Rautaruukki Financial statements 2006

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Ruukki in brief

Rautaruukki 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. Rautaruukki has operations in 23 countries and employs 13,000 people. The company's share is quoted on the Helsinki Exchanges (Rautaruukki Oyj: RTRKS). 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 retail, industrial and logistics construction, as well as for infrastructure construction.

Ruukki Engineering
Ruukki Engineering supplies metal-based solutions to the lifting, handling and transportation equipment industry, as well as to the paper and wood processing, shipbuilding, energy and offshore 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, as well as steel tubes for Ruukki's divisions with customer responsibility.

Ruukki's strategic intent

A leading metal-based construction solution provider

A leading solution provider for specific engineering customers

Leading metal products supplier in the Nordic and Baltic countries

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Report of the Board of Directors

Operating environment

Economic development remained positive in Rautaruukki's core market areas throughout 2006. GDP growth in the Nordic countries was above the average of that in the euro zone, and especially in Central Eastern Europe, the Baltics and Russia, economic growth was considerably stronger than elsewhere in Europe. Demand held up well in the Group's most important customer industries. Construction activity was buoyant throughout Rautaruukki's market area, with particularly strong growth evidenced in commercial and industrial construction in Eastern Europe. Rautaruukki's engineering industry customers, particularly those in the lifting, handling and transportation equipment industry, saw a sizeable increase in their order books. Demand also remained strong in the shipbuilding and offshore industry, as well as in the paper, woodprocessing and energy industries. The overall costs of raw materials used to make steel were similar to those at year-end 2005. Good demand for standard steel products was evidenced in Northern Europe throughout 2006.

Strategy and financial targets

Solutions deliveries within metal-based construction and the engineering industry now account for a much greater share of Rautaruukki's business. Non-core businesses have been divested. A marked strengthening of the company's balance sheet structure gives the company a sound financial platform to continue forging ahead with its strategy.

In November 2006, the Board of Directors revised the company's financial targets for the next three years, setting an annual growth target of 10 per cent for net sales. The operating profit target was raised from seven to twelve per cent of net sales. Likewise, the target for return on capital employed was upgraded from 15 per cent to 20 per cent. The target for gearing is to keep it below 60 per cent instead of 80 per cent as earlier.

In the same context, the Board of Directors redefined Rautaruukki's dividend policy, which is to pay a dividend of 40–60 per cent of the result for the financial year. The aim is to pay a steadily increasing dividend whilst taking into account the requirements for business growth.

Net sales and result for 2006 (comparative figures for 2005)

Consolidated net sales for the whole of 2006 were EUR 3,682 million. This result exceeded net sales of EUR 3,654 million in 2005. Comparable net sales were up by 12 per cent to EUR 3,515 million (3,128m). This figure excludes Oy Ovako Ab, which has not been reported since 1 May 2005 and the Nordic reinforcing steel business, which ceased to be reported as of 1 August 2006.

The solutions businesses accounted for 38 per cent (28) of net sales. This increase is attributable to organic growth and acquisitions. Of net sales, 31 per cent (29) were generated in Finland, 31 per cent (30) in the other Nordic countries, 17 per cent (12) in Central Eastern Europe, Russia and Ukraine, 19 per cent (26) in the rest of Europe and 2 per cent (3) in other countries.

Operating profit was EUR 529 million (618m), corresponding to 14 per cent (17) of net sales. The comparable operating profit was EUR 515 million (539m), or 15 per cent (17) of net sales. Profitability of the solutions businesses rose during the year and accounted for 39 per cent (29) of consolidated operating profit.

The US dollar weakened around 12 per cent against the euro, falling from an exchange rate of 1.18 to the euro at the start of 2006 to 1.3170 at 31 December 2006. The average exchange rate of the US dollar was just under one per cent weaker than in 2005. The impact of the US dollar on the company's operating profit, including hedging, was approximately EUR 26 million negative compared to 2005. The operating profit includes net foreign exchange differences of EUR 16 million negative.

Net financial expenses amounted to EUR -22 million (-30m). Net interest expenses were EUR -20 million (-28m).

The share of associated companies' profit was EUR 129 million (23m), of which Ovako accounted for EUR 125 million. This figure includes a capital gain of EUR 100 million on the divestment of Ovako and includes the share of Ovako's earnings generated after the end of June.

Profit before taxes was EUR 635 million (612m).

Group taxes totalled EUR 134 million (157m) including a change in deferred taxes of EUR 1 million negative (1m). The effective tax rate was 26 per cent (27).

Net profit was EUR 501 million (455m).

Diluted earnings per share were EUR 3.65 (3.31), of which the capital gain on the disposal of Ovako was EUR 0.73. The capital gain also includes the share of Ovako's earnings generated after the end of June.

The return on capital employed was 31.5 per cent (32.8) and the return on equity was 30.1 per cent (34.7).

Balance sheet

The consolidated balance sheet total at 31 December 2006 was EUR 3,026 million, up by EUR 325 million compared to year-end 2005. The equity ratio was 61.6 per cent (56.0) at year-end 2006 and the gearing ratio 1.2 per cent (22.8).

Cash flow and financing

Cash flow from operations was EUR 396 million (652m) and cash flow after investments was EUR 536 million (519m). Divestment of Ovako and the reinforcing steel business contributed EUR 362 million to the company's cash flow.

At year-end 2006, net interest-bearing liabilities were EUR 22 million (341m). Working capital increased by EUR 76 million (0m) as a result of higher stocks and trade receivables.

At year-end 2006, the Group had liquid assets of EUR 361 million and a total of EUR 300 million of unused committed revolving credit facilities with banks. Interest-bearing liabilities were EUR 383 million at 31 December 2006. The average interest on loans at the end of the year was 5 per cent and the average maturity 2.6 years.

At year-end 2006, shareholders' equity was EUR 1,832 million (1,497m), corresponding to EUR 13.26 per share (10.98).

Efficiency programme delivers savings

Ruukki United, Rautaruukki's programme to harmonise ways of working and improve efficiency, aims to achieve permanent cost savings of around EUR 150 million by year-end 2008. EUR 43 million of these cost savings had been achieved by the end of the period under review. Besides this action, earnings have been considerably improved by overhauling the sales structure and disposing of poorly performing businesses.

The Ruukki United programme also seeks to permanently free up some EUR 150 million of capital by year-end 2008. EUR 59 million of this target had been achieved by the end of the period under review. Additionally, divestments of non-core businesses during the year released EUR 456 million.

Personnel

The Group employed an average of 13,121 people (11,684) during 2006 and had 13,303 employees (11,374) at the end of the year. Acquisitions completed during 2006 saw Rautaruukki take aboard 1,980 new employees, whereas divestments resulted in 1,031 persons leaving the company.

Staff salaries and other employee benefits totalled EUR 448 million (454m), of which EUR 22 million (36m) was expenses relating to the share bonus scheme and EUR 8 million (19m) expenses relating to the profit sharing scheme. Nearly all Ruukki's personnel belong to the profit sharing scheme.

A total of EUR 22 million (36m) was booked for the year under review as expenses in respect of the share bonus scheme serving as a long-term incentive for the Group's key personnel. Under the Share Bonus Scheme 2000, maximum bonuses were paid for the period 2003-2005. Expenses of EUR 4 million for the 2006 financial year were booked in the income statement. Under the Share Bonus Scheme 2004, maximum bonuses were as well paid for 2005. Expenses of EUR 8 million for the 2006 financial year were booked in the income statement. Expenses of EUR 10 million were booked in the income statement in respect of periods maturing later under existing schemes. Share bonus schemes cover around 120 senior executives or persons classified as key personnel.

Research and development

Group R&D expenditure in 2006 totalled EUR 22 million (22m), representing 0.6 per cent (0.6) of net sales. Product development resources were strengthened and, in keeping with Rautaruukki's chosen strategy, increasingly aimed at innovating solutions that generate value added to customers. Towards the end of the year, the company launched an extensive project to explore the use of laser technology. New generation steel solutions for construction and engineering industry customers will be developed within the framework of this project.

Two thirds of the money spent on R&D was on developing solutions and one third on developing production methods and processes. Rautaruukki doubled the number of new patent applications during 2006 in the wake of a streamlined, more systematic approach to its quest for and development of new innovations.

Within construction solutions, Rautaruukki is addressing the development of new technology to rationalise the construction process. Particular areas of development are construction industrialisation and the optimisation of total deliveries. The aim is to rationalise the customer's business by cutting construction times and by reducing the work done and number of persons required on site. Work continued on the development of integrated frame and envelope structures to this end. A new system was innovated for the foundations of single-storey buildings to enable work on erecting the frame to get under way earlier than before.

Within engineering industry solutions, product development is based on strong excellence in materials technology, complemented by product design, an insight into manufacturing technology and industrial design. Additional resources and acquisitions enable us to provide total solutions comprising welded components and ready systems for manufacturers of mobile machines.

In cabin product development, new projects were launched for existing customers and products developed for new customers were added to the product range. The focus was on the use of ultra-strength steels in welded structures. These will help to considerably improve the performance and transfer capacity of lifting equipment and mobile machines.

Work continued to forge ahead on the development of high-strength hot rolled steels and their applications to strengthen the product base. Higher strength translates into lighter structures, greater bearing capacity, more efficient use of space and a longer life span and the safety of end products.

Coatings development is driven by coating durability, appearance and environmental aspects. A promising new field is functional coatings, to which more resources were directed.

M&A arrangements completed

Acquisition of PPTH Steelmanagement Oy, the leading steel frame constructor in the Nordic countries, considerably expanded Rautaruukki's construction design and project know-how. In the same context, it also established a skills base to support Rautaruukki's growth in construction solutions also in Central Eastern Europe. The deal was completed in January 2006 and took Rautaruukki's holding in the company from 20 per cent to 100 per cent. The shares were acquired for around EUR 7 million. As part of the deal, Rautaruukki assumed EUR 24 million of interest-bearing liabilities. PPTH has been accounted for in Rautaruukki's consolidated financial statements since 1 January 2006.

Acquisition of Slovak steel constructor Steel-Mont a.s. for around EUR 10 million in March increased Rautaruukki's strategically important steel structure production and installation capacity. The company was debt-free. Steel-Mont has been accounted for in Rautaruukki's consolidated financial statements since 1 April 2006. Together with a new plant opened in Hungary in spring 2006, the acquisition greatly increased Rautaruukki's total deliveries capacity in Central Eastern Europe.

In May, Rautaruukki sold the non-core business of its operations in Poland in an MBO. Metalplast Systems Sp z o.o's business included hot-dip galvanising and container businesses. The debt-free price was EUR 2.6 million.

Also in May, Rautaruukki acquired AZST-Kolor CJSC to safeguard delivery reliability and a competitive source of high-quality raw materials, especially in Russia and Ukraine. AZST-Kolor has a coating line in Ukraine. The shares were acquired at a cost of EUR 5 million and the company was debt-free. AZST-Kolor has been accounted for in Rautaruukki's consolidated financial statements since 1 June 2006.

In June, Rautaruukki completed the acquisition of Russian steel constructor OOO Ventall, thereby strengthening the Group's position in the dynamically growing Russian construction market. Ventall also brings Rautaruukki a local manufacturing presence within steel structures and sandwich panels. Ventall has been accounted for in Rautaruukki's consolidated financial statements since 30 June 2006. The shares were bought for EUR 99 million. The company was debt-free. Under the terms of the agreement, a possible additional purchase price, contingent on earnings in 2006 and subject to a maximum of EUR 27.5 million, has been booked in the cost of acquisition.

Withdrawal from the Nordic reinforcing steel business in conjunction with the divestment of Ovako in August marked the end of Rautaruukki's disengagement from the long steel business. In July, Rautaruukki Corporation, AB SKF and Wärtsilä Corporation signed an agreement on the sale of the operating companies owned by Oy Ovako Ab to a company owned by Hombergh Holdings BV's shareholders, WP de Pundert Ventures BV and Pampus Industrie Beteiligungen GmbH & Co. KG. Rautaruukki had a 47 per cent interest in Ovako and received EUR 311 million as its share of the selling price. The tax-exempt capital gain on the transaction and the share of Ovako's result generated after 30 June 2006 is presented in share of results of associated companies. The capital gain on the sale was EUR 100 million. Divestment of Ovako was completed in November.

The sale of the Nordic reinforcing steel business to BT Norway AS was completed in August. The reinforcing steel business was part of the Ruukki Metals division and included the Fundia Armeringsstål AS melt shop and rolling mill in Mo i Rana, Norway and the following companies specialising in steel reinforcement fabrication and distribution: Fundia Betoniteräkset Oy in Finland, Fundia Armering AB in Sweden, Fundia Armering AS in Norway and Fundia Armering A/S in Denmark. The selling price was around EUR 125 million, including the dividend paid to Rautaruukki, and corresponds to the carrying value of the companies sold.

Ruukki Metals is in the Central and Southern European markets focusing on selling special products and on developing the supporting distribution channels. As part of business model development, Rautaruukki sold the operations, related fixed assets and inventories of the Duisburg service centre in Germany, which mainly upgraded sheet products. The buyer assumed responsibility for the centre and its staff of around 75 persons on 1 September 2006.

To strengthen Ruukki Engineering's position in the lifting, handling and transportation equipment industry customer segment, Rautaruukki signed an agreement in December 2006 to acquire the company's entire share capital of AB Omeo Mekaniska Verkstad from its five owners for a debt-free price of around EUR 3.73 million. The transaction was closed in January 2007.

Capital expenditure

Capital expenditure in tangible and intangible assets in 2006 totalled EUR 147 million (103m). During the period under review, disposals of property, plant and equipment amounted to EUR 28 million (16m). During the 2006 financial year, EUR 112 million (31m) was spent on M&A arrangements less the cash and cash equivalents of companies purchased at the time of acquisition. Acquisitions increased the Group's net interest-bearing liabilities by EUR 24 million. Tangible and intangible assets, excluding goodwill, obtained through acquisitions rose by EUR 120 million, working capital by EUR 17 million and goodwill by EUR 58 million.

Investment projects worth EUR 50 million were launched in Ukraine and Romania during 2006. On completion, these investments will enable Rautaruukki to considerably increase deliveries for commercial and industrial construction to customers in Ukraine, Romania and Bulgaria. Investment in a new plant in Hungary strengthened the delivery and service capacity in total deliveries of Rautaruukki's main construction components.

Cabin manufacturing capacity was increased in response to greater demand in the lifting, handling and transportation equipment industry and to streamline production. Summer 2006 saw a new cabin assembly plant come on stream at Kurikka in Finland. Cabin frame production was also launched in the Wroclaw unit in Poland.

The second stage of upgrading the automation system at Ruukki Production's hot strip mill was carried out in July. The direct quenching system for plates began operating for certain sizes in the autumn. Progress was made as planned with the second stage of the project and the entire system is scheduled to be up and running in summer 2007.

