

ANNUAL REPORT 1996



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Annual General Meeting

The shareholders of Rautaruukki Oy are invited to the Annual General Meeting to be held on Tuesday 25 March 1997 at 10 a.m. at the Hotel Radisson SAS Helsinki, address Runeberginkatu 2.

Shareholders who wish to attend the meeting must give notice no later than 4 p.m. on Monday 24 March, either in writing to

Rautaruukki Oy,
P.O. Box 860, FIN-00101 HELSINKI
or by phone
+358 9 4177 202/Taina Vilppala.

Only those shareholders may attend who have been entered in the shareholders' register maintained by Suomen Arvopaperikeskus Oy no later Than 14 March.

Proposal for Dividend

The Board of Directors of Rautaruukki Oy will propose to the Annual General Meeting that the shareholders should be paid a dividend for 1996 of FIM 1.50 per share. The Board of Directors will propose the payment of the dividend on 4 April 1997 to those shareholders who were entered in the owners' register on the matching day 1 April 1997.

Interim Reports

Rautaruukki Oy's scheduled publishing dates for the interim reports are as follows:

11 June '97 Report 1 Jan - 30 Apr 1997
20 October '97 Report 1 Jan - 31 Aug 1997

Interim Reports may be ordered from Rautaruukki's Oulu Office,
tel. +358 8 883 60 or fax +358 8 883 6450.

Corporate Communications

Vice President Esko Lukkari
tel. +358 9 4177 6221
fax +358 9 4177 6324

Investor Relations

Deputy Director Airi Sipilä
tel. +358 9 4177 6246
fax +358 9 4177 6345

Internet

Information about Rautaruukki's finances and products can be read on Internet, address
<http://www.rautaruukki.fi>

Rautaruukki is a listed company whose area of business is manufacture of steel and its versatile upgrading.

- *Demand for steel products fell slightly and prices declined*
- *The result deteriorated and was FIM 715 million*
- *Turnover grew by 39 per cent*
- *Fundia and Keskometalli merged with the Group*
- *Rautaruukki 2000 investment programme continued*

	1996	1995	Change %
Turnover, FIM million	12 834	9 213	+ 39
exports from Finland and international operations %	77	68	
Operating profit, FIM million	1 171	1 385	- 15
% of turnover	9.1	15.0	
Profit before extraordinary items, reserves and taxes, FIM million	715	954	- 25
% of turnover	5.6	10.4	
Profit before reserves and taxes, FIM million	715	810	- 12
% of turnover	5.6	8.8	
Interest bearing net debt, FIM million	5 588	4 347	+ 29
Return on net assets, %	12.5	15.5	
Return on equity, %	14.4	23.4	
Equity ratio, %	34.4	37.7	
Earnings per share, FIM	4.98	7.19	- 31
Equity per share, FIM	35.93	33.16	+ 8
Personnel at year-end	12 410	8 730	+ 42

Five-year Group statistics and principles governing the calculation of key figures shown on pages 54–55

A year of growth

Rautaruukki recorded profits of FIM 715 million in 1996, despite a decline in the market for steel. Rautaruukki reinforced its position as a leading Nordic steel company and raised its net turnover by more than a third when Fundia AB and Keskometalli Oy became Group subsidiaries. The company continued its investment programme aimed at raising its competitive edge, and this will start to have a positive impact in 1997.

Rautaruukki's profit before extraordinary items, reserves and taxes was FIM 715 million, or 5.6 per cent of turnover. The return on net assets was 12.5 per cent, which exceeded the Group's target. Rautaruukki's equity ratio fell slightly because of investments and company acquisitions, to 34.4 per cent. However, net interest expenses in relation to turnover were clearly lower.

Earnings per share were FIM 4.98. This makes it possible to pay a dividend of FIM 1.50 per share, which is about 30 per cent of earnings per share. In this way Rautaruukki continues its stable dividend policy, which takes into account the Group's performance and allows sufficient improvement in the equity ratio.

Lower profits for steel companies

Economic growth slowed down last year in the European Union countries and prices for steel products fell. Western Europe's steel industry had a noticeably poorer year than the previous year. Judging from their interim results, many European steel companies returned considerably lower profits.

Rautaruukki Group profits place it among the most successful steel companies.

Rautaruukki retained its market share in all its products in its domestic and neighbouring markets in the Nordic and Baltic countries. The Group markedly increased its sales in the new market economies around the Baltic Sea.

Rautaruukki continued the Rautaruukki 2000 investment programme which it started in 1995. The investments, which will be completed in stages over the next three years, will significantly increase Rautaruukki's competitive strength and cost efficiency and will make it possible to further increase upgrading production using the company's own steel. This will place Rautaruukki in a strong competitive position in the steel markets at the start of the new millennium.

Steel markets to grow in the next few years

Demand for steel products is expected to grow to some extent in Western Europe during the next few years. Growth should be rapid in the new market economies of the Baltic area and eastern central Europe.

An increase in steel production will result in an extremely sensitive balance between supply and demand in Europe in the next few years, so competition in the steel markets will remain intense. Rautaruukki will sell its extra production mainly as various upgraded products in its established markets and in the expanding new market economy countries in the Baltic area.

Finland may be among the first group of countries to join the European Economic and Monetary Union (EMU). Joining the EMU would create stability for the whole national economy since it would stabilize interest rates and result in low inflation. The EMU would also reduce currency and interest risks for businesses, and for this reason the EMU would have a positive impact on the operations of Rautaruukki and its customer businesses.

Rautaruukki's profitability criteria

Rautaruukki is a cost-effective company manufacturing steel products with high added value. The efficiency figures for the company's steel production, its flexibility in production and speed of deliveries are among the best in Europe. Rautaruukki is one of the largest manufacturers in Europe for many highly upgraded steel products.

The Group is developing its operations so that they meet

the profitability criteria set for them. These state that the return on net assets should be an average of at least 12 per cent over the economic cycle. Our target for the equity ratio is over 40 per cent. We aim to raise the value of the company's shares to increase the value of shareholders' investments.

The development of Rautaruukki's operations aims at raising the value of shares and achieving a good ability to pay dividends. So a key goal for the operations of the Group's industrial divisions and units is to meet the Group's common target for return on equity and to target investments so that the value of the company increases.

The Ministry for Trade and Industry announced in January of the current year that it is investigating ways to broaden Rautaruukki's ownership base. The Board of Directors of Rautaruukki Oy will propose to the Annual General Meeting that a rights issue authorization of a maximum amount

of 15 million shares be granted. No decisions have been made by the Government or Rautaruukki in the case.

Economic growth to accelerate in 1997

Economic growth is expected to speed up during 1997 in the Nordic countries and elsewhere in the European Union, as well as in the new market economies in the Baltic area. For this reason demand for steel products is expected to grow, with fastest growth evident for highly upgraded products such as coated sheet products. Steel products for use in construction should be in especially high demand in the Baltic area.

The prices of steel products are expected to rise during the current year, although the main increases will probably take place in the second half of the year. Rautaruukki's profits are expected to be better than in 1996, as long as the steel markets grow as predicted.

