Rautaruukki
Financial statements 2007

ruukki

Ruukki in 2 minutes

what?

Ruukki's strategic intent

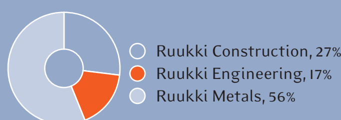
- The industry leader in steel construction in Europe
- A leading solutions provider for specific engineering customers in Europe
- Outstanding delivery promise with strong focus on special products

Rautaruukki supplies metal-based components, systems and integrated systems to the construction and engineering industries.

The company has a wide selection of metal products and services. Rautaruukki has operations in 24 countries and employs 14,600 people. Net sales in 2007 totalled EUR 3.9 billion. The company's share is quoted on the OMX Nordic Exchange Helsinki (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.

Net sales by division



Net sales by region

Key figures

Figures for 2006 in the income statement exclude capital gain on divestment of Ovako

	2007	2006
Net sales, €m	3,876	3,682
Operating profit, €m	637	529
Operating profit, as % of net sales	16.4	14.4
Profit before taxes, €m	621	535*
Return on capital employed, %	29.6	27.4*
Return on equity, %	24.0	24.9*
Equity ratio, %	70.4	61.6
Gearing ratio, %	1.4	1.2
Net interest-bearing liabilities, €m	28	22
Earnings per share, €	3.31	2.92*
Dividend per share, €	1.70+0.30**	1.50+0.50
Equity per share, €	14.30	13.26
Personnel on average	14,715	13,121

* Excludes capital gain of around EUR 100 million arising from divestment of Ovako.

** The Board of Directors proposes a dividend of EUR 1.70 per share, and an additional dividend of EUR 0.30 per share arising from funds freed up from the long steel business.

Rautaruukki
Annual report 2007

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Rautaruukki's Annual Report 2007 consists of two separate parts. The annual report tells about Ruukki as a company, corporate governance and the company's share. The report also contains information about corporate responsibility.

The second part, the Financial Statements 2007, includes the report of the Board of Directors and the consolidated and parent company financial statements.

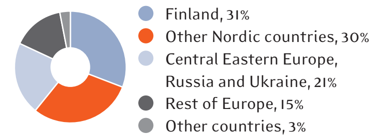
www.ruukki.com

Operating profit clearly improved on last year's figure – future outlook is good

- Net sales EUR 3,876 million (3,682, comparable 3,515), up by 10 per cent on comparable figure
- Operating profit EUR 637 million (529, comparable 515), up by 24 per cent on comparable figure
- Return on capital employed 29.6 per cent (31.5, excluding impact of capital gain arising from divestment of Ovako 27.4)
- Earnings per share (diluted) EUR 3.31 (3.65, excluding impact of capital gain arising from the divestment of Ovako 2.92)
- Dividend proposed by Board of Directors EUR 1.70 and an additional dividend of EUR 0.30 per share (EUR 1.50 per share and an additional dividend of EUR 0.50 per share)
- The company's strong growth especially in Russia and in Central Eastern Europe, together with brisk demand in customer industries, creates a good platform for Rautaruukki's growth in 2008. Comparable net sales growth is expected to meet the target and exceed 10 per cent. Operating profit in 2008 is expected to be higher than in 2007.

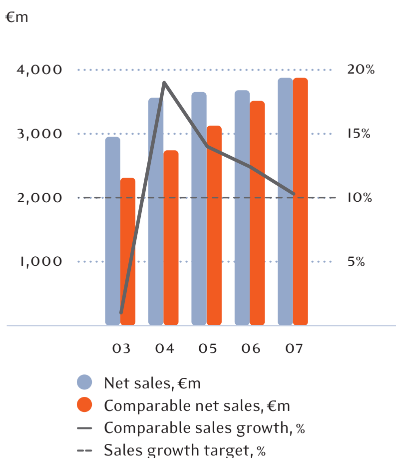
Net sales by division

Net sales by region



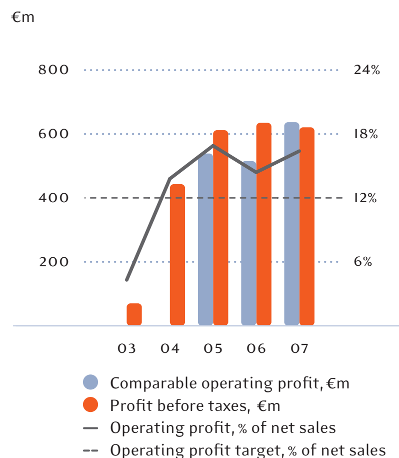
Net sales and growth

€m



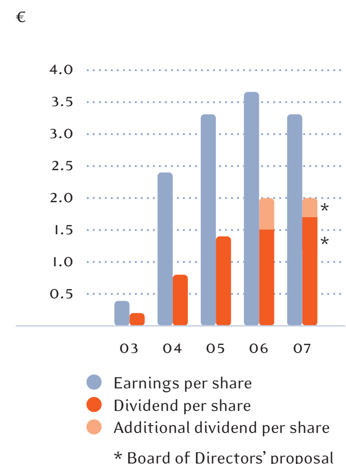
Operating profit and profit before taxes

€m



Earnings and dividend per share

€

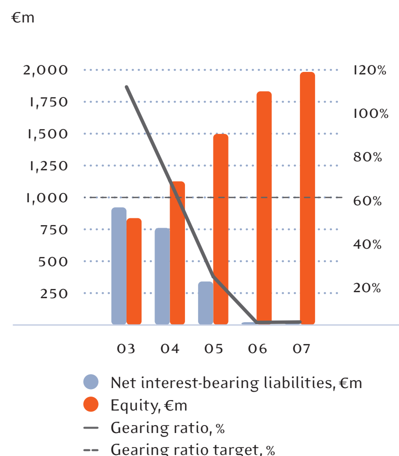


Return on equity and return on capital employed

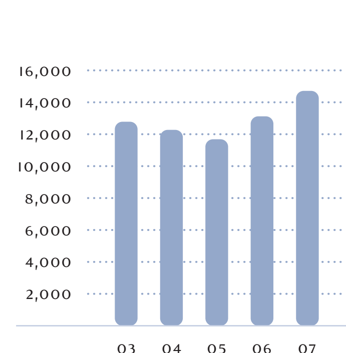
%

Net interest-bearing liabilities, equity and gearing ratio

€m



Personnel on average



Report of the Board of Directors

Business environment

The good market situation in the Group's core market areas and main customer industries continued throughout 2007. There was continued brisk construction activity in the Nordic countries, Central Eastern Europe and Russia. The order books of engineering customers, especially those in the lifting, handling and transportation equipment industry, as well as in the energy industry, have remained strong and this has had a positive effect also on Rautaruukki's deliveries. While good demand for special steel and plate products has continued, certain product groups, including galvanised products, were in oversupply particularly towards the end of the year.

Net sales and results for 2007 (comparable figure for 2006)

Consolidated net sales in 2007 rose 10 per cent to EUR 3,876 million against the comparable figure (3,515) a year earlier. Rautaruukki reported net sales of EUR 3,682 million in 2006. The comparable figures exclude the Nordic reinforcing units, which were part of the Group until 31 July 2006.

The solutions businesses - Ruukki Construction and Ruukki Engineering - accounted for 44 per cent (38) of net sales during the reporting period. Ruukki Construction's net sales grew by 26 per cent to EUR 1,042 million (829) and Ruukki Engineering's net sales were up by 20 per cent to EUR 667 million (557). Ruukki Metals' net sales were EUR 2,168 million (2,291, comparable net sales 2,124).

Of consolidated net sales, 82 per cent (79) came from Rautaruukki's core market areas: 31 per cent (31) from Finland, 30 per cent (31) from the other Nordic countries and 21 per cent (17) from Central Eastern Europe, Russia and Ukraine. The rest of Europe accounted for 15 per cent (19) of net sales and other countries for 3 per cent (2).

Operating profit for the year rose to EUR 637 million, which is 16 per cent of net sales. Operating profit was up by EUR 122 million or 24 per cent on the comparable figure (515) a year earlier. The Group's operating profit in 2006 was EUR 529 million. The solutions businesses accounted for 39 per cent (39) of the Group's operating profit. Ruukki Construction's operating profit was EUR 150 million (101), Ruukki Engineering's EUR 96 million (106) and Ruukki Metals' EUR 417 million (364, comparable 350).

Net finance expense amounted to EUR 20 million (22). Net interest expense was down from EUR 20 million last year to EUR 8 million due to a decrease in net interest-bearing liabilities. The remaining net finance expense was mainly attributable to the cost of hedging liabilities denominated in Swedish kronor.

The share of associate's profits was EUR 3 million (129, of which Ovako accounted for EUR 125 million).

Profit before taxes was EUR 621 million (635, of which the capital gain on the divestment of Ovako was around EUR 100 million).

Group taxes were EUR 162 million (134) and the effective tax rate was 26 per cent (26).

Net profit for the period was EUR 459 million (501 of which the capital gain on the divestment of Ovako was around EUR 100 million).

Diluted earnings per share were EUR 3.31 (EUR 3.65, excluding the capital gain on the divestment of Ovako EUR 2.92).

The return on capital employed was 29.6 per cent (31.5) and the return on equity 24.0 per cent (30.1). Excluding the impact of the capital gain arising from the divestment of Ovako, the comparable return on capital employed was 27.4 per cent and the return on equity was 24.9 per cent in 2006.

Balance sheet

The consolidated balance sheet total decreased by EUR 164 million since year-end 2006 to EUR 2,861 million.

Shareholders' equity was EUR 1,984 million (1,832) or EUR 14.30 per share (13.26) at year-end 2007. Net interest-bearing liabilities were EUR 28 million (22).

The equity ratio was 70.4 per cent (61.6) and the gearing ratio 1.4 per cent (1.2).

Cash flow and financing

Cash flow from operations was EUR 435 million (398) and cash flow after investing activities was EUR 270 million (536, excluding proceeds (296) from the divestment of Ovako).

Working capital rose by EUR 128 million (76), of which EUR 92 million was due to a decrease in trade payables. Stock value was EUR 24 million higher than during the previous year. Destocking by EUR 124 million during the fourth quarter improved stock turnover.

In April, Rautaruukki paid shareholders dividends totalling EUR 207 million and an additional dividend totalling EUR 69 million on the capital gain on the divestment of Ovako.

In September, the company completed early repayment of two high-interest callable subordinated notes issued in 2002. These two notes had an aggregate capital of EUR 104 million.

At the end of the reporting period, the Group had liquid assets of EUR 196 million and undrawn committed revolving credit facilities totalling EUR 300 million.

Personnel

The Group employed an average of 14,715 people (13,121) in 2007 and 14,587 (13,303) at the year-end, an increase of 1,284 people year on year. The headcount increase was mainly due to acquisitions and an expansion of business. The headcount grew by 1,360 persons in Central Eastern Europe, Russia and Ukraine to stand at 5,700 persons at year-end 2007.

Staff salaries and other employee benefits totalled EUR 448 million (448), of which EUR 9 million (22) was expenses relating to share bonuses and EUR 12 million (8) expenses relating to profit sharing. Nearly the whole of Rautaruukki's personnel belong to the profit sharing scheme.

During the 2007 financial year, maximum bonuses were paid for the 2004–2006 earning period under the Share Bonus Scheme

2000. Expenses of EUR 6 million arising from this were booked through profit and loss in the 2007 financial year. Fifty per cent of the maximum bonuses were paid for the 2006 earning period under the Share Ownership Plan 2004. Expenses of EUR 2 million arising from this were booked through profit and loss in the 2007 financial year. Expenses of EUR 1 million were booked through profit and loss in the 2007 financial year for the final earning period, 2007, of the Share Ownership Plan 2004. A total of 120 senior executives or persons classified as key personnel belong to share ownership plans.

Changes in Group structure

Acquisition of Omeo Mekaniska Verkstad AB was completed in January 2007 and strengthened the company's position as a systems supplier to the lifting, handling and transportation equipment industry. The debt-free share capital was acquired for around EUR 4 million. Omeo's net sales for the financial year ended in April 2007 were EUR 26 million. Omeo had 55 employees at the acquisition date. Omeo has been incorporated into Rautaruukki's accounts since 1 February 2007.

Rautaruukki acquired the entire share capital of Norwegian steel bridge supplier Scanbridge on 2 April 2007. The transaction has made Rautaruukki the leading supplier of steel bridge foundations and superstructures in the Nordic countries. The debt-free share capital was acquired for EUR 6 million. Scanbridge has been incorporated into Rautaruukki's accounts since 1 April 2007. Scanbridge had 75 employees and net sales of EUR 9 million in 2006.

In May 2007, Rautaruukki strengthened its position as a supplier to the lifting, handling and transportation equipment industry through the acquisition of an 80.7 per cent stake in Hungarian company Aprítógépgyár Zrt. (AGJ). The transaction was completed on 29 May 2007. AGJ has been consolidated into Rautaruukki's accounts since 1 June 2007. The acquisition benefits the company in the form of new customers and business potential and complements Rautaruukki's production network in Central Eastern Europe. AGJ had 740 employees and net sales of EUR 43 million in 2006.

The Group continued to simplify its legal structure through the mergers of TOP-Teräs Oy, Rautaruukki International Oy, Kiinteistö OY Pakilantie 61–63 and Teräsportti Oy into the parent company.

