit for the financial year				330	330
Other information					
Segment assets	232	380	1 934	150	2 696
Investment in associated companies				17	17
Segment liabilities	47	62	390	1 087	1 585
Capital expenditure	10	47	78	5	141
Depreciation and amortisation	21	18	131	5	175

Definitions of segment net sales, expense, assets and liabilities

Segment assets and liabilities comprise items connected with operations, such as tangible and intangible assets, inventories, trade and other operations-related receivables as well as payables and other liabilities attributable to operations.

Costs, assets and liabilities of central administration, which are attributable to the company as a whole, as well as items related to financing and income tax are stated in the section Other operations. The Group does not allocate an investment in associates or the profits and losses attributable to them to the business segments because a reasonable basis of allocation to an associate cannot be found, and said allocation is not made in internal management reporting.

The reporting segments do not conform to the company's legal boundaries, but instead the segments are determined based on their customer orientation. The external sales of the segments are based on purchasing department customer information. The costs corresponding to the segment's sales are based on standard product costs of the products sold. Sales and administrative costs consist of the segment's own costs and costs allocated to the segment according to net sales and delivery volumes.

Assets and liabilities are attributed to the segments, applying the amount of capital employed in operations and the related required return set by the Group. The allocation of the Group's investments between the segments is done in proportion to the tangible and intangible assets allocated to the segment.

There are no significant inter-segment sales, which the company's management would monitor in internal reporting.

Arrangements affecting segment reporting

Oy Ovako Ab, the new company jointly owned by Rautaruukki Corporation, AB SKF and Wärtsilä Oyj Abp, began operations on 10 May 2005. The units that were transferred from Rautaruukki to Ovako were the long steel products companies Fundia Special Bar, Fundia Wire and Fundia Bar & Wire Processing, including their subsidiaries. The shareholding in Oy Ovako Ab is reported, beginning in May 2005, as a share of the profits or losses of associates.

Segment net sales and operating profit (pro forma) excluding Ovako

2005 M€	Ruukki Construction	Ruukki Engineering	Ruukki Metals	Other operations	Total
External net sales	550	447	2 401	3	3 402
Operating profit	86	95	439	–50	569

2004 M€	Ruukki Construction	Ruukki Engineering	Ruukki Metals	Other operations	Total
External net sales	377	266	2 369	7	3 019
Operating profit	57	45	379	–42	437

Secondary segment

Rautaruukki operates in the following five main geographical areas

	Income		Assets		Capital expenditure	
M€	2005	2004	2005	2004	2005	2004
Finland	1 060	927	1 679	1 808	84	116
Other Nordic countries	1 096	998	404	554	13	13
Central eastern Europe*	438	392	134	70	31	5
Other Europe	950	1 140	127	273	2	7
Other countries	110	107	3	0	2	0
Eliminations and unallocated assets			354	8		
Group total	3 654	3 564	2 701	2 712	133	141

* Included in central eastern Europe are the Baltic countries, Russia, Ukraine, Romania, Hungary, Slovakia, the Czech Republic, Poland and Kazakstan.

Segment net sales are defined based on customer locations in accordance with geographical areas. The aggregate carrying value of segment assets is defined according to the location of the assets.

Transactions between secondary segments are made in accordance with general market prices and terms.

Other notes to the income statement

6.Other operating income

M€	2005	2004
Gains on the sale of property, plant and equipment	9	11
Other	18	8
	28	19

7. Usage of materials and services

M€	2005	2004
Materials and supplies (goods)		
Purchases during the accounting period	1 813	1 941
Change in inventories	-36	-29
External services	154	166
	1 932	2 077

8. Salaries and other employee benefits

M€	2005	2004
Wages and salaries	399	426
Profit-related bonus paid to the personnel fund	19	15
Share bonuses	36	11
Pension insurance contributions and pensions		
defined contribution pension arrangements	44	49
defined benefit pension arrangements	-2	6
Other indirect personnel expenses	61	66
Total	557	573

Management's employee benefits are discussed in Note 32: Related party disclosures, and share bonus schemes in Note 25: Share-based payments.

The Group's average payroll during the accounting period

	2005	2004
Workers	7 586	8 068
Salaried employees	4 100	4 205
Total	11 684	12 273

9. Depreciation, amortisation and impairment losses

M€	2005	2004
Depreciation and amortisation by asset group		
Intangible assets	11	10
Property, plant and equipment*		
Buildings and structures	21	21
Machinery and equipment	123	137
Depreciation and amortisation, total	156	167
Impairment losses by asset group		
Intangible assets	0	2
Buildings and structures	0	1
Machinery and equipment	0	5
Total	0	8
Depreciation, amortisation and impairment, total	**156**	**175**

* Depreciation includes depreciation of 2 M€ (2004: 2 M€) on buildings and structures obtained under a finance lease and depreciation on machinery and equipment of 5 M€ (2004: 5 M€).

10. Other operating expenses

M€	2005	2004
Sales freights	176	194
Rents	59	70
Losses on the sale of property, plant and equipment	0	1
Losses on loans and advances	0	3
Other	158	97
Total	393	365

The Group's research and development expenditure during the financial year was 22 M€ (2004: 17 M€) .

11. Financial income and expenses

M€	2005	2004
Dividend income	0	1
Interest income	5	3
Other financial income	1	0
Exchange gains	13	4
Financial income, total	19	8
Interest expenses	33	48
Exchange losses	12	7
Other financial expenses	3	3
Financial expenses, total	49	58

Apart from the foreign exchange differences presented in financial income and expenses, the Group's operating profit included 2 M€ (2004: -2 M€) of exchange rate differences on sales and 13 M€ (2004: -3 M€) on purchases.

12. Income taxes

M€	2005	2004
Current tax	-157	-117
Taxes for previous periods	2	-1
Change in deferred tax assets and tax liabilities	-1	4
Total	-157	-114

Comparison of taxes calculated in accordance with the tax rate in force (in Finland 26% in 2005 and (2004: 29%) with taxes presented in the income statement:

M€	2005	2004
Profit before taxes	612	443
Share of results in associated companies – shown net of taxes	23	2
Profit before taxes and associated companies' result	589	441
Taxes calculated using the existing tax rate	153	128
Effect of differing tax rates of foreign companies	8	3
Tax-free income	-7	-3
Non-deductible expenses	2	3
Confirmed losses for which a deferred tax asset has not been recorded	3	0
Change in the corporate tax rate*	0	-18
Taxes from the previous years	-2	1
Taxes in the income statement	157	114

* The change in Finland's tax rate to 26% as from 1 January 2005, which was confirmed in 2004, caused a change in the amount of deferred tax assets and deferred taxes for 2004.

Taxes recorded directly to equity and a specification of other changes in deferred taxes are given in Note 19: Deferred tax assets and tax liabilities.

13. Earnings per share

Undiluted earnings per share are calculated by dividing the profit for the period attributable to equity holders of the parent by the weighted average number of shares outstanding during the period.

	2005	2004
Profit for the period attributable to equity holders of the parent (M€), continuing operations	455	329
Weighted average number of shares outstanding during the period (1 000)	135 977	135 683
Undiluted earnings per share (€/share), continuing operations	3.35	2.42

In calculating earnings per share adjusted for the effect of dilution, the diluting effect due to the conversion into shares of all dilutive potential common shares is taken into account in stating the weighted average number of shares.

The conversion rights on the convertible loan granted by the company (bond loan with warrants) have been converted into shares, and the profit for the period has been increased by the interest expense adjusted for the tax effect.

	2005	2004
Profit for the period attributable to equity holders of the parent (M€), continuing operations	455	329
Interest on convertible bond (bond loan with warrants) (adjusted for tax effect)	5%	5 %
Net profit for the period for the calculation of earnings per share adjusted for the dilution effect (M€)	455	329
Weighted average number of shares during the period (1,000)	135 977	135 683
Conversion of convertible bonds into shares (1,000)	1 400	1 400
Weighted average number of shares for calculating earnings per share adjusted for the dilution effect (1,000)	137 377	137 083
Earnings per share adjusted for the dilution effect (€/share), continuing operations	3.31	2.40

Notes to the balance sheet assets

14. Intangible assets

The Group's intangible assets consist mainly of goodwill and purchased software. The Group does not have a material amount of internally generated intangible assets or intangible assets with indefinite useful lives.

M€	2005	2004
Goodwill		
Acquisition cost 1.1.	38	15
Increases through acquisitions	13	23
Decreases	-3	0
Exchange differences	-1	0
Book value 31.12.	47	38
Other intangible rights		
Acquisition cost 1.1.	127	118
Increases	21	6
Increases through acquisitions	0	5
Decreases	-2	-2
Decreases through divestments	-6	0
Exchange differences	1	0
Acquisition cost 31.12.	141	127
Accumulated depreciation 1.1.	-95	-85
Accumulated depreciation of decreases	1	0
Accumulated depreciation of decreases (divestments)	4	0
Depreciation	-10	-10
Accumulated depreciation 31.12.	-100	-95
Book value 31.12.	**42**	**33**
Advance payments		
Acquisition cost 1.1.	10	4
Changes	-1	6
Acquisition cost 31.12.	10	10

For purposes of impairment testing, goodwill is allocated to cash-generating units. Cash-generating units correspond to specific segments, which is the level at which management monitors business operations and the related goodwill. The recoverable amount is defined based on value-in-use calculations. The calculations are based on management-approved forecasts, covering 3 years. The forecast cash flows are discounted to the present value. Discount rate used was 8.67% (2004: 8.20 %) for all cash-generating units.

Allocated goodwill	2005	2004
Ruukki Construction	5	0
Ruukki Engineering	30	22
Ruukki Metals	13	13
Other	0	3
Total	47	38

Cash flows subsequent to the forecasting period have been forecast applying a 1% growth assumption. The growth assumption does not exceed the average long-term growth in the industry.

The actual figures, as against the calculations are affected by the following assumptions that have been made: market prices of steel products and raw materials, business cycles in the construction and engineering industry and the trend in foreign exchange rates. The assumptions made by management are based on previous experience as well as the prevailing view regarding the outlook for the industry.