I would like to thank the company's shareholders for their confidence in the company during 1996. My thanks are also due to our customers for a successful year working together. The past year was very challenging for Rautaruukki and its personnel because of the vigorous growth that took place and increased international activity. The Group's entire workforce carried out its work well and rose to meet these new challenges. For this reason I express my deep thanks to our employees.

Helsinki 12 March 1997

Mikko Kivimäki



SHARE INFORMATION

The paid-in share capital of Rautaruukki Oy on 31 December 1996 was FIM 1 202 284 160 and comprised 120 228 416 Series K shares, each carrying ten votes at the Annual General Meeting. According to the Articles of Association, a maximum of 100 000 000 Series A shares can also be issued; these will have one vote each at the Annual General Meeting, and a dividend that is 5 percentage points higher than that of the Series K shares may be paid on them. The par value of the shares is FIM 10.

The company's minimum share capital is FIM 762 815 000 and its maximum share capital is four times this amount, within which limits the share capital may be raised or lowered without amending the Articles of Association.

Rautaruukki Oy's shares were placed in the book-entry securities system in 1994.

Warrant bond issue to management

In 1994 an issue of bonds with warrants in a total amount of FIM 500 000 was targeted at twelve officers belonging to the Group's senior management. The issue of bonds with warrants is part of the Group's incentive system for management. The interest on the issue is 6 per cent and the maturity is 5 years.

Each FIM 500 bond certificate carries a warrant entitling its holder to subscribe 1000 Series K shares at a subscription price of FIM 56.56 per share. Share subscriptions can be exercised during 1 December 1998 – 31 January 2001. On the basis of the subscription, the company's share capital can be increased by a maximum amount of 1 000 000 shares.

Share issues between 1989–1996

	Number of shares	Increase in share capital, FIM	Share capital, FIM
Share capital 31.12.1988	76 281 500		762 815 000
Share issue 7.6.–22.6.1989	+ 11 000 000	110 000 000	872 815 000
Share issue 18.11.–20.12.1993	+ 14 546 916	145 469 160	1 018 284 160
Share issue 26.4.–17.5.1994	+ 18 400 000	184 000 000	1 202 284 160
Share capital 31.12.1996	120 228 416		1 202 284 160

The ten largest shareholders of Rautaruukki Oy 31.12.1996 according to the Share Register

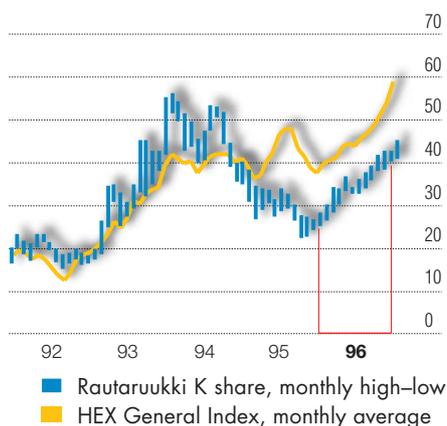
Shareholder	Number of shares	Shares, %
Republic of Finland	82 549 681	68.66
Pension-Varma Mutual Insurance Company	3 710 157	3.09
Pension Insurance Company Ilmarinen Ltd	3 150 000	2.62
Local Government Pensions Institution	1 137 917	0.95
Mutual Life Insurance Company Suomi	1 085 000	0.90
Sampo Enterprise Insurance Company Ltd	590 194	0.49
Salama Life Insurance Company Ltd	546 000	0.45
Teollisuusvakuutus Oy	519 370	0.43
Sampo Insurance Company Ltd	500 000	0.42
Nova Life Insurance Company Ltd	499 603	0.42
The ten largest owners, total	94 287 922	78.43
Administrative registrations	9 941 863	8.27
Other owners	15 998 631	13.30

The total number of shares held by members of the Supervisory Board, the Board of Directors, the Managing Director and the Deputy Managing Director was 13 123, which represent 0.01 % of the voting right conferred by all the company's shares. In addition the members of the Board of Directors have subscribed 59.5 % of the 1994 warrant bond worth FIM 297 500, which confer entitlement to subscribe at most 595 000 K Shares, i.e. 0.49 % of the voting right conferred by all the company's shares.

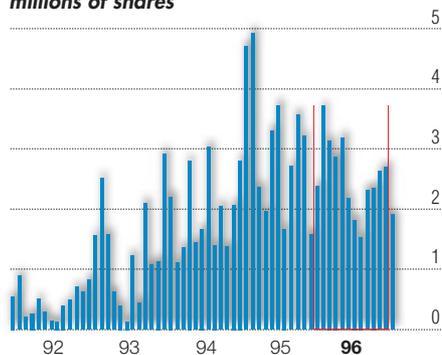
Shareholders by share ownership 31.12.1996 according to the Share Register

Number of shares	Shareholders		Shares	
	No.	%	Thousands	%
1– 100	1 627	18.91	91	0.08
101– 1 000	5 541	64.42	2 316	1.93
1 001– 10 000	1 262	14.67	3 444	2.86
10 001– 100 000	133	1.55	4 124	3.43
100 001–	39	0.45	110 160	91.70
	8 602	100.00	120 135	100.00

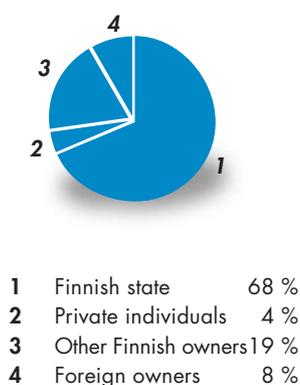
Rautaruukki share price, FIM



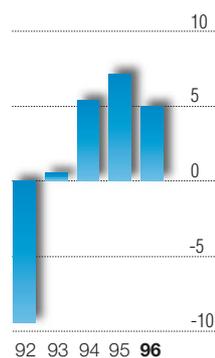
Rautaruukki share monthly trading volume, millions of shares



Shareholders by owner type



Earnings per share, FIM



State ownership

On the basis of authorizations obtained from Parliament, the Council of State can reduce the state's holding in Rautaruukki Oy in such a way that the holding is nevertheless at least one third of the company's shares outstanding and the voting rights they confer.

On 21 January 1997, the Ministry of Trade and Industry announced the appointment of SBC Warburg and UBS Limited as advisers to review the possibilities for broadening the ownership base of Rautaruukki. The Board of Directors will propose to the Annual General Meeting that a rights issue authorization of a maximum amount of 15 million shares be granted. No decisions as to any share offerings have been made by the Government or the Company's Board of Directors.

Pre-emption clause

The Articles of Association contain a provision concerning the obligation to exercise pre-emption, which is intended to protect small shareholders. According to it, a shareholder whose proportion of the company's entire shares outstanding or the votes they confer reaches or exceeds $33\frac{1}{3}$ or 50

per cent, is bound by the obligation, upon a demand of the other shareholders, to exercise pre-emption on their shares and warrants.

Share issue authorization

The Board of Directors has no valid authorization to raise the Company's share capital.

Dividend policy

Rautaruukki Oy follows a competitive and stable dividend policy, which also takes into account the Group's earnings trend and the need to strengthen the company's equity ratio.