In November 2007, Rautaruukki completed its withdrawal, started in 2006, from the reinforcing steel business through the sale of reinforcing steel units - Ruukki Betonstahl GmbH in Germany and Ruukki Welbond BV in the Netherlands - to the Al-Tuwairqi Group of Saudi Arabia. The units had combined net sales of EUR 106 million in 2006 and employed 114 persons at 30 September 2007. The transaction freed up capital of more than EUR 25 million. A loss of EUR 2 million on the transaction was booked in the fourth quarter of 2007.

Capital expenditure

Cash flow from investing activities in 2007 was EUR 165 million negative (+138, excluding the capital gain on the divestment of Ovako -102).

Capital expenditure on tangible and intangible assets in 2007 amounted to EUR 172 million (147). The largest investments related to expanding Ruukki Construction's capacity in Eastern Europe and to strengthening the company's capability to deliver special steel products. During the reporting period, divestments of subsidiaries and plant, property and equipment totalled EUR 18 million. In addition, the company received EUR 9 million as a refund of Ovako's capital and EUR 20 million from the sale of a loan receivable arising in the Ovako transaction. Capital expenditure on tangible and intangible assets in 2008 is expected to exceed EUR 250 million.

EUR 44 million was spent on M&A arrangements during the reporting period. Acquisitions increased the Group's property, plant and equipment by EUR 18 million and goodwill by EUR 3 million. M&A arrangements had no material impact on working capital.

Additionally, there was a positive cash flow of EUR 5 million during the report period. This was mainly due to divestments in the previous year.

A decision was taken in February to increase the manufacture of steel frame structures and profiled products for commercial construction, as well as service centre operations in Poland. The investments total around EUR 19 million and add to Ruukki's capabilities to serve customers and especially to deliver systems for construction and metal products. The investments were implemented during 2007.

A decision was taken in February to expand production at Ylivieska of the frame structures needed for bridges and buildings. The investment was worth around EUR 6 million and completed in November 2007.

A start was made in March on building the frame, wall panel and profile plant in Romania. The total investment is around EUR 35 million and some of the production lines were up and running in late 2007. The plant being built in Ukraine is expected to be completed during 2008. The investment is worth EUR 15 million. Together, these investments will enable the company to significantly increase its deliveries of components and total deliveries for commercial and industrial construction to customers in Ukraine, Romania and Bulgaria.

In summer 2007, Rautaruukki rolled out investments worth approximately EUR 30 million at the Obninsk and Balabanovo plants in Russia to strengthen the range of products for commercial and industrial construction and to further improve delivery capability in Russia and Kazakhstan. As a result of the investments, which will be completed in stages by 2009, the company expects the plants to triple their delivery capacity by the end of 2009.

A new direct quenching unit came on stream at the Raahe Works in Finland in September. The investment is part of an investment programme in high-strength and quenched steel production currently underway at the Raahe Works. The direct quenching

unit considerably improves the company's ability to deliver, especially to customers in the lifting, handling and transportation equipment industry.

Annual General Meeting 2007

Rautaruukki Corporation held its Annual General Meeting in Helsinki on 20 March 2007.

The Annual General Meeting reappointed Mr Jukka Viinanen as chairman of the Board of Directors. Mr Reino Hanhinen was appointed as deputy chairman. Ms Maarit Aarni-Sirviö, Mr Christer Granskog, Ms Pirkko Juntti and Mr Kalle J. Korhonen were reappointed to the Board. Mr Jukka Härmälä and Ms Liisa Leino, chairman of the Board of Leinovalu Oy, were appointed as new members of the Board.

Mr Turo Bergman was reappointed as chairman of the Supervisory Board and Jouko Skinnari as deputy chairman. Mr Heikki Allonen, Ms Inkeri Kerola, Ms Miapetra Kumpula-Natri, Mr Petri Neittaanmäki, Mr Markku Tynkkynen, Mr Tapani Tölli and Mr Lasse Virén were all reappointed as members of the Supervisory Board.

KHT audit firm Ernst & Young Oy, with Mr Pekka Luoma KHT as the principal auditor, was reappointed as the company's auditor.

The Annual General Meeting authorised the Board of Directors to resolve to acquire a maximum of 12,000,000 of the company's own shares (8.56 per cent of the total number of shares). The authorisation is valid for 18 months from the close of the Meeting.

Furthermore, the Annual General Meeting authorised the Board of Directors to resolve to transfer a maximum of 13,785,381 treasury shares held by the company. The authorisation is valid until the close of the 2009 Annual General Meeting.

The Annual General Meeting approved the proposal by the Board of Directors to amend the company's Articles of Association. The company's line of business was reviewed to better reflect the company's current activities. The provisions on the company's minimum and maximum share capital and the number of shares were removed. The division of the company's shares into Series K and Series A shares was discontinued and the company has only one type of share. The sections on the quorum of the Board of Directors and the Supervisory Board, the Boards' term of office and the procedure related to the minutes of their meetings were removed. The duties of the Board of Directors and the President & CEO were specified in accordance with the provisions of the new Limited Liability Companies Act regarding their general authority. The remit of the Supervisory Board was reviewed. Article 21 concerning the obligation to redeem shares was removed. Furthermore, the Articles of Association were amended due to the fact that certain provisions were also given in the new Limited Liability Companies Act and to bring the wording into line with the terminology used in the new act. The company's new Articles of Association came into force on 5 April 2007.

The Annual General Meeting decided to establish a Nomination Committee to prepare proposals for the following Annual General Meeting regarding the composition of the Board of Directors and directors' remuneration. The Nomination Committee consists of representatives of the three largest shareholders as at 1 November 2007. The representatives chosen were Mr Markku Tapio, Senior Financial Counsellor, Prime Minister's Office, Mr Jussi Laitinen, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company and Mr Matti Vuoria, President and CEO, Varma Mutual Pension Insurance Company, together with the Chairman of Rautaruukki's Board of Directors, Mr Jukka Viinanen, who serves as the Committee's expert member.

Convening on 20 March 2007, the Annual General Meeting decided that a dividend of EUR 1.50 per share and an additional dividend of EUR 0.50 per share on the capital gain on the divestment of Ovako be paid for 2006. The dividend, totalling EUR 276 million, was paid on 4 April 2007.

Board of Directors' committees

The Board of Directors' committees assist the Board by preparing matters within the Board's remit. The Board has two permanent committees: the Audit Committee and the Compensation Committee. The Board oversees the work of the committees.

In 2007, Ms Pirkko Juntti was appointed to chair the Audit Committee and Mr Christer Granskog and Ms Liisa Leino were appointed as members. Mr Jukka Viinanen was appointed to chair the Compensation Committee and Mr Reino Hanhinen and Mr Jukka Härmälä were appointed as members.

Changes in corporate management

In December 2007, Mr Tommi Matomäki MSc (Tech) was appointed as President of Ruukki Engineering division and as a member of the Corporate Management Board with effect from 1 January 2008. He joins Rautaruukki from Technip Offshore Finland Oy, where he served as managing director.

Shares and share capital

During 2007, Rautaruukki Oyj shares (RTRKS) were traded for a total of EUR 8,444 million (4,628) on the OMX Nordic Exchange Helsinki. The highest price quoted was EUR 52.50, in July, and the lowest was EUR 27.38, in January. The volume weighted average share price was EUR 38.34. The share closed at EUR 29.65 on the year and Rautaruukki had a market capitalisation of EUR 4,157 million (4,220).

The company's registered share capital at 31 December 2007 was EUR 238.3 million and there were 140,198,128 shares issued. At year-end 2007, the company held 1,476,937 treasury shares, corresponding to 1.05 per cent of the company's shares and votes.

Employee warrants 2003 based on the 2003 bond loan with warrants have been publicly traded on the OMX Nordic Exchange Helsinki since 24 May 2006. One warrant entitles the holder to subscribe one share at an issue price of EUR 1.70. Warrants had been exercised to subscribe a total of 1,311,683 shares by 31 December 2007. The remaining warrants entitle holders to subscribe a total of 88,317 shares. The subscription period expires on 23 May 2009.

The Board of Directors is authorised to buy back a maximum of 12,000,000 of the company's own shares (8.56 per cent of the shares). The authorisation is valid for 18 months from the close of the Annual General Meeting held on 20 March 2007. The Board of Directors did not exercise this authorisation during the reporting period.

Similarly, the Board of Directors is authorised to transfer a maximum of 13,785,381 treasury shares held by the company. The authorisation is valid until the close of the 2009 Annual General Meeting. Pursuant to the authorisation granted by the 2007 Annual General Meeting, the company transferred 84,000 treasury shares during 2007 to persons covered by the Group's Share Ownership Plan 2004. Pursuant to the currently valid authorisation, the company transferred 225,194 treasury shares during 2007 to persons covered by the last earning period, 2004–2006, of the Group's share bonus scheme 2000. A total of 750 shares were returned to the company. After the transfers above, the company has 1,476,937 treasury shares, which had a capitalisation value of EUR 43.8 million at year-end 2007.

At the end of the report period, the Board of Directors had no valid authorisations to issue convertible bonds or bonds with warrants or to increase the company's share capital.

In December 2007, the Board of Directors decided on a new Share Ownership Plan 2008–2010 for key personnel. The plan comprises three one-year earning periods, which are the years 2008, 2009 and 2010. Any bonuses will be paid out partly in the form of company shares and partly in cash during the year following the respective earning period. The plan covers 85 persons. Bonuses payable under the three-year plan correspond to a maximum aggregate of 1,200,000 Rautaruukki Oyj shares, including the cash element. The cash element covers the taxes and similar fees arising from the bonus.

Research and development

The company spent EUR 28 million (22) on R&D in 2007. The focus during the reporting period was on developing special products and prefabricated product systems. Expertise was expanded especially into areas of product applicability and customer production processes.

Rautaruukki launched new solutions to shorten construction time. These solutions include pile foundation bases, a rock foundation solution for rock bases that reduces blasting needs, and an edge beam solution that speeds up frame construction and the installation of façade elements.

Cabins, machine frames and boom structures were developed for the engineering sector. Use of high-strength steels and new constructions makes structures lighter and improves their performance. Rautaruukki improved its manufacturability and production efficiency by developing modular structures. This means the same components can be used in different end assemblies.

The high-strength special steel product family was also developed through the addition of even strongwer, lasting grades and coatings for new architectural and consumer product solutions. Work continued on actively developing functional coatings that repel dirt, graffiti and microbes.

The company also took part in a pan-European project to study the use of high-strength steels and jointing technology in wind turbines.

Environmental issues

The Group's environmental policy governs the environmental management of all Rautaruukki's operations. The main production sites operate in compliance with ISO 14001 certified systems. In 2007, 95 per cent (95) of production was covered by certified systems. An ISO 9001 quality management system is in place to manage quality aspects.

Of Rautaruukki's operations at year-end 2007, the Raahe Works and steam boilers at the Hämeenlinna Works came within the scope of EU emissions trading. The Mo i Rana rolling mill comes under the Norwegian emissions trading scheme. Emissions allowances totalling EUR 2 million were sold during 2007. These allowances were available for sale as a result of production being adjusted to market conditions at the Raahe Works during the emissions trading period.

The company expects to incur additional costs of around EUR 3–5 million a year to buy the emissions allowances it needs during the 2008–2012 emissions trading period. In addition, costs might also be affected by the cost of electricity the company acquires on the Nordic electricity market.

In 2007, Ruukki spent a total of EUR 7 million (8) on environmental investments.

In September 2007, Rautaruukki was included in the Dow Jones STOXX Sustainability Index. The index includes leading European companies in terms of sustainable development. Companies are included in the index on the basis of annual assessment.

See the annual report and site environmental reports for more information about environmental issues.

Improvement in cost-efficiency

Ruukki United, Rautaruukki's programme to harmonise ways of working and improve efficiency, aims to achieve cost savings, compared with the 2004 cost structure, of around EUR 150 million by year-end 2008. EUR 96 million (43) of this target had been achieved by the end of the report period.

The Ruukki United programme also seeks to permanently free up some EUR 150 million of capital by year-end 2008. EUR 76 million (59) of this target had been achieved by the end of the report period.

Impacts of the programme on the personnel are ascertained on a project-specific basis and any reductions are expected to be made mostly through retirement and relocation.

Capital Markets Day: Net sales targets by division

Rautaruukki held its annual Capital Markets Day for investors and analysts in Moscow and Obninsk, Russia. At the event, the

company announced its target to grow Ruukki Construction division's net sales organically to more than EUR 1.5 billion, from a current figure of around EUR 1 billion, by the end of 2010. Ruukki Metals aims to increase its share of special products to 40 per cent of net sales by the end of 2010.

Events taking place after 31 December 2007

In January 2008, Rautaruukki announced it was to build a new sandwich panel plant at Alajärvi in Finland. Starting production in autumn 2009, the new facility will broaden the range of sandwich panels and improve the capability for integrated system deliveries to the commercial and industrial construction market. The EUR 20 million investment will improve the company's ability to serve customers especially in the Nordic countries and Baltics.