The impairment tests carried out have yielded the result that the company does not have a need to record any impairment losses. The recoverable amount specified in impairment testing clearly exceeds the carrying amount of the units tested, whereby to the best of management's belief and understanding, any conceivable change in the principal assumptions applied in the calculations would not entail an impairment situation.

15. Tangible assets

M€	2005	2004
Land and water areas		
Acquisition cost 1.1.	21	23
Increases	1	0
Increases through acquisitions	1	0
Decreases	-1	-1
Decreases through divestments	-2	0
Exchange differences	-1	0
Book value 31.12.	19	21
Buildings and structures		
Acquisition cost 1.1.	617	606
Increases	16	10
Increases through acquisitions	6	3
Decreases	-17	-3
Decreases through divestments	-45	0
Exchange differences	1	1
Acquisition cost 31.12.	579	617
Accumulated depreciation 1.1.	-300	-279
Accumulated depreciation of decreases	9	1
Accumulated depreciation of decreases (divestments)	25	0
Depreciation 1.1.-31.12.	-21	-21
Exchange differences	-1	-1
Accumulated depreciation according to plan 31.12.	-288	-300
Book value 31.12.	291	317

M€	2005	2004
Machinery and equipment		
Acquisition cost 1.1.	2 571	2 509
Increases	74	86
Increases through acquisitions	12	3
Decreases	-33	-31
Decreases through divestments	-424	0
Exchange differences	5	4
Acquisition cost 31.12.	2 205	2 571
Accumulated depreciation 1.1.	-1 759	-1 643
Accumulated depreciation of decreases	27	20
Accumulated depreciation of decreases (divestments)	341	0
Depreciation 1.1.-31.12.	-123	-137
Exchange differences	0	1
Accumulated depreciation according to plan 31.12.	-1 515	-1 759
Book value 31.12.	690	812
Advance payments and construction in progress		
Acquisition cost 1.1.	42	43
Changes	-8	-1
Book value 31.12.	34	42
Tangible assets, total	1 033	1 192

The Group's assets include leased buildings as well as machinery and equipment under finance lease agreements of differing lengths.

Property, plant and equipment includes assets leased under a finance lease as follows:

M€	2005	2004
Buildings and structures		
Acquisition cost 1.1.	28	28
Acquisition cost 31.12.	28	28
Accumulated depreciation 1.1.	-2	0
Depreciation 1.1.-31.12.	-2	-2
Accumulated depreciation 31.12.	-5	-2
Book value 31.12.	23	25
Machinery and equipment		
Acquisition cost 1.1.	36	36
Increases through acquisitions	1	0
Acquisition cost 31.12.	38	36
Accumulated depreciation 1.1.	-5	0
Depreciation 1.1.-31.12.	-5	-5
Accumulated depreciation 31.12.	-10	-5
Book value 31.12.	27	31

16. Investments in associates

M€	2005	2004
At the beginning of accounting period	17	17
Share of the period's result	23	2
Increases*	158	0
Decreases (incl. dividends received)	-3	-2
Translation difference	-1	0
At the end of accounting period	194	17

The carrying value of associates at 31 December 2005 includes goodwill of 1 million euros (31.12.2004: 1 M€)

* Interests in associates increased during 2005 by way of an arrangement in which subsidiaries previously owned by the Rautaruukki Group were transferred to the ownership of Oy Ovako Ab. In return, the Rautaruukki Group received a 47% holding in Oy Ovako Ab.

Information on the Group's associated companies

	Country	Domicile	Holding, %
Associated companies, in which the share of voting rights 20-50 %			
Bet-Ker Oy	FI	Ylivieska	44.4
Helens Rör AB	SE	Halmstad	25.0
Mofjellet Berghaller AS	NO	Mo i Rana	40.0
Norsk Jern Eiendom AS	NO	Mo i Rana	33.3
Osuuskunta Teollisuuden Romu	FI	Helsinki	33.3
Oy Ovako Ab	FI	Helsinki	47.0
PlussStål AS	NO	Trondheim	50.0
PPTH Steelmanagement Oy	FI	Peräseinäjoki	20.1
Raahen Kauppaklubin Kannatus Oy	FI	Raahe	33.3
Sheet Metal Innovations SMI Oy Ltd	FI	Suolahti	35.8

Associates do not include quoted companies. The financial period of associates corresponds to the financial period of the Group's parent company. The results of associated companies have been consolidated using preliminary figures if the financial statements of associates have not been completed according to the timetable for the consolidated financial statements.

Aggregate assets, liabilities, net sales and profit/loss of associated companies

M€	2005	2004
Net sales	1 175	271
Net profit	51	10
Assets	1 026	182
Liabilities	549	94

17. Available-for-sale investments

M€	2005	2004
1.1.	10	6
Increase	1	6
Decrease	2	0
31.12.	10	12

Available-for-sale investments consist of shares in unquoted companies, in which Rautaruukki's percentage of the voting rights is less than 20 per cent. The fair value of the investments does not differ materially from the carrying value.

18. Non-current receivables

M€	2005	2004
Defined benefit pension arrangement*	82	68
Loan receivable from an associate	39	1
Other non-current receivables	6	5
Total	127	74

* Additional information on defined-benefit pension plans is given in Note 26: Pension obligations.

19. Deferred tax assets and tax liabilities

Changes in deferred taxes during 2005

M€	31.12.2004	Recorded in income statement	Recorded in equity	Exchange rate differences	Acquired/ divested subsidiaries	31.12.2005
Deferred tax assets						
Provisions	4	5			-1	8
Tangible and intangible assets	3					3
Finance leases	8					8
Employee benefits	6	-2			-1	3
Group eliminations	15	-9				6
Measurement of derivatives at fair value			1			1
Confirmed losses	1	2				3
Other items	4	-3			1	2
Total	41	-7	1		-1	34
Netted out against deferred taxes*						-20
Deferred tax assets in balance sheet						14
Deferred tax liabilities						
Tangible and intangible assets	132	-4		-2	-10	116
Employee benefits	25	-3				22
Inventories	3	-1				2
Measurement of derivatives at fair value			10			10
Other items	2	5			1	8
Total	162	-3	10	-2	-9	158
Netted out against deferred taxes*						-20
Deferred tax assets in balance sheet						138

* Deferred tax assets and tax liabilities are stated as net amounts in the balance sheet in the event that the entity has a legally enforceable right to set off the current tax assets and current tax liability, and the deferred tax asset and tax liability relate to income taxes levied by the same tax authority.

Changes in deferred taxes during 2004

M€	1.1.2004	Recorded in income statement	Recorded in equity	Exchange rate differences	Acquired/ divested subsidiaries	31.12.2004
Provisions	5	-1				4
Tangible and intangible assets	4	-1				3
Finance leases	11	-3				8
Employee benefits	8	-2				6
Group eliminations	15					15
Confirmed losses		1				1
Other items	6	-2				4
Total	49	-8				41
Deferred tax liabilities						
Tangible and intangible assets	144	-14		2		132
Employee benefits	24	1				25
Inventories	2	1				3
Other items	2					2
Total	172	-12		2		162

At 31 December 2005 the Group had confirmed losses of 55 million euros (2004: 55 M€), for which a tax asset had not been recorded because the ability to make use of said losses is uncertain. The time for using confirmed losses is not limited.

Deferred taxes have not been recorded for the undistributed retained earnings of foreign subsidiaries, because the distribution of funds in the near future is improbable.

Of the deferred tax assets, 8 million euros (2004: 7 M€) and of the deferred tax liabilities, 12 million euros (2004: 12 M€), are expected to be realised within 12 months.

20. Inventories

M€	2005	2004
Raw materials and consumables	157	161
Finished and semi-finished products	376	490
Total	534	651

21. Trade and other receivables

M€	2005	2004
Trade receivables	431	529
Trade receivables from associated companies	12	6
Other receivables from associated companies	1	0
Loan receivables	0	3
Prepayments and accrued income	13	21
Receivables based on derivative contracts (hedge accounting)*	35	0
Receivables based on derivative contracts (others)*	1	0
Other receivables	33	24
Total	527	584

* Additional information on derivatives is given in Note 3.

22. Cash and cash equivalents

M€	2005	2004
Cash in hand and at banks	73	59
Other cash equivalents*	90	1
Total	163	60

*Other liquid items of cash and cash equivalents include commercial paper, certificates of deposit, and short fixed-term deposits. The maturity of cash and cash equivalents does not exceed 3 months.

Cash and cash equivalents in the balance sheet matches to the corresponding items in the cash flow statement.

Notes to the statement of changes in equity

23. Shares and share capital

Rautaruukki Corporation's share capital consists of Series K shares. The shares carry 10 votes each and the accounting countervalue is EUR 1.70 per share. The registered share capital is EUR 236,106,957. The share capital is fully paid in. Series A shares, as provided for in the Articles of Association, have not been issued.

Changes in the number of shares:

	Issued shares	Treasury shares	Shares outstanding
1.1.2004	138 886 445	3 270 000	135 616 445
30.8.2004	138 886 445	3 072 960	135 813 485
31.12.2004	138 886 445	3 072 960	135 813 485
1.1.2005	138 886 445	3 072 960	135 813 485
29.8.2005	138 886 445	2 592 697	136 293 748
31.12.2005	138 886 445	2 592 697	136 293 748

The Annual General Meeting of Rautaruukki Corporation, held on 23 March 2004, authorised the Board of Directors to decide on transferring the company's treasury shares. According to this authorisation, on 30 August 2004 the company transferred 197,040 of its own Series K shares (treasury shares) to persons covered by the Group's equity bonus scheme. Following the transfer, the company had 3,072,960 treasury shares.

On 29 August 2005, the company transferred 480,263 shares to persons covered by the equity bonus scheme. Following the transfer, the company had 2,592,697 treasury shares.

24. Fair value and other reserves

The fair value and other reserves contain the effective portion of the change in the fair value of instruments taken out to hedge future cash flows as well as entries related to share-based payments for instruments in respect of which the share capital has not yet been registered.