Proposal for dividend

The Board of Directors will propose to the Annual General Meeting to be held on 25 March 1997 that a dividend for 1996 of FIM 1.50 per share be paid.

Share price trend

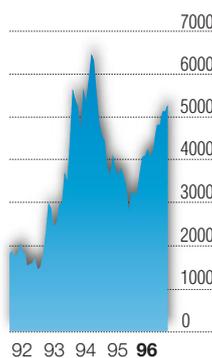
Rautaruukki Oy's shares have been quoted on the Helsinki Stock Exchange since 8 September 1989 and through the SEAQ International trading system associated with the London Stock Exchange since April 1994.

During 1996 the highest share price of Rautaruukki's share was FIM 44.00 and the lowest price was FIM 25.70. The last trade of the year was made at a price of FIM 42.50. Rautaruukki's market capitalization at the end of the year was FIM 5 110 million (3 186).

Rautaruukki's Series K shares were traded on the Helsinki Stock Exchange in a total amount of 30 650 973 shares (36 313 920), totalling FIM 1 090 million (1 033). The average price of the share trades during the year was FIM 35.57 (28.44).

The five-year key indicators for shares are given on page 55.

Market capitalization FIM million



Supervisory Board

Martti Korhonen*,
Chairman
Jorma Rantanen*,
Deputy Chairman

Göran J. Ehrnrooth*
Tauno Heikonen
Juhani Alaranta
Georg Ehrnrooth
Tuula Haatainen
Marjut Kaarilahti
Timo Ihamäki
Tauno Matomäki
Hannes Manninen

* Supervisory Board
working committee

Employee representatives

Kari Jokinen
Pauli Kurikka
Risto Kämäräinen
Asser Siuvatti

Auditor

KPMG WIDERI OY AB

Hannu Niilekselä
Authorized Public Accountant



Board of Directors, sitting from left to right: Lauri Mannerkoski, Seppo Sahlman, Seppo Ahonen, Pekka Einamo, Gösta Engman, Aulis Saarinen and Mikko Kivimäki

Board of Directors

Chairman:

Mikko Kivimäki*, b. 1939, President and Chief Executive Officer
member since 1976, chairman since 1985

Deputy Chairman:

Lauri Mannerkoski, b. 1944, Senior Executive Vice President, marketing
member since 1988, deputy chairman since 1995

Pekka Einamo, b. 1940, Executive V.P., investments, purchases, logistics
member since 1982

Aulis Saarinen, s. 1939, Executive V.P., research and development
member since 1983

Gösta Engman, b. 1945, Executive V.P., administration, personnel
member since 1989

Seppo Ahonen, b. 1942, Executive V.P.
member since 1994

Seppo Sahlman, b. 1948, Executive V.P., finance and treasury
member since 1995

With the exception of Seppo Ahonen, the other members of the Board are permanently employed by the company.

The Rautaruukki Group's operations are divided into six industrial divisions. The Group has production units in more than ten countries in Europe and sales companies on three continents.

Raahe Steel is the largest Nordic steelworks which manufactures steel and offers a wide variety of high-quality tailor-made hot-rolled products.

Rautaruukki's steel is upgraded by Strip Products, Metform and Steel Structure Division. These have specialized in product sectors where they can achieve a high degree of upgrading with added value, and obtain the benefits of large volume production.

Fundia is the leading Nordic manufacturer of long steel products. Its competitive edge is based on cost efficiency and high value-added products.

Engineering Division manufactures special products and sells technology developed by the Group.

Rautaruukki has steel wholesale and steel service centre operations in a number of European countries and sales companies outside Europe, too.

RAAHE STEEL

hot-rolled plates, coils and sheets
prefabricated plate products
steel industry byproducts

STRIP PRODUCTS

cold rolled sheets
hot dip galvanized sheets
colour-coated sheets

METFORM

precision tubes, line pipes
hollow sections
upgraded products

STEEL STRUCTURE DIVISION

profiled sheets
cold-formed sections
facade elements

FUNDIA

bar, wire, profiles and reinforcing
processed products

ENGINEERING DIVISION

rolling stock, dished ends, know-how

SALES UNITS

RAUTARUUKKI'S STEEL PRODUCTION AND UPGRADING

Rautaruukki's manufacture of flat and tubular products forms an integrated production chain in which the steel

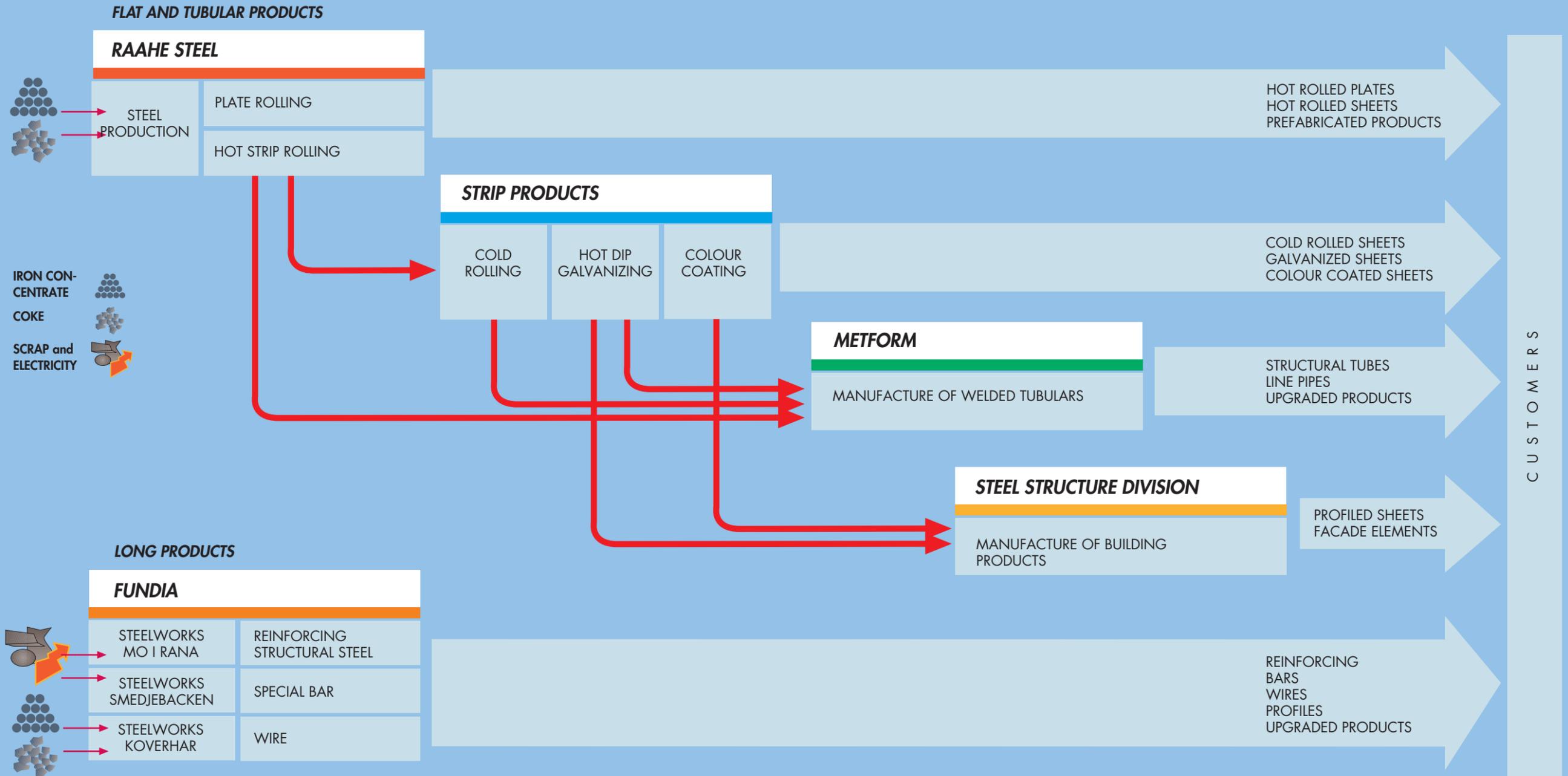
manufactured by Raah Steel is upgraded in different production stages into value added products. Raah