In February 2008, Rautaruukki announced it had acquired the German company Wolter Metallverarbeitung GmbH (Wolter), which has customers in the lifting, handling and transportation equipment business. Wolter's main products are telescopic booms for leading globally operating European mobile crane customers and booms for special heavy cranes used in the installation of windmill towers. The company is expected to have net sales of around EUR 10 million in 2008.

Risks and risk management

The risk management policy approved by Rautaruukki's Board of Directors sets out the operating principles and process of the Group's risk management. Risk management is an integrated part of Ruukki's management system and all core business and support processes and related decision-making incorporate the risk aspect.

The company seeks to reduce its dependency on fluctuations in the market for standard steel products by growing the share of the solutions business, developing the operations of its own service centres, improving customer service and increasing the share of special products. Despite this, movements in wholesale stocks can cause periodical imbalances in the supply and demand in the market for standard steel products. In weaker market conditions, Rautaruukki is prepared to scale back sales and steel production in line with profitable demand. This might give rise to short-term fluctuations in the company's profitability.

The prices and freight charges of iron ore, coal and other main raw materials used in steelmaking are determined on the world market. Raw material prices can be very volatile and their sourcing is changed from time to time. Electricity and zinc derivatives are used to manage price risks for the following five and two years as at 31 December 2007. Availability risks are managed through long-term agreements to source the main raw materials and energy used in steel production.

Rautaruukki's financing and financial and credit risk management is dealt with centrally by the parent company's Finance function. The company is exposed to a considerable foreign currency risk in US dollars, which is the pricing currency of the company's main raw materials. In sales, the Group is exposed to a foreign currency risk mainly in Swedish kronor and Norwegian kroner. These risks are hedged through foreign currency derivatives.

There are currently factors of uncertainty in the global economy that might affect the demand for Rautaruukki's products. However, the company believes the impact of these factors to be minor in its core market areas, the Nordic countries and especially in Eastern Europe.

Increasingly tighter environmental regulations might give rise to additional costs and investments. Since delivery reliability is an increasingly critical factor, disruptions in production and the labour market alike have a bigger financial impact.

Near-term outlook

The good market situation in the Group's core market areas and in key customer industries is expected to continue. Non-residential construction activity is expected to remain brisk across the entire market area, with the construction market in Eastern Europe growing at a faster rate than in other areas. The infrastructure construction market is also expected to remain good in all market areas. Demand from engineering industry customers is likely to remain strong in the lifting, handling and transportation equipment industry, as well as in the energy, marine and offshore sectors. Good demand for steel products, especially special steel and plate products is expected to continue. Steel wholesaler stocks of standard products were high during the fourth quarter of 2007, but had normalised at the turn of 2008.

The company's strong growth especially in Russia and in Central Eastern Europe, together with brisk demand in customer industries, creates a good platform for Rautaruukki's growth in 2008. Comparable net sales growth is expected to meet the target and exceed 10 per cent. Operating profit in 2008 is expected to be higher than in 2007.

Consolidated income statement

IFRS €m	Notes	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
Net sales	4	3,876	3,682
Other operating income	7	26	32
Change in inventories of finished goods and work in progress		8	88
Production for own use		15	7
Materials and services	8	−2,182	−2,197
Salaries and other employee benefits	9	−548	−548
Depreciation, amortisation and impairment losses	10	−153	−148
Other operating expenses	11	−404	−387
Operating profit		637	**529**
Financial income	12	17	13
Financial expense	12	−37	−35
Net financial expense	12	−20	−22
Share of results of associated companies	17	3	129
Profit before taxes		621	**635**
Income tax	13	−162	−134
Net profit		459	**501**
Attributable to			
Equity holders of the company		458	501
Minority interests		1	0
Earnings per share, calculated on the net profit attributable to equity holders of the company			
Undiluted earnings per share (€)	14	3.31	3.66
Diluted earnings per share (€)	14	3.31	3.65

Consolidated balance sheet

IFRS €m	Notes	31 Dec 2007	31 Dec 2006
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,076	1,043
Goodwill	16	106	105
Other intangible assets	16	89	99
Investment in associated companies	17	15	21
Available-for-sale financial assets	19	10	10
Receivables	20	159	162
Deferred tax assets	21	17	13
		1,473	1,454
Current assets			
Inventories	22	614	586
Trade receivables	23	470	499
Other receivables	23	98	116
Tax receivables based on taxable earnings of the period		11	9
Other financial assets at fair value through profit or loss	25	178	296
Cash and cash equivalents	26	17	66
		1,389	1,572
Assets, total		**2,861**	**3,026**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the company			
Share capital	27	238	238
Share premium account		220	220
Translation difference		-6	-3
Fair value and other reserves	28	9	44
Retained earnings		1,522	1,333
		1,984	1,832
Minority interests		3	1
Equity, total		**1,987**	**1,833**
Non-current liabilities			
Deferred tax liabilities	21	146	161
Pension obligations	30	19	19
Provisions	31	8	27
Interest-bearing liabilities	32	138	218
Other liabilities	33	18	19
		329	444
Current liabilities			
Trade payables	33	198	291
Other liabilities	33	242	252
Tax liabilities based on taxable earnings of the period		17	39
Provisions	31	4	2
Interest-bearing liabilities	32	86	164
		546	748
Liabilities, total		**875**	**1,193**
Equity and liabilities, total		**2,861**	**3,026**

Consolidated statement of changes in equity

€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 2006	236	220	−11	31	−5	1,027	1,497	1
Cash flow hedging:								
Recognised in equity net of tax				31			31	
Transferred to profit net of tax				−16			−16	
Change in translation difference					2		2	
Net income booked directly to equity				15	2		17	
Profit for the period						501	501	
Total income and expense booked during the period				15	2	501	518	
Increase in share capital	2						2	
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
Cashflow hedging:								
Recognised in equity net of tax				−9			−9	
Transferred to profit net of tax				−24			−24	
Change in translation difference					−3	3	1	
Net income booked directly to equity				−32	−3	3	−32	
Profit for the period						458	458	1
Total income and expenses booked during the period				−32	−3	461	426	1
Dividend distribution**						−276	−276	
Disposal of treasury shares			1	−3		2	0	
Equity-settled share-based payments				0			0	
Acquisition of subsidiaries								1
Equity at 31 Dec 2007	238	220	−6	9	−6	1,528	1,984	3

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

** In keeping with the meeting held on 6 February 2008, the Board of Directors proposes the payment of a 2007 dividend of EUR 2.00 per share, amounting to EUR 277 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 2007	1 Jan–31 Dec 2006
Cash flow from operating activities			
Profit for the period		458	501
Adjustments			
Non-cash transactions	34	151	20
Interest and other financing expense		37	35
Interest and other financing income		−17	−13
Taxes		162	134
Other adjustments		−9	−9
Change in working capital			
Change in trade and other receivables		5	−82
Change in inventories		−18	−86
Change in trade payables and other liabilities		−95	100
Change in provisions		−20	−8
Interest paid		−36	−35
Interest received		18	13
Dividends received from associated companies		2	2
Taxes paid		−204	−175
Net cash flow from operating activities		**435**	**398**
Cash flow from investing activities			
Acquisition of subsidiaries less cash at the acquisition date	5	−44	−112
Divestments of subsidiaries less cash at the divestment date	6	5	95
Change in receivables from associated companies	17	0	39
Divestment of operations of associated companies	17	29	240
Investment in property, plant and equipment		−160	−130
Investment in intangible assets		-13	−17
Sales of property, plant and equipment		18	28
Investments in loan receivables and other financial assets		0	1
Exchange differences		0	−4
Net cash flow from investing activities		**−165**	**138**
Net cash flow before financing activities		**270**	**536**
Cash flow from financing activities			
Repayments of loans		−160	−147
Dividends paid		−276	−191
Net cash flow from financing activities		**−435**	**−338**
Change in cash and cash equivalents		**−166**	**198**
Cash and cash equivalents at beginning of period		361	163
Cash and cash equivalents at end of period		196	361

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 24 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 OMX Nordic Exchange Helsinki.

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 2007. 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 IFRS 7 Financial Instruments: Disclosures as of 1 January 2007. This standard requires more detailed additional disclosures about the impact of financial instruments on an entity's financial position and performance.

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 in the currency of the primary economic 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 at the exchange rate at the transaction date. 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 at the exchange rates at the measurement date. 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 recognised 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 are non-derivative financial assets with fixed or determinable payments. They are not quoted on active markets and the company does not hold them for trading purposes. Loans and receivables are measured at amortised cost. They are included on the balance sheet under trade receivables or payables as either current or non-current assets, depending on their nature.

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 qualify for IAS 39 hedge accounting 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 initially 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 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. Exchange rate differences relating to operative business are reported in the income statement above Operating profit. Exchange rate differences arising from derivatives relating to financial items are reported in financial items.

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, where 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, where necessary, more frequently to determine any impairment (see Note 16: Intangible assets). 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.

Research and development expenditure

Research and development expenditure is recorded as an expense in the income statement, except for those development expenses which qualify for capitalisation 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 or, where 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 on 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, where 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 on 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 interestbearing 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 to defined contribution schemes are recognised in the income statement as incurred.

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. Additional information on share-based schemes, see Note 29 Share-based payments.

Option rights and shares granted are measured at fair value at the date of grant 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 straightline 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.

Adoption of new standards and interpretations
The IASB and IFRIC have published the following new stanards and interpretations, which the Group will apply as below as the standards enter into force:

Adoption as of 1 January 2008:

–IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from the financial year commencing 1 January 2008). The interpretation is applied to post-employment defined benefit plans and other longterm defined benefit plans under IAS 19 if the plan also includes minimum funding requirements. Pension security arranged through the Group's Finnish pension foundation is classified as a defined benefit plan. However, the Group does not expect the interpretation to have a material impact on future financial statements. The interpretation has not yet received the endorsement of the European Union.

Adoption as of 1 January 2009:

–IFRS 8 Operating Segments (effective from the financial year commencing 1 January 2009) replaces IAS 14. Under the new standard, segmental reporting is based on the information management uses internally to evaluate segment performance and the accounting policies complied with therein. IFRS 8 also requires information to be disclosed about an entity's products, services, geographical regions and significant customers. The entity is also required to provide information about the grounds for defining segmental performance and the accounting policies applied in segmental reporting. Furthermore, the standard requires disclosure of opening and closing balances for certain income statement and balance sheet items in segmental reporting. The Group is currently assessing the impact on segment reporting as a result of adopting the new standard.

–IAS 23 (amended) Borrowing Costs (effective from the financial year commencing 1 January 2009) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group has applied an earlier opportunity to expense borrowing costs as incurred. The Group does not, however, expect the new standard to have a material impact on future financial statements. The new standard has not yet received the endorsement of the European Union.

3. Financial risks management

Principles
Financial risk management at Rautaruukki aims at minimising the unfavourable impacts of these risks on the Group's earnings, shareholders' equity and liquidity. Financial risk management is the responsibility of the Corporate Treasury and is based on the corporate financing policy approved by the Board of Directors. This policy sets out the main principles for the organisation of financing function, funding, financial risk management, reporting and supervision. The most significant financial matters are dealt with by the corporate Financing Committee, which is chaired by the President & CEO. The Financing Committee decides on the credit lines valid at any given time within the framework of the financing policy. Financial transactions are carried out solely to fund the Group's ordinary business and to manage the financial risks associated with it.

The corporate level is the point of departure when arranging funding and carrying out financial transactions.

As a rule, financial transactions required by Group companies are carried out internally with the Treasury and are based on corporate principles. The Production division is responsible, together with the corporate Treasury, for price risk management in respect of commodities (electricity and zinc). Some of the Group's operations come within the EU Emissions Trading Scheme and management of the related emissions balance is dealt with centrally by the corporate Energy and Environment function.

Market risks
Foreign exchange risk
Rautaruukki is exposed to foreign exchange risks because the Group's reporting currency is the euro, but some income and expense is denominated in other currencies. The greatest for-

eign exchange risks involve the US dollar, the Swedish krona and the Norwegian krone. The US dollar risk arises because the raw materials needed in steelmaking are generally priced in US dollars. The Swedish krona and Norwegian krone risks arise primarily because the parent company has sales to the countries concerned. The purpose of Rautaruukki Corporation's foreign exchange risk management is to limit volatility, caused by exchange rate fluctuations, in cash flows, earnings and the balance sheet. The Group's foreign exchange risk management is dealt with centrally by corporate Treasury as a transaction position and translation position.

The transaction position comprises the cash flows from business transactions agreed and forecast in currencies outside euroland and from items denominated in foreign currencies included in the balance sheet. Consistent with the Group's operating principles on cash flow exposure, an average of 4–8 months of net cash flows are hedged in full. The foreign currency items included in the balance sheet were, on average, fully hedged during 2007. The table below discloses the Group's largest net annual foreign exchange cash flows as at 31 December 2007.

Estimated annual net cash flow risk (transaction risk) against the euro

€m	31 Dec 2007	31 Dec 2006
USD	−510	−410
SEK	260	260
NOK	130	130
DKK	110	90
GBP	45	65
Baltic currencies	105	90
PLN	60	20
Other currencies	120*	50
Total	320	295

* RUB €45m and UAH €25m
(Positions calculated at exchange rates at 31 December 2007 and 31 December 2006)

The translation position causing fluctuation in the Group's equity consists of investments in subsidiaries and associated companies outside euroland. Management evaluates the need to hedge against the translation risk on a case-by-case basis taking into account, for example, the market situation and cost of hedging. The exchange rate risk arising on net investments in companies outside euroland was not hedged in 2007. The table below discloses the Group's translation position as regards the most significant foreign currencies.