	Hedging instruments fund	Share-based payments	Total
Revaluation and other funds 1.1.2004	0	1	1
Share-based payments	0	1	1
Revaluation and other funds 31.12.2004	0	2	2
Effect of adoption of IAS 32 and IAS 39	2	0	2
Revaluation and other funds 1.1.2005	2	2	4
Cash flow hedges			
Amount transferred to equity during the period	32	0	32
Deferred tax portion	-8	0	-8
Expenses of share-based payments	0	4	4
Revaluation and other funds 31.12.2005	26	5	31

25. Share-based payments

Terms and conditions of the equity bonus schemes

Since 2000 the Group has had an equity bonus scheme as a long-term incentive for key employees.

In accordance with the terms and conditions of the scheme for 2000, a minimum bonus is paid when Rautaruukki's average return on capital employed over the three-year incentive period is at least the median of an eleven-company peer group in the industry. The bonus is paid in the company's shares, except for the portion withheld for taxes. The shares can be transferred two years after the end of the incentive period, at the earliest.

In December 2004, Rautaruukki Corporation's Board of Directors decided on a new equity bonus scheme for key employees that would cover about 60 company executives or other key employees. The incentive system is divided into three year-long performance periods: the years 2005, 2006 and 2007. Payment of a bonus is contingent on achieving the financial targets set, which are gauged by the criteria of earnings per share (EPS) and return on capital employed (ROCE). Any bonuses are paid in the form of both Rautaruukki shares and a cash component. Shares earned on the basis of the equity bonus scheme must be owned for at least two years after each bonus payment. However, the President and CEO and the members of the Management Group must retain any shares they have obtained through the scheme at least to the value of their gross annual salary for as long as the President and CEO's tenure as chief executive continues or the member serves on the Management Board. The equity bonus system for 2004 replaces the equity bonus system that was introduced in February 2000, for which the last performance period ends in 2006.

Changes in amounts of shares to be granted

Number of shares	2005	2004
1.1.	1 355 396	1 562 520
Equity bonuses granted	316 000	289 876
Shares granted	480 263	197 040
Equity bonuses cancelled	132 285	299 960
31.12.	1 058 848	1 355 396

Changes in the maximum amount to be granted in the form of shares under share-based payment are presented in the change in numbers of shares. Achievement of the objectives set affects the number of shares to be granted. The difference between the maximum number of shares and the number of shares granted as well as the proportion of the numbers of shares for persons who have left the company's employ are stated in the section Cancelled share bonuses.

Equity bonuses granted

The following shares were granted to key employees:

Year	Grant date	Maximum number shares*	Market value of share on grant date
2005	16.2.2005	316 000	8.85
2004	19.5.2004	289 876	5.99

* Proportion given in shares

Shares granted

As a consequence of share-based payments, on 30 August 2004 the company transferred 197,040 of its own Series K shares (treasury shares) to persons covered by the Group's equity bonus system. The market value of the shares on 30 August 2004 was EUR 7.42 per share.

On 29 August 2005 the company transferred 480,263 Series K treasury shares to persons covered by the equity bonus scheme. The market value of the shares on 29 August 2005 was EUR 15.66 per share.

Expenses of the equity bonus scheme in 2005

Incentive period	No. of persons	Payments	Periodised expenses	Total
2002–2004		13		13
2003–2005	87		12	12
2004–2006	72		3	3
2005	58		8	8
		13	23	36

Bond loan with warrants

In May 2003, Rautaruukki issued a bond loan with warrants targeted at the employees, the principal of which was EUR 3.5 million. The bond loan with warrants has a maturity of 3 years and carries a 5% coupon. Each bond with a nominal value of 500 euros confers 200 warrants, of which 100 were marked with the letter A and 100 with the letter B. The subscription price for exercising the warrants is EUR 4.40 per share less the amount of dividends per share. In order for the subscription rights for the B warrants to vest, the 3-year average of the Rautaruukki Group's earnings per share must exceed EUR 0.75 per share in three consecutive years during 2003-2007. On the basis of option warrants, 1,400,000 Series K shares can be subscribed for.

The value of the warrants attached to the bonds was determined on 23 May 2003 using the Black & Scholes model and under the following assumptions:

Market price on 23.5.2003	4.02 €/share
Risk-free interest rate	3.19%
Maturity	6 years
Volatility	30%

The volatility assigned was determined based on the historical share price trend as well as on the special features of the option warrants.

Notes to the balance sheet liabilities

26. Pension obligations

The Group has a defined-benefit pension plan for pensions arranged through the Rautaruukki Pension Foundation in Finland The Group has a defined-benefit pension plan for pensions arranged through the Rautaruukki Pension Foundation in Finland as well as for supplementary pension security that is arranged through an insurance company.

The defined-benefit pension assets in the balance sheet (pension plan through the pension foundation) are determined as follows:

M€	2005	2004
Present value of unfunded obligations	0	0
Present value of funded obligations	458	465
Fair value of assets	-584	-518
Surplus/deficit	-126	-53
Unrecorded actuarial gains (+) and losses (–)	34	-27
Unrecorded past service costs	11	12
Pension liability (+) / assets (–) in balance sheet	-82	-68

The defined-benefit pension expense in the income statement is determined as follows:

M€	2005	2004
Current service cost	7	8
Interest expense	23	22
Expected rate of return on plan assets	-26	-25
Past service costs	-1	0
Transfers between pension plans	-8	0
Pension expenses in the income statement	-4	5

The actual return on plan assets was 73 million euros in 2005 (2004: 33 M€).

Changes in the liability stated in the balance sheet:

M€	2005	2004
At the beginning of accounting period	-68	-61
Contributions paid	-10	-12
Pension expenses in the income statement	-4	5
At the end of accounting period	-82	-68

Actuarial assumptions applied:

%	2005	2004
Discount rate	4.6	5.1
Expected rate of return on assets	5.4	5.0
Estimated wage and salary increases	3.0	3.7
Inflation	2.0	2.0

Plan assets include real-estate properties, which are used by Rautaruukki, to a total amount of 41 million euros.

In addition to the above-mentioned plan, the Group has defined-benefit pension plans abroad, mainly in Germany and Norway. The information concerning these plans is presented in aggregate below.

M€	2005	2004
Present value of unfunded obligations	24	18
Present value of funded obligations	56	55
Fair value of assets	-51	-48
Surplus/deficit	29	25
Unrecorded actuarial gains (+) and losses (–)	-4	-6
Pension liability in balance sheet	25	19

The defined-benefit pension expense in the income statement is determined as follows:

M€	2005	2004
Current service cost	2	2
Interest expense	3	2
Expected rate of return on plan assets	-3	-2
Pension expenses in the income statement	3	2

The actual return on plan assets was 3 million euros in 2005 (2004: 2 M€).

Changes in the liability stated in the balance sheet:

M€	2005	2004
At the beginning of accounting period	26	27
Contributions paid	-5	-3
Pension expenses in the income statement	3	2
At the end of accounting period	25	26

Actuarial assumptions applied:

%	2005	2004
Discount rate	4.2	5.0
Expected rate of return on assets	3.5	3.3
Estimated wage and salary increases	2.3	2.5

27. Provisions

M€	Equity bonuses	Environment provisions	Guarantee provisions	Restructuring provisions	Others	Total
1.1.2005	6	1	3	1	8	19
Increases in provisions	21	3	1	1	3	29
Provisions recognised	–4			–1	–2	–7
Reversals of unused provisions			–1		–3	–4
Disposal of subsidiaries					–6	–6
Acquisition of subsidiaries					6	6
31.12.2005	23	4	3	1	7	37

M€	Equity bonuses	Environment provisions	Guarantee provisions	Restructuring provisions	Others	Total
1.1.2004	4	3	2		8	17
Increases in provisions	5		1	1	1	8
Provisions recognised	–3	–2			–1	–6
Reversals of unused provisions						
Disposal of subsidiaries						
Acquisition of subsidiaries						
31.12.2004	6	1	3	1	8	19

M€	2005	2004
Non-current provisions	18	12
Current provisions	19	7
Total	37	19

Share bonuses

The Group has recorded a provision for the portion of share-based payment to be paid in cash. The amount of the provision has been calculated by applying the share price on the balance sheet date. The trend in the price of the company's share affects the exact amount of the realised provision. Of the reserve for 2005, EUR 17 million is expected to be realised during 2006.

Details of the plan are given in Note 25 Share-based Payments.

Environmental obligations

The Group sets up a provision for emission rights to cover the difference between actual emissions and emission allowances. The provision is marked to market. If significant changes occur in the market price, this will have an effect on the amount of the provision to be recorded and the expense that is realised.

In addition, the Group has set up a provision for landscaping a land area in Raahe. The provision is expected to be realised within three years.

Other provisions

In addition to the above mentioned, the Group has other minor provisions. The Group gives a warranty on certain products. For these products, a warranty provision is set up based on previous experience. A reorganisation provision is booked when the Group has prepared a detailed reorganisation plan and begun implementation of the plan or announced the matter.

28. Interest-bearing liabilities

M€	2005	2004
Non-current		
Loans from credit institutes	68	211
Bonds	235	202
Bonds with warrants	0	105
Finance lease liabilities	55	62
Pension loans	8	25
Others	6	14
Total	372	619
Current		
Loans from credit institutes	37	94
Bonds	71	96
Bonds with warrants	4	0
Finance lease liabilities	8	7
Pension loans	3	6
Checking accounts	6	0
Others	3	0
Total	132	203

Most of the Group's interest-bearing liabilities consist of bonds and notes. Given below is the most important information on bonds and notes:

M€	interest rate	currency	2005	2004
Bonds (nominal value)				
1999-2006	4.5%	EUR	71	71
2003-2008	3.3%	EUR	55	55
2003-2010	5.1%	EUR	75	75
			201	201
Callable subordinate notes* (nominal value)				
2002-2007/09	7.5%	EUR	54	54
2002-2007/09	5.5%	EUR	50	50
			104	104

*The callable subordinate notes have a premature prepayment option in 2007.

The Group's loans from financial institutions are primarily floating-rate and on market terms.

The terms and conditions of the bond loan with warrants are described in Note 25.