Steel's steel production is based on pig iron that is manufactured from iron ore and coke in blast furnaces.

Fundia manufactures the steel used in its long steel products at three steel mills. In two of these the steel is

made from scrap using the electric arc furnace method, whereas the production at the third steel mill is blast

furnace-based. Fundia operates seven rolling units in the manufacture of various long steel products



Business environment

Slow economic growth continued in the EU countries during 1996, though it picked up somewhat in the second half of the year. There continued to be fast growth in the new market economy countries of the Baltic Rim and in Western Europe. The United States economy was still fairly buoyant, though it slowed down somewhat during the latter part of the year. Economic growth in the Far East remained strong, except for Japan.

In the European market there continued to be satisfactory demand for flat and tubular products but there was weak demand for long steel products. The stock situation for steel products normalized after the first half of the year.

Demand for hot rolled plates and colour-coated sheets grew towards the end of the year. In the new market economy countries of the Baltic area there was increased demand, especially for highly upgraded steel products. The demand for steel products grew somewhat in the United States and held up quite well in the Far East.

World steel output was at the previous year's level. The European Union's steel output contracted by 5 per cent. Of the Rautaruukki Group's deliveries, 57 per cent went to the Nordic countries and the new market economy countries of the Baltic area, and 35 per cent elsewhere in Europe.

In foreign currency terms, the prices of steel products fell in Europe. The prices of hot rolled heavy plates, colour-coated sheets

and certain long products rebounded towards the end of the year. The prices of hot rolled strip products levelled off, but the prices of cold rolled products still weakened during the latter part of the year. The average prices of steel products in foreign currency terms were from 10 to 20 per cent lower than they were a year earlier, depending on the products.

In the United States the prices of steel products strengthened and were higher than the previous year's average prices. In the Far East, prices weakened somewhat during the year.

Steel market

The FIM-denominated average price of Rautaruukki's flat and tubular products was 6 per cent lower than it was in 1995. The Finnish mark was on average 2 per cent weaker against the ECU than it was a year earlier. The average price in Swedish kronor of long rolled steel products was 15 per cent lower than in the previous year. Fundia's currency of account, the Swedish krona, was correspondingly on average 9 per cent stronger against the ECU than it was a year earlier.

In all its products, Rautaruukki maintained its market share in its main markets in Finland and in the other Nordic countries. The Group's sales to the new market economy countries of the Baltic Rim grew by 35 per cent. The Group's total deliveries of flat and tubular products were somewhat greater than they were a year ago. The Group's deliveries of long steel products grew by 7 per cent.

Deliveries of hot rolled

plates contracted in the Nordic countries but grew elsewhere in Europe. Exports of hot rolled plates to overseas markets increased.

Deliveries of cold rolled sheets contracted in the Nordic countries but grew somewhat elsewhere in Europe. Deliveries of colour-coated sheets to the European market remained at the previous year's level. Exports of cold rolled and coated sheets to overseas markets grew.

Deliveries of tubular products declined compared with the previous year. In the latter half of the year, deliveries nevertheless began to grow.

Deliveries of sheet products used in construction increased, particularly in the new market economy countries of the Baltic area.

Deliveries of Fundia's reinforcing products and wire rods grew in the main market in the Nordic countries, but deliveries of Fundia's other products declined somewhat. Deliveries of Fundia's products elsewhere in Europe continued at the previous year's level.

Changes in the Group structure

In April Rautaruukki increased its 50 per cent holding in the Fundia Group, a manufacturer of long steel products, to 100 per cent. Fundia has been consolidated within the Rautaruukki Group as from 1 January 1996.

In June, Rautaruukki acquired Keskometalli Oy, which is engaged in the steel wholesale trade, and received EU approval on the deal in August. Keskometalli has been consolidated within the Rautaruukki Group as from 1 September 1996.

Keskometalli established a steel service centre in Estonia in December and set up new steel product sales companies in Estonia, Latvia and Lithuania.

During the year the Group divested the non-core companies MAS Seuthe GmbH and Hydoring Oy as well as Metalcolour A/S. Fundia wound up the Åminnefors rolling mill in Finland.

The business operations of Mäkelä Metals Oy, which is part of the Steel Structure Division, were amalgamated with the profiled sheet and construction component manufacturer Rannila Steel Oy at the beginning of 1997. The actual merger will be consummated in the spring 1997.

Turnover and financial result

The Group's turnover in 1996 was FIM 12 834 million (9 213 in 1995). Sales to Rautaruukki's home and nearby markets in the Nordic countries and the Baltic area were FIM 7 342 million (5 735). Exports from Finland amounted to FIM 4 663 million (3 665).

Raw material and energy costs net of Fundia were at the previous year's level. The price of Fundia's main raw material, scrap, fell by 15 per cent. During the year steel production was slowed down by the modernization investments carried out at the Raahe steel plant as well as by unexpected machinery and equipment downtime. This meant that purchased slabs had to be used to a greater extent than had been planned and production costs were higher than anticipated. The product range had to be adjusted accord-

ingly. These factors weakened the operating profit by about FIM 80 million.

The Group's operating profit was FIM 1 171 million (1 385). In the previous year 50 per cent of Fundia's earnings were included in this figure. Rautaruukki's share of the earnings of its associated companies was FIM 40 million (112).

Profit before extraordinary items, reserves and taxes was FIM 715 million (954). Earnings per share were FIM 4.98 (7.19).

Profit before extraordinary items, reserves and taxes includes gains on the sale of fixed assets, the most important of which came from the sale of the lime burning kilns at the Raahé steel mill. The figure also includes certain write-downs on fixed assets and losses on the sale of assets as well as a refund including interest on the insurance compensation for damage incurred at sea in 1990, and the interests on Fundia's additional taxes. The net effect of these items is FIM 112 million.

In October a court of first instance issued its judgement on the appeals made to the Swedish tax authorities concerning Fundia's taxation for the 1989-91 financial years. According to the judgements, Fundia would have to pay additional taxes including interest for these years amounting to about 86 million Swedish kronor. The effects of these unforeseen expenses have been taken into account in the 1996 annual accounts. The judgements have been appealed.