In November, Rautaruukki decided to embark on a EUR 20-million investment to expand its St Petersburg service centre to respond to the growing demand for materials and pre-treatment services by western and local customers.

Environmental and safety issues

The Group's environment policy governs the environmental management of Rautaruukki's operations. Steel production at the Raahe Works, which received a new environmental permit in 2006, accounts for the Group's most significant environmental impacts.

All Rautaruukki's main production sites operate in accordance with ISO 14001 environmental management systems, which covered 95 (96) per cent of production in 2006. An ISO 9001 quality system is in place to manage quality issues. During 2006, systems that had been earlier certified locally were brought together under Ruukki Production and Ruukki Construction's certificates.

Rautaruukki is committed to the principles of sustainable development. The environmental risks arising from operations are assessed as part of planning when modernising production processes or building new ones. Internal environmental risks were mapped at 30 operating sites during 2006. Environmental due diligence studies to assess the standard of environmental protection were carried out at sites acquired in conjunction with acquisitions.

Environmental investments in 2006 totalled EUR 8 million.

At year-end 2006, the Raahe Works and steam boilers at the Hämeenlinna Works fell within the scope of EU emissions trading as regards Rautaruukki's operations. The Mo i Rana rolling mill comes under the Norwegian emissions trading scheme. In 2006, the company sold emissions allowances for a total of EUR 3 million. These allowances arose following market acclimatisation of production at the Raahe Works in 2005.

The EU's new REACH Regulation (Registration, Evaluation and Authorisation of Chemicals) was adopted in December 2006. For Rautaruukki, the Regulation will mean the registration of many substances and increased communication along the supply chain. The EU's Directive on the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS Directive) also entered into force during 2006. At Rautaruukki, this marked the end of using hexavalent chromium to protect galvanised products against corrosion and to pre-treat coatings in products for the electronics industry.

Safety management training and the development of safety issues continued in 2006, when the accident frequency rate was 21 (24) accidents per million working hours. The aim is to achieve a further marked improvement in the accident frequency rate. Safety management is part of operative management and the responsibility for ensuring safety rests with everyone. The goal is to work pro-actively to prevent the occurrence of hazardous situations and accidents.

The company reports environmental issues in more detail in the Corporate Responsibility Report and in site environmental reports.

Risks and risk management

Risk management is an integrated part of Ruukki's management system. The risk management policy approved by the Board of Directors defines the operating principles and process of the Group's risk management. The President & CEO is responsible for the proper arrangement of the Group's risk management and the Group's CFO for defining the risk management framework and for arranging reporting. Heads of the divisions and support functions are responsible for identifying risks, managing risks and developing risk management in their own area. Risks which require special expertise, such as credit and environmental risk management, have been centralised. The Group's risk management function supports the divisions and other functions to develop risk management and is responsible for issuing instructions, reporting and insurance programmes at Group level.

Critical risks jeopardising implementation of the strategy and target achievement relate to new businesses and growth management. Growth management is assisted by existing management and control systems and by a defined acquisition process, which takes into account integration issues in respect of acquired companies. Internationalisation of the organisation and the recruitment and development of experts are essential ways to manage growth.

Rautaruukki aims at reducing vulnerability to market disruptions caused by fluctuations in the demand for and supply of standard steel products by growing the share of the customer-focused solutions business, developing the operations of our own service centres and enhancing customer service. The prices, including freight charges, of iron ore, coal and other raw materials used in steel production are determined on the world market. Depending on the business cycle, the cost of raw materials can be very volatile and their sourcing changed from time to time. Electricity and zinc derivatives are used in managing the price risk over the next three years. To keep availability risks under control, Rautaruukki makes long-term agreements to source the main raw materials and energy used in steel production.

The principle in managing risk of damage is to adequately protect the Group's earnings ability and financial position against any damage or loss. Maintaining proper insurance cover against property damage and business interruption is an essential part of managing risks of damage. Work forged ahead with occupational safety training to eliminate injuries.

Rautaruukki's financing operations and financing and credit risk management are dealt with centrally by the parent company's Corporate Treasury function in accordance with the financing and credit policy approved by the Board of Directors. The Group's most significant risk arises from the fact that the main raw materials are priced in US dollars. This risk is hedged through forward contracts and options.

A more detailed account of the Group's risk management is given in the Annual Report.

Shares and share capital

During 2006, Rautaruukki Oyj shares were traded for a total of EUR 4,628 million (2,041m) on the Helsinki Stock Exchange. The highest price quoted was EUR 33.31, in March, and the lowest was EUR 19.00, in June. The volume weighted average share price was EUR 25.70 and the share closed on the year at EUR 30.15. Rautaruukki had a market capitalisation of EUR 4,220 million.

The company's registered share capital at 31 December 2006 was EUR 237.9 million. There were 139,957,418 Series K shares issued. At year-end 2006, the company held 1,785,381 treasury shares, corresponding to 1.28 per cent of the company's shares and votes. The treasury shares had an acquisition cost of EUR 7 million and a market value at 31 December 2006 of EUR 53.8 million.

Rautaruukki Corporation's 2006 Annual General Meeting authorised the Board of Directors to buy back a maximum of 11,000,000 of the company's own shares on the Helsinki Stock Exchange at the market price. The authorisation is valid for one year from 23 March 2006, the date of the Annual General Meeting. To date, no shares have been acquired pursuant to this authorisation.

Rautaruukki Corporation's 2006 Annual General Meeting authorised the Board of Directors to decide on the transfer of treasury shares. Under this authorisation, during 2006, the company transferred 810,316 Series K treasury shares to persons covered by the Group's share bonus scheme.

A total of 1,070,973 Series K shares were subscribed between 24 May and 31 December 2006 through the exercise of warrants issued under the 2003 employee bond with warrants. Rautaruukki Corporation's Board of Directors approved the subscriptions, which resulted in an increase of EUR 1,820,654 in the company's share capital.

Rautaruukki Corporation's Board of Directors has no valid authorisations to issue convertible bonds or bonds with warrants or to increase the company's share capital.

Corporate governance and auditors

Rautaruukki Corporation's Annual General Meeting appointed the company's Board of Directors for a term of office expiring at the end of the 2007 Annual General Meeting. Jukka Viinanen, President & CEO of Orion Corporation, and Georg Ehrnrooth were reappointed as chairman and deputy chairman of the Board of Directors respectively. Maarit Aarni-Sirviö, Vice President, Phenol Business Unit, Borealis Group, Christer Granskog, President & CEO, Kalmar Industries AB, Pirkko Juntti LLM, Kalle J. Korhonen, Director-General, Ministry of Trade and Industry, and Kiuru Schalin, Managing Director, Oy Aga Ab, were reappointed as Board members. Reino Hanhinen, chairman of the Board of Directors of YIT Corporation was appointed as a new member to the Board.

Rautaruukki Corporation's Annual General Meeting reappointed Turo Bergman LicPolSc and Jouko Skinnari MP as chairman and deputy chairman respectively of the Supervisory Board for a term of office expiring at the end of the 2007 Annual General Meeting. Heikki Allonen, President & CEO, Fiskars Oyj Abp, members of the Finnish Parliament Inkeri Kerola, Miapetra Kumpula-Natri, Petri Neittaanmäki, Tapani Tölli and Lasse Virén were all reappointed to the Supervisory Board. Markku Tynkkynen, Executive Vice President Resources, UPM-Kymmene Corporation was appointed as a new member to the Supervisory Board.

Members of the Board of Directors' Audit Committee during the 2006 financial year were Pirkko Juntti (chairwoman), Maarit Aarni-Sirviö, Christer Granskog and Reino Hanhinen. Members of the Board of Directors' Compensation Committee during the 2006 financial year were Jukka Viinanen (chairman), Georg Ehrnrooth and Kiuru Schalin.

The Annual General Meeting reappointed the firm of independent public accountants Ernst & Young Oy as the company's auditors, with Pekka Luoma, Authorised Public Accountant, as the principal auditor.

Resolutions of the Annual General Meeting

Rautaruukki Corporation's Annual General Meeting held on 23 March 2006 approved the Board of Directors' proposals concerning the transfer of treasury shares and buy back of own shares within one year of the close of the meeting. The Annual General Meeting passed a resolution to set up a Nomination Committee to prepare proposals concerning members of the Board of Directors and their emoluments for presentation to the next Annual General Meeting.

The Annual General Meeting decided to pay a dividend of EUR 1.40 per share, a total of EUR 191 million, for the financial year ending 31 December 2005.

Post balance sheet events

In January 2007, the competition authorities approved the agreement signed by Rautaruukki in December 2006 to purchase AB Omeo Mekaniska Verkstad. The shares were acquired debt-free for EUR 3.7 million. The transaction strengthens Ruukki Engineering's position in the lifting, handling and transportation equipment customer segment.

On 29 January 2007, Rautaruukki Corporation and LKAB of Sweden signed a long-term contract for the supply of iron ore pellets used as raw material in iron production at the Raahe Works. Deliveries will commence as of 1 April 2007. This long-term contract will ensure the availability of high-quality iron ore raw material at the Raahe Works.

Outlook for 2007

Demand is expected to hold up in well in Rautaruukki's core market areas. It is anticipated good economic growth will continue in the Nordic countries and economic growth will be much faster in Eastern Europe than in the rest of Europe. Construction activity is expected to remain good across our market area, especially in Eastern Europe. Strong growth is envisaged in commercial and in infrastructure construction, on which Rautaruukki has focused. Customers in the engineering industry have strong order books. The good market for steel products is expected to continue in Rautaruukki's core market areas.

Comparative net sales in 2007 are expected to develop in line with growth targets set. Operating profit for 2007 is anticipated to markedly exceed the comparative figure for last year.

Consolidated income statement

IFRS €m	Notes	1 Jan–31 Dec 2006	1 Jan–31 Dec 2005
Net sales	4	**3,682**	**3,654**
Other operating income	7	32	28
Change in inventories of finished goods and work in progress		88	−31
Production for own use		7	5
Materials and services	8	−2,197	−1,932
Salaries and other employee benefits	9	−548	−557
Depreciation, amortisation and impairment losses	10	−148	−156
Other operating expenses	11	−387	−393
Operating profit		**529**	**618**
Financial income	12	13	19
Financial expenses	12	−35	−49
Net financial expenses	12	−22	−30
Share of results of associated companies	17	129	23
Profit before taxes		**635**	**612**
Income tax	13	−134	−157
Net profit		**501**	**455**
Attributable to			
Equity holders of the company		501	455
Minority interests		0	0
Earnings per share, calculated on the net profit attributable to equity holders of the company			
Basic earnings per share (€)	14	3.66	3.35
Diluted earnings per share (€)	14	3.65	3.31

Consolidated balance sheet

IFRS €m	Notes	31 Dec 2006	31 Dec 2005
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,043	1,033
Goodwill	16	105	47
Other intangible assets	16	99	51
Investment in associated companies	17	21	194
Available-for-sale financial assets	18	10	10
Receivables	19	162	127
Deferred tax assets	20	13	14
		1,454	**1,476**
Current assets			
Inventories	21	586	534
Trade receivables	22	499	444
Other receivables	22	116	82
Tax receivables based on taxable earnings of the period		9	1
Other financial assets recognised at fair value through profit and loss	23	296	0
Cash and cash equivalents	24	66	163
		1,572	1,225
Assets, total		**3,026**	**2,701**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the company			
Share capital	25	238	236
Share premium account		220	220
Translation difference		−3	−5
Fair value and other reserves	26	44	31
Retained earnings		1,333	1,016
		1,832	1,497
Minority interests		1	1
Equity, total		**1,833**	**1,498**
Non-current liabilities			
Deferred tax liabilities	20	161	138
Pension obligations	28	19	25
Provisions	29	27	18
Interest-bearing liabilities	30	218	372
Other liabilities	31	19	14
		444	566
Current liabilities			
Trade payables	31	291	191
Other liabilities	31	252	212
Tax liabilities based on taxable earnings of the period		39	84
Provisions	29	2	19
Interest-bearing liabilities	30	164	132
		748	637
Liabilities, total		**1,193**	**1,203**
Equity and liabilities, total		**3,026**	**2,701**

Consolidated statement of changes in equity

IFRS €m	Share capital	Share premium account	Treasury shares*	Fair value and other reserves	Translation differences	Retained earnings	Total	Minority interests
	Attributable to equity holders of the company							
Equity at 1 Jan 2005 (adjusted)	236	220	−14	4	−2	683	1,126	1
Cash flow hedging:								
Gains and losses booked to equity				32			32	
Taxes relating to items booked to and transferred from equity				−8			−8	
Change in translation difference					−3		−3	
Net income booked directly to equity	0	0	0	24	−3	0	21	
Profit for the period						455	455	
Total income and expenses booked during the period	0	0	0	24	−3	455	476	
Dividend distribution						−109	−109	
Disposal of treasury shares			3			−3	0	
Equity-settled share-based payments				4			4	
Equity at 31 Dec 2005	**236**	**220**	**−11**	**31**	**−5**	**1,027**	**1,497**	**1**
Increase in share capital	2						2	
Cash flow hedging:								
Gains and losses booked to equity				21			21	
Taxes relating to items booked to and transferred from equity				−6			−6	
Change in translation difference					2		2	
Net income booked directly to equity	2	0	0	15	2	0	19	
Profit for the period						501	501	
Total income and expenses booked during the period	2	0	0	15	2	501	520	
Dividend distribution**						−191	−191	
Disposal of treasury shares			4	−4		1	1	
Equity-settled share-based payments				4			4	
Share options exercised				−2		2	0	
Equity at 31 Dec 2006	**238**	**220**	**−7**	**44**	**−3**	**1,340**	**1,832**	**1**

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

** In keeping with the meeting held on 6 February 2007, the Board of Directors proposes the payment of a 2006 dividend of EUR 2.00 per share, amounting to EUR 276 million. These financial statements do not include bookings related to the proposed dividend distribution.