The maturities of the Group's all interest-bearing liabilities (excluding finance lease liabilities):

M€	2005	2004
2005		195
2006	124	135
2007	45	196
2008	70	72
2009	111	56
2010	81	80
2011	5	
Later	5	20
Total	440	753

The currency mix of interest-bearing liabilities:

M€	2005	2004
Non-current		
EUR	310	502
SEK	7	54
NOK	0	1
USD	1	0
	317	557
Current		
EUR	109	192
SEK	3	3
USD	2	0
PLN	9	0
	124	195
Total	**440**	**753**

At the year-end, the weighted averages of effective interest rates for interest bearing liabilities were:

%	2005	2004
Bonds and loans from credit institutes	5.2	4.6
Finance lease liabilities	7.8	7.8

Finance leases

The Group has leased power plants, hall structures as well as office premises and other items of property, plant and equipment under finance lease agreements of varying length. In the event of a sale and leaseback the Group has recorded the capital gain in the balance sheet and periodises it over the lease period. An unperiodised capital gain of EUR 17 million is included in the balance sheet at 31 December 2005.

Maturities of finance lease liabilities

M€	2005	2004
Finance lease liabilities - total amount of minimum lease payments	89	107
In one year	13	20
In one to five years	45	45
Over five years	32	42
Finance lease liabilities - present value of minimum lease payments	64	68
In one year	8	7
In one to five years	32	30
Over five years	23	32
Future financial costs	25	38
Finance leases, total	89	107

29. Trade payables and other liabilities

M€	2005	2004
Other non-current liabilities		
Defined-benefit pension plan (Note 26)	25	26
Other non-current non-interest-bearing liabilities	14	16
	39	42
Current liabilities		
Trade payables	185	247
Trade payables to associated companies	6	5
Trade payables, total	191	252
Accruals and deferred income	134	173
Liabilities based on derivative contracts: hedge accounting	0	0
Liabilities based on derivative contracts: others	5	0
Advances received	29	11
Other liabilities	44	63
Other current liabilities, total	212	246

The material items included in accruals and deferred income consist of staff costs and the periodisation of interest on liabilities.

Notes to the cash flow statement

30. Adjustments to cash flows from operations

M€	2005	2004
Non-cash transactions		
Depreciation	156	175
Share of results in associated companies	-23	-2
Share-based payments	22	6
Others	2	-2
Total	156	177

Investments without an effect on cash flows

During 2005 the Group's investment in associates increased through an arrangement whereby the Rautaruukki Group received a 47% holding in Oy Ovako Ab and at the same time divested certain of its previously owned subsidiaries, which were transferred to the ownership of Oy Ovako Ab. In connection with the arrangement, EUR 19 million of cash and cash equivalents in the possession of the transferred subsidiaries was removed from the Group's balance sheet. The arrangement did not have any further effects on the Group's cash flows.

31. Information on business combinations

Year 2004

Under an agreement signed on 11 October 2004, Rautaruukki Corporation acquired the entire shares outstanding in Velsa Oy. Velsa Oy is based in Kurikka, Finland, and is a manufacturer of working machine cabins. Velsa Oy has been included in the consolidated financial statements from the time of the acquisition as part of the Ruukki Engineering segment.

M€	
Acquisition cost	
Cash payment	38
Fair value of assets acquired	16
Goodwill	22

The goodwill that arose on the acquisition reflects the synergy benefits resulting from the business combination.

Acquired entities' assets and liabilities

M€	Fair value	Acquired company's book value
ASSETS		
Non-current assets		
Intangible assets	5	
Tangible assets	6	2
Current assets		
Inventories	5	5
Trade payables and other receivables	6	6
Cash and cash equivalents	3	3
Assets, total	26	16
LIABILITIES		
Other current liabilities	10	10
Liabilities, total	10	10
Value of the acquired property	16	6

Cash flows from the acquisition	
Portion of acquisition cost paid in cash	38
Cash flows from acquired subsidiary	3
	35

The acquired company increased the Group's net sales by 10 M€ and net profit for the financial year by 1 M€. If the company had been acquired on 1.1.2004, the Group's net sales for 2004 is estimated to have been 3,603 M€ and its net profit 331 M€.

Year 2005

Rautaruukki Corporation signed an agreement on 31 May 2005, under which it acquired a 52.1% stake in Metalplast-Oborniki Holding Sp Z.o.o. In addition, Rautaruukki obtained a 31% holding under an agreement made on 23 June 2005. Prior to the acquisition, Rautaruukki had a 16.6% holding in the company. After both acquisitions, Rautaruukki had a 99.8% holding in the company.

Metalplast-Oborniki Holding Sp Z.o.o and its subsidiaries have been included in the consolidated financial statements as part of the Ruukki Construction segment as from 1 June 2005.

M€	
Acquisition cost	
Cash payment	19
Fair value of assets acquired	14
Goodwill	5

The goodwill that arose on the acquisition reflects the synergy benefits resulting from the business combination.

Acquired entities' assets and liabilities

M€	Fair value	Acquired company's book value
ASSETS		
Non-current assets		
Intangible assets	0	0
Tangible assets	16	12
Other assets	1	1
Current assets		
Inventories	11	11
Trade payables and other receivables	12	12
Cash and cash equivalents	2	2
Assets, total	43	39
LIABILITIES		
Non-current liabilities		
Interest-bearing	0	0
Others	10	10
Current liabilities		
Interest-bearing	7	7
Others	13	13
Liabilities, total	29	29
Value of the acquired property	14	10

Cash flows from the acquisition

Portion of acquisition cost paid in cash	19
Cash flows from acquired subsidiary	2
	17

The acquired company increased the Group's net sales by 47 M€ and net profit for the financial year by 1 M€.

On 5 October 2005 Rautaruukki Corporation purchased the entire shares outstanding in Syneco Industri AB. Syneco Industri AB has the operating subsidiaries Verkstäderna Weibulls AB in Sweden, Weibulls Poland Sp. z.o.o. in Poland and Syneco Weibulls Metal Components (Shanghai) co. Ltd in China. The companies manufacture frames and other large steel component for the lifting and transport equipment industry.

Syneco Industri AB and its subsidiaries have been included in the consolidated financial statements as part of the Ruukki Engineering segment as from 1 October 2005.

M€	
Acquisition cost	
Cash payment	15
Fair value of assets acquired	8
Goodwill	7

Acquired entities' assets and liabilities

M€	Book value
ASSETS	
Non-current assets	
Intangible assets	0
Tangible assets	4
Current assets	
Inventories	6
Trade payables and other receivables	9
Cash and cash equivalents	1
Assets, total	20
LIABILITIES	
Non-current liabilities	
Interest-bearing	0
Other	2
Current liabilities	
Interest-bearing	1
Other	8
Liabilities, total	12
Value of the acquired property	**8**

The acquisition that was made has been recorded on a preliminary basis in the manner permitted under IFRS 3. In dealing with the details of the transaction, determination of the fair value of assets and liabilities is still incomplete and the amount of the goodwill to be booked will be established during 2006.

Cash flows from the acquisition

Portion of acquisition cost paid in cash	15
Cash flows from acquired subsidiary	1
	4

The acquired company increased the Group's net sales by 12 M€ and net profit for the financial year by 0 M€.

If the company had been acquired on 1.1.2005, the Group's net sales for 2005 is estimated to have been 3,717 M€ and its net profit 454 M€.

32. Related party disclosures

The Group's parent and subsidiary relationships are the following:

Company	Country	Domicile	Group share of share capital (%)	Group share of voting rights (%)
Parent company: Rautaruukki Corporation	FI	Helsinki		
Subsidiaries of Rautaruukki Corporation:				
Alamentti Oy	FI	Alajärvi	100	100
DCA-Instruments Oy	FI	Turku	97.2	71
Etnarör Ab	FI	Oulu	100	100
Kiinteistö Oy Alpinus	FI	Kuusamo	100	100
Kiinteistö Oy Materiamesta	FI	Helsinki	100	100
Kiinteistö Oy Pakilantie 61-63	FI	Helsinki	100	100
Kiinteistö Oy Ylläslehto	FI	Kolari	100	100
OAO NPO-SPU	RU	St Petersburg	100	100
OOO Rannila Sankt-Petersburg	RU	St Petersburg	100	100
OOO Rautaruukki	RU	Moscow	100	100
OOO Rautaruukki Profil	RU	Taldom	100	100
OOO Ruukki	RU	St Petersburg	100	100
OOO Stalpark	RU	St Petersburg	100	100
Presteel Oy	FI	Raahe	80.1	80.1
Ruukki Holding B.V.	NL	Amsterdam	100	100
Ruukki Benelux B.V.	NL	Almelo	100	100
Ruukki Construction Polska Holding Sp.zo.o.	PL	Oborniki	99.8	99.8
Ruukki CZ s.r.o	CZ	Velvary	100	100
Ruukki France S.A.R.L.	FR	Paris	100	100
Ruukki Holding AB	SE	Stockholm	100	100
Ruukki Holding AS	NO	Oslo	100	100
Ruukki Holding Danmark A/S	DK	Vallensbæk Strand	100	100
Ruukki Holding GmbH	DE	Düsseldorf	100	100
Ruukki Hungary Kft	HU	Budapest	100	100
Ruukki Latvija SIA	LV	Riga	100	100
Ruukki Products AS	EE	Pärnu	100	100
Ruukki Polska Sp.zo.o.	Pl	Zyrardow	100	100
Ruukki Romania S.R.L.	RO	Bucharest	100	100
Ruukki Slovakia s.r.o.	SK	Kosice	100	100
Ruukki Spain S.L.	ES	Vitoria-Gasteiz	100	100
Ruukki UK Ltd	GB	Solihull	100	100
UAB Ruukki Lietuva	LT	Vilnius	100	100
Velsa Oy	FI	Kurikka	100	100
ZAT Ruukki Ukraina	UA	Kiev	100	100
Subsidiaries of Ruukki Holding AB:				
Fundia AB	SE	Upplands Väsby	100	100
Ruukki Sverige AB	SE	Halmstad	100	100
Subsidiaries of Fundia AB:				
Fundia Reinforcing AS	NO	Oslo	100	100
Fundia Teknik AB	SE	Smedjebacken	100	100
Fundia Tråd AB	SE	Borlänge	100	100
Subsidiaries of Fundia Reinforcing AS:				
Fundia Armering AB	SE	Halmstad	100	100
Fundia Armering AS	NO	Oslo	100	100
Fundia Armeringstål AS	NO	Mo i Rana	100	100
Fundia Betoniteräkset Oy	FI	Dragsfjärd	100	100
Robocon International AS	NO	Oslo	100	100
SNJ Gesellschaft für Walzhandel GmbH	DE	Mülheim	100	100