Group translation position

€m	31 Dec 2007	31 Dec 2006
RUB	134	127
SEK	32	273
NOK	101	74
PLN	39	37

(Positions calculated at exchange rates at 31 December 2007 and 31 December 2006)

Sensitivity to foreign exchange risks arising from financing instruments as referred to in IFRS 7

A sensitivity analysis has assessed how a +/− 10 per cent movement in exchange rates would affect the consolidated income statement and shareholders' equity by examining the impact on the following items: derivatives hedging cash flow, derivatives hedging the balance sheet, trade payables, trade receivables, internal and external loans and receivables, and liquid funds. The sensitivity analysis excludes the tax impact.

€m	+/−10% movement in EUR/USD exchange rate	+/−10% movement in EUR/SEK exchange rate	+/−10% movement in EUR/NOK exchange rate
31 Dec 2007			
Income statement	−20.5/+20.7	+6.4/−7.9	+5.0/−6.1
Shareholders' equity	−20.5/+20.7	+6.4/−7.9	+5.0/−6.1
31 Dec 2006			
Income statement	−12.5/+13.8	+9,3/−11.3	+1.3/−1.6
Shareholders' equity	−12.5/+13.8	+9.3/−11.3	+1.3/−1.6

+ means a strengthening of the euro
− means a weakening of the euro compared to the other currencies

Interest risk

Rautaruukki is exposed to interest rate risks through the Group's interest-bearing liabilities and receivables. The Group's net interest-bearing liabilities at 31 December 2007 were EUR 223 million, which includes finance lease agreements of EUR 51 million. The Group's liquid assets were EUR 196 million and other interest-bearing receivables EUR 32 million. Interest rate risk management is dealt with centrally by corporate Treasury. The purpose of interest rate risk management is to even out changes in the Group's earnings as a result of movements in interest rates whilst minimising the Group's finance expense. The interest rate risk position is managed by currency. The euro is the Group's primary currency in the interest rate risk position and is the currency for almost 100% of the assets and liabilities covered by the position. Rautaruukki Corporation's interest rate risk rate position does not include foreign exchange derivatives. The Group manages interest rate risk by spreading borrowing and investments over fixed- and variable-interest instruments. In addition, derivative instruments are used to hedge interest linking. Interest rate risk is monitored and managed as interest flow risk and price risk. A minimum of 30 per cent and maximum of 70 per cent of the Group's net debt position must be hedged for one year against movements in interest rates. At 31 December 2007, the duration of the Group's debt position was 1.5 years. The Group's sensitivity to interest rates consists of the interest flow risk for the following 12 months. Price risk has no material impact on profit and loss.

Sensitivity to interest rate risks arising from financing instruments as referred to in IFRS 7

A sensitivity analysis has assessed how a +/-1 per cent movement in market interest rates would affect the consolidated income statement and shareholders' equity. The affect consists of the interest flow risk and appears in the consolidated interest income and expense. The analysis includes all the Group's interest-bearing liabilities. The sensitivity analysis excludes the tax impact.

	31 Dec 2007		31 Dec 2006	
€m	Income statement	Shareholders' equity	Income statement	Shareholders' equity
+/−1% movement in market interest rate	+1.5/−1.5	+1.5/−1.5	+2.5/−2.5	+2.5/−2.5

Commodity price risks

The raw materials used by the Group involve price risks, for which the established derivatives markets provide only for hedging against the price of zinc. Hedging takes place through derivative contracts. The Production division is responsible for managing the zinc price risk, which in practice is managed by the corporate Treasury. Zinc hedges may span a maximum of three years. The company bought around 32,500 tonnes of zinc in 2007. At year-end, 47 per cent of the estimated zinc purchases for 2008 and 32 per cent for 2009 had been hedged.

Rautaruukki Corporation's production processes require a considerable amount of energy. The largest electricity-consuming units are in Finland, Norway and Sweden. In 2007, the Group used around 1.4 TWh of electricity in these countries. Heat and steam created in the production processes are used to generate electricity and heat at the Raahe Steel Works. The Group generates almost half of the electricity it consumes and buys the rest on the market. Most of the electricity consumed by the Group's production plants in the Nordic countries is bought centrally. The Group's other production plants source the electricity they consume locally. The purpose of Rautaruukki Corporation's electricity price risk management is to limit volatility, caused by electricity price fluctuations, in cash flows, and earnings. Hedging is through standard listed derivative products and firm electricity supply contracts. The Production division is responsible for managing the Group's electricity price risk centrally within the parent company. Electricity hedges may span a maximum of six years. At year-end 2007, 82 per cent of future electricity purchases in Finland, Norway and Sweden had been hedged for 2008, 56 per cent for 2009, 34 per cent for 2010, 19 per cent for 2011 and 14 per cent for 2012.

Rautaruukki Corporation applies IAS 39-compliant hedge accounting to both its zinc and electricity derivatives. The zinc and electricity derivatives employed by the Group have been defined as cash flow hedging instruments. The relationship between the hedging instrument and hedge is documented when the hedging contract is made. Hedge effectiveness is assessed both at start of the hedging relationship and quarterly throughout the validity of the relationship. The effective part of movements in the fair value of the derivatives that are designated as and qualify for cash flow hedging is recognised in shareholders' equity. The ineffective part of movements in the fair value of the derivatives is recognised immediately in the income statement. The realised income of the effective part of hedges is recognised as an adjustment to purchases in the period during which the hedged cash flow affects earnings.

Sensitivity to commodity price risks arising from financing instruments as referred to in IFRS 7

A sensitivity analysis has assessed how a +/-10 per cent movement in prices of electricity and zinc would affect the consolidated income statement and shareholders' equity by examining the derivative contracts. The sensitivity analysis excludes the tax impact.

	31 Dec 2007		31 Dec 2006	
€m	Income statement	Shareholders' equity	Income statement	Shareholders' equity
+/−10% movement in price of electricity	+/−0	+5.3/−5.3	+/−0	+5.8/−5.8
+/−10% movement in price of zinc	+/−0	+4.7/−4.7	+/−0	+8.5/−8.5

Liquidity risk

Liquidity risk is defined as a situation in which the Group's assets and borrowing facilities are insufficient to support future operational requirements or a situation in which the costs of fundraising required are exceptionally high. The corporate Treasury is responsible for the Group's liquidity and funding management process. To minimise the risk of refinancing, the Group aims for a balanced maturity profile in its loan portfolio and taps a diverse range of funding sources. At year-end 2007, the remaining maturity of the Group's non-current loan portfolio was 2.3 years.

Rautaruukki Corporation has defined the magnitude of sufficient liquidity, which includes cash and liquid assets less short-term credit, committed undrawn credit lines and undrawn loans from banks. The Group's liquidity reserve is deemed as being adequate when it covers the forecast cash flow, including all non-current loans maturing, for the following 12 months. To ensure liquidity, the Group had committed revolving credit facilities totalling EUR 300 million, of which EUR 300 million remained undrawn, at year-end 2007. The Group has overdraft facilities totalling EUR 50 million, as well as a number of non-committed credit lines and a EUR 250 million commercial paper programme, of which EUR 250 million remained undrawn at the end of the year. The table below sets out the maturity profile of Group's long-term loans.

Maturities of all the Group's interest-bearing liabilities (excl. finance leases) as at 31 Dec 2007

€m	Currency	2008	2009	2010	2011	2012–	Total	% of loan stock
Bonds	EUR	55	0	75	0		130	76%
Loans from financial institutions	EUR	14	5	5	5		29	17%
	PLN	6	0				6	4%
	USD	1					1	0%
	HUF	0	0	0	0	0	0	0%
Pension loans	EUR	1	1				2	1%
Other	EUR	0	0	0	0	1	2	1%
	SEK	1					1	0%
		78	7	80	5	1	171	

Credit and counterparty risks

Credit risks

Credit risk is defined as the possibility of a counterparty failing to meet its payment obligations. Rautaruukki manages exposure to credit risk in respect of trade receivables in accordance with the principles approved by the Group's management. The corporate Treasury is responsible for credit risk management, which includes the credit control process, instructions and reporting to corporate management. Credit control processes are arranged, decision-making authorisations are defined and credit policies are drawn up by geographical region or by subsidiary. Corporate management makes the most significant decisions concerning credit limits and other credit risks. Credit risks are reported to the Group's management on a monthly basis. The most significant risks are analysed in detail in the same context.

Rautaruukki manages credit risk in relation to trade receivables by imposing on each customer a credit limit set by credit control. Credit control processes are arranged so that it is impossible for sales to exceed the credit limit. The company seeks to minimise losses arising by the failure of counterparties to meet their payment obligations.

The credit risk to the company is evaluated when deciding on credit limits. The credit risk is defined as being the loss sustained by the company should the counterparty concerned fail to meet its payment obligation. Bank guarantees, other collateral and credit risk insurance of the Group's trade receivables are considered as factors reducing the risk to the company. Advance and cash payments, irrevocable letters of credit and export collections confirmed by a bank are also factors reducing the credit risk. At year-end 2007, credit risk insurance covered 55 per cent of Rautaruukki's net sales (58 per cent in 2006).

In terms of numbers, Rautaruukki's trade receivables are spread over a broad, geographically international customer base and there are no significant risk clusters. Group writedowns in trade receivables in 2007 were EUR 4 million, which corresponds to 0.11 per cent of net sales (EUR 1 million: 0.03 per cent in 2006).

€m	31 Dec 2007	31 Dec 2006
Trade receivables	470	499
Due under 30 days	74	77
Due over 30 days	42	36
Total due	116	113

Counterparty risks

To minimise the counterparty risk in treasury operations, Rautaruukki enters into agreements only with leading credit-worthy banks and other counterparties. In investing activities, the counterparty risk is managed by defining separate risk limits for each counterparty. Rautaruukki has valid ISDA framework agreements with principal counterparties in respect of derivative contracts negotiated outside the stock exchange. No losses from counterparty risks in financing were incurred during the financial year.

Capital management

Capital management at Rautaruukki aims at safeguarding business conditions. The capital structure seeks to ensure flexible access to the capital markets to secure adequate funding at a competitive rate compared to other actors in the industry.

Development of the Group's capital structure is constantly monitored through gearing. The company's strategic intent is to keep gearing below 60 per cent. At year-end 2007, consolidated net interest-bearing liabilities were EUR 28 million (EUR 22 million in 2006) and the gearing ratio was 1 per cent (1 per cent). Net liabilities include interest-bearing liabilities less interest-bearing liquid receivables and cash.

The Group seeks a return on capital employed of over 20 per cent. The dividend policy is to distribute 40–60 per cent of earnings for the year to shareholders. The aim is for a steadily rising dividend whilst also taking into account the needs of business growth.

Gearing ratios are shown below:

€m	2007	2006
Interest-bearing liabilities	138	218
Interest-bearing current liabilities	86	164
Cash and cash equivalents	196	361
Net liabilities	28	22
Shareholders' equity, total	1,987	1,833
Gearing ratio	1.4%	1.2%

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.

2007 €m	Ruukki Construction	Ruukki Engineering	Ruukki Metals	Group management and other operations	Group
Income					
External net sales	1,042	667	2,168	0	3,876
Profit					
Operating profit	150	96	417	-25	637
Financing items					−20
Share of results of associated companies					3
Taxes					−162
Profit for the period					458
Other information					
Segment assets	820	424	1,269	333	2,846
Investment in associated companies					15
Segment liabilities	160	81	212	422	875
Capital expenditure	96	35	61	3	194
Depreciation and impairment	48	20	85	0	153

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

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	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Finland	1,218	1,134	1,664	1,764	103	137
Other Nordic countries	1,181	1,140	331	331	18	9
Central Eastern Europe	819	618	492	365	73	178
Rest of Europe	574	707	93	102	0	1
Other countries	83	84	8	5	0	0
Eliminations and unallocated assets			273	459		
Group total	3,876	3,682	2,861	3,026	194	325

Segment income is defined based on customer locations in accordance with geographical regions. The aggregate carrying amount 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

2007

In January 2007, Rautaruukki Corporation acquired the entire share capital of Omeo Mekaniska Verkstad AB for EUR 4 million. This transaction strengthened Rautaruukki's position in the lifting, handling and transportation equipment industry. Omeo Mekaniska Verkstad has been incorporated into Rautaruukki's accounts as part of the Ruukki Engineering segment since 1 February 2007.

In February 2007, the company strengthened its position in the Nordic countries as a supplier of structures for steel bridge through the acquisition of the entire share capital of Scanbridge AS of Norway. The transaction was closed on 2 April 2007 and the shares were acquired debt-free for EUR 6 million. The transaction complements the Rautaruukki's expertise especially in the manufacture and installation of bridge structures. Scanbridge AS has been incorporated into Rautaruukki's accounts as part of the Ruukki Construction segment since 1 April 2007.

In May 2007, the company acquired an 80.7 per cent stake Hungarian company in Aprítógépgyár Zrt. (AGJ) for EUR 4 million. The acquisition supports implementation of the company's growth structure in the lifting, handling and transportation equipment customer segment. The transaction was closed on 29 May 2007 and Aprítógépgyár Zrt. has been incorporated in Rautaruukki's accounts as part of the Ruukki Engineering segment since 1 June 2007.