In 1990 a pusher barge unit owned by Rautaruukki suffered an accident at sea. According to the agreement

Turnover by division, FIM million

	1996	1995	Change, %
Raahé Steel	4 508	5 031	- 10
Strip Products	2 954	2 925	+ 1
Metform	1 990	2 448	- 19
Steel Structure Division	1 161	856	+ 36
Engineering Division	484	594	- 19
Fundia	3 852		
Other units	758	476	+ 59
internal invoicing	- 2 873	- 3 117	
Consolidated turnover	12 834	9 213	+ 39

Operating profit by division, FIM million

	1996	1995	Change, %
Raahé Steel	613	1 085	- 44
Strip Products	335	176	+ 90
Metform	172	185	- 7
Steel Structure Division	74	20	+ 270
Engineering Division	10	- 51	
Fundia	8		
Other units and internal items	- 41	- 30	
Consolidated operating profit	1 171	1 385	- 15

made with the insurance underwriters concerning the dispute over compensation, Rautaruukki has refunded a total of FIM 29 million on the advance compensation including interest which it received. This has been taken into account in the 1996 annual accounts. Rautaruukki has the possibility of claiming the refunded advance compensation including interest from the company that operated the pusher barge unit.

The annual accounts indicate a net profit of FIM 199 million (786). The profit according to the international IAS financial statement practice is FIM 651 million (947).

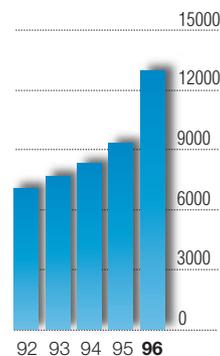
The pricing between Rautaruukki's industrial divisions was changed as from 1 October 1995, at which time the prices were tied to

the average European prices published by Metal Bulletin Research. This has altered the relative profits from one division to the next.

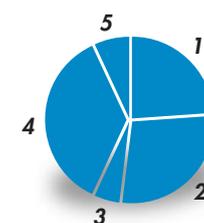
Financing

The Group's liquidity was good. The financing structure was strengthened by repaying long-term loans ahead of schedule in addition to the repayments according to agreements. New long-term loan agreements totalling FIM 3 160 million were made. The loans thus agreed were also obtained on more favourable terms than those paid off prematurely. In step with the reduced need for short-term loans, the company discontinued the long dormant Euro Commercial Paper programme and the creditworthiness assessment for it was also dropped by the rating

Turnover, FIM million

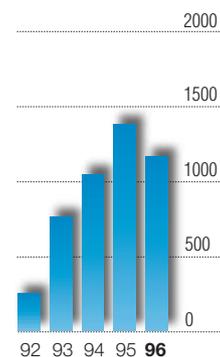


Turnover by market area 1996

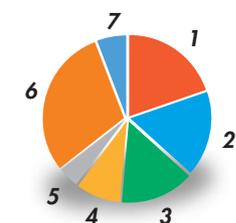


1	Finland	24 %
2	Other Nordic countries	28 %
3	Baltic states, Poland and Russia	5 %
4	Other Europe	36 %
5	Other countries	7 %

Operating profit, FIM million

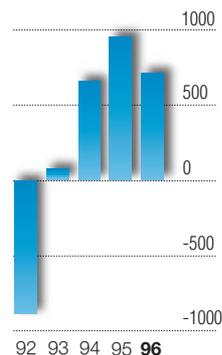


External turnover by division 1996

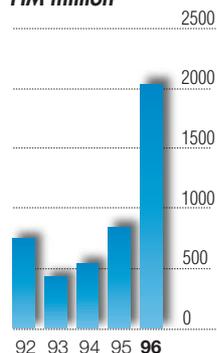


1	Raahe Steel	20 %
2	Strip Products	17 %
3	Meiform	15 %
4	Steel Structure Div.	9 %
5	Engineering Division	3 %
6	Fundia	30 %
7	Other units	6 %

Profit before extraordinary items, reserves and taxes, FIM million



Gross investments, FIM million



agencies.

Reborrowing from Rautaruukki's pension funds was reduced substantially and amounted to FIM 60 million (365). The pension funds have invested the assets primarily in long bonds. Shares in listed companies and convertible bonds accounted for 18 per cent at the end of the year. The change improved the yield on the investment assets of the pension funds and lowered the Group's interest expenses.

The Group's equity ratio was 34.4 per cent (37.7) and the gearing ratio was 129 per cent (109). These financial ratios were greatly affected by the consolidation of Fundia and Keskometalli within the Group as well as by the sell-off of the lime burning kilns. Shareholders' equity, minority interests and optional provisions totalled FIM 35.93 per share (33.16) at the end of the year. Total assets were FIM 12 722 million (10 721).

Cash flow was negative owing to the growth in capital expenditure. Interest bearing net debt stood at FIM 5 588 million (4 347) at the end of the year. Of the interest bearing loans, a total of FIM 956 million (1 211) was short-term. The Group's liquid assets at the close of the year were FIM 420 million (562). In addition, FIM 663 million of the long-term revolving credit facility was unused.

Net interest expenses were FIM 443 million (387). They declined to 3.4 per cent (4.2) as a ratio of turnover. Net financial expenses totalled FIM 456 million (431), including losses on foreign exchange of FIM 3 million (-1).

Share capital

Rautaruukki Oy's share capital did not change during 1996. At the close of the year it was FIM 1 202 284 160 and there were 120 228 416 shares outstanding, all of which were Series K.

The Series K share of Rautaruukki Oy appreciated during the year. The lowest trading price during the year was FIM 25.70 and the highest was FIM 44.00. The last transaction of the year was made at a price of FIM 42.50.

During the year 30.6 million shares (36.3) were traded on the Helsinki Stock Exchange, representing a turnover of FIM 1 090 million (1 033 million). The number of registered shareholders was 8 602 (9 937) at the close of the year. International shareholders held 8.3 per cent (7.8) of the company's shares outstanding.

In January 1997 the government of Finland retained two investment banks to act as its advisers in studying the possibility of expanding the ownership base of Rautaruukki Oy.

Raw materials and energy

Rautaruukki buys its most important raw materials - iron ore, coal and scrap, additives and alloying substances - mainly from Finland's nearby areas, benefiting from short haulage distances. Short transport distances and the Group's own pusher barges give Rautaruukki a significant competitive advantage in its raw materials logistics.

Rautaruukki bought 3.2 million tonnes of iron ore and pellets mainly from northern Sweden and the

remainder from northern Russia. To ensure the supply of raw materials, Rautaruukki has a delivery agreement extending to the end of 1999 with the Swedish company LKAB. Some 1.3 million tonnes of coal were purchased from Poland, Russia and the United States.

Fundia used 1.3 million tonnes of scrap in its steel manufacturing, 30 per cent of which was imported from outside the Nordic countries.

Rautaruukki and Fundia have long-term agreements with electric power utilities in Finland, Sweden and Norway. The Group's purchases of power totalled 1.4 terawatt hours. In addition, the Group's own factories produced 0.5 terawatt hours of electricity.