Subsidiary of Fundia Armering AB:				
Fundia Welbond B.V.	NL	Raamsdonksveer	100	100
Subsidiaries of Ruukki Sverige AB:				
Ruukki Holding Hässleholm AB	SE	Hässleholm	100	100
Gasell Profil Ltd	UK	Maisemore	100	100
Gasell Profil S.R.L.	RO	Bucharest	100	100
ZAO Gasell Profil	RU	Moscow	100	100
Subsidiaries of Ruukki Holding Hässleholm AB:				
Ruukki Hässleholm AB	SE	Hässleholm	100	100
Ruukki Wroclaw Sp.zo.o	PL	Bykow	100	100
Syneco Industri Asia Ltd	HK	Hong Kong	100	100
Subsidiary of Syneco Industri Asia Ltd:				
Syneco Weibulls Metal Components (Shanghai) Co.Ltd	CN	Shanghai	100	100
Subsidiaries of Ruukki Construction Polska Holding Sp.zo.o.:				
Metalplast Systems Sp.zo.o.	PL	Oborniki	100	100
Ruukki Construction Polska Sp.zo.o.	PL	Oborniki	100	100
Subsidiaries of Ruukki Construction Polska Sp.zo.o.:				
Metalplast Romania srl	RO	Bucharest	100	100
Metalplast SP s.r.o	CZ	Prague	100	100
OOO Metalplast Russia	RU	Moscow	100	100
Proposan Cladding Products Ltd	GB	Coventry	100	100
Subsidiaries of Ruukki Holding AS:				
Ruukki Norge AS	NO	Oslo	100	100
Ruukki Profiler AS	NO	Mo i Rana	100	100
Fundia Mandal Stål AS	NO	Mandal	100	100
Subsidiaries of Ruukki Norge AS:				
CCB Stål AS	NO	Oslo	100	100
Gasell Profil AS	NO	Oslo	100	100
Subsidiaries of Rautaruukki Holding B.V:				
Rautaruukki Finance B.V.	NL	Amsterdam	100	100
Ruukki Benelux B.V.	NL	Almelo	100	100
Subsidiaries of Ruukki Holding Danmark A/S:				
Ruukki Danmark A/S	DK	Brondby	100	100
Fundia Armering A/S	DK	Ølstykke	100	100
Nordisk Simplex A/S	DK	Vallensbak Strand	100	100
Subsidiaries of Ruukki Holding GmbH:				
Carl Froh GmbH	DE	Sundern	100	100
Fundia GmbH	DE	Mülheim	100	100
Ruukki Deutschland GmbH	DE	Duisburg	100	100
Rautaruukki Stahlservice GmbH	DE	Duisburg	100	100
Subsidiary of Fundia GmbH:				
Groth Eisenhandel GmbH & Co KG	DE	Monheim	100	100

Related parties of the Group are the associated companies (list given in Note 16) and Group management.

The following transactions were carried out with related parties

Sales and purchases of goods and services

M€	2005	2004
Sales of goods		
Associated companies	59	43
Purchases of goods		
Associated companies	56	48

Open balances for sales and purchases of goods and services

Liabilities and receivables from associates and other related parties are itemised in Notes 21 and 29 to said balance sheet items. Guarantees given on behalf of associates are disclosed in Note 33: Contingent Liabilities.

Management's employee benefits

The Corporation's Management Group as well as their spouses and relatives living in the same household have been designated as management constituting a related party relationship.

M€	2005	2004
Salaries and other current employee benefits	2	2
Share-based payments*	4	1
Total	6	3

* The company's management participates in an equity bonus scheme that is used as an incentive. The terms and conditions of the share-based payment are described in Note 25: Share-based Payments. Share-based payments are stated on an accrual basis and they include both paid and periodised expenses, including social costs.

Information on the parent company's President and CEO and Board of Directors is given in Note 5 to the parent company financial statements.

The Group does not have other significant transactions, receivables, liabilities or guarantees with related parties.

33. Contingent liabilities

The Group has the following contingent liabilities:

M€	2005	2004
Mortgaged real estates	29	30
Collateral given on behalf of		
associated companies	3	2
others	2	2
Leasing and rental liabilities*	141	166
Other financial liabilities	4	2

* Does not include finance lease liabilities, which are stated in Note 28: Interest-bearing Liabilities.

Mortgages have been given as collateral for loans from credit institutes (Note 28).

The Group has leased buildings, vehicles and other items of property, plant and equipment in accordance with the terms of IAS 17 Leases.

Due dates of lease and rental liabilities (other lease agreements):

M€	2005	2004
Other lease agreements – total amount of minimum lease payments		
In one year	38	42
In one to five years	100	118
Over to five years	3	6
Total	141	166

The agreements do not include significant sublease agreements or conditional leases.

34. Events after the Balance Sheet Date

The purchase of PPTH Steelmanagement Oy from private equity funds managed by CapMan and from the company's management was completed on 18 January 2006. PPTH will be included in Rautaruukki's consolidated financial statements as from 1 January 2006. The shares were bought for a price of about EUR 7 million. As part of the transaction, Rautaruukki will assume the company's interest-bearing liabilities, which amount to EUR 24 million. Determination of the fair value of the acquired company is still incomplete while the financial statements are being confirmed, and more detailed information cannot yet be given.

In December 2005, Rautaruukki Corporation signed an agreement under which Rautaruukki will purchase a 100 per cent holding in Steel-Mont a.s. from the company's management and other private individuals. Completion of the acquisition is contingent upon approval by the competition authorities. The acquisition is expected to be completed by the end of March 2006.

Financial key figures

		2005 IFRS	2004 IFRS	2003 FAS	2002 FAS	2001 FAS
Net sales	M€	3,654	3,564	2,953	2,884	2,906
Operating profit	M€	618	493	128	6	93
– % of net sales	%	16.9	13.8	4.3	0.2	3.2
Profit before taxes	M€	612	443	70	–46	41
– % of net sales	%	16.7	12.4	2.4	–1.6	1.4
Net profit / loss	M€	455	330	53	–35	30
– % of net sales	%	12.5	9.2	1.8	–1.2	1.0
Return on capital employed	%	32.8	26,0	7.1	0.6	5.0
Return on equity	%	34.7	33.8	6.5	–4.3	3.4
Equity ratio	%	56.0	41.7	34.6	31.1	33.3
Gearing ratio	%	22.8	68	112	138	129
Interest-bearing net debt	M€	341	761	922	1,092	1,087
Gross capital expenditure	M€	134	149	102	142	162
– % of net sales	%	3.7	4.2	3.4	4.9	5.6
Research and development	M€	22	17	17	17	19
– % of net sales	%	0.6	0.5	0.6	0.6	0,7
Net interest expenses	M€	28	46	47	50	49
– % of net sales	%	0.8	1.3	1.6	1.7	1,7
Balance sheet total	M€	2,701	2,712	2,403	2,561	2,559
Personnel on average		11,684	12,273	12,782	13,325	13,678
SHARE BASED KEY FIGURES						
Earnings per share, EPS, basic	€	3.35	2.42	0.39	–0.26	0.22
– diluted	€	3.31	2.40	0.39	–0.26	0.21
Equity per share	€	10.98	8.29	6.07	5.81	6.21
Dividend per share	€	1.40*	0.80	0.20	0.00	0.20
Dividend per earnings	%	41.9*	34.7	51.3	0.00	91.9
Price per earnings, P/E		6.1	3.8	15.0	–13.2	18.8
Share trading	thousands	158,463	127,415	44,429	33,902	39,038
Stock turnover	%	116	94	33	25	29
Share trading	M€	2,041	912	207	145	162
Average price of share	€	12.90	7.16	4.66	4.26	4.16
Lowest price of share	€	8.02	5.67	3.05	3.36	3.59
Highest price of share	€	21.15	9.19	6.36	5.30	4.85
Average adjusted number of shares, basic	thousands	135,977	135,683	135,616	135,616	136,132
– diluted	thousands	137,377	137,083	136,606	136,016	138,947
Adjusted number of shares at year-end	thousands	138,886	138,886	138,886	138,886	138,886
Average number of shares at year-end, basic	thousands	138,886	138,886	138,886	138,886	138,886
– not counting own shares	thousands	136,294	135,813	135,616	135,616	135,616
– diluted	thousands	137,694	137,213	137,016	136,016	138,431
Share price at year-end	€	20.55	8.74	5.84	3.44	4.10
Market capitalisation at year-end	M€	2,854	1,214	811	478	569
Effective dividend yield	%	6.8	9.2	3.4	0.0	4.9

* Board proposal

Principles governing the calculation of key figures

Return on capital employed $= \dfrac{\text{profit before extraordinary items (FAS) / taxes (IFRS) + interest expenses ± exchange rate differences + other financial expenses (excl. depreciation of short-term investments)}}{\text{[balance sheet total[2] – obligatory provisions – non-interest-bearing debt] (average of the beginning and end of the year)}}$

Return on equity $= \dfrac{\text{profit before extraordinary items (FAS) / taxes (IFRS) – taxes[1]}}{\text{[capital and reserves[2] + minority interest] (average of the beginning and end of the year)}}$

Equity ratio $= \dfrac{\text{capital and reserves[2] + minority interest}}{\text{balance sheet total[2] – current advanced payments received}}$

Gearing ratio $= \dfrac{\text{interest-bearing net debt}}{\text{capital and reserves[2] + minority interest}}$

Interest-bearing net debt = interest bearing debt – cash and other liquid current assets

Earnings per share (EPS) $= \dfrac{\text{profit before extraordinary items (FAS) / taxes (IFRS) – minority interests – taxes[1]}}{\text{adjusted average number of shares[2]}}$

Equity per share $= \dfrac{\text{capital and reserves[2]}}{\text{adjusted number of shares at year-end[2]}}$

Dividend per share $= \dfrac{\text{dividends paid}}{\text{adjusted number of shares at year-end[2]}}$

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

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

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

Market capitalisation = number of shares x share price at year-end

Effective dividend yield $= \dfrac{\text{dividend per share}}{\text{share price at year-end}}$

1) Taxes have been stated without taxes related to extraordinary items.
2) The own shares in the company's possession are not included in the number of shares, shareholders' equity or total assets in the key ratio calculations.