The table below shows the business combinations taking place during 2007. The information also includes acquisition of the shares in Teräsportti Oy, which the Group completed in April 2007. The shares were acquired for EUR 4 million.

€m	
Cash payment	19
Fair value of assets acquired	17
Goodwill	3

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

Assets and liabilities of the acquired companies

€m	Fair value	Carrying amount of acquired companies
ASSETS		
Non-current assets		
Intangible assets	2	
Tangible assets	18	14
Current assets		
Inventories	9	9
Trade and other receivables	12	12
Cash and cash equivalents	2	2
Assets, total	43	37
LIABILITIES		
Non-current liabilities		
Interest-bearing	3	4
Other	2	2
Current liabilities		
Interest-bearing	3	3
Other	18	15
Liabilities, total	26	24
Value of the acquired asset	17	13

Cash flows from the acquisition	
Acquisition cost paid in cash	19
Cash in acquired sbsidiary	2
	17

The acquired companies increased consolidated net sales by EUR 67 million and net profit for the accounting period by EUR 2 million. If the companies had been acquired on 1 January 2007, it is estimated that the consolidated net sales in 2007 would have EUR 103 million higher and consolidated net profit EUR 2 million higher.

2006

In January, under an agreement signed on 29 September 2005, Rautaruukki Corporation acquired an 80 per cent interest in PPTH Steel Management Oy, which took Rautaruukki's stake from 20 to 100 per cent. The transaction 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 incorporated into Rautaruukki's accounts as part of the Ruukki Construction and Ruukki Engineering segments since 1 January 2006.

In March, under an agreement signed on 19 December 2005, the company acquired the entire shares outstanding in Steel-Mont a.s., which manu-factures steel structures. The transaction was closed at the end of March 2006. Steel Mont a.s. has been incorporated into Rautaruukki's accounts as part of the Ruukki Construction segment since 1 April 2006.

In May, under an agreement signed on 31 May 2006, the company acquired the entire shares outstanding in AZST-Kolor CJSC, which owns a coating line in Antratsyt, in eastern Ukraine. AZST-Kolor CJSC has been incorporated into Rautaruukki's accounts as part of the Ruukki Production segment since 1 June 2006.

In June, under an agreement signed on 31 March 2006, the company acquired the entire shares outstanding in OOO Ventall for 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. The maximum additional price was paid in 2007. Ventall designs and supplies steel frames and sandwich panels for walls and roofs for the Russian market. The transaction was closed in June 2006. OOO Ventall has been incorporated into the accounts as part of the Ruukki Construction segment since 30 June 2006.

€m	
Acquisition cost	149
Cash payment	121
Conditional purchase price	28
Fair value of assets acquired	88
Good will	61

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

Assets and liabilities of the acquired companies

€m	Fair value	Carrying amount of acquired companies
ASSETS		
Non-current assets		
Intangible assets	43	1
Tangible assets	71	42
Current assets		
Inventories	26	26
Trade and other receivables	34	34
Cash flows	7	7
Assets, total	181	110
LIABILITIES		
Non-current liabilities		
Interest-bearing	25	25
Others	5	1
Current liabilities		
Interest-bearing	7	1
Other	54	43
Liabilities, total	91	70
Value of the acquired asset	89	40

Cash flows from the acquisition	
Acquisition cost paid in cash	121
Cash in acquired subsidiaries	7
	114

The acquired companies increased consolidated net sales by EUR 207 million and net profit for the accounting period by EUR 24 million. If the companies concerned had been acquired on 1 January 2006, it is estimated that the consolidated net sales in 2007 would have EUR 259 million higher and consolidated net profit EUR 30 million higher.

The tables below provides information about the acquisition of OOO Ventall.

€m	
Acquisition cost	127
Cash payment	99
Conditional purchase price	28
Fair value of the asset required	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	Carrying amount of acquired company
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		
Interest-bearing		
Other	28	18
Liabilities, total	32	22
Value of the asset acquired	73	37

Cash flows from the acquisition	
Acquisition cost paid in cash	99
Cash in acquired subsidiary	5
	94

The acquired company increased consolidated net sales by EUR 63 million and the net profit for the accounting period by EUR 10 million in 2006. If the company had been acquired on 1 January 2006, it is estimated that the consolidated net sales in 2007 would have EUR 107 million higher and consolidated net profit EUR 16 million higher.

6. Divestments

The reinforcing steel units – Ruukki Betonstahl GmbH in Germany and Ruukki Welbond BV in the Netherlands - were sold in November 2007. This divestment marked the end of Rautaruukki's withdrawal, started in 2006, from the reinforcing steel business. The units were sold for around EUR 27 million and the company booked a loss of approximately EUR 2 million on the transaction.

During 2007, the Rautaruukki received the remaining EUR 5 million from divestment of the Nordic reinforcing units sold in summer 2006.

Other notes to the income statement

7. Other operating income

€m	2007	2006
Gains on the sale of property, plant and equipment	5	13
Other	21	20
	26	32

8. Materials and services

€m	2007	2006
Purchases during the period	1,850	1,910
Change in inventories	−38	−38
External services	369	324
	2,182	2,197

9. Salaries and other employee benefits

€m	2007	2006
Wages and salaries	428	418
Profit-related bonus paid to the personnel fund	12	8
Share-based payments		
Benefits granted paid as shares	1	3
Benefits granted paid as cash	8	19
Pension insurance contributions and pensions		
Defined contribution pension schemes	43	49
Defined benefit pension schemes	−1	−2
Other social security costs	58	54
Total	548	548

Management's employee benefits are discussed in Note 35 Related party disclosures, and share bonus schemes in Note 29 Share-based payments.

The Group's average payroll during the financial period

	2007	2006
Workers	6,027	8,131
Salaried employees	8,688	4,990
Total	14,715	13,121

10. Depreciation, amortisation and impairment losses

€m	2007	2006
Depreciation and amortisation by asset group		
Intangible assets	23	18
Property, plant and equipment*		
Buildings	24	23
Machinery and equipment and other intangible assets	105	107
Depreciation and amortisation, total	152	148
Impairment losses	1	0
Depreciation, amortisation and impairment, total	**153**	**148**

* Depreciation includes depreciation of EUR 2 million (2) on buildings obtained under a finance lease and depreciation on machinery a equipment of EUR 7 million (5).

11. Other operating expenses

€m	2007	2006
Sales freights	153	164
Other personnel expenses	47	36
Information management	31	33
Rent	30	27
External services	29	25
Sales and marketing	12	10
Insurance	7	7
Others	95	85
Total	404	387

The Group's research and development expenditure during the financial year was EUR 28 million (22).

12. Finance income and expense

€m	2007	2006
Interest income from loans and other receivables	10	5
Income from cash and cash equivalents measured at fair value through profit and loss	4	1
Other finance income	0	1
Finance income	13	7
Interest expense from financial liabilities booked at allocated acquisition cost	−21	−26
Other finance expense	−1	−3
Finance expense	−22	−29
Exchange rate gains from loans and other receivables	11	15
Exchange rate gains from foreign currency derivatives not qualifying for hedge accounting	14	9
Exchange rate gains	25	24
Exchange rate losses from loans and other receivables	−16	−6
Exchange rate losses from foreign currency derivatives not qualifying for hedge accounting	−22	−18
Exchange rate losses	−37	−22
Finance income and expense, total	**−20**	**−22**

Exchange rate gains and losses are stated net in the income statement. EUR -6 million (+14) arising on electricity derivatives qualifying for hedge accounting has been recognised in the income statement as an adjustment to electricity purchases and EUR 24 million (+29) arising on zinc derivatives qualifying for hedge accounting has been recognised in the income statement as an adjustment to zinc purchases.

Apart from the exchange rate differences disclosed in Finance income and expense, the consolidated operating profit included an exchange rate difference of EUR +3 million (-6) on sales and EUR -21 million (-10) on purchases.

13. Income taxes

€m	2007	2006
Current tax	−168	−139
Taxes for previous periods	0	4
Change in deferred tax assets and tax liabilities	6	1
Total	−162	−134

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

€m	2007	2006
Profit before taxes	621	635
Share of results of associated companies –shown net of taxes	3	129
Profit before taxes and associated companies' result	618	506
Taxes calculated using the existing tax rate	161	131
Effect of differing tax rates of foreign companies	0	6
Tax-free income	−5	−3
Non-deductible expenses	3	1
Confirmed losses for which a deferred tax asset has not been recorded	3	3
Taxes from previous years	0	−4
Taxes in the income statement	162	134

Taxes recorded directly to equity and a specifi cation of other changes in deferred taxes are given in Note 21 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.

	2007	2006
Profit for the period attributable to equity holders of the parent (€m)	458	501
Weighted average number of shares outstanding during the period (1,000)	138,491	136,864
Undiluted earnings per share (€/share)	3.31	3.66

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.

	2007	2006
Profit for the period attributable to equity holders of the parent (€m)	458	501
Net profit for the period for the calculation of earnings per share adjusted for the dilution effect (€m)	458	501
Weighted average number of shares during the period (1,000)	138,491	136,864
Conversion of convertible bonds into shares (1,000)	75	281
Weighted average number of shares for calculating earnings per share adjustedfor the dilution effect (1,000)	138,566	137,145
Earnings per share adjusted for the dilution effect (€/share)	3.31	3.65

Notes to the balance sheet assets

15. Tangible assets

€m	2007	2006
Land and water		
Acquisition cost at 1 Jan	26	19
Additions	3	6
Additions through acquisitions	1	5
Disposals	−2	−1
Disposals through divestments	0	−1
Exchange differences	0	−1
Carrying amount at 31 Dec	29	26
Buildings		
Acquisition cost at 1 Jan	610	579
Additions	34	14
Additions through acquisitions	13	40
Disposals	−15	−7
Disposals through divestments	0	−18
Exchange differences	0	1
Acquisition cost at 31 Dec	642	610
Accumulated depreciation at 1 Jan	−293	−288
Accumulated depreciation on disposals	10	5
Accumulated depreciation on divestments	0	11
Depreciation for the period	−24	−21
Exchange differences	0	0
Accumulated depreciation at 31 Dec	−307	−293
Carrying amount at 31 Dec	335	317
Machinery and equipment		
Acquisition cost 1 Jan	2,141	2,205
Additions	96	65
Additions through acquisitions	5	19
Disposals	−21	−24
Disposals through divestments	0	−123
Exchange differences	−2	−1
Acquisition cost at 31 Dec	2,219	2,141
Accumulated depreciation at 1 Jan	−1,502	−1,515
Accumulated depreciation on disposals	17	21
Accumulated depreciation on divestments	0	93
Depreciation and impairment losses	−105	−102
Exchange differences	1	1
Accumulated depreciation at 31 Dec	1,589	−1,502
Carrying amount at 31 Dec	630	638

€m	2007	2006
Advance payments and construction in progress		
Acquisition cost at 1 Jan	61	34
Changes	22	27
Carrying amount at 31 Dec	83	61
Tangible assets, total	1,076	1,043

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	2007	2006
Buildings		
Acquisition cost at 1 Jan	32	28
Additions	0	4
Disposals/transfers between tangible asset items	−6	0
Acquisition cost at 31 Dec	26	32
Accumulated depreciation at 1 Jan	−5	−5
Depreciation for the period	−2	0
Accumulated depreciation at 31 Dec	−7	−5
Carrying amount at 31 Dec	18	27
Machinery and equipment		
Acquisition cost at 1 Jan	38	38
Additions	2	0
Additions through acquisitions	2	0
Disposals	0	0
Acquisition cost at 31 Dec	42	38
Accumulated depreciation at 1 Jan	−15	−10
Depreciation for the period	−7	−5
Accumulated depreciation at 31 Dec	−22	−15
Carrying amount at 31 Dec	21	23

16. Intangible assets

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

€m	2007	2006
Goodwill		
Acquisition cost at 1 Jan	105	47
Additions through acquisitions	3	58
Exchange differences	−2	0
Carrying amount at 31 Dec	106	105
Customer relationships		
Acquisition cost at 1 Jan	41	0
Additions through acquisitions	2	41
Acquisition cost at 31 Dec	42	41
Accumulated depreciation at 1 Jan	−4	0
Depreciation for the period	−6	−4
Accumulated depreciation at 31 Dec	−10	−4
Carrying amount at 31 Dec	32	37
Other intangible rights		
Acquisition cost at 1 Jan	159	141
Additions	18	12
Additions through acquisitions	0	8
Disposals	−3	−1
Disposals through divestments	0	−2
Exchange differences	0	1
Acquisition cost at 31 Dec	175	159
Accumulated depreciation at 1 Jan	−111	−100
Accumulated depreciation on disposals	2	1
Accumulated depreciation on divestments	0	2
Depreciation for the period	−17	−14
Exchange differences	0	−1
Accumulated depreciation at 31 Dec	−126	−111
Carrying amount at 31 Dec	49	47
Advance payments		
Acquisition cost at 1 Jan	15	10
Changes	−7	5
Acquisition cost at 31 Dec	8	15
Other intangible assets, total	**89**	**99**

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 10.19 per cent (9.14%) for all cash-generating units.