Consolidated cash flow statement

IFRS

€m	Notes	1 Jan–31 Dec 2006	1 Jan–31 Dec 2005
Cash flow from operating activities			
Profit for the period		501	455
Adjustments			
Non-cash transactions	32	20	156
Interest and other financing expenses		35	49
Interest and other financing income		−13	−19
Taxes		134	157
Other adjustments		−9	−9
Change in working capital			
Change in trade and other receivables		−82	40
Change in inventories		−86	3
Change in trade payables and other liabilities		100	−25
Change in provisions		−8	−17
Interest paid		−35	−47
Interest received		13	19
Taxes paid		−175	−109
Net cash flow from operating activities		**396**	**652**
Cash flow from investing activities			
Acquisition of subsidiaries less cash and cash equivalents at the acquisition date	5, 31	−112	−31
Divestments of subsidiaries less cash and cash equivalents at the divestment date	6	95	−19
Change in receivables from associated companies		39	0
Divestment of operations of associated companies	17	240	0
Investment in property, plant and equipment		−130	−84
Investment in intangible assets		−17	−19
Sales of property, plant and equipment		28	16
Investments in loan receivables and other financial assets		1	0
Sales of other financial assets		0	1
Dividends received from associated companies		2	3
Exchange differences		−4	0
Net cash flow from investing activities		**140**	**−133**
Net cash flow before financing activities		**536**	**519**
Cash flow from financing activities			
Payments from share issue		0	0
Repayments of loans		−147	−301
Payments of finance leases		0	−6
Dividends paid		−191	−109
Net cash flow from financing activities		**−338**	**−415**
Change in cash and cash equivalents		**198**	**103**
Cash and cash equivalents at beginning of period		163	60
Cash and cash equivalents at end of period		361	163

Notes to the consolidated financial statements

1. Company information

The Group supplies metal-based components, systems and integrated systems to the construction and engineering industries. Within metal products, the company has a wide selection 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 PO Box 138, Suolakivenkatu 1, 00810 Helsinki. Rautaruukki Oyj's share is listed on the Helsinki Stock Exchange.

In line with its management organisation, Ruukki is structured into the following reporting divisions:

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

Ruukki Engineering
Ruukki Engineering supplies metal-based solutions for the lifting, handling and transportation equipment industry as well as for the paper and wood processing, energy, marine and offshore 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 and steel tubes 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 a separate segment because the segment does not have sales outside the Group.

Detailed information on segment reporting is presented in Note 4.

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 IAS and IFRS standards and SIC and IFRIC interpretations in force at 31 December 2006. In the Finnish Accounting Act and the regulations based thereon, IFRS refer to the standards and the interpretations 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 also take in the requirements in accordance with Finnish accounting and company legislation.

The consolidated financial statements have been prepared under the historical cost (deemed cost) convention, except for the items mentioned below, which are measured at fair value as required by the standards.

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.

The Group has applied the following revised standards as of 1 January 2006:
– Amendment to IAS 19 Employee Benefits. The amendment has increased the information in the notes to the financial statements. The adoption of amendments to IAS 19 affects only the notes to the consolidated financial statements because the Group has not changed the accounting policy adopted for actuarial gains and losses.
– Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates. The amendment permits loans between sister companies belonging to the Group to be treated as part of a reporting entity's net investment in a foreign unit if it is anticipated that the loans concerned will not be repaid. The amendment to IAS 21 has no impact on items booked to equity or on the key figure for earnings per share.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions and to exercise judgement in the process of applying the Group's accounting policies. Although estimates are based on management's best view at the time, actual results could differ from those estimates and assumptions made. Major estimates relate to the fair value allocations of acquisitions, determination of the financial holding periods of tangible and intangible assets, booking provisions, the determination of pension liabilities and testing the impairment of goodwill. The bases for estimates are described in more detail in these accounting policies and elsewhere in the relevant notes to the financial statements.

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 company. 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. The company currently has no instruments containing potential voting rights.

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 the Group obtained control, and divested subsidiaries up to the time 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.

Associated companies

Associates are those companies over which the Group exercises significant influence. Significant influence arises when the Group holds 20–50 per cent of a 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 accounted for 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 pro rata to the company's shareholding. Each investment includes the goodwill arising from the acquisition. The pro rata share of the results of associated companies for the financial period is shown as a separate item after Operating profit.

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 units are measured using the primary currency of the operating environment of each unit ("functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Group's parent company.

Foreign currency items are booked in euros using the exchange rate at the date of the transaction. Monetary items denominated in foreign currency are translated into euros using the exchange rates at the balance sheet date. Non-monetary items denominated in foreign currency and measured at fair values are translated into euros using the exchange rates at the date of measurement. Otherwise, non-monetary items are measured at the rate at 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 into 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 are treated as the assets and liabilities of said foreign operations and translated into 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.

Measurement principles

Financial assets

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.

Loans and other receivables (excluding derivative assets) are assets whose related payments are fixed or definable. They are not quoted on active markets and the company does not hold them for trading purposes. Loans and receivables are included in current or non-current assets, depending on their nature, on the balance sheet and are measured at the amortised cost.

An item included in financial assets is designated as a financial asset at fair value through profit or loss if it has been acquired to be held for trading purposes or if it is classified at fair value through profit or loss when originally acquired. Investments managed on the basis of fair value are classified as being in the latter group. Derivatives that do not meet IAS 39 hedge accounting criteria have been classified as being held for trading purposes. Items in this category have been measured at fair value. Unrealised or realised gains and losses arising from changes in fair value are recognised in the income statement during the financial period they are incurred.

Investments held until maturity include financial assets (excluding derivative assets) whose related payments are fixed or definable. They mature at a specific date and the Group is determined and able to hold the assets until maturity. Such investments are measured at amortised cost and are included in non-current assets. The Group had no such assets at the balance sheet date.

Available-for-sale financial assets are assets (excluding derivative assets) which have been expressly classified in this group or which have not been classified in any other group. Unless the intention is to sell them in less than 12 months of the balance sheet date, they are included in Non-current assets. Assets are measured at fair value or, if the fair value cannot reliably be determined, at acquisition cost. Changes in the value of available-for-sale financial assets are recorded in the fair value reserve taking into account the tax impact. Changes in fair value are transferred from equity to the income statement when the investment is sold or when its value has been impaired to the extent that an impairment loss must be recognised for it.

Transaction costs are included in the original carrying value of financial assets when an item is not measured at fair value through profit and loss. The Group books purchases and sales of financial assets on the basis of the trade date.

Financial assets are derecognised from 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.

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 initially 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 liabilities are measured at amortised cost using the effective interest method. Financial liabilities are included in Non-current and Current liabilities.

Derivative contracts and hedge accounting

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 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.

Property, plant and equipment

Property, plant and equipment is measured at historical cost less depreciation and impairment losses. If property, plant and equipment consists of several parts with different estimated useful lives, each part is treated as a separate asset. The cost of replacing a part is then capitalised. 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 on a straight-line basis over their useful lives. Land is not depreciated. The estimated useful lives applied by the Group are the following:

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

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

The residual value of assets and their useful life are regularly reviewed at each balance sheet date and, if necessary, 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 held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Gains and losses arising from the disposal and transfers of property, plant and equipment are included in either Other operating income or losses

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred. Transaction costs 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 relating to purchases of property, plant and equipment are deducted from the carrying amounts of the related assets. 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.

Intangible assets

Goodwill

Goodwill represents the excess cost of an acquisition occurring after 1 January 2004 over the fair value of the Group's share of the identifiable assets at the date of acquisition. 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 16: Intangible assets).

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 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:

Customer contracts and associated customer relationships	3–10 years
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 holds substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised in the balance sheet at the commencement of the lease at the fair value of the leased property or the present value of the minimum lease payments, whichever is the lower. An asset obtained on a finance lease is depreciated over the useful life of the asset or the lease term, whichever is the shorter. Lease obligations are included in interest-bearing liabilities.

Leases in which the risks and rewards incident to ownership remain with the lessor are classified as operating leases. Lease payments under other operating leases are recognised as an expense in the income statement on a straight line basis over the period of the lease. Incentives are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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 an asset's net selling price or its value in use, whichever is the higher. Fair value means the estimated future net cash flows obtainable from the asset in question discounted at their present value.

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 or not there are indications of impairment.

An impairment loss is recognised 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 carrying amount to be higher than it would have been had no impairment loss been recognised. Impairment losses in respect of goodwill may not be reversed in any circumstances.

Inventories

Inventories are stated at the lower of acquisition 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.

Trade and other receivables

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.

Financial assets booked at fair value through profit and loss

Financial assets booked at fair value through profit and loss include investments in extremely liquid short bond funds.

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.

Employee benefits

Pension liabilities

The Group has various defined contribution and defined benefit pension schemes in different countries. Payments made for the defined contribution schemes are recognised in the income statement in the period which they relate to.

The Group's most important defined benefit pension scheme is the pension security that is arranged through the Pension Foundation in Finland. In addition, the Group has defined-benefit pension plans in Norway and Germany as well as in Finland in respect of supplementary pension policies. The Group's obligations under defined benefit pension schemes have been calculated separately for each scheme. The calculations have been performed 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 scheme on the basis of calculations made by authorised actuaries. For each defined benefit scheme, the net total of the present value of the obligation and the fair value of the scheme assets is stated as an asset or liability in the consolidated balance sheet. Expenses arising from the disability pension benefit based on Finnish employment pension legislation are booked when the event causing disability has occurred. This being the case, no debt is booked for disability pension liability in the event of future occurrences.

When it adopted IFRS standards on 1 January 2004, the Group booked all actuarial gains and losses in equity in the opening IFRS balance sheet. Subsequent actuarial gains and losses arising are accrued in the income statement over the remaining average expected period of service 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 the 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 not 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 scheme 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 27: 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 are taken into account in determining 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 reliably estimated. If 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 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.

An environmental provision is booked on the basis of existing interpretations of environmental protection acts and regulations. A provision is recognised when it is probable an obligation has arisen and the amount of the obligation can be reliably estimated

The Group is party to European emissions trading and has been allocated a specific number of emissions allocations for a specific period. Emissions allocations have been recognised using the net method, whereby a provision is booked if emissions exceed the allocations granted. The provision is marked to market. If actual emissions are below the allocations, the remaining emissions allocations are stated in the notes to the balance sheet.

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 enacted in each country at the balance sheet date or coming into force later. 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, finance leasing schemes, provisions, unused tax losses and the 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 are 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 is 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 reliably estimated. 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 reliably estimated, revenue is recognised only to the extent of the expenses recognised that are recoverable. The costs of the transaction are recorded as an expense in the financial period 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 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 their carrying amount and fair value less costs to sell, whichever is the lower. Depreciation and amortisation on these asset items is discontinued at the time of classification.

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:

Adopted as of 1 January 2007:
IFRS 7 Financial Instruments: Information presented in the financial statements. IFRS 7 requires more extensive information on the significance of financial instruments for a company's financial position and performance.
Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. The amendment requires disclosures about a company's level and management of capital during the financial period.
IFRIC 8 Scope of IFRS 2. The interpretation applies to arrangements where a company grants equity instruments for consideration that is apparently less than the fair value of these instruments. In such cases, assessment has to be made as to whether the arrangement comes within the scope of IFRS 2.
IFRIC 9 Reassessment of Embedded Derivatives. When an entity first becomes party to a contract, assessment has to be made as to whether any embedded derivatives contained in the contract are required to be separated from the host contract. Under the interpretation, no reassessment may be subsequently made unless there is a change in the terms of the contract that significantly modifies the original cash flows.
IFRIC 10 Interim Financial Reporting and Impairment. Interpretation states that any impairment losses on goodwill, share investments or financial assets booked at cost in an interim financial statement may not be later reversed at the balance sheet date.

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

3. Management of financial risks

Rautaruukki Group's financing operations and the management of financial risks are handled centrally by the parent company's Corporate Treasury function in accordance with the financial policy approved by the Group's Board of Directors. The financial team decides on the credit lines valid at any given time within the framework of the financial policy issued. The divisions are responsible for managing the financial risks included in their operating profit. As a rule, financial transactions required by Group companies are carried out internally with the Corporate Treasury function. The objective of the Group's management of financial risks is to minimise the unfavourable effects of these 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: 1) the balance sheet, 2) cash flow and 3) net investments in subsidiaries and associates outside the euro zone. The balance sheet position was on average completely hedged during 2006. The foreign exchange risk for net investments in companies outside the euro zone 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 the euro and the hedging rate at 31 December 2006

	€m	Hedging months
USD	−410	5
SEK	260	6
NOK	130	2
DKK	90	0
GBP	65	6
Baltic currencies	90	0
PLN	20	3
Other currencies	50	1
Total	295	

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

Interest rate risk

The Group's interest-bearing net debt at 31 December 2006 was EUR 321 million. In addition to this, the Group has finance leasing agreements of EUR 61 million. The Group's liquid assets amounted to EUR 361 million, of which EUR 296 million was placed in money market funds. Interest rate risk is monitored and managed in terms of interest flow risk and price risk. At 31 December 2006, a one-point hike in the interest rate over the next 12 months adds EUR 2.6 million to net interest payments. The duration of the debt position, including derivatives, at the end of the year was 1.4 years and the price risk EUR 3.5 million.

Liquidity risk

To ensure liquidity, the Group had, at the end of 2006, 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 a 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, financially solid banks and other counterparties. Financial credit risks did not result in losses during the financial year. Unsecured trade receivables are largely 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 39,000 tonnes of zinc was purchased in 2006. At the end of the year, 37 per cent of the estimated zinc purchases for 2007 and 38 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, Norway and Sweden, where the price risk is managed centrally by the parent company. The Group used around 1.4 TWh of electricity in 2006. Almost half of the Group's aggregate electricity consumption is met by its own power generation capacity and the remainder is purchased on the market. At year-end 2006, electricity derivatives had been employed to hedge 92 per cent of the purchases in Finland, Norway and Sweden for 2007, 74 per cent for 2008 and 50 per cent for 2009.

4. 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 retail, industrial and logistics construction, as well as for infrastructure construction.

Ruukki Engineering
Ruukki Engineering supplies metal-based solutions for the lifting, handling and transportation equipment industry as well as for the paper and wood processing, energy, 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.

2006 €m	Ruukki Construction	Ruukki Engineering	Ruukki Metals	Group management and other operations	Group
Income					
External net sales	829	557	2,291	4	3,682
Profit					
Operating profit	101	106	364	−42	529
Financing items					−22
Share of results of associated companies					129
Taxes					−134
Profit for the period					501
Other information					
Segment assets	683	366	1,463	493	3,004
Investment in associated companies					21
Segment liabilities	159	86	349	599	1,193
Capital expenditure	217	28	80	0	325
Depreciation and impairment	35	19	93	2	148

2005 €m	Ruukki Construction	Ruukki Engineering	Ruukki Metals	Group management and 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 of associated companies					23
Taxes					−157
Profit for the period					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 impairment	24	20	108	3	155

Definitions of segment income, expenses, assets and liabilities

Segment assets and liabilities comprise items related to 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, 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 are determined according to their customer focus. 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. Allocation of the Group's investments between the segments is done pro rata 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.