Parent company's income statement (FAS)

M€	Note	1.1.-31.12.2005	1.1.-31.12.2004
Net sales	1	**2 274**	**1 778**
Variation in stocks of finished goods and work in progress		-5	12
Production for own use		4	5
Other operating income	3	16	5
Raw materials and services	4	-1 093	-916
Staff expenses	5	-355	-290
Depreciation and reduction in value	6	-112	-111
Other operating charges	7	-249	-176
		-1 809	-1 493
Operating profit		**481**	**308**
Financial income and expenses	8		
Income from other investments held as non-current assets		2	3
Other interest and financial income		28	24
Revaluations of investments in non-current assets		-1	-2
Interest and other financial expenses		-44	-50
Financial income and expenses, total		-15	-25
Profit before extraordinary items		**466**	**283**
Extraordinary items	9		
Extraordinary income			
Extraordinary expenses		0	-41
Profit before appropriations and taxes		**466**	**242**
Appropriations			
Change in depreciation reserve		16	5
Profit before taxes		**481**	**247**
Income taxes	10		
Taxes for the year		-132	-87
Profit for the financial year		**349**	**160**

Parent company's balance sheet (FAS)

M€	Note	31.12.2005	31.12.2004
ASSETS			
Non-current assets			
Intangible assets	11-13		
Intangible rights		2	2
Other capitalised long-term expenses		34	23
Advance payments		9	11
		46	36
Tangible assets			
Land and water		7	7
Buildings		234	240
Machinery and equipments		555	586
Advance payments and construction in progress		23	33
		819	866
Investments			
Shares in Group companies		220	199
Receivables from Group companies		8	8
Shares in associated companies		7	7
Receivables from associated companies		1	1
Other shares		4	5
		239	220
Non-current assets, total		**1 104**	**1 124**
Current assets			
Inventories	14		
Raw materials and consumables		136	140
Finished and semi-finished products and goods		166	135
		303	275
Debtors	15		
Long-term			
Amount owed by Group companies		277	364
Amount owed by associated companies		1	1
		278	365
Short-term			
Trade debtors		215	209
Amount owed by Group companies		59	81
Amount owed by associated companies		12	6
Loan receivables owed by Group companies		136	150
Other receivables		20	5
Prepayments and accrued income		6	14
		448	465
Debtors, total		**726**	**830**
Securities held as current financial assets			
Other securities		1	1
Cash in hand and at banks		88	11
Current assets, total		**1 117**	**1 117**
Assets total		**2 221**	**2 241**

M€	Note	31.12.2005	31.12.2004
LIABILITIES			
Capital and reserves	16		
Share capital		236	236
Share premium reserve		220	220
Revaluation reserve		33	33
Retained earnings		208	154
Profit for the financial year		349	160
		1 046	802
Appropriations	17		
Depreciation reserve		382	398
Provisions	18		
Provisions for pensions		21	25
Other provisions		32	9
		53	34
Creditors			
Non-current creditors	19		
Interest-bearing			
Bonds and debenture loans		235	303
Convertible bonds		0	4
Loans from credit institutions		0	209
Pension loans		3	6
Other creditors		70	11
		309	533
Non-interest-bearing			
Amount owed to Group companies		5	2
Current creditors			
Interest-bearing			
Loans from credit institutions		107	89
Pension loans		3	6
Other creditors		0	96
		110	191
Non-interest-bearing			
Advances received		23	8
Trade creditors		103	113
Amount owed to Group companies	21	18	7
Amount owed to associated companies	22	5	5
Accruals and deferred income	23	158	128
Other creditors		9	20
		316	281
Liabilities, total		**2 221**	**2 241**

Parent company's cash flow statement (FAS)

M€	2005	2004
Cash flow from operations		
Profit before extarordinary items	466	283
Adjustments		
Depreciation	112	111
Financial income and expenses	15	25
Share-based payments	19	0
Other adjustments	-4	-3
Cash flow before working capital changes	608	416
Change in working capital		
Change in current non-interest-bearing debtors	-4	-14
Change in inventories	-27	-21
Change in current non-interest-bearing creditors	3	5
Change in working capital	-28	-30
Cash flow before financing items and taxes	**580**	**386**
Interest and other financing items on business operations paid	-8	-19
Taxes paid	-98	-56
Group contributions	0	16
Cash flow before extraordinary items	474	327
Cash flow from extraordinary items		
Cash flow from operations	**474**	**327**
Cash flow from investing activities	**-88**	**-102**
Cash flow before financing	**385**	**225**
Cash flow from financing activities		
Change in current loan receivables	15	-13
Change in non-current loan receivables	87	5
Change in current loan payable	-80	-6
Change in non-current loan payable	-222	-216
Dividends paid	-109	-27
Cash flow from financing activities	**-309**	**-257**
Change in liquid assets	**77**	**-32**
Cash and cash equivalents at the beginning of period	12	44
Cash and cash equivalents at the end of period	89	12
	77	-32

Notes to the parent company's financial statements

1. Compiling principles

The parent company financial statements have been prepared in compliance with Finnish Accounting Standards (FAS). The consolidated financial statements have been prepared in accordance with IFRS and the accounting policies applied are described in Note 2. The parent company complies with the Group's accounting policies in its financial statements according to FAS with the exception of the major differences listed below:

Pension arrangements

The parent company's pensions are arranged through pension insurance companies or pension funds. The pension costs of both arrangements are treated in the same way in the parent company's accounting. According to Finnish Accounting Standards, payments made to a pension plan are recorded on an accrual basis as pension expenses in the income statement.

Property, plant and equipment and depreciation

The values of items of property, plant and equipment are based on historical costs except for revaluations of certain land areas and buildings. Straight-line depreciation according to plan is entered for property, plant and equipment subject to wear and tear.

Goodwill is amortised over a maximum of 5 years. In other respects, the depreciation periods for property, plant and equipment correspond to the Group's depreciation periods.

The parent company has assets that have been obtained on finance and operating leases. Lease payments based on agreements are recorded, in accordance with FAS, as an expense of the financial year and are stated in other operating expenses. Property obtained on finance lease terms is also treated as an operating lease agreement, whereby their value is not recorded as an item of property, plant and equipment in the balance sheet.

Research and development expenditure is entered as an expense in the year in which it is incurred.

Derivatives

The treatment of derivatives differs in certain respects from the accounting policies applied in the consolidated financial statements.

Foreign currency derivative contracts

The treatment of currency derivative contracts corresponds to the Group's accounting policies. Open external forward contracts and currency swaps are measured at fair value at the exchange rate at the balance sheet date. Exchange differences are presented in the income statement above operating profit.

Interest rate derivative contracts

Interest rate swaps used to hedge the Group's long-term interest-bearing loans are not measured at fair value in the financial statements. Interest on the interest rate swaps is periodised over the contract period and recorded in a net amount as an adjustment to interest expense.

Commodity derivatives

Commodity derivatives taken out to hedge the Group's raw material purchases (zinc and electricity) are not measured at fair value in the annual accounts. The realised results of commodity derivatives are booked as an item adjusting hedged raw material purchases.

Income taxes

The parent company incurs deferred taxes and obtains tax assets as a result of appropriations, periodisation differences and temporary differences. The parent company does not include deferred tax assets and deferred tax liabilities in the income statement and balance sheet.

Treasury shares

The parent company has changed the method of stating treasury shares such that the parent company's treasury shares are deducted from equity. In this respect, the financial statements for the comparison year 2004 have been adjusted to correspond to the new practice.

2. Net sales by market area

M€	2005	2004
Finland	939	622
Other old EU countries	957	832
New EU countries	143	177
Other Europe	175	103
Other countries	60	44
Total external net sales	2 274	1 778
of which		
– exports from Finland	1 135	1 156

3. Other operating income

M€	2005	2004
Gains on the sale of fixed assets	9	4
Other	7	1
	16	5

4. Materials and services

M€	2005	2004
Materials, supplies and goods		
Purchases during the accounting period	1 017	827
Change in inventories	-33	-10
External services	109	98
	1 093	916

5. Personnel expenses

M€	2005	2004
Wages and salaries	280	225
Profit-related bonus paid to the personnel fund	12	9
Pension insurance premiums and pensions	34	33
Other indirect peronnel expenses	29	24
Total	355	290

Salaries and emoluments of directors

of the members of the Supervisory Board	0.1	0.1
of the members of the Board of Directors	0.3	0.2
of President and CEO	0.6	0.4
includes profit-based bonuses	0.1	0.1

Average payroll during the accounting period

	2005	2004
Workers	4 228	3 863
Salaried employees	2 160	1 545
Total	6 388	5 408

The pension benefits and emoluments of President and CEO

Emoluments, including fringe benefits, paid to the parent company's President and CEO for 2005 amounted to EUR 555,000. The President and CEO has the right to retire on a full 60 per cent old age pension at the age of 60. Should the company dismiss the President and CEO, he has the right to severance compensation corresponding to 24 months of salary.