€m	2007	2006
Allocated goodwill		
Ruukki Construction	68	67
Ruukki Engineering	25	27
Ruukki Metals	12	11
Other	1	0
Total	106	105

Cash flows subsequent to the forecasting period have been forecast applying a 1 per cent 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

Combined assets, liabilities, net sales and profit of associated companies

€m	Net sales	Profit/loss	Assets	Liabilities
2007				
Oy Ovako Ab	0	3	2	0
Others	223	14	99	46
2006				
Oy Ovako Ab	1,200	282	27	6
Others	198	12	97	48

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 2006 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. Liquidation is expected to be completed during early 2008.

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 is being liquidated)	FI	Helsinki	47.0
PlussStål AS	NO	Trondheim	50.0
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. Financial assets and liabilities by category

31 Dec 2007

€m	Financial assets/liabilities recognised at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Derivatives qualifying for hedge accounting	Carrying amount of balance sheet items	Fair value
Non-current financial assets							
Available-for-sale investments			10			10	10
Non-current interest-bearing receivables		32				32	32
Derivative contracts					4	4	4
Other financial assets		12				12	12
Current financial assets							
Trade receivables		470				470	470
Other receivables		74				74	74
Derivative contracts	7				13	20	20
Financial assets recognised at fair value through profit and loss	178					178	178
Cash at bank and in hand		17				17	17
Total	185	606	10		17	818	818
Non-current financial liabilities							
Interest-bearing liabilities				138		138	138
Derivatives					5	5	5
Other non-current liabilities				13		13	13
Current financial liabilities							
Trade payables				198		198	198
Other liabilities				226		226	226
Derivative contracts	14				1	15	15
Interest-bearing liabilities				86		86	86
Total	14			660	6	680	680

31 Dec 2006

€m	Financial assets/liabilities recognised at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Derivatives qualifying for hedge accounting	Carrying amount of balance sheet items	Fair value
Non-current financial assets							
Available-for-sale investments			10			10	10
Non-current interest-bearing receivables		52				52	52
Derivative contracts	0				23	24	24
Other financial assets		11				11	11
Current financial assets							
Trade receivables		499				499	499
Other receivables		59				59	59
Derivative contracts	1				33	34	34
Financial assets recognised at fair value through profit and loss	296					296	296
Cash at bank and in hand		64				64	64
Other liquid assets		2				2	2
Total	297	686	10		56	1,049	1,049
Non-current financial liabilities							
Interest-bearing liabilities				218		218	218
Other non-current liabilities				19		19	19
Current financial liabilities							
Trade payables				291		291	291
Other liabilities				244		244	244
Derivative contracts	8				0	8	8
Interest-bearing liabilities				164		164	164
Total	8			936	0	945	945

19. Available-for-sale financial assets

€m	2007	2006
At 1 Jan	10	10
Increase	0	0
Decrease	0	0
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.

20. Non-current receivables

€m	2007	2006
Defined benefit pension plan*	115	98
Loan receivable arising from sale of associated company	32	52
Other non-current receivables	13	11
Total	159	162

* Additional information on defined benefit pension plans is given in Note 30 Pension obligations.

21. Deferred tax assets and tax liabilities

Changes in deferred taxes during 2007

€m	1 Jan 2007	Recorded in income statement	Recorded in equity	Acquired/ divested subsidiaries	31 Dec 2007
Deferred tax assets					
Provisions	8	−5			3
Tangible and intangible assets	2	−2			0
Finance leases	7	0			7
Employee benefits	3	−1			2
Measurement of derivatives at fair value	1	−1			0
Confirmed losses	3	−3		1	1
Other items	10	5		1	16
Total	34	−7			28
Netted out against deferred taxes*	−21	9			−12
Deferred tax assets in balance sheet	13	2		1	17
Deferred tax liabilities					
Tangible and intangible assets	128	−3		1	126
Employee benefits	26	4			30
Inventories	2	−1			1
Measurement of derivatives at fair value	16	−2	−12		2
Other items	10	−11			−1
Total	182	−13			158
Netted out against deferred taxes*	−21	9			−12
Deferred tax liabilities in balance sheet	161	−4	−12	1	146

Changes in deferred taxes during 2006

€m	1 Jan 2006	Recorded in income statement	Recorded in equity	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

* 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 2007, the Group had confirmed losses of EUR 70 million (71), for which a tax asset had not been recorded because the ability to make use of said losses is uncertain. Of the confirmed losses, EUR 6 million are losses that must be used within five years of the date they are incurred.

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 12 million (9) and of the deferred tax liabilities, EUR 4 million (5), are expected to be realised within 12 months.

22. Inventories

€m	2007	2006
Raw materials and consumables	178	291
Finished and semi-finished products	436	295
Total	614	586

23. Trade and other receivables

€m	2007	2006
Trade receivables	464	490
Trade receivables from associated companies	6	9
Trade receivables, total	470	499
Other receivables from associated companies	0	1
Prepayments and accrued income	38	33
Receivables based on derivative contracts (hedge accounting)	12	55
Receivables based on derivative contracts (others)	2	2
Other receivables	46	26
Other receivables, total	98	116

24. Derivative contracts

The table below discloses the nominal values and fair values of the Group's financing instruments and commodity derivatives. The fair values of derivatives are based on available market prices or a price given by a bank. General estimation models are used to determine the fair values of options. Nominal values do not represent the amounts exchanged by the parties and also include closed contracts.

Cash flow hedges qualifying for hedge accounting

31 Dec 2007

	Nominal value			Fair value			
		Valid		Positive, €m		Negative, €m	
	< 1 year	1–5 years	Total	< 1 year	1–5 years	< 1 year	1–5 years
Zinc derivatives							
Forward contracts*	18,000	12,000	30,000	5		−1	−5
Electricity derivatives							
Forward contracts**	523	613	1,136	8	4		

31 Dec 2006

	Nominal value			Fair value			
		Valid		Positive, €m		Negative, €m	
	< 1 year	1–5 years	Total	< 1 year	1–5 years	< 1 year	1–5 years
Interest rate derivatives							
Interest rate swaps	25		25				
Zinc derivatives							
Forward contracts*	15,000	15,000	30,000	32	19		
Electricity derivatives							
Forward contracts **	664	849	1,513	1	4		

* Nominal amount, tonnes
** Nominal amount, GWh

Derivatives not qualifying for hedge accounting

31 Dec 2007

	Nominal value			Fair value			
		Valid		Positive, €m		Negative, €m	
	< 1 year	1–5 years	Total	< 1 year	1–5 years	< 1 year	1–5 years
Interest rate derivatives							
Interest rate swaps	25		25				
Foreign currency derivatives							
Forward contracts	601		601	7		–9	
Options							
Bought	135	5	140			–1	
Sold	135	5	140			–4	

31 Dec 2006

	Nominal value			Fair value			
		Valid		Positive, €m		Negative, €m	
	< 1 year	1–5 years	Total	< 1 year	1–5 years	< 1 year	1–5 years
Interest rate derivatives							
Interest rate swaps	75	25	100				
Foreign currency derivatives							
Forward contracts	788		788			–7	
Options							
Bought	70		70			–1	
Sold	70		70				

The unrealised profit/loss of the cash flow hedges are booked to equity if the hedge is effective. Other fair value changes are booked through profit and loss. Forecast cash flows of a hedge are estimated to occur over the same period as the derivatives itemised above.

The ineffectiveness of derivatives qualifying for hedge accounting was less than EUR 1 million in 2007 (less than EUR 1 m). Ineffectiveness was attributable to contracts hedging against electricity purchases and has been recognised in the income statement to adjust electricity purchases.

The Group had no significant embedded derivatives at 31 December 2007 or at 31 December 2006.

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

€m	2007	2006
Other financial assets recognised at fair value through profit and loss*	178	296
Total	178	296

* Includes commercial papers, certificates of deposit and short fixed-term deposits. The duration of financial assets does not exceed three months.

26. Cash and cash equivalents

€m	2006	2006
Cash in hand and at banks	17	64
Other cash equivalents	0	2
Total	17	66

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

€m	2007	2006
Cash in hand and at banks	17	64
Other cash equivalents	0	2
Other financial assets recognised at fair value through profit and loss	178	296
Total	196	361

Notes to the statement of changes in equity

27. 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 238,336,817.60. 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 197,067.40 (on 15 February 2007), EUR 169,394.80 (on 28 June 2007), EUR 36,618.00 (on 29 August 2007), EUR 2,726.80 (on 31 October 2007) and EUR 3,400.00 (on 19 December 2007).

Changes in number of shares:

	Issued shares	Treasury shares	Shares outstanding
1 Jan 2006	138,886,445	2,592,697	136,293,748
Transfer of treasury shares		−810,316	
Cancelled		3,000	
31 Dec 2006	139,957,418	1,785,381	138,172,037
Transfer of treasury shares		−309,194	
Share issue	240,710		
Cancelled		750	
31 Dec 2007	140,198,128	1,476,937*	138,721,191

* Market value of the treasury shares at 31 December 2007 was EUR 43.8 million.

On 20 March 2007, the company transferred 84,000 shares to persons covered by the Share Ownership Plan 2004. On 3 August 2007 the company transferred 225,194 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:

15 February 2007	115,922 shares
28 June 2007	99,644 shares
29 August 2007	21,540 shares
31 October 2007	1,604 shares
19 December 2007	2,000 shares
Total	240,710 shares

28. 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 Reserve	Share-based payments	Total
Fair value and other reserves at 1 Jan 2006	26	5	31
Cash flow hedges			
Recognised in equity	42		42
of which deferred tax	−11		−11
Transferred to profit during accounting period	−22		−22
of which deferred tax	6		6
Expenses of share-based payments		-3	-3
Fair value and other reserves at 31 Dec 2006	41	3	44
Cash flow hedges			
Recognised in equity	−12		−12
of which deferred tax	3		3
Transferred to profit during accounting period	−32		−32
of which deferred tax	8		8
Expenses of share-based payments		-3	-3
Fair value and other reserves at 31 Dec 2007	9	0	9

29. Share-based payments

Terms and conditions of share ownership plans

The Group has had share ownership plans as a long-term incentive for key employees since 2000.

In accordance with the terms and conditions of Share Bonus Scheme 2000, a minimum bonus is paid when Rautaruukki's average return on capital employed over a three-year earning 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 earning period, at the earliest.

In December 2004, Rautaruukki Corporation's Board of Directors decided on a new share ownership plan for key employees that would cover about 60 company executives or other key

employees. The plan is divided into three year-long earning 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 element. Shares earned on the basis of the Share Ownership Plan must be owned for at least two years after each bonus payment. However, the President & CEO and members of the Corporate Management Board must retain any shares they have obtained through the plan to at least 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 Corporate Management Board. The Share Ownership Plan 2004 replaces the plan that was introduced in February 2000, for which the last earning period ended in 2006.

In December 2007, Rautaruukki Corporation's Board of Directors decided on a new share ownership plan for key personnel. The plan has three one-year earning periods, which are the years 2008, 2009 and 2010. Any bonuses will be paid out partly in the form of company shares and partly in cash during the year following the respective earning period. The cash element covers the taxes and similar fees arising from the bonus. Payment of a bonus is contingent on achieving the financial targets set, which for the earning period 2008 are gauged by earnings per share (EPS) and return on capital employed (ROCE). Shares earned on the basis of the share owner-ship plan must be owned for at least two years after each earning period. The President & CEO and other members of the Corporate Management Board must, in addition to the two-year commitment period, hold any shares received under the plan to at least the value of their annual gross salary for as long as their service contract continues.

Changes in numbers of shares to be awarded

Number of shares	2007	2006
At 1 Jan	480,152	1,114,968
Share bonuses granted	19,900	180,500
Shares awarded	−309,194	−810,316
Share bonuses cancelled	−171,408	−5,000
At 31 Dec	19,450	480,152

Changes in the maximum number to be awarded 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 awarded. The difference between the maximum number of shares and the number of shares awarded 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
2007	17 Jan 2007	19,900	29.20
2006	6 Feb 2006	180,500	25.80

* Proportion given in shares

Shares awarded

As a consequence of share-based payments, on 20 March 2007 and 3 August 2007, the company transferred 84,000 and 225,194 Se-ries K treasury shares respectively to persons covered by the Share Ownership Plan. The market value of the shares was EUR 35.50 per share on 20 March 2007 and EUR 41.21 per share on 3 August 2007.

As a consequence of share-based payments, on 23 March 2006 and 28 July 2006, the company transferred 291,000 and 519,316 Series K treasury shares respectively to persons covered by the Share ownership Plan. The market values of the shares were EUR 30.77 per share on 23 March 2006 and EUR 22.28 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 Share Ownership Plan. The market value of the shares on 29 August 2005 was EUR 15.66 per share.

Expenses of share ownership plans in 2007

Earning period	No. of persons	Earning periods ended, €m	Earning periods in progress, €m	Total, €m
2007	72		1	1
2004–2006	70	6		6
2006	62	2		2
		8	1	9

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. The 88,317 warrants outstanding at 31 December 2007 entitle holders to subscribe a total of 88,317 Rautaruukki K shares.