Secondary segment

Rautaruukki operates in the following five geographical regions

	Revenue		Assets		Capital expenditure	
€m	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Finland	1,134	1,060	1,764	1,679	137	84
Other Nordic countries	1,140	1,096	331	404	9	13
Central Eastern Europe*	618	438	365	134	178	31
Rest of Europe	707	950	102	127	1	2
Other countries	84	110	5	3	0	2
Eliminations and unallocated assets			459	354		
Group total	3,682	3,654	3,026	2,701	325	133

* Included in Central Eastern Europe are the Baltic states, Russia, Ukraine, Romania, Hungary, Slovakia, the Czech Republic and Poland.

Segment income is defined based on customer locations in accordance with geographical regions. The aggregate carrying value of segment assets is defined according to location.

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

5. Information about business combinations

2006

Under an agreement signed on 31 March 2006, Rautaruukki Corporation acquired the entire shares outstanding in OOO Ventall at a cost of EUR 99 million. Under the terms of the agreement, a possible additional purchase price, contingent on earnings in 2006 and subject to a maximum of EUR 27.5 million, is payable. Ventall designs and supplies steel frames and sandwich elements for walls and roofs for the Russian market. The acquisition was closed in June 2006. OOO Ventall has been included in the consolidated financial statements from 30 June 2006 as a part of the Ruukki Construction segment.

€m		
Acquisition cost		127
Cash payment	99	
Conditional purchase price	28	
Fair value of assets acquired		73
Goodwill		54

The goodwill that arose on the acquisition reflects the synergy benefits resulting from the business combination and the benefits brought about by new market territories.

Assets and liabilities of the acquired company

€m	Fair value	Acquired company's carrying amount
ASSETS		
Non-current assets		
Intangible assets	36	
Tangible assets	37	26
Current assets		
Inventories	20	20
Trade and other receivables	8	8
Cash and cash equivalents	5	5
Assets, total	106	59
LIABILITIES		
Non-current liabilities		
Interest-bearing	4	4
Current liabilities		
Non-interest-bearing	28	18
Liabilities, total	32	22
Value of the acquired asset	73	37
Cash flows from the acquisition		
Acquisition cost paid in cash	99	
Cash in acquired subsidiary	5	
	94	

The acquired company increased the Group's net sales by EUR 63 million and net profit for the financial year 2006 by EUR 10 million. If the company had been acquired on 1 January 2006, it is estimated the Group's net sales would have been EUR 107 million higher and its net profit EUR 16 million higher.

Under an agreement signed on 29 September 2005, Rautaruukki Corporation acquired an 80 per cent interest in PPTH Steelmanagement Oy, which took Rautaruukki's stake from 20 to 100 percent. The acquisition was closed at the beginning of January 2006. PPTH has seven production units in Finland. These units manufacture frame and façade structures and engineering products. PPTH has been included in the consolidated financial statements from 1 January 2006 as a part of the Ruukki Construction and the Ruukki Engineering segments.

Under an agreement signed on 19 December 2005, Rautaruukki Corporation acquired the entire shares outstanding in Steel-Mont a.s. The acquisition was closed at the end of March 2006. Steel Mont manufactures steel structures. Steel Mont has been included in the consolidated financial statements from 1 April 2006 as a part of the Ruukki Construction segment.

Under an agreement signed on 31 May 2006, Rautaruukki Corporation acquired the entire shares outstanding in AZST-Kolor CJSC. AZST-Kolor owns a coating line in Antratsit, in eastern Ukraine. AZST-Kolor has been included in the consolidated financial statements from 1 June 2006 as a part of the Ruukki Production segment.

The table below gives summarised information about these three acquisitions (PPTH Steelmanagement Oy, Steel Mont a.s. and AZST-Kolor CJSC).

€m	
Acquisition cost	23
Fair value of assets acquired	16
Goodwill	7

The goodwill that arose on the acquisition reflects the synergy benefits resulting the business combination and the benefits brought about by new market territories.

Assets and liabilities of the acquired companies

€m	Fair value	Acquired companies' carrying amount
ASSETS		
Non-current assets		
Intangible assets	7	1
Tangible assets	34	16
Current assets		
Inventories	6	6
Trade and other receivables	26	26
Cash and cash equivalents	2	2
Assets, total	75	51
LIABILITIES		
Non-current liabilities		
Interest-bearing	21	21
Other	5	1
Current liabilities		
Interest-bearing	7	1
Other	26	25
Liabilities, total	59	48
Value of the acquired asset	16	3
Cash flows from the acquisition		
Acquisition cost paid in cash	22	
Cash in acquired subsidiaries	2	
	20	

The acquired companies increased the Group's net sales by EUR 144 million and net profit for the financial year 2006 by EUR 14 million. If the companies had been acquired on 1 January 2006, it is estimated the Group's net sales for 2006 would have been EUR 152 million higher and its net profit EUR 14 million higher.

2005

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

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

€m	
Acquisition cost	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.

Assets and liabilities of the acquired company

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

Cash flows from the acquisition

Acquisition cost paid in cash	19
Cash in acquired subsidiary	2
	17

The acquired company increased the Group's net sales by EUR 47 million and net profit for the financial year 2005 by EUR 1 million.

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 components, for the lifting, handling and transportation equipment industry. Syneco Industri AB and its subsidiaries have been accounted for in the consolidated financial statements as part of the Ruukki Engineering segment as from 1 October 2005. In the 2005 financial statements, the assets and liabilities of Syneco were given as preliminary figures, which were subsequently reviewed during 2006. Fair value allocations reduced goodwill by EUR 4 million.

€m	
Acquisition cost	15
Fair value of assets acquired	12
Goodwill	3

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

Assets and liabilities of the acquired company

€m	Fair value	Acquired company's carrying amount
ASSETS		
Non-current assets		
Intangible assets	6	0
Tangible assets	4	4
Current assets		
Inventories	5	6
Trade and other receivables	10	9
Cash and cash equivalents	1	1
Assets, total	26	20
LIABILITIES		
Non-current liabilities		
Interest-bearing	2	2
Current liabilities		
Interest-bearing	1	1
Other	11	8
Liabilities, total	14	12
Value of the acquired assets	12	8
Cash flows from the acquisition		
Acquisition cost paid in cash	15	
Cash in acquired subsidiary	1	
	14	

The acquired company increased the Group's net sales by EUR 12 million and net profit for the financial year 2005 by EUR 0 million.

If the company had been acquired on 1 January 2005, it is estimated the Group's net sales for 2005 would have been EUR 3,717 million and its net profit EUR 454 million.

6. Divestments

Divestment of the Nordic reinforcing steel business to BT Norway AS was completed in August. The business was part of Ruukki Metals and included the Fundia Armeringsstål AS steel plant and rolling mill in Mo i Rana in Norway and specialist steel reinforcement prefabrication and distribution companies Fundia Betoniteräkset Oy in Finland, Fundia Armering AB in Sweden, Fundia Armering AS in Norway and Fundia Armering A/S in Denmark. The selling price was around EUR 125 million, including the dividend paid to Rautaruukki. The selling price corresponds to the carrying value of the companies sold.

November 2006 saw the completion of the divestment of the business operations of associate company Oy Ovako Ab (See Note 17 Shares in associated companies).

Other notes to the income statement

7. Other operating income

€m	2006	2005
Gains on the sale of property, plant and equipment	13	9
Other	20	18
	32	28

8. Materials and services

€m	2006	2005
Materials and supplies (goods)		
Purchases during the period	1,912	1,813
Change in inventories	−38	−36
External services	324	154
	2,197	1,932

9. Salaries and other employee benefits

€m	2006	2005
Wages and salaries	418	399
Profit-related bonus paid to the personnel fund	8	19
Share-based payments		
Benefits granted paid as shares	3	5
Benefits granted paid as cash	19	31
Pension insurance contributions and pensions		
Defined contribution pension schemes	47	44
Defined benefit pension schemes	−1	−2
Other social security costs	54	61
Total	548	557

Management's employee benefits are discussed in Note 33: Related party disclosures, and share bonus schemes in Note 27: Share-based payments.

The Group's average payroll during the financial period

	2006	2005
Workers	8,131	7,586
Salaried employees	4,990	4,100
Total	13,121	11,684

10. Depreciation, amortisation and impairment losses

€m	2006	2005
Depreciation and amortisation by asset group		
Intangible assets	18	11
Property, plant and equipment*		
Buildings	23	21
Machinery and equipment and other intangible assets	107	123
Depreciation and amortisation, total	148	156
Impairment losses by asset group	0	0
Depreciation, amortisation and impairment, total	**148**	**156**

* Depreciation includes depreciation of EUR 2m (2005: €2m) on buildings obtained under a finance lease and depreciation on machinery a equipment of EUR 5m (2005: €5m).

11. Other operating expenses

€m	2006	2005
Sales freights	164	176
Rents	27	23
Losses on the sale of property, plant and equipment	5	0
Losses on loans and advances	1	0
Other	189	193
Total	387	393

The Group's research and development expenditure during the financial year was EUR 22m (2005: €22m).

12. Financial income and expenses

€m	2006	2005
Interest income	6	5
Other financial income	1	1
Exchange gains	6	13
Financial income, total	13	19
Interest expenses	26	33
Exchange losses	6	12
Other financial expenses	3	3
Financial expenses, total	35	49

Apart from the foreign exchange differences presented in financial income and expenses, the Group's operating profit included EUR -6m (2005: €2m) of exchange rate differences on sales and EUR -10m (2005: €13m) on purchases.

13. Income taxes

€m	2006	2005
Current tax	−139	−157
Taxes for previous periods	4	2
Change in deferred tax assets and tax liabilities	1	−1
Total	−134	−157

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

€m	2006	2005
Profit before taxes	635	612
Share of results of associated companies −shown net of taxes	129	23
Profit before taxes and associated companies' result	506	589
Taxes calculated using the existing tax rate	131	153
Effect of differing tax rates of foreign companies	6	8
Tax-free income	−3	−7
Non-deductible expenses	1	2
Confirmed losses for which a deferred tax asset has not been recorded	3	3
Taxes from previous years	−4	−2
Taxes in the income statement	134	157

Taxes recorded directly to equity and a specification of other changes in deferred taxes are given in Note 20: Deferred tax assets and tax liabilities.

14. 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.

	2006	2005
Profit for the period attributable to equity holders of the parent (€m)	501	455
Weighted average number of shares outstanding during the period (1,000)	136,864	135,977
Undiluted earnings per share (€/share)	3.66	3.35

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. The bond loan was repaid in full in May 2006.

	2006	2005
Profit for the period attributable to equity holders of the parent (€m)	501	455
Interest on convertible bond (%) (bond loan with warrants) (adjusted for tax effect)	–	5
Net profit for the period for the calculation of earnings per share adjusted for the dilution effect (€m)	501	455
Weighted average number of shares during the period (1,000)	136,864	135,977
Conversion of convertible bonds into shares (1,000)	281	1,400
Weighted average number of shares for calculating earnings per share adjusted for the dilution effect (1,000)	137,145	137,377
Earnings per share adjusted for the dilution effect (€/share)	3.65	3.31

Notes to the balance sheet assets

15. Tangible assets

€m	2006	2005
Land and water		
Acquisition cost at 1 Jan	19	21
Increases	6	1
Increases through acquisitions	5	1
Decreases	−1	−1
Decreases through divestments	−1	−2
Exchange differences	−1	−1
Carrying amount at 31 Dec	26	19
Buildings		
Acquisition cost at 1 Jan	579	617
Increases	14	16
Increases through acquisitions	40	6
Decreases	−7	−17
Decreases through divestments	−18	−45
Exchange differences	1	1
Acquisition cost at 31 Dec	610	579
Accumulated depreciation at 1 Jan	−288	−300
Accumulated depreciation of decreases	5	9
Accumulated depreciation of decreases (divestments)	11	25
Depreciation 1 Jan–31 Dec	−21	−21
Exchange differences	0	−1
Accumulated depreciation according to plan at 31 Dec	−293	−288
Carrying amount at 31 Dec	317	291
Machinery and equipment		
Acquisition cost 1 Jan	2,205	2,571
Increases	65	74
Increases through acquisitions	19	12
Decreases	−24	−33
Decreases through divestments	−123	−424
Exchange differences	−1	5
Acquisition cost at 31 Dec	2,141	2,205
Accumulated depreciation at 1 Jan	1,515	−1,759
Accumulated depreciation of decreases	21	27
Accumulated depreciation of decreases (divestments)	93	341
Depreciation, amortisation and impairment losses	−102	−123
Exchange differences	1	0
Accumulated depreciation according to plan at 31 Dec	1,502	−1,515
Carrying amount at 31 Dec	638	690

€m	2006	2005
Advance payments and construction in progress		
Acquisition cost at 1 Jan	34	42
Changes	27	−8
Carrying amount at 31 Dec	61	34
Tangible assets, total	1,043	1,033

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	2006	2005
Buildings		
Acquisition cost at 1 Jan	28	28
Increases	4	0
Acquisition cost at 31 Dec	32	28
Accumulated depreciation at 1 Jan	−5	−2
Depreciation	0	−2
Accumulated depreciation at 31 Dec	−5	−5
Carrying amount at 31 Dec	27	23
Machinery and equipment		
Acquisition cost at 1 Jan	38	36
Increases through acquisitions	0	1
Acquisition cost at 31 Dec	38	38
Accumulated depreciation at 1 Jan	−10	−5
Depreciation	−5	−5
Accumulated depreciation at 31 Dec	−15	−10
Carrying amount at 31 Dec	23	27

16. Intangible assets

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

€m	2006	2005
Goodwill		
Acquisition cost at 1 Jan	47	38
Increases through acquisitions	62	13
Allocation of initial goodwill	−4	0
Decreases	0	−3
Exchange differences	0	−1
Carrying amount at 31 Dec	105	47
Customer relationships		
Acquisition cost at 1 Jan	0	0
Increases through acquisitions	41	0
Acquisition cost at 31 Dec	41	0
Accumulated depreciation at 1 Jan	0	0
Depreciation	−4	0
Accumulated depreciation at 31 Dec	−4	0
Carrying amount at 31 Dec	37	0
Other intangible rights		
Acquisition cost at 1 Jan	141	127
Increases	12	21
Increases through acquisitions	8	0
Decreases	−1	−2
Decreases through divestments	−2	−6
Exchange differences	1	1
Acquisition cost at 31 Dec	159	141
Accumulated depreciation at 1 Jan	−100	−95
Accumulated depreciation of decreases	1	1
Accumulated depreciation of decreases (divestments)	2	4
Depreciation	−14	−10
Exchange differences	−1	0
Accumulated depreciation at 31 Dec	−111	−100
Carrying amount at 31 Dec	47	42
Advance payments		
Acquisition cost at 1 Jan	10	10
Changes	5	−1
Acquisition cost at 31 Dec	15	10
Other intangible assets, total	99	51

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 three years. The forecast cash flows are discounted to the present value. The discount rate used was 9.14% (2005: 8.67%) for all cash-generating units.