6. Depreciation and reduction in value

M€	2005	2004
Goodwill	0	3
Other intangible rights	9	8
Buildings and structures	14	13
Machinery, equipment and other material goods	89	87
Total	112	111
Reduction in value	0	0
Total depreciation and reduction in value	112	111

7. Other operating charges

M€	2005	2004
Sales freights	105	99
Rents	22	13
Losses on sale of fixed assets	7	0
Other	115	64
	249	176

8. Financial income and expenses

M€	2005	2004
Income from other investments held as non-current assets		
Dividend income from Group companies	1	1
Dividend income from associated companies	1	1
Dividend income from other companies	0	1
	2	3
Other interest and financial income		
Interest income from Group companies	10	20
Interest income from associated companies	1	0
Interest income from other companies	6	1
Exchange gains	11	3
Other financial income	0	0
	28	24
Write-downs on investments held in non-current assets		
Write-downs on the values of Group companies	0	-3
Other write-downs	-1	1
	-1	-2
Interest and other financial expenses		
Interest expenses to Group companies	-1	-1
Interest expenses to other companies	-28	-41
Exchange losses	-10	-6
Other financing expenses	-5	-2
	-44	-50
Financial income and expenses, total	**-15**	**-25**

9. Extraordinary items

M€	2005	2004
Extraordinary expenses		
Merger loss	0	-41
Total	0	-41

10. Income taxes

M€	2005	2004
Taxes for the year	132	87
	132	87

11. Intangible assets

M€	2005	2004
Intangible rights		
Acquisition cost 1.1.	9	6
Increases	2	4
Decreases and adjustments	0	-2
Acquisition cost 31.12.	11	9
Accumulated depreciation according to plan 1.1.	-7	-5
Accumulated depreciation of decreases and adjustments according to plan 1.1.–31.12.	-1	-2
Depreciation according to plan 1.1.–31.12.	-1	0
Book value 31.12.	2	2
Goodwill		
Book value 1.1.	0	3
Depreciation according to plan 1.1.–31.12	0	-3
Book value 31.12.	0	0
Other capitalised long-term expenses		
Acquisition cost 1.1.	82	72
Increases	18	9
Decreases and adjustments	13	1
Acquisition cost 31.12.	113	82
Accumulated depreciation according to plan 1.1.	-59	-47
Accumulated depreciation of decreases and adjustments according to plan 1.1.–31.12.	-12	-4
Depreciation according to plan 1.1.–31.12.	-7	-8
Book value 31.12.	34	23
Advance payments		
Book value 1.1.	11	4
Changes 1.1.–31.12.	-2	6
Book value 31.12.	9	11
Intangible assets, total 31.12.	**46**	**36**

12. Tangible assets

M€	2005	2004
Land and water areas		
Book value 1.1.	7	7
Increases	0	1
Book value 31.12.	7	7
Revaluations included in the book values of land areas*		
Revaluations 1.1.	2	2
Revaluations 31.12.	2	2
Buildings		
Acquisition cost 1.1.	451	419
Increases	9	33
Decreases and adjustments	-7	-1
Acquisition cost 31.12.	453	451
Accumulated depreciation according to plan 1.1.	-211	-189
Accumulated depreciation of decreases and adjustments according to plan 1.1.–31.12.	6	-9
Depreciation according to plan1.1.–31.12.	-14	-13
Book value 31.12.	234	240
Revaluations included in the book values of buildings*		
Revaluations 1.1.	30	30
Revaluations 31.12.	30	30

* Revaluations made in 1970's are based on replacement values

M€	2005	2004
Machinery and equiment		
Acquisition cost 1.1.	1 767	1 627
Increases	62	148
Decreases and adjustments	-15	-7
Acquisition cost 31.12.	1 814	1 767
Accumulated depreciation according to plan and reductions 1.1.	-1 181	-1 038
Accumulated depreciation of decreases and adjustments according to plan 1.1.–31.12.	12	-56
Depreciation according to plan 1.1.–31.12.	-90	-86
Book value 31.12.	555	586
– including book value of machinery and equipment 31.12.	572	581
Advance payments and construction in progress		
Acquisition cost 1.1.	33	32
Changes	-10	2
Book value 31.12.	23	33
Tangible assets, total 31.12.	**819**	**868**

13. Investments

M€	2005	2004
Shares in Group companies		
Book value 1.1.	199	253
Increases	26	51
Decreases and adjustments	-7	-101
Transfers between items	1	0
Revaluations 1.1.–31.12.	1	-3
Book value 31.12.	220	199
Receivables from Group companies		
Book value 1.1.	8	0
Changes 1.1.–31.12.	0	8
Book value 31.12.	8	8
Shares in associated companies		
Book value 1.1.	7	7
Changes 1.1.–31.12.	0	0
Book value 31.12.	7	7

M€	2005	2004
Long-term receivables from associated companies		
Book value 1.1.	1	1
Changes 1.1.–31.12.	0	0
Book value 31.12.	1	1
Other shares and similar rights of ownership		
Book value 1.1.	5	4
Increases	1	1
Decreases and adjustments	-1	0
Transfers between items	-1	0
Book value 31.12.	4	5
Total investments 31.12.	**239**	**220**

Shares in subsidiaries owned by parent company

	Country	Domicile	Number of shares	Share, % share capital	Share, % voting rights	Nominal value currency	Nominal value thousands	Book values, 1 000 € owned by Rautaruukki Corporation	Book values, 1 000 € owned by other Group companies
Subsidiaries of Rautaruukki Corporation									
Alamentti Oy	FI	Alajärvi	100	100	100	EUR	17	79	
DCA-Instruments Oy	FI	Turku	990	97,2	71	EUR	167	167	
Etnarör Ab	FI	Oulu	100	100	100	EUR	8	8	
Kiinteistö Oy Alpinus	FI	Kuusamo	450	100	100	EUR	8	109	
Kiinteistö Oy Materiamesta	FI	Helsinki	15	100	100	EUR	3	85	
Kiinteistö Oy Pakilantie 61-63	FI	Helsinki	27 000	100	100	EUR	4 541	6 567	
Kiinteistö Oy Ylläslehto	FI	Kolari	5	100	100	EUR	3	119	
OAO NPO-SPU	RU	St Petersburg	1 235	100	100	RUB	40 029	3 919	
OOO Rannila Sankt-Petersburg	RU	St Petersburg	7 900	100	100	RUB	7 900		
OOO Rautaruukki	RU	Moscow	1	100	100	RUB	5 500	173	
OOO Rautaruukki Profil	RU	Taldom	28 800	100	100	RUB	2 880		
OOO Ruukki	RU	St Petersburg	1	100	100	RUB	20	1 696	
OOO Stalpark	RU	St Petersburg	1	100	100	RUB	32 550	1 474	
Presteel Oy	FI	Raahe	3 444	80,1	80,1	EUR	581	3 144	
Ruukki Holding B.V.	NL	Amsterdam	40	100	100	EUR	40	14	
Ruukki Benelux B.V.	NL	Almelo	40	100	100	EUR	18	123	
Ruukki Construction Polska Holding Sp.zo.o.	PL	Oborniki	781 721	99,8	99,8	PLN	78 172	19 287	
Ruukki CZ s.r.o	CZ	Velvary		100	100	CZK	65 000	167	
Ruukki France S.A.R.L.	FR	Paris	100	100	100	EUR	15	253	
Ruukki Holding AB	SE	Stockholm	570 000	100	100	SEK	57 000	37 215	
Ruukki Holding AS	NO	Oslo	66	100	100	NOK	2 310	20 674	
Ruukki Holding Danmark A/S	DK	Vallensbæk Strand	1 000	100	100	DKK	16 000	7 009	
Ruukki Holding GmbH	DE	Düsseldorf	1	100	100	EUR	2 071	59 151	
Ruukki Hungary Kft	HU	Budapest		100	100	HUF	3 929	4 500	12
Ruukki Latvija SIA	LV	Riga	1 800	100	100	LVL	180	346	
Ruukki Products AS	EE	Pärnu	1 500	100	100	EEK	4 395	339	
Ruukki Polska Sp.zo.o.	Pl	Zyrardow	23 173	100	100	PLN	2 317	3 321	
Ruukki Romania S.R.L.	RO	Bucharest		100	100	ROL	359	606	
Ruukki Slovakia s.r.o.	SK	Kosice	407 942	100	100	SKK	139 631	5 101	
Ruukki Spain S.L.	ES	Vitoria-Gasteiz		100	100	EUR		15	

Ruukki UK Ltd	GB	Solihull	2 501 000	100	100	GBP	2 501	4 611	
UAB Ruukki Lietuva	LT	Vilnius	30	100	100	LTL	30	6	
Velsa Oy	FI	Kurikka	5 575	100	100	EUR	938	37 292	
ZAT Ruukki Ukraina	UA	Kiev	5 070	100	100	UAH	2 192	500	39
							218 068	51	
Subsidiaries not eliminated from consolidated accounts:									
Housing and real estate corporations, 2 companies								1 624	
Other subsidiaries of Rautaruukki Group (non-trading), 3 companies								10	
								1 634	

Associated companies, in which the share of voting rights is 20-50%:

Company	Country	Domicile	Share of holding (%)	currency	Nominal value thousands	Book value of the shares 1 000 €
Bet-Ker Oy	FI	Ylivieska	44,4	EUR	224	202
Helens Rör AB	SE	Halmstad	25,0	SEK	4 500	6 694
Osuuskunta Teollisuuden Romu	FI	Helsinki	16,7	EUR	3	2
PPTH Steelmanagement Oy	FI	Peräseinäjoki	20,1	EUR	10	209
Raahen Kauppaklubin Kannatus Oy	FI	Raahe	33,3	EUR	25	25
Sheet Metal Innovations SMI Oy Ltd	FI	Suolahti	24,0	EUR	50	114
						7 245

Other stocks and shares, in which the share of voting rights is less than 20%:

Company	Country	Domicile	No. of shares	Share of holding (%)	currency	Nominal value thousands	Book value of the shares 1 000 €
Ekokem Oy Ab	FI	Riihimäki	230	1,3	EUR	77	77
Raahen Tietotekniikka Oy	FI	Raahe	10	2,3	EUR	2	8
Skandinavian Link Finska Oy	FI	Helsinki	100	7,7	EUR	3	17
Turku Science Park Oy Ab	FI	Turku	2 500	0,2	EUR	50	17
Shares in housing and real estate companies							1 500
Other shares							1 732
Investments in funds							487
Other stocks and shares, total							3 838

14. Inventories

Inventories are valued at the acquisition price or at the probable selling price, if it is lower. Raw material costs are determined on a FIFO basis.

15. Debtors

Long term debtors include debtors due for repayment in one year or later.

M€	2005	2004
Short-term non-interest-bearing amounts owed by Group companies		
Trade debtors	57	80
Other non-interest-bearing debtors	2	1
	59	81
Short-term amounts owed by associated companies		
Trade debtors	12	6
Other non-interest-bearing debtors	0	0
	12	6
Essential items in prepayments and accrued income		
Interest receivables	0	1
Insurance compensation receivables	0	4
Currency hedgings	1	5
Other accruals	5	5
Total accruals	6	14

16. Capital and reserves

M€	2005	2004
Share capital 1.1.	236	236
Share capital 31.12.	236	236
Share premium reserve 1.1.	220	220
Share premium reserve 31.12.	220	220
Revaluation reserve 1.1	33	33
Revaluation reserve 31.12.	33	33
Profit from previous years 1.1.	314	180
Change in treasury shares	3	1
Dividend	-109	-27
Profit from previous years 31.12.	208	154
Net profit	349	160
Capital and reserves 31.12.	**1 046**	**802**

M€	2005	2004
Distributable earnings		
Profit from previous years	208	154
Net profit	349	160
Distributable earnings	557	314

On 31.12.2005, the company had 2,592,697 of Series K shares with the accounting countervalue of 4.4 million euros.