Capital expenditure

Gross capital expenditures on fixed assets totalled FIM 2 021 million (778) and net capital expenditures were FIM 1 513 million (778). 660 million Swedish kronor went towards the acquisition of the remaining 50 per cent stake in Fundia and FIM 239 million was spent on acquiring Keskometalli.

Blast Furnace No. 2 at Raahe Steel was modernized in the spring 1996. Now that both blast furnaces have been modernized, the pig iron production capacity has been increased by more than 20 per cent. The state-of-the-art technology that has been placed in use at the blast furnaces will improve their operation and extend the duty life of the linings to 15 years, from the previous 10 years.

In progress throughout

Gross capital expenditure by division, FIM million

	1996	1995
Raahe Steel	713	516
Strip Products	103	57
Metform	76	70
Steel Structure Division	50	35
Engineering Division	21	20
Fundia	214	
Other units	844	80
Total	2 021	778

the year was the Rautaruukki 2000 capital expenditure programme whose implementation was made possible by the increase in production capacity of the blast furnaces. The steel and rolled products output at Raahe Steel will increase from 2.3 to 2.8 million tons. The investments will be carried out by debottlenecking the present production lines and modernizing the equipment. The most important capital projects at the Raahe steel mill in 1996 were connected with increasing the charge weight of the steel plant. A new continuous casting machine and a new slab heating furnace for the rolling mill will be completed in 1997.

In addition, at Raahe Steel a decision was taken to build for the Raahe Steel plant a new ladle metallurgy plant incorporating a ladle furnace and vacuum treatment. When the project is completed towards the end of 1998, Rautaruukki's ranges of flat and tubular products will be expanded with a number of new items.

At the Hämeenlinna Works of Strip Products, the modernization of the tandem rolling mill and pickling line was continued in line with the Rautaruukki 2000 programme. The investment programme will raise cold

rolling production from 930,000 tonnes to 1,250,000 tonnes.

Research and development

The focus of research and development activities was on the development of new products and processes.

At Raahe Steel, development of the process control of the coke batteries was continued with the objective of postponing the renovation of the coking plant by 5 years, at least up to 2010. Within iron manufacture, the top development priority was optimizing the operation of the modernized blast furnaces.

Improvements were made to the precision of the dimension and shape of hot rolled products as well as their surface quality by developing control of the furnace atmosphere as well as the rolling technology. The characteristics of thermomechanical TMCP steels, which have good welding properties, and of the RAEX LASER product group that is suited to laser cutting were developed in close cooperation with customers.

Strip Products switched to use lead-free zinc coating in the manufacture of galvanized sheets. For plastic coating, a new grade of steel having improved aging resist-

ance was developed for use particularly as a raw material for formed canopies. A new generation polyurethane-based plastic coating that has excellent malleability and gives long years of durability was brought out on the market.

At Metform the development of tube forming and welding was continued with the objective of obtaining products having improved dimensional accuracy and more even quality. The Steel Structure Division developed a lightweight steel framed house based on the use of a so-called thermo-profile.

At Fundia, the focus was on developing low-alloy special steels and further processed products. The Bar and Wire Processing division brought out on the market a new copper-free welding wire that was developed in cooperation with ESAB.

Cooperation connected with the research programme run by the European Coal and Steel Community was increased with other European steel companies. New research projects were started in the areas of process and product development as well as material and information technology. The development of total quality was continued in accordance with the criteria of the Finnish Quality Award.

The Rautaruukki Group spent a total of FIM 96 million (80) on research and development.

Environmental protection

Rautaruukki is amongst the first steel companies to develop its environmental systems in accordance with the ISO 14001 standard. Fun-

dia's Mo i Rana plant received ISO 14001 certification in August 1996, and audits aiming at obtaining certification will be carried out at Raahe Steel and at Rannila Steel, a unit of the Steel Structure Division, in 1997. Internal environmental auditing activities were increased at the Group's small units.

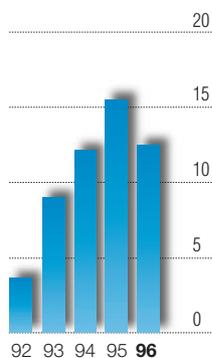
The capital expenditure programme that is presently being carried out at Raahe Steel includes more than FIM 170 million of environmental investments. They will further reduce the already low levels of environmental emissions. Under construction for the steel plant is a new dust removal system that will make it possible to recover over 80 per cent of the plant's particulate emissions.

To purify the water used by the continuous casting plant and hot strip rolling mill, a new water treatment plant is being built which will replace the present open cooling system with a closed circulating water system. Pollution by solids and oil will be cut to about half of the present level and the thermal load will be eliminated almost entirely.

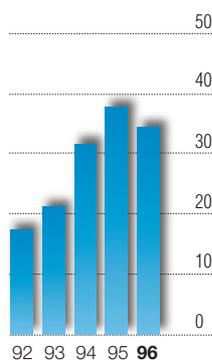
Modernization of the blast furnaces involved the building of slag direct granulation equipment that has reduced the particulate and sulphur emissions from the blast furnaces. Furthermore, the efficiency of heat recovery was boosted and the sale of district heat was expanded.

At the Hämeenlinna Works, a regeneration plant was completed that makes it possible to reuse all hydrochloric acid at the Hämeen-

Return on net assets, %



Equity ratio, %



linna Works and the Raahe Steel Works.

Personnel

The Group's payroll at the close of the year was 12 410 people (8 730) and the parent company employed 6 303 people (5 585). During the year the Group employed an average of 12 812 people (9 318) and the parent company 6 615 people (5 893). The increase in personnel is due to the inclusion in the Group of Fundia and Keskometalli. Without these changes, the average number of employees would have declined by about 200.

The focus of personnel development was on training that supports process management and improves the professional skill, independ-

ence and initiative-taking ability of the company's teams. A group-wide meeting was held at which agreement was reached on the ways of implementing cooperation in Finland at the corporate, divisional and unit levels. The Group's international cooperation body, the Rautaruukki Forum, began operations. Fundia has its own similar cooperation body.

In accordance with Rautaruukki Oy's profit bonus system, Rautaruukki's personnel fund will receive FIM 16 million.

Outlook for 1997

Economic growth is estimated to speed up in the Nordic countries and elsewhere in the European Union during

1997. Growth will strengthen further in the new market economy countries of the Baltic area. The United States economy is anticipated to continue its favourable trend. In the Far East, economic growth will slow down somewhat but remain strong.

Owing to the acceleration of economic growth, the demand for steel products is set to strengthen in the European market. The demand for highly upgraded products such as colour-coated sheets will show the greatest growth. In the new market economy countries of the Baltic area demand will be up, especially for steel products used in construction.

The prices of steel products are estimated to strengthen during 1997. The rise in prices is likely to be weighted towards the second half of the year.

Thanks to the modernization of the blast furnaces and the partial completion of the Rautaruukki 2000 investment programme, Raahe Steel's slab production is planned to be 300,000 tonnes bigger than in 1996 - higher than ever before. The use of purchased slabs will contract by a corresponding amount. Sales of plates and strip rolled products will remain at the previous year's level. Growth is planned for the sales of long rolled products.

The rise in the level of costs is expected to be moderate. Group turnover for 1997 is estimated to be FIM 13.5 billion. Rautaruukki's earnings are estimated to be better than in 1996 provided that the trend in the steel market develops as forecast.