€m	2006	2005
Allocated goodwill		
Ruukki Construction	67	5
Ruukki Engineering	27	30
Ruukki Metals	11	13
Other	0	0
Total	105	47

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 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 show that the company has no 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.

17. Investments in associates

€m	2006	2005
At beginning of period	194	17
Share of the period's result	46	23
Share of divestment of Oy Ovako Ab's operations*	86	
Transfer to subsidiaries	−1	
Increases*		158
Decreases (incl. dividends received)	−2	−3
Translation difference	−3	−1
At end of period	321	194
Share of preliminary disbursement of Oy Ovako Ab	−300	
Net investments in associates at end of period	21	194

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

In July 2006, Rautaruukki Corporation, AB SKF and Wärtsilä Corporation signed an agreement to sell the operating companies owned by Oy Ovako Ab to a company owned by the shareholders of Hombergh Holdings BV, WP de Pundert Ventures BV and Pampus Industrie Beteiligungen GmbH & Co. KG. The transaction was closed in November 2006. The total price paid for the shares was about EUR 660 million, comprising a cash payment at closing of approximately EUR 535 million, a deferred cash payment of EUR 15 million to be paid in July 2008 and an interest-bearing vendor note of EUR 110 million to be paid within 3-6 years of closing. Rautaruukki's tax-exempt capital gains on the sale are presented in the income statement in share of results of associates. The tax-exempt capital gain on the transaction and the share of Ab Ovako's Oy's result generated after 30 June 2006 was around EUR 100 million. Oy Ovako Ab was put into voluntary liquidation in November 2006 and most of its assets have been distributed to shareholders as an advance disbursement against directly enforceable guarantees given by the shareholders as surety.

Rautaruukki Group's share of Oy Ovako Ab's ordinary earnings and proceeds from the sale of operations is given below:

€m	2006
Pro rata share of Oy Ovako Ab's earnings	
Income	571
Expenses	−512
Profit before taxes	59
Taxes	−17
Gain on sale of operations (tax exempt)	86
Exchange differences	−3
Profit for the period	125

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

2006, €m	Net sales	Profit/loss	Assets	Liabilities
Oy Ovako Ab	1,200	282	27	6
Others	198	12	97	48

2005, €m	Net sales	Profit/loss	Assets	Liabilities
Oy Ovako Ab	869	39	839	459
Others	306	12	187	90

Information on the Group's associated companies

	Country	Domicile	Holding, %
Associated companies in which the share of voting rights is 20–50%			
Bet-Ker Oy	FI	Ylivieska	44.4
Heléns Rör AB	SE	Halmstad	25.0
Oy Ovako Ab (company has been liquidated)	FI	Helsinki	47.0
PlussStål AS	NO	Trondheim	50.0
Raahen Kauppaklubin Kannatus Oy	FI	Raahe	33.3
Sheet Metal Innovations SMI Oy Ltd	FI	Suolahti	35.8

Associated companies 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.

18. Available-for-sale financial assets

€m	2006	2005
At 1 Jan	10	10
Increase	0	1
Decrease	0	2
At 31 Dec	10	10

Available-for-sale financial assets 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 financial assets does not differ materially from the carrying amount.

19. Non-current receivables

€m	2006	2005
Defined benefit pension scheme*	98	82
Loan receivable from an associate	0	39
Loan receivable arising from sale of associated company	52	0
Other non-current receivables	11	6
Total	162	127

* Additional information on defined-benefit pension plans is given in Note 28 Pension obligations.

20. Deferred tax assets and tax liabilities

Changes in deferred taxes during 2006

€m	1 Jan 2006	Recorded in income statement	Recorded in equity	Exchange rate differences	Acquired/ divested subsidiaries	31 Dec 2006
Deferred tax assets						
Provisions	8					8
Tangible and intangible assets	3	−1				2
Finance leases	8	−1				7
Employee benefits	3					3
Group eliminations	6					6
Measurement of derivatives at fair value	1					1
Confirmed losses	3					3
Other items	2	2				4
Total	34	0				34
Netted out against deferred taxes*						−21
Deferred tax assets in balance sheet						13
Deferred tax liabilities						
Tangible and intangible assets	116	−7			19	128
Employee benefits	22	4				26
Inventories	2					2
Measurement of derivatives at fair value	10		6			16
Other items	8	2				10
Total	158	−1	6		19	182
Netted out against deferred taxes*						−21
Deferred tax liabilities in balance sheet						161

Changes in deferred taxes during 2005

€m	1 Jan 2005	Recorded in income statement	Recorded in equity	Exchange rate differences	Acquired/ divested subsidiaries	31 Dec 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 liabilities 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.

At 31 December 2006, the Group had confirmed losses of EUR 71 million (2005: 55m), for which a tax asset had not been recorded because the ability to make use of said losses is uncertain. The confirmed losses have no expiry date restrictions.

Deferred taxes have not been recorded for the undistributed retained earnings of foreign subsidiaries, because the profits will not be distributed in the foreseeable future.

Of the deferred tax assets, EUR 9 million (2005: 8m) and of the deferred tax liabilities, EUR 5 million (2005: 12m), are expected to be realised within 12 months.

21. Inventories

€m	2006	2005
Raw materials and consumables	291	157
Finished and semi-finished products	295	376
Total	586	534

22. Trade and other receivables

€m	2006	2005
Trade receivables	490	431
Trade receivables from associated companies	9	12
Trade receivables, total	499	444
Other receivables from associated companies	1	1
Prepayments and accrued income	33	13
Receivables based on derivative contracts (hedge accounting)	55	35
Receivables based on derivative contracts (others)	2	1
Other receivables	26	33
Other receivables, total	116	82

Derivative contracts

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 also include closed contracts.

Cash flow hedges included in hedge accounting

	Nominal value		Fair value	
€m	2006	2005	2006	2005
Interest rate derivatives				
Interest rate swaps	25	70	0.2	−0.3
Zinc derivatives				
Forward contracts*	30,000	41,100	51	17
Electricity derivatives				
Forward contracts**	1,513	2,344	4	18
			55	35

* Nominal values in tonnes
** Nominal values in 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

	Nominal value		Fair value	
€m	2006	2005	2006	2005
Interest rate derivatives				
Interest rate swaps	100	309	1	−1
Foreign currency derivatives				
Forward contracts	788	639	−6	2
Options				
Bought	70	55	−1	1
Sold	70	55	0	1
			−7	3

The Group had no embedded derivatives at 31 December 2006 or 31 December 2005.

23. Other financial assets recognised at fair value through profit and loss

€m	2006	2005
Other financial assets recognised at fair value through profit and loss*	296	0
Total	296	0

* Includes investments in extremely liquid short bond funds.

24. Cash and cash equivalents

€m	2006	2005
Cash in hand and at banks	64	73
Other cash equivalents*	2	90
Total	66	163

The cash and cash equivalents presented in the cash flow statement are as follows:

€m	2006	2005
Cash in hand and at banks	64	73
Other cash equivalents*	2	90
Money market investments (cash and cash equivalents recognised at fair value through profit and loss)	296	
Total	361	163

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

Notes to the statement of changes in equity

25. 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 237,927,610.60. The share capital is fully paid in. Series A shares, as provided for in the Articles of Association, have not been issued. Subsequent to the subscription of warrants, the company has increased the share capital by EUR 312,885.50 on 8 August 2006, EUR 331,076.70 on 2 November 2006 and EUR 1,176,692.40 on 21 December 2006.

Changes in number of shares:

	Issued shares	Treasury shares	Shares outstanding
1 Jan 2005	138,886,445	3,072,960	135,813,485
Transfer of treasury shares		−480,263	
31 Dec 2005	138,886,445	2,592,697	136,293,748
Transfer of treasury shares		−810,318	
Share issue	1,070,973		
Cancelled		3,000	
31 Dec 2006	139,957,418	1,785,381*	138,172,037

* Market value of the treasury shares at 31 December 2006 was EUR 54 million.

The Annual General Meeting of Rautaruukki Corporation, held on 23 March 2005, authorised the Board of Directors to decide on transferring the company's treasury shares. According to this authorisation, on 29 August 2005, the company transferred 480,263 shares to persons covered by the Share bonus scheme 2000.

On 23 March 2006 the company transferred 291,000 shares to persons covered by the Share bonus scheme 2004 and on 28 July the company transferred 519,316 shares to persons covered by the Share bonus scheme 2000.

Subscriptions of shares subscribed by warrants attached to the 2003 Bond with warrants were entered in the Finnish Trade Register as follows:

8 August 2006	184,050 shares
2 November 2006	194,751 shares
21 December 2006	692,172 shares
Total	1,070,973 shares

26. 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
Fair value and other reserves at 1 Jan 2006	26	5	31
Cash flow hedges			
Amount transferred to equity during the period	21	0	21
Deferred tax portion	−6	0	−6
Expenses of share-based payments	0	−2	−2
Fair value and other reserves at 31 Dec 2006	41	3	44

27. Share-based payments

Terms and conditions of the share bonus schemes

Since 2000 the Group has had a share 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 a three-year performance 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 performance period, at the earliest.

In December 2004, Rautaruukki Corporation's Board of Directors decided on a new share 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 share bonus scheme must be owned for at least two years after each bonus payment. However, the President & 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 & CEO's tenure as chief executive continues or the member serves on the Management Group. The share bonus scheme for 2004 replaces the scheme that was introduced in February 2000, for which the last performance period ended in 2006.

Changes in numbers of shares to be granted

Number of shares	2006	2005
At 1 Jan	1,058,848	1,355,396
Share bonuses granted	180,500	316,000
Shares granted	807,316	480,263
Share bonuses cancelled	3,000	132,285
At 31 Dec	429,032	1,058,848

Changes in the maximum number 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 Share bonuses cancelled.

Share bonuses granted

The following shares were granted to key employees:

Year	Date granted	Maximum number of shares*	Market value on grant date
2006	6 Feb 2006	180,500	25.80
2005	16 Feb 2005	316,000	8.85
2004	19 May 2004	289,876	5.99

* Proportion given in shares

Shares granted

As a consequence of share-based payments, on 23 March 2006 the company transferred 288,000 and on 27 July 2006 the company transferred 519,316 Series K treasury shares to persons covered by the equity bonus scheme. The market values of the shares were EUR 31.21 per share on 23 March 2006 and EUR 22.37 per share on 28 July 2006.

As a consequence of share-based payments, 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 share bonus scheme in 2006

€m Performance period	No. of persons	Performance periods ended	Performance periods in progress	Total
2003–2005	88	4		4
2004–2006	70		6	6
2005	56	8		8
2006	67		4	4
		12	10	22

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 three years and carries a 5 per cent coupon. Each bond with a nominal value of EUR 500 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 bond loan with warrants was repaid in full in May 2006. At 31 December 2006, 329,027 warrants attached to the bond were unsubscribed. These warrants entitle subscription of 329,027 Rautaruukki K Shares.

Notes to the balance sheet liabilities

28. Pension obligations

Finnish pension arrangements
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 arranged through an insurance company.

The defined-benefit pension assets in the balance sheet are determined as follows:

€m	2006	2005
Current value of unfunded obligations	0	0
Current value of funded obligations	539	458
Fair value of assets	−640	−584
Surplus/deficit	−101	−126
Unrecorded actuarial gains (+) and losses (−)	−7	34
Unrecorded past service costs	10	11
Pension liability (+) / assets (−) in balance sheet	−98	−82

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

€m	2006	2005
Current service cost	7	7
Interest expense	21	23
Expected rate of return on plan assets	−31	−26
Past service costs	−1	−1
Transfers between pension plans	0	−8
Pension expenses in the income statement	−4	−4

The actual return on plan assets was EUR 61 million in 2006 (2005: €73m).

Changes in the current value of the obligation arising from the defined-benefit pension plan:

€m	2006	2005
Opening defined benefit obligation	458	465
Service cost	7	7
Interest expense	21	23
Actuarial gains (−) and losses (+)	71	−21
Benefits paid	−18	−16
Closing defined benefit obligation	539	458

Changes in the fair value of plan assets:

€m	2006	2005
Opening fair value of plan assets	584	511
Expected return	31	26
Actuarial gains and losses (-)	30	47
Employer contributions	12	10
Benefits paid	−18	−16
Transfers between pensions plans		7
Unrecorded past service obligation		−1
Closing fair value of plan assets	640	584

Percentages by asset group of the total fair values of assets of the plan effected through Rautaruukki's Pension Foundation are as follows:

%	2006	2005
Equity finance instruments	29	28
Debt finance instruments		
Non-current	44	49
Current	15	11
Real-estate	6	7
Other	6	5

Since the funds in other plans are the responsibility of pension insurance companies, it is not possible to provide a profile by asset group.

The plan assets include ordinary shares issued by Rautaruukki Corporation which have a fair value of EUR 48 million (2005: €33m) and properties occupied by Rautaruukki, which have a fair value of EUR 42 million (2005: €41m).

The expected return from plan assets is based on long-term yields estimated for the assets in question. The expected yield from properties reflects long-term actual yields on the markets concerned.

Actuarial assumptions applied:

%	2006	2005
Discount rate	4.3	4.6
Expected rate of return on assets	5.5	5.4
Estimated wage and salary increases	3.0	3.0
Inflation rate	2.0	2.0

Foreign pension arrangements

In addition to the above-mentioned plans the Group has defined-benefit pension plans abroad, mainly in Germany and Norway. A summary of the information concerning these plans is given below.

The defined-benefit pension assets in the balance sheet are determined as follows:

€m	2006	2005
Current value of unfunded obligations	37	24
Current value of funded obligations	9	56
Fair value of assets	−24	−51
Surplus/deficit	22	29
Unrecorded actuarial gains (+) and losses (−)	−3	−4
Pension liability in balance sheet	19	25

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

€m	2006	2005
Service cost	2	2
Interest expense	2	3
Expected rate of return on plan assets	−1	−3
Pension expenses in the income statement	3	3

The actual return on plan assets was EUR 1 million in 2006 (2005: €3m).

Changes in the current value of the obligation arising from the defined-benefit pension plan:

€m	2006	2005
Opening defined benefit obligation	80	73
Service cost	1	2
Interest expense	1	3
Actuarial gains (−) and losses (+)	2	7
Benefits paid	−1	−5
Divestments	−36	
Closing defined benefit obligation	47	80

Changes in the fair value of plan assets:

€m	2006	2005
Opening fair value of plan assets	51	48
Expected return	1	3
Actuarial gains (+) and losses (−)	−1	3
Employer contributions	1	2
Benefits paid	−1	−5
Divestments	−27	
Closing fair value of plan assets	24	51

Percentages of plan assets by asset group:

%	2006	2005
Equity finance instruments	42	35
Debt finance instruments	51	60
Other	7	5

The expected return from plan assets is based on long-term yields estimated for the assets in question. The expected yield from shares reflects long-term actual yields on the markets concerned. Yields from debt securities are based on terms of contract.