The biggest shareholders of Rautaruukki Corporation according to the share register at 31.12.2005

		Shares, -%	Number of shares
1	The Finnish State	40.07	55,656,699
2	Rautaruukki Oyj	1.87	2,592,697
3	Rautaruukki Pension Foundation	1.14	1,585,455
4	Esa Rannila	1.12	1,555,800
5	Odin Norden	0.92	1,281,420
6	Mutual Insurance Company Eläke-Fennia	0.36	500,000
7	Finnish State Pension Fund	0.36	500,000
8	S-stock Oy	0.35	480,000
9	Investment Fund Pohjola Finland value	0.34	477,000
10	Neste Oil Pension Fund	0.32	441,500
11	Onnenmäki Foundation	0.31	435,257
12	Odin Förvaltnings AS	0.28	393,400
13	Pension Insurance Company Ilmarinen Ltd.	0.27	377,890
14	Yleisradio Pension Fund	0.25	348,600
15	Einari Vidgrén	0.22	301,100
16	Åbo Akademi Foundation	0.22	300,000
17	OP-Focus Mutual Fund	0.21	287,000
18	Special Mutual Fund OMX Helsinki 25	0.17	237,340
19	OP-Delta Investment Fund	0.14	200,000
20	Technology Industries of Finland	0.14	196,800
Nominee registered shares		38.80	53,885,439
Other shareholders		12.13	16,853,048
Total		100.00	138,886,445

The total number of shares held by members of the Supervisory Board and the Boand of Directors was 3,487 which represent 0.003 per cent of the voting right conferred by all the company's shares.

Share capital of Rautaruukki Corporation by share series:

	Number	Accounting counter value, e
Series K (10 votes per share)	138,886,445	236,106,957

Series A shares, as defined in the Articles of Association, have not been issued.

Shareholders by share ownership according to the share register at 31.12.2005

	Shareholders		Shares	
No. of shares	No.	%	Thousands	%
1-100	2,402	15.01	149	0.11
101-1 000	11,342	70.88	4,875	3.51
1 001-10 000	2,055	12.84	5,646	4.07
10 001-100 000	171	1.07	5,232	3.77
100 001 -	32	0.20	122,984	88.55
	16,002	100.00	138,886	100.00

Shareholders by sector according to the share register at 31.12.2005

	Shareholders No.	%	Shares Thousands	%
Companies	505	3.16	4,932	3.55
Banks and insurance companies	49	0.31	2,512	1.81
Public institutions	32	0.20	59,978	43.19
Non-profit institutions	196	1.23	2,717	1.96
Private households	15,134	94.58	12,912	9.30
Nominee registered shares	11	0.07	53,885	38.80
Other international shareholders	75	0.47	1,949	1.40
	16,002	100.00	138,886	100.00

17. Appropriations

M€	2005	2004
Accumulated depreciation difference 1.1.	398	391
Transferred in mergers	0	12
Change in the profit and loss account	-16	-5
Accumulated depreciation difference 31.12.	382	398
Appropriations, total 31.12.	382	398

18. Provisions

Obligatory provisions include provisions for pensions, guarantees, restructuring and other similar contingencies, which represent the setting aside of funds to cover future losses.

M€	2005	2004
Pension liabilities 1.1.	25	31
Change in personnel expenses in the profit and loss account	-4	-5
Pension liabilities 31.12.	21	25
Other obligatory provisions 1.1.	9	2
Transfer from non-interest bearing loans	2	0
Changes in the profit and loss account	21	6
Other obligatory provisions 31.12.	32	9
Obligatory provisions, total	**53**	**34**

19. Interest-bearing long-term creditors

Creditors denominated in foreign currency have been valued in the balance sheet at the rate on the balance sheet date.

The currency mix and repayment schedule of Rautaruukki Corporation's long-term debt as of 31.12.2005

M€	Currency	2006	Repayments 2007	2008	2009	2010	2011-	Total	% of total debt
Bonds with warrants	EUR	4						4	1
Bonds	EUR	71		55	104	75		305	73
Loans from credit institutions	EUR	32	40	13	5	5	5	99	24
	SEK	3	3					5	1
Pensions loans	EUR	3	1	1	1			6	2
		112	44	69	110	80	5	419	100

The average interest rate was 5.2%

M€	interest rate	currency	2005	2004
Bonds				
(nominal value)				
1999-2006	4.5%	EUR	71	71
2003-2008	3.3%	EUR	55	55
2003-2010	5.1%	EUR	75	75
			201	201
Callable subordinate notes				
(nominal value)				
2002-2007/09	7.5%	EUR	54	54
2002-2007/09	5.2%	EUR	50	50
			104	104
Bonds with warrants				
2003-2006	5.0%	EUR	4	4

On the basis of option warrants, 1,400,000 Series K shares can be subscribed for.

20. Deferred tax assets and liabilities

M€	2005	2004
Deferred tax assets		
From temporary differences	8	3
Deferred tax liabilities		
From appropriations	99	104

For the parent company, the deferred tax liability from the depreciation difference in the balance sheet is shown. This deferred tax liability is not booked to Rautaruukki Corporation's balance sheet.

21. Current non-interest-bearing creditors owed to Group companies

M€	2005	2004
Trade creditors	4	2
Other non-interest-bearing debt	14	5
	18	7

22. Current non-interest-bearing creditors owed to associated companies

M€	2005	2004
Trade creditors	5	5
Other non-interest-bearing debt	0	0
	5	5

23. Current creditors

Essential items in accruals and deferred income

M€	2005	2004
Tax liabilities	67	33
Interest debts	5	8
Personnel expenses	52	52
Currency hedging	4	13
Other accruals	29	22
Total accruals	158	128

24. Contingent liabilities and other liabilities

M€	2005	2004
Mortgage backed liabilities		
Loans from financial institutions	7	8
	7	8
Collateral in value		
Mortgaged real estates	26	27
	26	27
Collateral given on behalf of Group companies		
Guarantees	63	66
Debit balance of Group bank accounts	35	58
	98	124
Collateral given on behalf of associated companies		
Guarantees	3	2
	3	2
Contingent and other liabilities		
Leasing and rental liabilities		
Due next year	45	47
Due later	161	202
	206	248
Other financial liabilities		
Other financial liabilities	4	1
	4	1
Letter of Comfort liabilities*		
for Group companies	6	6
	6	6

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

Board of Directors' proposal for the disposal of distributable funds

The Board of Directors will propose to the Annual General Meeting to be held on 23 March 2006 that a dividend of EUR 1.40 per share be paid for the financial year ended 31 December 2005 and that the remainder of the distributable capital be posted to the retained earnings account.

The Group's distributable equity at the end of 2005 was EUR 725 million and the parent company's distributable equity was EUR 557,133,387.76.

The total amount of the dividend on the 136,293,748 shares outstanding at 8 February 2006 is EUR 190,811,247, corresponding to 41.9 per cent of the Group's net profit for the financial year. No dividend will be paid on shares that are in the company's possession (treasury shares) on the record date.

Also entitled to a dividend for 2005 are shares that have been transferred from the company's treasury shares to persons covered by the share bonus scheme 2004 prior to the record date for the dividend payout.

The proposed record date for the dividend payout is 28 March 2006 and the dividend will be paid on 4 April 2006.

Helsinki, February 8, 2006

BOARD OF DIRECTORS

Jukka Viinanen

Georg Ehrnrooth   Maarit Aarni   Christer Granskog

Pirkko Juntti   Kalle J. Korhonen   Kiuru Schalin

Auditors' report

Translation

To the shareholders of Rautaruukki Corporation

We have audited the accounting records, the financial statements and the administration of Rautaruukki Corporation for the period 1.1.–31.12.2005. The Board of Directors and the Managing Director 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 includes 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 Supervisory Board, the Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU 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 Supervisory Board, the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of distributable funds is in compliance with the Companies' Act.

Helsinki, February 8, 2006

Ernst & Young Oy
Authorized Public Accounting Firm

Pekka Luoma
Authorized Public Accountant

Statement of the Supervisory Board

Having today considered the Company's financial statements and consolidated financial statements for 2005, as well as the Auditors' Report, the Supervisory Board of Rautaruukki Corporation proposes to the 2006 Annual General Meeting of shareholders that the profit and loss accounts and the balance sheets of the Company and the Group be approved. The Supervisory Board concurs with the Board of Directors' proposal concerning the disposal of profit.

Helsinki, February 28, 2006

SUPERVISORY BOARD

Turo Bergman

Jouko Skinnari	Heikki Allonen	Ole Johansson
Inkeri Kerola	Miapetra Kumpula-Natri	Tauno Matomäki
Petri Neittaanmäki	Tapani Tölli	Lasse Virén

Figures by quarter

Net sales by quarter (IFRS)

M€	I/2004	II/2004	III/2004	IV/2004	I/2005	II/2005	III/2005	IV/2005
Ruukki Construction	61	99	114	103	88	137	170	155
Ruukki Engineering	63	78	74	113	124	114	101	137
Ruukki Metals	668	733	663	787	802	686	541	596
Other units	1	1	3	2	0	2	0	1
Consolidated net sales	794	911	854	1 005	1 014	939	812	889

Operating profit by quarter (IFRS)

M€	I/2004	II/2004	III/2004	IV/2004	I/2005	II/2005	III/2005	IV/2005
Ruukki Construction	0	16	24	16	9	22	39	17
Ruukki Engineering	9	15	10	19	22	23	23	27
Ruukki Metals	73	108	105	138	180	147	69	91
Group management and other units	-7	-17	-12	-7	-10	-12	-17	-11
Consolidated operating profit	76	123	128	166	201	180	114	123

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more with metals