Notes to the balance sheet liabilities

30. 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	2007	2006
Current value of unfunded obligations	0	0
Current value of funded obligations	544	539
Fair value of assets	−640	−640
Surplus/deficit	−95	−101
Unrecorded actuarial gains (+) and losses (−)	−27	−7
Unrecorded past service costs	9	10
Pension liability (+) / assets (−) in balance sheet	−114	−98

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

€m	2007	2006
Current service cost	8	7
Interest expense	23	21
Expected rate of return on plan assets	−34	−31
Past service costs	-1	-1
Transfers between pension plans	0	0
Pension expenses in the income statement	−4	−4

The actual return on plan assets was EUR 9 million in 2007 (61).

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

€m	2007	2006
Opening defined benefit obligation	539	458
Service cost	8	7
Interest expense	23	21
Actuarial gains (−) and losses (+)	−4	71
Transfers between pension plans	4	0
Benefits paid	−25	−18
Closing defined benefit obligation	544	539

Changes in the fair value of plan assets:

€m	2007	2006
Opening fair value of plan assets	640	584
Expected return	34	31
Actuarial gains and losses (-)	−25	30
Employer contributions	12	12
Benefits paid	−25	−18
Transfers between pensions plans	4	0
Closing fair value of plan assets	640	640

Percentages of plan assets by asset group

%	2007	2006
Equity finance instruments	23	29
Debt finance instruments		
Non-current	39	44
Current	21	15
Real-estate	7	6
Other	10	6

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 47 million (48) and properties occupied by Rautaruukki, which have a fair value of EUR 40 million (42).

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:

%	2007	2006
Discount rate	5.0	4.3
Expected rate of return on assets	6.5	5.5
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	2007	2006
Current value of unfunded obligations	19	21
Current value of funded obligations	30	27
Fair value of assets	−26	−25
Surplus/deficit	23	22
Unrecorded actuarial gains (+) and losses (−)	−5	−3
Pension liability in balance sheet	18	19

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

€m	2007	2006
Service cost	2	2
Interest expense	2	2
Expected rate of return on plan assets	−1	−1
Pension expenses in the income statement	3	3

The actual return on plan assets was EUR 1 million in 2007 (1).

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

€m	2007	2006
Opening defined benefit obligation	47	80
Service cost	2	1
Interest expense	2	1
Actuarial gains (−) and losses (+)	1	2
Benefits paid	−2	−1
Divestments	0	−36
Closing defined benefit obligation	49	47

Changes in the fair value of plan assets:

€m	2007	2006
Opening fair value of plan assets	25	51
Expected return	1	1
Actuarial gains (+) and losses (−)	−2	−1
Employer contributions	2	1
Benefits paid	−1	−1
Divestments	0	−27
Closing fair value of plan assets	26	25

Percentages of plan assets by asset group:

%	2007	2006
Equity finance instruments	38	42
Debt finance instruments	56	51
Other	6	7

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:

%	2007	2006
Discount rate	4.2	4.3
Expected rate of return on assets	3.0	3.7
Estimated wage and salary increases	2.8	3.7

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

€m	2007	2006
Obligation arising from defined benefit plans	−594	−585
Plan assets	666	664
Surplus/deficit (−)	72	79
Experience adjustments on plan liabilities	3	−22
Experience adjustments on plan assets	−26	30

The Group expects to contribute EUR 13 million to its defined benefit pension plans in 2008.

31. Provisions

€m	Share bonuses	Environment provisions	Warranty provisions	Restructuring provisions	Others	Total
At 1 Jan 2007	11	4	4		9	28
Increases in provisions	1		3		7	11
Provisions recognised	−11	−1	−4		−3	−19
Reversals of unused provisions		−1	0		−7	−8
At 31 Dec 2007	1	3	3		5	11
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
At 31 Dec 2006	11	4	4	0	9	28

€m	2007	2006
Non-current provisions	8	27
Current provisions	4	2
Total	11	28

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. Details of the plan are given in Note 29 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.

In 2005 and 2006, the Group booked a provision totalling EUR 3 million for landscaping a land area in Raahe. The remaining EUR 2 million of the provision is expected to be realised within the next two 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 2 million were sold in 2007 (3).

Emissions allowances

No.	2007	2006
Emissions allowances to be surrendered	4,600,000	4,900,000
Emissions allowances sold in corporate divestments	0	–200,000

Mine closure plan

The company will submit by the end of March 2008 a completed plan to the Finnish-Swedish Frontier Rivers Commission regarding watercourse arrangements and other subsequent actions after closure of the Rautuvaara mine. The plan drawn up in 2007 is based on surveys made in the area, specialist recommendations and alternative environmental impact and risk assessments. The company ceased mining operations in 1988, since when there have been other actors in the area. No provision in respect of the mine closure plan has been booked.

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 restructuring provision is booked when the Group has prepared a detailed restructuring plan and begun implementation of the plan or announced the matter.

32. Interest-bearing liabilities

€m	2007	2006
Non-current		
Loans from financial institutions	15	30
Bonds	75	130
Finance lease liabilities	44	55
Pension loans	1	3
Others	2	2
Total	138	218
Current		
Loans from financial institutions	21	51
Bonds	55	104
Finance lease liabilities	7	6
Pension loans	1	1
Others	2	1
Total	86	164

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	2007	2006
Bonds (nominal value)				
2003–2008	5.0%	EUR	55	55
2003–2010	5.1%	EUR	75	75
			130	130
Debenture loans* (nominal value)				
2002–2007/09	7.5%	EUR	0	54
2002–2007/09	6.7%	EUR	0	50
			0	104

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

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

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

%	2007	2006
Bonds and loans from financial institutions	5.0	5.3
Finance lease liabilities	7.3	6.3

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 12 million is included in the balance sheet at 31 December 2007 (14).

Maturities of finance lease liabilities

€m	2007	2006
Finance lease liabilities – minimum lease payments		
Within one year	15	17
Between one and five years	37	50
After five years	24	18
	75	85
Future financial costs	-25	-24
	51	61
Finance lease liabilities – present value of minimum lease payments		
Within one year	7	6
Between one and five years	27	40
After five years	17	15
	51	61

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

€m	2007	2006
Other non-current liabilities		
Defined benefit pension plan (Note 30)	18	19
Other non-current non-interest-bearing liabilities	19	19
	37	38
Current liabilities		
Trade payables	197	288
Trade payables to associated companies	0	2
Trade payables, total	198	291
Accruals and deferred income	150	166
Liabilities based on derivative contracts	15	9
Advances received	40	49
Other liabilities	37	28
Other current liabilities, total	242	252

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

34. Adjustments to cash flows from operations

€m	2007	2006
Non-cash transactions		
Depreciation	156	148
Share of results in associated companies	−5	−129
Share-based payments	1	3
Others	−1	−2
Total	151	20

35. Related party disclosures

The Group's related parties include the parent company, corporate subsidiaries, associated companies (list given in Note 17), the company's Board of Directors and corporate management and Rautaruukki's Pension Foundation. Rautaruukki's Pension Foundation is an AB pension fund as referred to in the Pension Fund Act which manages the voluntary supplementary pension provision arranged by Rautaruukki Corporation as the employer and the minimum pension provision under the Employees' Pension Act in as much that these are not arranged by pension insurance companies. Under the definition of related party, members of the Corporate Management Board and the president & CEO, including their spouses and relatives living in the same household, are part of corporate management.

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:				
AZST-Kolor CJSC	UA	Antratsyt	100	100
Kiinteistö Oy Materiamesta	FI	Helsinki	100	100
Kiinteistö Oy Ylläslehto	FI	Kolari	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 Asia Ltd	CN	Hong Kong	100	100
Ruukki Bulgaria EOOD	BG	Sofia	100	100
Ruukki Construction Polska Holding Sp.zo.o.	PL	Oborniki	99.9	99.9
Ruukki Croatia d.o.o.	HR	Zagreb	100	100
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 Insurance Ltd.	GB	Guernsey	100	100
Ruukki Latvija SIA	LV	Riga	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
Subsidiary of Ruukki Holding AB:				
Ruukki Sverige AB	SE	Halmstad	100	100
Subsidiaries of Ruukki Sverige AB:				
Omeo Mekaniska Verkstad AB	SE	Oskarström	100	100
Ruukki Holding Hässleholm AB	SE	Hässleholm	100	100

Company	Country	Domicile	Group share of share capital (%)	Group share of voting rights (%)
Subsidiaries of Ruukki Holding AS:				
Ruukki Norge AS	NO	Oslo	100	100
Ruukki Profiler AS	NO	Mo i Rana	100	100
Ruukki Furuset AS	NO	Oslo	100	100
Subsidiary of Ruukki Norge AS:				
Ruukki Construction Norge AS	NO	Sandnessjøen	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
Subsidiary of Ruukki Holding Danmark A/S:				
Ruukki Danmark A/S	DK	Brøndby	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
Subsidiary of Ruukki Hungary Kf:				
Ruukki Tisza Zrt.	HU	Jászberény	80,7	80,7
Subsidiaries of OOO 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

The following transactions were carried out with related parties

€m	2007	2006
Sales of goods and services		
Associated companies	23	29
Board of Directors and management	0	0
Rautaruukki's Pension Foundation	0	0
	23	29

Sales of goods and services to related parties were at market conditions and prices.

€m	2007	2006
Purchase of goods and services		
Associated companies	7	27
Board of Directors and management	0	0
Rautaruukki's Pension Foundation	0	0
	7	27

€m	2007	2006
Trade receivables		
Associated companies	7	9
Board of Directors and management	0	0
Rautaruukki's Pension Foundation	0	0
	7	9
Trade payables		
Associated companies	0	2
Board of Directors and management	0	0
Rautaruukki's Pension Foundation	0	0
	0	2

Rautaruukki Corporation paid a total of EUR 46 million (45) in incentive payments to Rautaruukki's Pension Foundation in 2007. In addition, the Rautaruukki Corporation paid rents totalling EUR 6 million (6) to the Foundation. There are no collateral or guarantees relating to the letting of real estate.

Guarantees given on behalf of related parties are disclosed in Note 36 Contingent liabilities.

Management's employee benefits

€m	2007	2006
Salaries and other current employee benefits	3	2
Share-based payments*	6	8
Total	9	10

* The company's management participates in a share ownership plan that is used as an incentive. The terms and conditions of share-based payment are described in Note 29 Share-based payments.

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.

36. Contingent liabilities

The Group has the following contingent liabilities:

€m	2007	2006
Mortgages given	24	26
Pledged assets	5	5
Other guarantees given	41	42
Collateral given on behalf of others	6	5
Leasing and rental liabilities*	154	100
Other financial liabilities	0	11

* Excludes finance lease liabilities, which are stated in Note 32 Interest-bearing liabilities.

Mortgages have been given as collateral for loans from financial institutions (Note 32).

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. The liquidation process is expected to be concluded during the early part of the year 2008.

Swedish company Boliden Commercial AB has initiated arbitration proceedings against Rautaruukki. Boliden is claiming a price differential payment of around USD 11 million from Rautaruukki. Boliden has supplied Rautaruukki with the zinc raw material it needs for the past 30 years. The parties have a long-term contract, which is valid until the end of 2008. The dispute concerns the supplements included in the prices of zinc bought by Rautaruukki. As Rautaruukki understands it, the claim for extra payment is unfounded and no provision for it has been booked. Arbitration proceedings will probably be concluded during 2008.

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

€m	2007	2006
Other lease agreements – total amount of minimum lease payments		
Within one year	39	32
Between one and five years	83	62
After five years	32	6
Total	154	100

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

37. Events after the balance sheet date

In January 2008, Rautaruukki announced it was to build a new sandwich panel plant at Alajärvi in Finland. Starting production in autumn 2009, the new facility will broaden the range of sandwich panels and improve the capability for integrated system deliveries to the commercial and industrial construction market. The EUR 20 million investment will improve the company's ability to serve customers especially in the Nordic countries and Baltics.

In February 2008, Rautaruukki announced it had acquired the German company Wolter Metallverarbeitung GmbH (Wolter), which has customers in the lifting, handling and transportation equipment business. Wolter's main products are telescopic booms for leading globally operating European mobile crane customers and booms for special heavy cranes used in the installation of windmill towers. The company is expected to have net sales of around EUR 10 million in 2008.