Actuarial assumptions applied:

%	2006	2005
Discount rate	4.3	4.2
Expected rate of return on assets	3.7	3.5
Estimated wage and salary increases	3.7	2.3

Obligations and assets included in Group pension schemes (Finnish + foreign)

€m	2006	2005
Obligation arising from defined-benefit plans	−585	−538
Plan assets	664	635
Surplus/deficit (−)	79	97
Reviews of plan liabilities based on experience	−22	−7
Reviews of plan assets based on experience	30	47

The Group expects to contribute EUR 12 million to its defined-benefit pension plans in 2007.

29. Provisions

€m	Share bonuses	Environment provisions	Warranty provisions	Restructuring provisions	Others	Total
At 1 Jan 2006	23	4	3	1	7	37
Increases in provisions		2	1		2	5
Provisions recognised	−4					−4
Reversals of unused provisions	−8	−2		−1		−10
Disposal of subsidiaries						
Acquisition of subsidiaries						
At 31 Dec 2006	11	4	4	0	9	28
At 1 Jan 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
At 31 Dec 2005	23	4	3	1	7	37

€m	2006	2005
Non-current provisions	27	18
Current provisions	2	19
Total	28	37

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 performance of the company's share affects the exact amount of the realised provision. The provision for 2006 is expected to be realised in full during 2007.

Details of the plan are given in Note 27 Share-based payments.

Environmental obligations

An environment provision is booked on the basis of existing interpretations of environmental protection acts and regulations. A provision is recognised when it is probable an obligation has arisen and the amount of the obligation can be reliably estimated.

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

Emissions allowances are intangible rights valued at acquisition cost. This emissions allocations obtained free of consideration are not recognised in the balance sheet. A provision to fulfil the surrender obligation of emissions allowances is booked if the allowances received are insufficient to cover actual emissions. The provision is marked to market. Changes occurring in the market price and actual emissions will affect the amount of the provision to be booked and the costs to be capitalised.

No recognition in respect of emissions allowances has been made in the consolidated balance sheet since actual emissions do not exceed the emissions allowances received free of consideration. A total of 18.6 million allowances were received free of consideration for first emissions trading period 2005-2007. Emissions allowances sold are recognised on an accrual basis. Emissions allowances totalling EUR 3 million were sold in 2006. No emissions allowances were sold in 2005.

Emissions allowances

No.	2006	2005
Emissions allowances to be surrendered	4,900,000	4,830,000
Emissions allowances sold in corporate divestments	−200,000	−3,200,000

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.

30. Interest-bearing liabilities

€m	2006	2005
Non-current		
Loans from financial institutions	30	68
Bonds	130	235
Finance lease liabilities	55	55
Pension loans	3	8
Others	2	6
Total	218	372
Current		
Loans from financial institutions	51	37
Bonds	104	71
Bonds with warrants*	0	4
Finance lease liabilities	6	8
Pension loans	1	3
Bank overdrafts	0	6
Others	1	3
Total	164	132

*The terms and conditions of the bond with warrants are described in Note 27.

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

€m	Coupon rate	Currency	2006	2005
Bonds (nominal value)				
1999–2006	4.5%	EUR	0	71
2003–2008	4.5%	EUR	55	55
2003–2010	5.1%	EUR	75	75
			130	201
Debenture loans* (nominal value)				
2002–2007/09	7.5%	EUR	54	54
2002–2007/09	6.7%	EUR	50	50
			104	104

* The debenture loans have a premature repayment option in 2007.

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

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

€m	2006	2005
2006		124
2007	158	45
2008	70	70
2009	7	111
2010	80	81
2011	5	5
Later	1	5
Total	321	440

Interest-bearing liabilities by currency:

€m	2006	2005
Non-current		
EUR	162	310
SEK	0	7
USD	1	1
	163	317
Current		
EUR	151	109
SEK	3	3
USD	0	2
PLN	3	9
SKK	1	0
	158	124
Total	**321**	**440**

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

%	2006	2005
Bonds and loans from financial institutions	5.3	5.2
Finance lease liabilities	6.3	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 spreads it over the lease period. An unspread capital gain of EUR 14 million is included in the balance sheet at 31 December 2006 (2005: €17m).

Maturities of finance lease liabilities

€m	2006	2005
Finance lease liabilities – minimum lease payments		
Within one year	17	13
Between one and five years	50	45
After five years	18	32
	85	89
Future financial costs	–24	–25
	61	64
Finance lease liabilities – present value of minimum lease payments		
Within one year	6	8
Between one and five years	40	32
After five years	15	23
	61	64

31. Trade payables and other non-interest-bearing liabilities

€m	2006	2005
Other non-current liabilities		
Defined-benefit pension plan (Note 28)	19	25
Other non-current non-interest-bearing liabilities	19	14
	38	39
Current liabilities		
Trade payables	288	185
Trade payables to associated companies	2	6
Trade payables, total	290	191
Accruals and deferred income	166	134
Liabilities based on derivative contracts: others	9	5
Advances received	49	29
Other liabilities	28	44
Other current liabilities, total	252	212

The material items included in accruals and deferred income consist of personnel expenses and the accruing of interest on liabilities.

Notes to the cash flow statement

32. Adjustments to cash flows from operations

€m	2006	2005
Non-cash transactions		
Depreciation	148	156
Share of results in associated companies	−128	−23
Share-based payments	3	22
Others	−2	2
Total	20	156

Investments without an effect on cash flows

During 2005 the Group's investment in associates increased through an arrangement whereby the Rautaruukki Group acquired a 47 per cent holding in Oy Ovako Ab and at the same time divested certain of its previously owned subsidiaries, which were transferred to the ownership of Ovako. 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 had no further effects on the Group's cash flows.

33. Related party disclosures

The Group's parent and subsidiary relationships are as follows:

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
AZST-Kolor CJSC	UA	Antratsit	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 Rautaruukki	RU	Moscow	100	100
OOO Ruukki	RU	St Petersburg	100	100
OOO Stalpark	RU	St Petersburg	100	100
OOO Ventall	RU	Obninsk	100	100
Presteel Oy	FI	Raahe	80.1	80.1
Ruukki Construction Polska Holding Sp.zo.o.	PL	Oborniki	99.9	99.9
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 B.V.	NL	Amsterdam	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 Asia Ltd	CN	Hong Kong	100	100
Ruukki Polska Sp.zo.o.	PL	Zyrardow	100	100
Ruukki Products AS	EE	Pärnu	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
Steel-Mont a.s.	SK	Holic	100	100
UAB Ruukki Lietuva	LT	Vilnius	100	100
ZAT Ruukki Ukraina	UA	Kiev	100	100
Subsidiaries of Ruukki Holding AB:				
Ruukki Holding Upplands Väsby	SE	Upplands Väsby	100	100
Ruukki Sverige AB	SE	Halmstad	100	100
Subsidiary of Ruukki Sverige AB:				
Ruukki Holding Hässleholm AB	SE	Hässleholm	100	100
Subsidiary of Ruukki Holding Hässleholm AB:				
Ruukki Hässleholm AB	SE	Hässleholm	100	100
Subsidiary of Ruukki Construction Polska Holding Sp.zo.o.:				
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	Praque	100	100
000 Metalplast Russia	RU	Moscow	100	100
Proposan Cladding Products Ltd	GB	Coventry	100	100
Subsidiary of Ruukki Polska Sp.zo.o:				
Ruukki Wroclaw Sp.zo.o.	PL	Bykow	100	100
Subsidiaries of Ruukki Holding AS:				
Ruukki Norge AS	NO	Oslo	100	100
Ruukki Profiler AS	NO	Mo i Rana	100	100
Fundia Furuset AS	NO	Oslo	100	100
Subsidiaries of Ruukki Norge AS:				
CCB Stål AS	NO	Oslo	100	100
Gasell Profil AS	NO	Oslo	100	100
Robocon International 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
Ruukki Welbond BV	NL	Raamsdonksveer	100	100
Subsidiaries of Ruukki Holding Danmark A/S:				
Ruukki Danmark A/S	DK	Brøndby	100	100
Nordisk Simplex A/S	DK	Vallensbæk Strand	100	100
Subsidiaries of Ruukki Holding GmbH:				
Carl Froh GmbH	DE	Sundern	100	100
Ruukki Betonstahl GmbH	DE	Mülheim	100	100
Ruukki Deutschland GmbH	DE	Duisburg	100	100
Subsidiaries of Steel-Mont a.s:				
Steel-Mont Bohemia s.r.o.	CZ	Brno	100	100
Steel Mont 000	RU	Moscow	100	100
Subsidiaries of 000 Ventall:				
OAO ZMK Ventall	RU	Balabanovo	100	100
ZAO Balabanovskaya Realbaza	RU	Balabanovo	100	100
Subsidiary of ZAT Ruukki Ukraina:				
Ruukki Investment Ukraine	UA	Kiev	100	100
Subsidiary of Ruukki Asia Ltd:				
Ruukki Metal Components (Shanghai) Co. Ltd	CN	Shanghai	100	100

Related parties of the Group are the associated companies (list given in Note 17) and Group management.

The following transactions were carried out with related parties

Sales and purchases of goods and services

€m	2006	2005
Sales of goods and services		
Associated companies	29	51
Purchases of goods and services		
Associated companies	27	33

Open balances for sales and purchases of goods and services

Liabilities and receivables from associates and other related parties are itemised in Notes 22 and 31 to relevant balance sheet items. Guarantees given on behalf of associates are disclosed in Note 34: 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	2006	2005
Salaries and other current employee benefits	2	2
Share-based payments*	5	4
Total	7	6

* The company's management participates in a share bonus scheme that is used as an incentive. The terms and conditions of the share-based payment are described in Note 27: Share-based payments. Share-based payments include costs allocated to the financial year in respect of performance periods ended and those under way.

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

The President & 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 & CEO, he has the right to severance pay corresponding to 24 months of salary.

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

34. Contingent liabilities

The Group has the following contingent liabilities:

€m	2006	2005
Mortgages given	26	29
Pledged assets	5	19
Collateral given on behalf of		
associated companies	0	1
others	5	4
Leasing and rental liabilities*	100	141
Other financial liabilities	11	4

* Does not include finance lease liabilities, which are stated in Note 30: Interest-bearing liabilities.

Mortgages have been given as collateral for loans from financial institutions (Note 30).

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

Oy Ovako Ab and its subsidiary Ovako Svenska AB were put into voluntary liquidation and most of Oy Ovako Ab's assets have been paid to shareholders as a disbursement. The shareholders (Rautaruukki Corporation, AB SKF and Wärtsilä Corporation) have, as required under the Finnish Companies Act, submitted to the liquidator a directly enforceable guarantee as surety against payment of the disbursements.

Maturity dates of lease and rental liabilities (other lease agreements)

€m	2006	2005
Other lease agreements – total amount of minimum lease payments		
Within one year	32	38
Between one and five years	62	100
After five years	6	3
Total	100	141

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

35. Events after the balance sheet date

In January 2007, the competition authorities approved the agreement signed by Rautaruukki in December 2006 to purchase AB Omeo Mekaniska Verkstad. The shares were acquired debt-free for EUR 3.73 million. The transaction strengthens Ruukki Engineering's position in the lifting, handling and transportation equipment customer segment.

On 29 January 2007, Rautaruukki Corporation and LKAB of Sweden signed a long-term contract for the supply of iron ore pellets used as raw material in iron production at the Raahe Works. Deliveries will commence as of 1 April 2007. This long-term contract will ensure the availability of high-quality iron ore raw material at the Raahe Works.

Financial indicators

		2006 IFRS	2005 IFRS	2004 IFRS**	2003 FAS	2002 FAS
Net sales	€m	3,682	3,654	3,564	2,953	2,884
Operating profit	€m	529	618	493	128	6
– % of net sales	%	14.4	16.9	13.8	4.3	0.2
Profit before taxes	€m	635	612	443	70	–46
– % of net sales	%	17.3	16.7	12.4	2.4	–1.6
Net profit / loss	€m	501	455	330	53	–35
– % of net sales	%	13.6	12.5	9.2	1.8	–1.2
Return on capital employed	%	31.5	32.8	26,0	7.1	0.6
Return on equity	%	30.1	34.7	33.8	6.5	–4.3
Equity ratio	%	61.6	56.0	41.7	34.6	31.1
Gearing ratio	%	1.2	22.8	68.0	112	138
Net interest-bearing liabilities	€m	22	341	761	922	1,092
Gross capital expenditure	€m	325	134	149	102	142
– % of net sales	%	8.8	3.7	4.2	3.4	4.9
Research and development	€m	22	22	17	17	17
– % of net sales	%	0.6	0.6	0.5	0.6	0.6
Net interest expenses	€m	20	28	46	47	50
– % of net sales	%	0.6	0.8	1.3	1.6	1.7
Balance sheet total	€m	3,026	2,701	2,712	2,403	2,561
Personnel on average		13,121	11, 684	12,273	12,782	13,325
PER SHARE DATA						
Earnings per share, EPS, basic	€	3.66	3.35	2.42	0.39	–0.26
– diluted	€	3.65	3.31	2.40	0.39	–0.26
Equity per share	€	13.26	10.98	8.29	6.07	5.81
Dividend per share	€	1.50+0.50*	1.40	0.80	0.20	0.00
Dividend per earnings	%	55.1*	41.9	34.7	51.3	0.00
Price per earnings, P/E		8.2	6.1	3.8	15.0	–13.2
Share trading	thousands	179,214	158,463	127,415	44,429	33,902
– % of shares issued	%	128	116	94	33	25
Share trading	€m	4,628	2,041	912	207	145
Average price of share	€	25.70	12.90	7.16	4.66	4.26
Lowest price of share	€	19.00	8.02	5.67	3.05	3.36
Highest price of share	€	33.31	21.15	9.19	6.36	5.30
Average adjusted number of shares,						
– basic	thousands	136,864	135,977	135,683	135,616	135,616
– diluted	thousands	137,145	137,377	137,083	136,606	136,016
Adjusted number of shares at year-end	thousands	139,957	138,886	138,886	138,886	138,886
Average number of shares at year-end, basic	thousands	139,957	138,886	138,886	138,886	138,886
– excluding treasury shares	thousands	138,172	136,294	135,813	135,616	135,616
– diluted	thousands	138,453	137,694	137,213	137,016	136,016
Share price at year-end	€	30.15	20.55	8.74	5.84	3.44
Market capitalisation at year-end	€m	4,220	2,854	1,214	811	478
Effective dividend yield	%	6.6*	6.8	9.2	3.4	0.0

* Calculated in accordance with the Board of Directors' proposal (page 57)

** Rautaruukki adopted IFRS at the start of 2005. Further information about the effects of adoption on the balance sheet and income statement is given in Rautaruukki's release dated 26 April 2005.