Personnel at year-end

	1996	1995
by division		
Raahe Steel	3 709	3 688
Strip Products	1 056	1 036
Metform	1 644	1 670
Steel Structure Division	908	783
Engineering Division	858	1 012
Fundia	3 522	
Other units	713	541
Total	12 410	8 730
by country		
Finland	7 853	6 802
Sweden	1 883	486
Norway	1 085	162
Germany	910	857
Denmark	288	251
Baltic states	95	55
Great Britain	73	64
Netherlands	70	
France	48	
Poland	47	34
Russia	39	
Other countries	19	19
Total	12 410	8 730

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FIM million	Note	1.1.-31.12.1996		1.1.-31.12.1995	
			%		%
Turnover	1)	12834	100.0	9213	100.0
Change in stock of finished products		-287	-2.2	-16	-0.2
Production for own use		62	0.5	60	0.7
Other income on business operations		257	2.0	137	1.5
Share of associated companies' profit/loss		40	0.3	112	1.2
Expenses					
Sales freights and other sales expenses		896		534	
Material, supplies and goods					
Purchases during the accounting period		5592		4189	
Change in inventories		82		-166	
External services		703		346	
Wages and salaries	2)	2148		1533	
Indirect employee costs	2)	587		456	
Rents		212		179	
Other expenses		750	10970 85.5	428	7499 81.4
Depreciation	3)	765	6.0	623	6.8
Operating profit		1171	9.1	1385	15.0
Financing income and expenses	4)				
Interest income		33		47	
Other financing income and expenses		-10		-43	
Currency exchange differences		-3		-1	
Interest expenses		-475	-456 -3.6	-434	-431 -4.7
Profit before extraordinary items, reserves and taxes		715	5.6	954	10.4
Extraordinary income and expenses	5)				
Extraordinary income				0	
Extraordinary expenses				-144	-144 -1.6
Profit before reserves and taxes		715	5.6	810	8.8
Change in depreciation difference		-466	-3.6	34	0.4
Change in optional reserves		66	0.5	32	0.3
Direct taxes					
Taxes for the year		-83		-55	
Taxes for previous years		-39		-34	
Change in deferred tax liability		6	-116 -0.9	1	-89 -1.0
Profit before minority interest		199	1.5	787	8.5
Minority interest of profit		0	0.0	-1	0.0
Group profit for the year		199	1.5	786	8.5

Individual figures and sums stated in the financial statements have been rounded off to the nearest million from the exact figures. This may lead to minor discrepancies upon addition or subtraction.

CONSOLIDATED BALANCE SHEET

FIM million	Note	31.12.1996	%	31.12.1995	%
ASSETS					
Fixed assets and other long-term investments	7-11)				
Intangible assets					
Establishing and organizing expenses		14		20	
Intangible rights		21		19	
Goodwill		352		277	
Other long-term expenses		42	431	38	354
Tangible assets					
Land and water areas		140		131	
Buildings and structures		1928		1676	
Machinery and equipment		4309		3354	
Advance payments and incomplete acquisitions		505	6881	252	5413
Securities included in fixed assets and other long-term investments					
Stocks and shares in associated companies		563		1093	
Other stocks and shares		82		85	
Interest bearing long-term loans receivable		34		22	
Non interest bearing long-term loans receivable		24	702	35	1234
			8014 63.0		7001 65.3
Valuation items	12)				
Pension liabilities		141		169	
Other valuation items		27	168 1.3	30	199 1.9
Current assets	13)				
Inventories					
Materials and supplies		778		712	
Finished and semi-finished products		1327		740	
Advance payments		4	2109 16.6	16	1468 13.7
Receivables	14)				
Accounts receivable		1770		1290	
Short-term loans and other receivables		3		22	
Accruals		135		158	
Other short-term receivables		102	2010 15.8	22	1491 13.9
Marketable securities included in current assets			138 1.1		296 2.8
Cash in hand and at bank			282 2.2		266 2.5
			4540 35.7		3521 32.8
			12722 100.0		10721 100.0

FIM million	Note	31.12.1996	%	31.12.1995	%
LIABILITIES					
Shareholders' interests	16)				
Restricted equity					
Share capital		1202		1202	
Reserve fund		782		782	
Revaluation fund		195		195	
Translation adjustment		-22	2157	-1	2179
Nonrestricted equity					
Profit/loss from previous years		575		19	
Profit for the year		199		786	
Other nonrestricted equity		-50	723	-27	779
			2880 22.6		2958 27.6
Minority interests			2 0.0		1 0.0
Optional reserves and accumulated depreciation difference	17)				
Accumulated depreciation difference		1236		770	
Optional reserves		204	1440 11.3	260	1029 9.6
Obligatory provisions	6)				
Uncovered pension liability		141		169	
Other obligatory provisions		14	155 1.2	15	184 1.7
External liabilities	18)				
Long-term					
Interest bearing					
Bonds		349		627	
Loans from financial institutions		4536		2724	
Pension loans		180		386	
Advanced payments		0		1	
Other long-term debts		25	5090	3	3741
Non interest bearing					
Pension loans		203		184	
Deferred tax liability		52		0	
Other long-term debts		0	256	0	184
Short-term					
Interest bearing					
Loans from financial institutions		722		1181	
Pension loans		0		0	
Other short-term debts		234	956	30	1211
Non interest bearing					
Advanced payments		148		137	
Accounts payable		861		483	
Accruals		856		745	
Other short-term debts		80	1944	47	1411
			8246 64.8		6548 61.1
			12722 100.0		10721 100.0

CONSOLIDATED FUNDS STATEMENT

FIM million	1.1.-31.12.1996	1.1.-31.12.1995
Business operations		
From operations		
Operating profit	1 171	1 385
Depreciation	765	623
Share of associated companies' profit/loss	-40	-112
Financing income and expenses	-487	-358
Extraordinary items and adjustment of sales profits/losses of fixed assets	-156	-52
Taxes	-71	-64
	1 182	1 422
Change in net working capital		
Change in inventories	-644	-126
Change in short-term receivables	-518	98
Change in non-interest bearing short-term debts	457	75
	-705	47
Cash flow from operations	477	1 469
Investments		
Investments in fixed assets	-2 021	-778
Decrease of fixed assets and sales profits	508	120
Unpaid investments	100	
	-1 413	-658
Cash flow before financing	-936	810
Financing		
Change in long-term receivables	-1	29
Change in long-term debts	1 451	-991
Change in short-term debts	-355	134
Dividend distribution	-204	-120
Other financing items	3	-1
Liquid assets in acquired company	-99	
	795	-948
Change in liquid assets	-141	-138

The items of the funds statement cannot directly be derived from the balance sheet and the profit and loss account due to sold and acquired subsidiaries and changes in exchange rates, for example.