Financial indicators

		2007 IFRS**	2006 IFRS**	2005 IFRS**	2004 FAS	2003 FAS
Net sales	€m	3,876	3,682	3,654	3,564	2,953
Operating profit	€m	637	529	618	493	128
– % of net sales	%	16.4	14.4	16.9	13.8	4.3
Profit before taxes	€m	621	635	612	443	70
– % of net sales	%	16.0	17.3	16.7	12.4	2.4
Net profit / loss	€m	458	501	455	330	53
– % of net sales	%	11.8	13.6	12.5	9.2	1.8
Return on capital employed	%	29.6	31.5	32.8	26,0	7.1
Return on equity	%	24.0	30.1	34.7	33.8	6.5
Equity ratio	%	70.4	61.6	56.0	41.7	34.6
Gearing ratio	%	1.4	1.2	22.8	68.0	112
Net interest-bearing liabilities	€m	28	22	341	761	922
Gross capital expenditure	€m	191	325	134	149	102
– % of net sales	%	5.1	8.8	3.7	4.2	3.4
Research and development	€m	28	22	22	17	17
– % of net sales	%	0.7	0.6	0.6	0.5	0.6
Net interest expenses	€m	8	20	28	46	47
– % of net sales	%	0.2	0.6	0.8	1.3	1.6
Balance sheet total	€m	2,861	3,026	2,701	2,712	2,403
Personnel on average		14,715	13,121	11, 684	12,273	12,782
PER SHARE DATA						
Earnings per share, EPS, undiluted	€	3.31	3.66	3.35	2.42	0.39
– diluted	€	3.31	3.65	3.31	2.40	0.39
Equity per share	€	14.30	13.26	10.98	8.29	6.07
Dividend per share	€	1.70+0.30*	1.50+0.50	1.40	0.80	0.20
Dividend per earnings	%	60.5*	55.1	41.9	34.7	51.3
Price per earnings, P/E		9.0	8.2	6.1	3.8	15.0
Share trading	thousands	219,940	179,214	158,463	127,415	44,429
% of shares issued	%	157	128	116	94	33
Share trading	€m	8,444	4,628	2,041	912	207
Average price of share	€	38.34	25.70	12.90	7.16	4.66
Lowest price of share	€	27.38	19.00	8.02	5.67	3.05
Highest price of share	€	52.50	33.31	21.15	9.19	6.36
Average adjusted number of shares,	thousands	138,491	136,864	135,977	135,683	135,616
– diluted	thousands	138,566	137,145	137,377	137,083	136,606
Adjusted number of shares at year-end	thousands	140,198	139,957	138,886	138,886	138,886
– excluding treasury shares	thousands	138,721	138,172	136,294	135,813	135,616
– diluted	thousands	138,796	138,453	137,694	137,213	137,016
Share price at year-end	€	29.65	30.15	20.55	8.74	5.84
Market capitalisation at year-end	€m	4,157	4,220	2,854	1,214	811
Effective dividend yield	%	6.7*	6.6	6.8	9.2	3.4

* 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

Indicator		Numerator	Denominator
Return on capital employed	=	profit before extraordinary items (FAS) / taxes (IFRS) + interest expenses ± exchange rate differences + other financial expenses (excl. depreciation for short-term investments)	[balance sheet total[2] – obligatory provisions – non-interest-bearing debt] (average of the beginning and end of the year)
Return on equity	=	profit before extraordinary items (FAS) / taxes (IFRS) – taxes[1]	[capital and reserves[2] + minority interests] (average for the beginning and end of the year)
Equity ratio	=	capital and reserves[2] + minority interests	balance sheet total[2] – current advanced payments received
Gearing ratio	=	interest-bearing net debt	capital and reserves[2] + minority interests
Net interest-bearing debt	=	interest bearing debt – cash and other liquid current assets	
Earnings per share (EPS)	=	profit before extraordinary items (FAS) / taxes (IFRS) – minority interests - taxes[1]	adjusted average number of shares[2]
Equity per share	=	capital and reserves[2]	adjusted number of shares at year-end[2]
Dividend per share	=	dividends paid	adjusted number of shares at year-end[2]
Dividend per earnings	=	dividend per share	earnings per share
Price per earnings (P/E)	=	share price at year-end	earnings per share
Average share price	=	total EUR trading of the share	adjusted number of shares traded
Market capitalisation	=	number of shares x closing price at year-end	
Effective dividend yield	=	dividend per share	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)

Rautaruukki Corporation's full financial statements can be viewed on the company's website at www.ruukki.com/investors. The figures given below are not IFRS compliant.

FAS

€m	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
Net sales	2,680	2,443
Change in stocks of finished goods and work in progress	–6	80
Production for own use	11	5
Other operating income	18	20
Raw materials and services	–1,418	–1,393
Personnel expenses	–389	–362
Depreciation and value adjustments	–107	–108
Other operating charges	–255	–243
	–2,170	–2,106
Operating profit	**534**	**442**
Financial income and expenses		
Income from other non-current financial assets	256	2
Other interest and financial income	34	19
Value adjustments of non-current financial assets	0	–4
Interest and other financial expenses	–31	–27
Financial income and expenses, total	259	–10
Profit before extraordinary items	**793**	**432**
Extraordinary items		
Extraordinary expenses	–3	–33
Profit before appropriations and taxes	**791**	**398**
Appropriations		
Change in depreciation reserve	10	10
Profit before taxes	**800**	**408**
Income taxes		
Taxes for the year	–140	–113
Profit for the financial period	**660**	**295**

Parent company's balance sheet (FAS)

FAS €m	31 Dec 2007	31 Dec 2006
ASSETS		
Non-current assets		
Intangible assets		
Intangible rights	4	4
Other capitalised long-term expenses	38	34
Advance payments	8	15
	50	53
Tangible assets		
Land and water	9	9
Buildings	254	235
Machinery and equipment	519	528
Advance payments and construction in progress	34	47
	815	819
Financial assets		
Shares in Group companies	349	343
Receivables from Group companies	8	8
Shares in associated companies	7	7
Other shares	6	5
	369	362
Non-current assets, total	**1,234**	**1,235**
Current assets		
Inventories		
Raw materials and consumables	119	137
Finished and semi-finished products and goods	236	219
	355	356
Receivables		
Long-term		
Trade debtors	1	0
Long-term receivables from Group companies	124	119
Long-term receivables from others	32	52
	157	172
Short-term		
Trade debtors	229	270
Short-term receivables from Group companies	93	85
Short-term receivables from associated companies	6	9
Loan receivables from Group companies	109	113
Other receivables	7	10
Prepayments and accrued income	20	19
	464	505
Receivables, total	**621**	**677**
Securities held as current financial assets		
Other securities	60	295
Cash in hand and at banks	58	8
Current assets total	1,095	**1,336**
Assets total	**2,329**	**2,571**

€m	31 Dec 2007	31 Dec 2006
EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	238	238
Share premium reserve	220	220
Revaluation reserve	33	33
Retained earnings	389	369
Profit for the financial period	660	295
	1,540	1,155
Appropriations		
Depreciation reserve	363	373
Provisions		
Provisions for pensions	16	18
Other provisions	5	19
	21	37
Liabilities		
Non-current liabilities		
Interest-bearing		
Bonds and debenture loans	75	129
Pension loans	1	2
Other liabilities	15	28
	91	160
Non-interest-bearing		
Amounts owed to Group companies	0	5
Current liabilities		
Interest-bearing		
Bonds and debenture loans	55	104
Loans from financial institutions	13	45
Pension loans	1	1
Amounts owed to Group companies	0	313
	69	464
Non-interest-bearing		
Advances received	4	20
Trade payables	117	184
Amounts owed to Group companies	5	7
Amounts owed to associated companies	0	2
Accruals and deferred income	108	156
Other liabilities	10	9
	245	379
Equity and liabilities, total	**2,329**	**2,571**

Parent company's cash flow statement (FAS)

FAS €m	2007	2006*
Cash flow from operations		
Profit before extraordinary items	793	432
Adjustment		
Depreciation	107	108
Unrealised foreign exchange gains and losses	5	0
Other non-cash income and expense	-2	-7
Financial income and expenses	-2	10
Other adjustments	-269	-11
Cash flow before changes in working capital	632	531
Change in working capital		
Change in current non-interest-bearing receivables	62	60
Change in inventories	1	-42
Change in current non-interest-bearing liabilities	-93	49
Change in working capital	-29	67
Cash flow from operations before financing items and taxes	**603**	**598**
Interest and other financing items paid on operations	-31	-14
Dividends received from operating activities	256	2
Interest received from operating activities	34	0
Taxes paid	-166	-158
Cash flow from operations	**696**	**428**
Cash flow from investing activities		
Investments in tangible and intangible assets	-96	-92
Capital gains on disposal of tangible and intangible assets	1	1
Investment in other financial assets	-48	-142
Capital gains disposal of other financial assets	2	3
Cash flow from investing activities	**-142**	**-231**
Net cash flow	**555**	**197**
Cash flow from financing activities		
Share issue	0	2
Change in current loan receivables	0	316
Change in non-current loan receivables	-316	-3
Change in current loans payable	-148	-109
Cash from merged subsidiairies	0	2
Dividends paid	-277	-191
Cash flow from financing activities	**-740**	**17**
Change in liquid assets	**-185**	**214**
Cash and cash equivalents at the beginning of period	303	89
Cash and cash equivalents at the end of period	118	303
	-185	214

* Comparable data has been adjusted to comply with the Finnish Accounting Board's new guideline on the cash flow statement

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 2 April 2008 that a dividend of EUR 1.70 per share and an additional dividend of 0.30 per share to total EUR 2.00 per share be paid for the financial year ended 31 December 2007 and that the remainder of the distributable capital be retained.

The parent company's distributable equity was EUR 1,049,306,833.51.

The total amount of the dividend on the 138,721,191 shares outstanding at 6 February 2008 is EUR 277,442,382, corresponding to 60.5 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 2007 are shares from the company's treasury shares that have been transferred prior to the record date for the dividend payout to persons covered by the 2007 earnings period of the Share Ownership Plan 2004.

The proposed record date for the dividend payout is 7 April 2008 and the dividend will be paid on 16 April 2008.

Helsinki, 6 February 2008

BOARD OF DIRECTORS

Jukka Viinanen

Reino Hanhinen

Maarit Aarni-Sirviö

Christer Granskog

Jukka Härmälä

Pirkko Juntti

Kalle J. Korhonen

Liisa Leino

Sakari Tamminen
President & CEO

Auditors' report

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 1.1. – 31.12.2007. 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, February 6, 2008
Ernst & Young Oy
Authorized Public Accountant Firm

Pekka Luoma
Authorized Public Accountant

Statement of the Supervisory Board

Having today considered the Company's financial statements and consolidated financial statements for 2007, as well as the Auditors' Report, the Supervisory Board of Rautaruukki Corporation proposes to the 2008 Annual General Meeting of shareholders that the parent company's and consolidated income statements and the balance sheets be adopted.

Helsinki, 20 February 2008

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/2006	II/2006	III/2006	IV/2006	I/2007	II/2007	III/2007	IV/2007
Ruukki Construction	133	181	244	271	213	258	278	292
Ruukki Engineering	132	142	127	157	167	163	157	180
Ruukki Metals	591	604	514	583	570	588	500	509
Other units	0	1	0	2	0	0	0	0
Consolidated net sales	856	928	885	1,013	950	1,009	935	982

Operating profit by quarter (IFRS)

€m	I/2006	II/2006	III/2006	IV/2006	I/2007	II/2007	III/2007	IV/2007
Ruukki Construction	8	21	33	39	33	40	45	32
Ruukki Engineering	25	21	28	33	32	27	23	15
Ruukki Metals	77	87	89	111	119	117	104	77
Group management and other units	−15	−2	−9	−16	−6	−5	−10	−5
Consolidated operating profit	95	127	140	167	178	178	162	120

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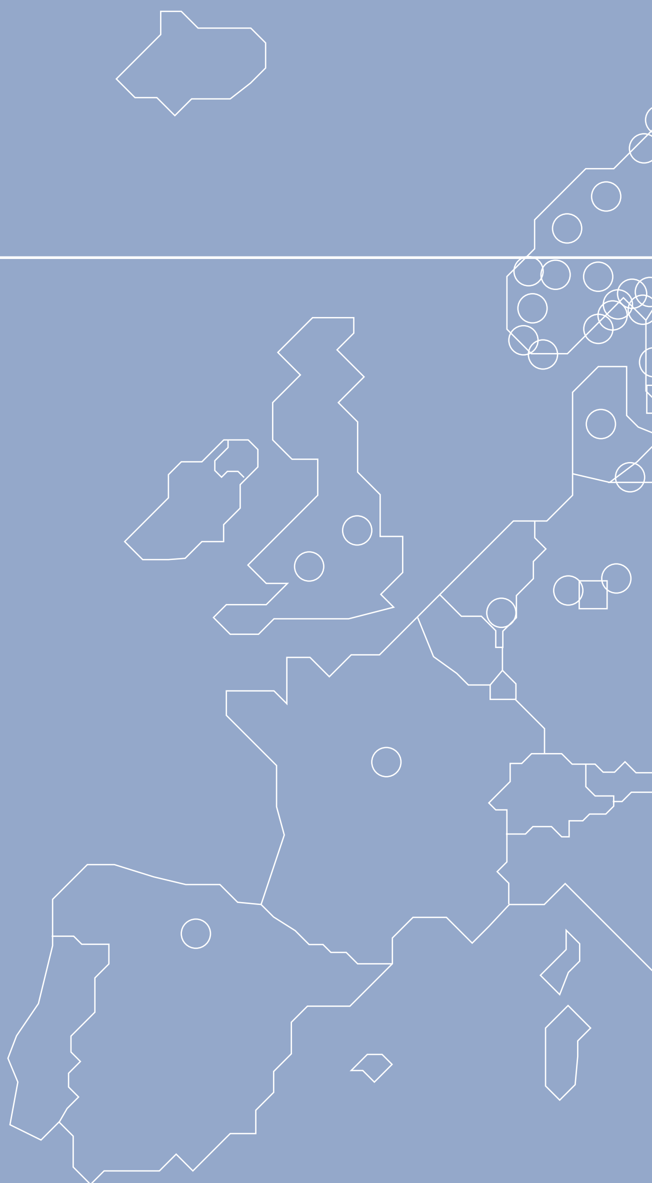

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