Formulas for the calculation of indicators

Return on capital employed =

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

Return on equity =

$$\frac{\text{profit before extraordinary items (FAS) / taxes (IFRS) – taxes}^{(1}}{\text{[capital and reserves}^{(2}\text{ + minority interests] (average for the beginning and end of the year)}}$$

Equity ratio =

$$\frac{\text{capital and reserves}^{(2}\text{ + minority interests}}{\text{balance sheet total}^{(2}\text{ – current advanced payments received}}$$

Gearing ratio =

$$\frac{\text{interest-bearing net debt}}{\text{capital and reserves}^{(2}\text{ + minority interests}}$$

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

Earnings per share (EPS) =

$$\frac{\text{profit before extraordinary items (FAS) / taxes (IFRS) – minority interests – taxes}^{(1}}{\text{adjusted average number of shares}^{2}}$$

Equity per share =

$$\frac{\text{capital and reserves}^{(2}}{\text{adjusted number of shares at year-end}^{(2}}$$

Dividend per share =

$$\frac{\text{dividends paid}}{\text{adjusted number of shares at year-end}^{(2}}$$

Dividend per earnings =

$$\frac{\text{dividend per share}}{\text{earnings per share}}$$

Price per earnings (P/E) =

$$\frac{\text{share price at year-end}}{\text{earnings per share}}$$

Average share price =

$$\frac{\text{total EUR trading of the share}}{\text{adjusted number of shares traded}}$$

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

Effective dividend yield =

$$\frac{\text{dividend per share}}{\text{share price at year-end}}$$

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

Parent company's income statement (FAS)

FAS €m	Notes	1 Jan–31 Dec 2006	1 Jan–31 Dec 2005
Net sales	2	**2,443**	**2,274**
Change in stocks of finished goods and work in progress		80	−5
Production for own use		5	4
Other operating income	3	20	16
Raw materials and services	4	−1,393	−1,093
Personnel expenses	5	−362	−355
Depreciation and value adjustments	6	−108	−112
Other operating charges	7	−243	−249
		−2,106	−1,809
Operating profit		**442**	**481**
Financial income and expenses	8		
Income from other non-current financial assets		2	2
Other interest and financial income		19	28
Value adjustments of non-current financial assets		−4	−1
Interest and other financial expenses		−27	−44
Financial income and expenses, total		−10	−15
Profit before extraordinary items		**432**	**466**
Extraordinary items	9		
Extraordinary expenses		−33	0
Profit before appropriations and taxes		**398**	**466**
Appropriations			
Change in depreciation reserve		10	16
Profit before taxes		**408**	**481**
Income taxes	10		
Taxes for the year		−113	−132
Profit for the financial period		**295**	**349**

Parent company's balance sheet (FAS)

FAS €m	Notes	31 Dec 2006	31 Dec 2005
ASSETS			
Non-current assets			
Intangible assets	11–13		
Intangible rights		4	2
Other capitalised long-term expenses		34	34
Advance payments		15	9
		53	46
Tangible assets			
Land and water		9	7
Buildings		235	234
Machinery and equipment		528	555
Advance payments and construction in progress		47	23
		819	819
Financial assets			
Shares in Group companies		343	220
Receivables from Group companies		8	8
Shares in associated companies		7	7
Receivables from associated companies		0	1
Other shares		5	4
		362	239
Non-current assets, total		**1,235**	**1,104**
Current assets			
Inventories	14		
Raw materials and consumables		137	136
Finished and semi-finished products and goods		219	166
		356	303
Receivables	15		
Long-term			
Long-term receivables from Group companies		119	277
Long-term receivables from associated companies		0	1
Long-term receivables from others		52	0
		172	278
Short-term			
Trade debtors		270	216
Short-term receivables from Group companies		85	59
Short-term receivables from associated companies		9	12
Loan receivables from Group companies		113	136
Other receivables		10	20
Prepayments and accrued income		19	6
		505	448
Receivables, total		**677**	**726**
Securities held as current financial assets			
Other securities	16	295	1
Cash in hand and at banks		8	88
Current assets total		**1,336**	**1,118**
Assets total		**2,571**	**2,221**

€m	Notes	31 Dec 2006	31 Dec 2005
EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		238	236
Share premium reserve		220	220
Revaluation reserve		33	33
Retained earnings		369	208
Profit for the financial period		295	349
		1,155	1,046
Appropriations	18		
Depreciation reserve		373	382
Provisions	19		
Provisions for pensions		18	21
Other provisions		19	32
		37	53
Liabilities			
Non-current liabilities	20		
Interest-bearing			
Bonds and debenture loans		129	235
Pension loans		2	3
Other liabilities		28	70
		160	309
Non-interest-bearing			
Amounts owed to Group companies		5	5
Current liabilities			
Interest-bearing			
Bonds and debenture loans		104	0
Loans from financial institutions		45	107
Pension loans		1	3
Amounts owed to Group companies		313	0
		464	110
Non-interest-bearing			
Advances received		20	23
Trade payables		184	103
Amounts owed to Group companies	22	7	18
Amounts owed to associated companies	23	2	3
Accruals and deferred income	24	156	158
Other liabilities		9	9
		379	316
Equity and liabilities, total		**2,571**	**2,221**

Parent company's cash flow statement (FAS)

FAS €m	2006	2005
Cash flow from operations		
Profit before extraordinary items	432	466
Adjustment		
Depreciation	108	112
Financial income and expenses	10	15
Share-based payments	−11	19
Other adjustments	−4	−4
Cash flow before changes in working capital	535	608
Change in working capital		
Change in current non-interest-bearing receivables	−52	−4
Change in inventories	−42	−27
Change in current non-interest-bearing liabilities	49	3
Change in provisions	−8	0
Change in working capital	−52	−28
Cash flow from operations before financing items and taxes	**483**	**580**
Interest and other financing items paid on operations	−14	−8
Taxes paid	−158	−98
Cash flow from operations	**311**	**474**
Cash flow from investing activities	**−247**	**−88**
Cash flow before financing activities	**63**	**385**
Cash flow from financing activities		
Share issue	2	0
Transfer of treasury shares	3	0
Change in current loan receivables	23	15
Change in non-current loan receivables	126	87
Change in current loans payable	353	−80
Change in non-current loans payable	−166	−222
Dividends paid	−191	−109
Cash flow from financing activities	**151**	**−309**
Change in liquid assets	**214**	**77**
Cash and cash equivalents at the beginning of period	89	12
Cash and cash equivalents at the end of period	303	89
	214	77

Notes to the parent company's financial statements

1. Accounting policies

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 into 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 depreciated on a straight-line basis. 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 its 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

Open external forward contracts and currency swaps are measured at fair value at the exchange rate at the balance sheet date. Exchange rate differences relating to operative business are reported in the income statement above Operating profit. Exchange rate differences from derivatives relating to financial items are reported in financial items.

The treatment of interest rate derivatives and commodity derivatives differs in certain respects from the accounting policies applied in the consolidated financial statements. 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 spread over the contract period and recorded in a net amount as an adjustment to interest expense.

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, allocation differences and temporary differences. The parent company does not include deferred tax assets and deferred tax liabilities in the income statement and balance sheet.

2. Net sales by market area

€m	2006	2005
Finland	1,082	939
Other Nordic countries	618	570
Central Eastern Europe	280	199
Rest of Europe	420	506
Other countries	44	60
Total net sales	2,443	2,274

3. Other operating income

€m	2006	2005
Gains on the sale of fixed assets	5	9
Sale of emissions allowances	3	0
Other	11	7
	20	16

4. Materials and services

€m	2006	2005
Materials, supplies and goods		
Purchases during the period	1,264	1,017
Change in inventories	−8	−33
External services	137	109
	1,393	1,093

5. Personnel expenses

€m	2006	2005
Wages and salaries	266	248
Share bonuses	17	32
Profit-related bonus paid to the personnel fund	6	12
Pension insurance premiums and pensions	42	34
Other social security costs	31	29
Total	362	355

Management salaries and emoluments

Members of the Supervisory Board	0.1	0.1
Members of the Board of Directors	0.3	0.2
President & CEO	3.4	0.6
– includes profit-based bonuses	0.2	0.2
– includes share bonuses	2.7	0.0

Average payroll during the period

	2006	2005
Workers	4,437	4,228
Salaried employees	2,291	2,160
Total	6,728	6,388

Pension benefits and emoluments of the President & CEO

Emoluments, including fringe benefits, paid to the parent company's President & CEO for 2006 amounted to EUR 3,381,470. The President & 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 & CEO, he has the right to severance pay corresponding to 24 months of salary.

6. Depreciation and value adjustments

€m	2006	2005
Other intangible rights	11	9
Buildings	14	14
Machinery, equipment and other tangible assets	83	89
Total	108	112

7. Other operating charges

€m	2006	2005
Sales freights	108	105
Rents	24	22
Losses on sale of fixed assets	3	7
Other	108	115
	243	249

8. Financial income and expenses

€m	2006	2005
Income from other financial assets held as non-current assets		
Dividend income from Group companies	0	1
Dividend income from associated companies	2	1
	2	2
Other interest and financial income		
Interest income from Group companies	13	15
Interest income from associated companies	0	1
Interest income from other companies	2	2
Exchange gains	3	11
	19	28
Value adjustments of non-current financial assets		
Other write-downs	−4	−1
	−4	−1
Interest and other financial expenses		
Interest expenses to Group companies	−2	−1
Interest expenses to other companies	−21	−28
Exchange losses	−3	−10
Other financing expenses	−1	−5
	−27	−44
Financial income and expenses, total	**−10**	**−15**

9. Extraordinary items

€m	2006	2005
Extraordinary expenses		
Merger loss	−33	0
Total	−33	0

10. Income taxes

€m	2006	2005
Taxes for the year	113	132
	113	132

11. Intangible assets

€m	2006	2005
Intangible rights		
Acquisition cost at 1 Jan	11	9
Increases	2	2
Decreases and adjustments	−4	0
Acquisition cost at 31 Dec	9	11
Accumulated depreciation according to plan at 1 Jan	−9	−7
Accumulated depreciation of decreases and adjustments according to plan 1 Jan–31 Dec	4	−1
Depreciation according to plan 1 Jan–31 Dec	−1	−1
Book value at 31 Dec	4	2
Other capitalised long-term expenses		
Acquisition cost at 1 Jan	113	82
Increases	12	18
Decreases and adjustments	0	13
Acquisition cost at 31 Dec	124	113
Accumulated depreciation according to plan at 1 Jan	−79	−59
Accumulated depreciation of decreases and adjustments according to plan 1 Jan–31 Dec	−1	−12
Depreciation according to plan 1 Jan–31 Dec	−10	−7
Book value at 31 Dec	34	34
Advance payments		
Book value at 1 Jan	9	11
Changes 1 Jan–31 Dec	6	−2
Book value at 31 Dec	15	9
Intangible assets, total at 31 Dec	53	46

12. Tangible assets

€m	2006	2005
Land and water		
Book value at 1 Jan	7	7
Increases	3	0
Decreases and adjustments	−1	0
Book value at 31 Dec	9	7
Revaluations included in the book values of land areas*		
Revaluations at 1 Jan	2	2
Revaluations at 31 Dec	2	2
Buildings		
Acquisition cost at 1 Jan	453	451
Increases	23	9
Decreases and adjustments	−3	−7
Acquisition cost at 31 Dec	473	453
Accumulated depreciation according to plan at 1 Jan	−219	−211
Accumulated depreciation of decreases and adjustments according to plan 1 Jan–31 Dec	−5	6
Depreciation according to plan 1 Jan–31 Dec	−14	−14
Book value at 31 Dec	235	234
Revaluations included in the book values of buildings*		
Revaluations at 1 Jan	30	30
Transferred in mergers	1	0
Revaluations at 31 Dec	32	30

* Revaluations made in the 1970s are based on replacement values

Machinery and equiment		
Acquisition cost at 1 Jan	1,814	1,767
Increases	71	62
Decreases and adjustments	−7	−15
Acquisition cost at 31 Dec	1,878	1,814
Accumulated depreciation according to plan and reductions at 1 Jan	−1,258	−1,181
Accumulated depreciation of decreases and adjustments according to plan 1 Jan–31 Dec	−8	12
Depreciation according to plan 1 Jan–31 Dec	−83	−90
Book value at 31 Dec	528	555
– including book value of machinery and equipment at 31 Dec	523	550
Advance payments and construction in progress		
Acquisition cost at 1 Jan	23	33
Changes	24	−10
Book value at 31 Dec	47	23
Tangible assets, total at 31 Dec	819	819

13. Financial assets

€m	2006	2005
Shares in Group companies		
Book value at 1 Jan	220	199
Increases	168	26
Decreases and adjustments	–45	–7
Transfers between items	0	1
Revaluations 1 Jan–31 Dec	0	1
Book value at 31 Dec	343	220
Receivables from Group companies		
Book value at 1 Jan	8	8
Book value at 31 Dec	8	8
Shares in associated companies		
Book value at 1 Jan	7	7
Book value at 31 Dec	7	7

€m	2006	2005
Long-term receivables from associated companies		
Book value at 1 Jan	1	1
Changes 1 Jan–31 Dec	–1	0
Book value at 31 Dec	0	1
Other shares and similar rights of ownership		
Book value at 1 Jan	4	5
Increases	1	1
Decreases and adjustments	0	–1
Transfers between items	0	–1
Book value at 31 Dec	5	4
Total financial assets 31 Dec	**362**	**239**

Shares in subsidiaries owned by parent company

	Country	Domicile	Number of shares	% of share capital	% of voting rights	Nominal currency	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	
AZST-Kolor CJSC	UA	Antratsit	110,000	100	100	UAH	11,000	5,107	
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 Rautaruukki	RU	Moscow	1	100	100	RUB	5,500	172	
OOO Ruukki	RU	St Petersburg	48,100	100	100	RUB	20,048	1,696	
OOO Stalpark	RU	St Petersburg	1	100	100	RUB	32,550	1,474	
OOO Ventall	RU	Obninsk		100	100	RUB	0	127,758	
Presteel Oy	FI	Raahe	3 444	80.1	80.1	EUR	385	3 144	
Ruukki Construction Polska Holding Sp.zo.o.	PL	Oborniki	782,366	99.9	99.9	PLN	0	19,289	
Ruukki CZ s.r.o	CZ	Velvary		100	100	CZK		4,049	
Ruukki France S.A.R.L.	FR	Paris	100	100	100	EUR	100	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 B.V.	NL	Amsterdam	40	100	100	EUR	40	514	
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	4,050	59,151	
Ruukki Hungary Kft	HU	Budapest		100	100	HUF	0	10,084	
Ruukki Latvija SIA	LV	Riga	1,800	100	100	LVL	180	346	
Ruukki Asia Ltd	CN	Hong Kong	800,000	100	100	CNY	0	650	
Ruukki Polska Sp.zo.o.	PL	Zyrardow	12,010,000	100	100	PLN	499	9,486	
Ruukki Product AS	EE	Pärnu	1,500	100	100	EEK	4,395	339	
Ruukki Romania S.R.L.	RO	Bucharest		100	100	USD	0	1,506	
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	
Steel-Mont a.s.	SK	Holic		100	100	SKK		10,211	
UAB Ruukki Lietuva	LT	Vilnius	30	100	100	LTL	30	6	
ZAT Ruukki Ukraina	UA	Kiev	5,070	92.5	92.5	UAH	2,192	500	39
								341,239	39
Subsidiaries not eliminated from consolidated accounts:									
Housing and real estate corporations, 2 companies								1,624	
Other subsidiaries of the Rautaruukki Group (non-trading), 3 companies								10	
								1,634	

Associated companies in which the share of voting rights is 20–50%:

Company	**Country**	**Domicile**	**% 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
Raahen Kauppaklubin Kannatus Oy	FI	Raahe	33.3	EUR	25	25
Sheet Metal Innovations SMI Oy Ltd	FI	Suolahti	35.8	EUR	50	114
						7,035

Other stocks and shares in which the share of voting rights is less than 20%:

Company	**Country**	**Domicile**	**No. of shares**	**% 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
Osuuskunta Teollisuuden Romu	FI	Helsinki	1	16.7	EUR	2	2
Shares in housing and real estate companies							1,446
Other shares							2,292
Investments in funds							721
Other stocks and shares, total							4,580

14. Inventories

Inventories are valued at the acquisition price or at the likely selling price, whichever is the lower. Raw material costs are determined on a FIFO basis.

15. Receivables

Long term receivables include debtors due for repayment in one year or later.

€m	2006	2005
Short-term non-interest-bearing receivables from Group companies		
Trade receivables	85	57
Other non-interest-bearing receivables	0	2
	85	59
Short-term receivables from associated companies		
Trade receivables	9	11
	9	11

Main items included in prepayments and accrued income		
Percentage of completion receivables	9	1
Currency hedgings	1	1
Other accruals	8	4
Total accruals	19	6

16. Securities held as current financial assets

Securities held as current financial assets include investments in extremely liquid short bond funds.

€m	2006	2005
Market value	296	1
Book value	295	1
Difference	1	0

17. Equity

€m	2006	2005
Share capital at 1 Jan	236	236
Share issue	2	0
Share capital at 31 Dec	238	236
Share premium reserve at 1 Jan	220	220
Share premium reserve at 31 Dec	220	220
Revaluation reserve at 1 Jan	33	33
Revaluation reserve at 31 Dec	33	33
Retained earnings at 1 Jan	557	314
Change in treasury shares	3	3
Dividend	−191	−109
Retained earnings at 31 Dec	369	208
Net profit	295	349
Equity at 31 Dec	**1,155**	**1,046**

€m	2006	2005
Distributable earnings		
Retained earnings	369	208
Net profit	295	349
Distributable earnings	664	557

At 31 December 2006, the company had 1,785,381 of Series K shares with the accounting countervalue of EUR 3.0 million.

The largest shareholders of Rautaruukki Corporation according to the share register as at 31 December 2006

	Shares, %	Number of shares
1 The Finnish State	39.77	55,656,699
2 Rautaruukki Corporation	1.28	1,785,381
3 Rautaruukki Pension Foundation	1.13	1,585,455
4 Esa Rannila	1.04	1,455,800
5 Mutual Pension Insurance Company Varma	0.83	1,164,150
6 Mutual Pension Insurance Company Ilmarinen	0.75	1,047,621
7 Odin Norden	0.69	969,320
8 Mutual Insurance Company Eläke-Fennia	0.39	548,500
9 Finnish State Pension Fund	0.37	521,571
10 Rautaruukki Personnel Fund	0.37	518,128
11 Sampo Suomi osake Investment Fund	0.26	360,759
12 Odin Förvaltnings AS	0.23	325,050
13 Stiftelsen för Åbo Akademi	0.21	300,000
14 Etera Mutual Pension Insurance Company	0.20	280,000
15 Einari Vidgrén	0.19	271,500
16 Onnenmäki Foundation	0.18	245,257
17 Finnish National Fund for R&D, Sitra	0.17	235,666
18 Veritas Pension Insurance Company Ltd.	0.14	200,000
19 Neste Oil Pension Fund	0.13	184,300
20 Special Mutual Fund OMX Helsinki 25 Index Share Fund	0.12	166,476
Nominee registered shares	39.60	55,426,967
Other shareholders	11.94	16,708,818
Total	100.00	139,957,418

The total number of shares held by members of the Supervisory Board and the Board of Directors was 5,887, which represent 0.004 per cent of the voting rights conferred by all the company's shares.

Share capital of Rautaruukki Corporation by share series:

	Number	Accounting counter value, €
Series K (10 votes per share)	139,957,418	237,927,610.60

Series A shares, as defined in the Articles of Association, have not been issued.

Analysis of shareholders according to the share register as at 31 December 2006

Size of shareholding	Shareholders No.	%	Shares Thousands	%
1–100	4,213	23.19	269	0.19
101–1,000	11,812	65.03	4,856	3.47
1,001–10,000	1,882	10.36	4,955	3.54
10,001–100,000	226	1.25	5,880	4.20
100,001 –	31	0.17	123,998	88.60
	18,164	100.00	139,957	100.00

Shareholder profile according to the share register as at 31 December 2006

	Shareholders No.	%	Shares Thousands	%
Companies	642	3.53	3,809	2.72
Banks and insurance companies	79	0.43	57,226	40.89
Public institutions	39	0.21	61,874	44.21
Non-profit institutions	210	1.16	2,391	1.71
Households	17,100	94.14	12,998	9.29
International owners	94	0.52	1,658	1.18
Total	18,164	100.00	139,957	100.00
– of which nominee registered	12	0.07	55,427	39.60

18. Appropriations

€m	2006	2005
Accumulated depreciation difference at 1 Jan	382	398
Transferred in mergers	1	0
Change in the profit and loss account	–10	–16
Accumulated depreciation difference at 31 Dec	373	382
Appropriations, total at 31 Dec	373	382

19. Provisions

Provisions include provisions for pensions, guarantees, restructuring and other similar contingencies, which represent the setting aside of funds to cover future losses.

€m	2006	2005
Pension liabilities at 1 Jan	21	25
Change in personnel expenses in the profit and loss account	–4	–4
Pension liabilities at 31 Dec	18	21
Environment provisions at 1 Jan	4	0
Transferred in mergers	1	
Change in the profit and loss account	–1	4
Environment provisions at 31 Dec	4	4
Other provisions at 1 Jan	29	9
Transfer from non-interest bearing loans	0	2
Transferred in mergers	1	
Changes in the profit and loss account	–14	17
Other provisions at 31 Dec	15	29

20. Interest-bearing non-current liabilities

Liabilities 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 at 31 December 2006

€m	Currency	Repayments 2007	2008	2009	2010	2011	Total	% of total debt
Bonds	EUR	104	55		75		234	76
Loans from financial institutions	EUR	40	13	5	5	5	67	22
	SEK	3					3	1
Pensions loans	EUR	1	1	1			3	1
		148	69	6	80	5	307	100

The average interest rate including derivatives was 5.0 per cent.

€m	Coupon rate	Currency	2006	2005
Bonds (nominal value)				
1999–2006	4.5%	EUR	0	71
2003–2008	4.5%	EUR	55	55
2003–2010	5.1%	EUR	75	75
			130	201
Debenture loans (nominal value)				
2002–2007/09	7.5%	EUR	54	54
2002–2007/09	6.7%	EUR	50	50
			104	104
Bonds with warrants				
2003–2006	5.0%	EUR	0	4

At the end the of period, 329,027 Series K shares were to be subscribed for under option warrants.

21. Deferred tax assets and liabilities

€m	2006	2005
Deferred tax assets		
From temporary differences	5	8
	5	8
Deferred tax liabilities		
From appropriations	97	99
	97	99

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.

22. Current non-interest-bearing liabilities owed to Group companies

€m	2006	2005
Trade payables	2	4
Other non-interest-bearing debt	5	14
	7	18

23. Current non-interest-bearing liabilities owed to associated companies

€m	2006	2005
Trade payables	2	3
	2	3

24. Current liabilities

Essential items in accruals and deferred income

€m	2006	2005
Tax liabilities	22	67
Interest debts	2	5
Personnel expenses	69	52
Currency hedging	9	4
Other accruals	53	29
Total accruals	156	158

25. Contingent and other liabilities

€m	2006	2005
Debts secured by mortgages		
Loans from financial institutions	3	7
	3	7
Collateral in value		
Mortgaged real estates	26	26
	26	26
Collateral given on behalf of Group companies		
Guarantees	67	63
Debit balance of Group bank accounts	4	35
	71	98
Collateral given on behalf of associated companies		
Guarantees	0	1
	0	1
Collateral given on behalf of others		
Guarantees	2	0
	2	0
Contingent and other liabilities		
Leasing and rental liabilities		
Due next year	47	45
Due later	217	161
	264	206
Other financial liabilities		
Repurchase liabilities	3	0
Other financial liabilities	4	4
	7	4
Letter of Comfort liabilities*		
for Group companies	7	6
	7	6

* Letter of Comfort liabilities do not constitute a legal guarantee.

Oy Ovako Ab and its subsidiary Ovako Svenska AB were put into voluntary liquidation and most of Oy Ovako Ab's assets have been paid to shareholders as a disbursement. The shareholders (Rautaruukki Corporation, AB SKF and Wärtsilä Corporation) have, as required under the Finnish Companies Act, submitted to the liquidator a directly enforceable guarantee as surety against payment of the disbursements.

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 20 March 2007 that a dividend of EUR 1.50 per share and an additional dividend of 0.50 per share to total EUR 2.00 per share be paid for the financial year ended 31 December 2006 and that the remainder of the distributable capital be retained.

The Group's distributable equity at year-end 2006 was EUR 1,060 million and the parent company's distributable equity was EUR 664,433,533.36.

The total amount of the dividend on the 138,172,037 shares outstanding at 6 February 2007 is EUR 276,344,074, corresponding to 55.1 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 2006 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 23 March 2007 and the dividend will be paid on 4 April 2007.

Helsinki, 6 February 2007

BOARD OF DIRECTORS

Jukka Viinanen

Georg Ehrnrooth | Maarit Aarni-Sirviö | Christer Granskog

Reino Hanhinen | 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, the report of the Board of Directors and the administration of Rautaruukki Corporation for the period 1 January – 31 December 2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors of the parent company, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Supervisory Board, the Board of Directors and the Managing Director of the parent company have 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 defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies' Act.

Helsinki, 6 February 2007
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 2006, as well as the Auditors' Report, the Supervisory Board of Rautaruukki Corporation proposes to the 2007 Annual General Meeting of shareholders that the parent company's and consolidated income statements and the balance sheets be adopted. The Supervisory Board concurs with the Board of Directors' proposal concerning the disposal of profit.

Helsinki, 20 February 2007

SUPERVISORY BOARD

Turo Bergman

Jouko Skinnari   Heikki Allonen   Inkeri Kerola

Miapetra Kumpula-Natri   Petri Neittaanmäki   Markku Tynkkynen

Tapani Tölli   Lasse Virén

Figures by quarter

Net sales by quarter (IFRS)

€m	I/2005	II/2005	III/2005	IV/2005	I/2006	II/2006	III/2006	IV/2006
Ruukki Construction	88	137	170	155	133	181	244	271
Ruukki Engineering	124	114	101	137	132	142	127	157
Ruukki Metals	802	686	541	596	591	604	514	583
Other units	0	2	0	1	0	1	0	2
Consolidated net sales	1,014	939	812	889	856	928	885	1,013

Operating profit by quarter (IFRS)

€m	I/2005	II/2005	III/2005	IV/2005	I/2006	II/2006	III/2006	IV/2006
Ruukki Construction	9	22	39	17	8	21	33	39
Ruukki Engineering	22	23	23	27	25	21	28	33
Ruukki Metals	180	147	69	91	77	87	89	111
Group management and other units	−10	−12	−17	−11	−15	−2	−9	−16
Consolidated operating profit	201	180	114	123	95	127	140	167

Rautaruukki Corporation

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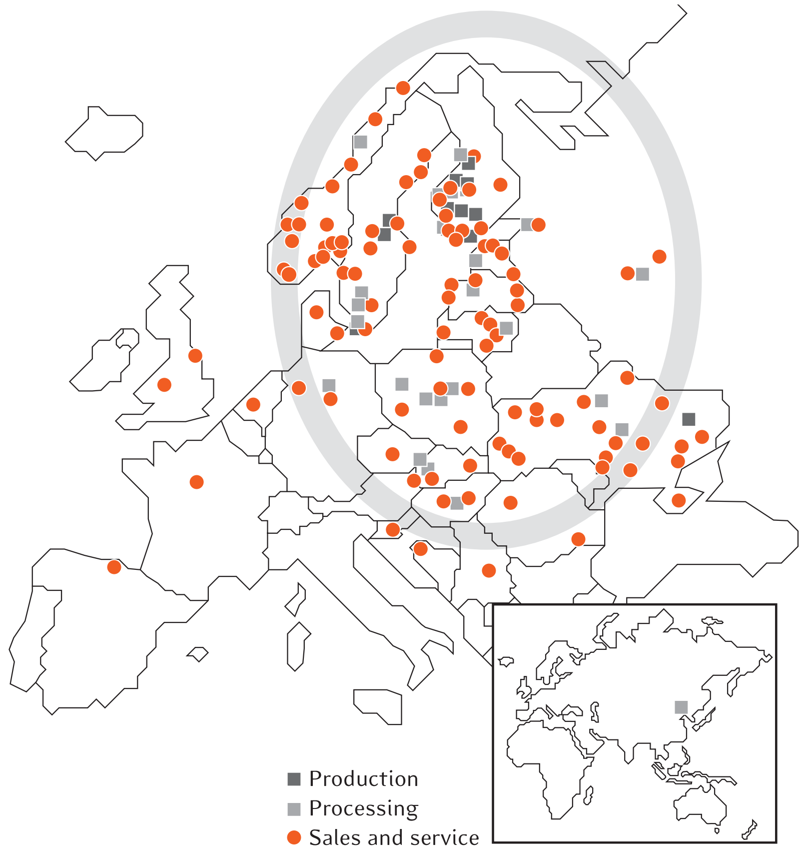

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