RAUTARUUKKI OY PROFIT AND LOSS ACCOUNT

FIM million	Note	1.1.-31.12.1996		1.1.-31.12.1995	
			%		%
Turnover	1)	6715	100.0	6794	100
Change in stock of finished products		-120	-1.8	76	1.1
Production for own use		55	0.8	49	0.7
Other income on business operations		155	2.3	61	0.9
Expenses					
Sales freights and other sales expenses		537		490	
Material, supplies and goods					
Purchases during the accounting period		2760		3202	
Change in inventories		87		-117	
External services		267		250	
Wages and salaries	2)	1128		998	
Indirect employee costs	2)	297		311	
Rents		21		24	
Other expenses		178	5276 78.6	154	5313 78.2
Depreciation	3)	495	7.4	462	6.8
Operating profit		1033	15.4	1205	17.7
Financing income and expenses	4)				
Interest income		129		105	
Other financing income and expenses		4		-5	
Currency exchange differences		-10		-9	
Interest expenses		-387		-415	
Change in the values of short-term investment		-176	-440 -6.6	31	-293 -4.3
Profit before extraordinary items, reserves and taxes		593	8.8	912	13.4
Extraordinary income and expenses	5)				
Intra-Group contributions received		52		44	
Extraordinary expenses		-7	45 0.7	-320	-275 -4.0
Profit before reserves and taxes		638	9.5	637	9.4
Change in depreciation difference		-463	-6.9	48	0.7
Change in optional reserves		66	1.0	30	0.4
Direct taxes					
Taxes for the year		-70		-46	
Taxes for previous years		2	-68 -1.0	-35	-80 -1.2
Profit for the year		172	2.6	635	9.3

RAUTARUUKKI OY BALANCE SHEET

FIM million	Note	31.12.1996	%	31.12.1995	%
ASSETS					
Fixed assets and other long-term investments 7-11)					
Intangible assets					
Establishing and organizing expenses		14		20	
Intangible rights		16		16	
Goodwill		217		256	
Other long-term expenses		32	279	35	326
Tangible assets					
Land and water areas		37		35	
Buildings and structures		1299		1268	
Machinery and equipment		3105		2990	
Other tangible assets		1		1	
Advance payments and incomplete acquisitions		443	4885	228	4521
Securities included in fixed assets and other long-term investments					
Shares in subsidiaries		946		733	
Stocks and shares in associated companies		453		1083	
Other stocks and shares		31		52	
Interest bearing long-term loans receivable		2185		534	
Non interest bearing long-term loans receivable		212	3827	164	2566
			8991 76.5		7413 70.2
Valuation items 12)					
Pension liabilities		111		155	
Other valuation items		22	133 1.1	29	183 1.7
Current assets 13)					
Inventories					
Materials and supplies		388		458	
Finished and semi-finished products		490		586	
Other inventories		17		17	
Advance payments		0	894 7.6	12	1073 10.1
Receivables 14)					
Accounts receivable		998		1045	
Short-term loans and other receivables		357		240	
Accruals		141		177	
Other short-term receivables		3	1499 12.7	7	1469 13.9
Marketable securities included in current assets					
			138 1.2		296 2.8
Cash in hand and at bank		104	0.9	133	1.3
			2635 22.4		2971 28.1
			11759 100.0		10568 100.0

FIM million	Note	31.12.1996	%	31.12.1995	%
LIABILITIES					
Shareholders' interests	16)				
Restricted equity					
Share capital		1202		1202	
Reserve fund		782		782	
Revaluation fund		195	2180	195	2180
Nonrestricted equity					
Profit/loss from previous years		888		458	
Profit for the year		172	1060	635	1092
			3240 27.6		3272 31.0
Optional reserves and accumulated depreciation difference	17)				
Accumulated depreciation difference		1224		715	
Optional reserves		190	1414 12.0	252	966 9.1
Obligatory provisions	6)				
Uncovered pension liability		111		155	
Other obligatory provisions		1	112 1.0	0	155 1.5
External liabilities	18)				
Long-term					
Interest bearing					
Bonds		348		627	
Convertible bonds		1		1	
Loans from financial institutions		4442		2106	
Pension loans		60		373	
Other long-term debts		0	4851	417	3524
Non interest bearing					
Pension loans			144		138
Short-term					
Interest bearing					
Loans from financial institutions		654		1138	
Other short-term debts		286	940	222	1360
Non interest bearing					
Advanced payments		136		120	
Accounts payable		320		369	
Accruals		602		643	
Other short-term debts		1	1059	21	1152
			6994 59.5		6175 58.4
			11759 100.0		10568 100.0

RAUTARUUKKI OY FUNDS STATEMENT

FIM million	1.1.-31.12.1996	1.1.-31.12.1995
Business operations		
From operations		
Operating profit	1 033	1 205
Depreciation	495	462
Financing income and expenses	-471	-235
Extraordinary items and adjustment of sales profits/losses of fixed assets	111	-13
Taxes	-65	-55
	1 104	1 363
Change in net working capital		
Change in inventories	178	-176
Change in short-term receivables	-30	103
Change in non-interest bearing short-term debts	-97	26
	51	-47
Cash flow from operations	1 155	1 316
Investments		
Net change in fixed assets	-368	-799
Unpaid investments	100	
	-268	-799
Cash flow before financing	886	518
Financing		
Change in long-term receivables	-1 712	186
Change in long-term debts	1 363	-1 071
Change in short-term debts	-520	312
Dividend distribution	-204	
	-1 074	-573
Change in liquid assets	-187	-55

ACCOUNTING PRINCIPLES

Accounting principles for the financial statements

The consolidated financial statements include the financial statements of Rautaruukki Oy plus those of those companies in which the parent company, either directly or through its subsidiaries, holds over 50 per cent of the voting rights conferred by stocks or shares.

Investments in associated companies (holding 20–50 per cent) have been included in the consolidated financial statements as of 1994, using the equity method. The Group's share in the associated companies' profits for the accounting period, according to the Group's holding in these companies, is given on a separate line in the profit and loss account.

The consolidated financial statements do not include subsidiary or associated housing corporations, real estate corporations and dormant companies which do not make a significant contribution.

Companies acquired during the accounting period are included in the consolidated financial statements from the date of acquisition, and the sold companies are included up to the sale date. The same principles were applied when Group companies were merged or wound up during the accounting period.

All intra-Group transactions, unrealized profits of internal deliveries, internal receivables and debts, and internal dividend payments were eliminated when the consolidated financial statements were drawn up.

The past-equity method has been used when eliminating mutual share ownership. If the current value of a subsidiary's fixed assets exceeds its book value, goodwill is allocated to the subsidiary's fixed asset items. This allocated portion is depreciated in accordance with the planned depreciation for the fixed asset in question. The remainder of the goodwill is treated as goodwill of the subsidiary or associated company, which is depreciated over its effective period (no more than 10 years). The same allocation principles are also applied if the acquisition cost calculation yields a negative difference. In this case, the part that is considered to be allocated to fixed assets is subtracted from the value of fixed assets and credited to earnings by reducing the depreciation of the specific fixed assets.

The goodwill of associated companies is included in the balance sheet value of associated companies and the depreciation on it is deducted from the associated companies' profit in the profit and loss account. In Finnish financial statements, the depreciation of associated companies' goodwill was started in 1994 in such a way that the depreciation period does not exceed ten years calculated from the acquisition year.

Dividends received from associated companies have been eliminated from the consolidated financial statements.

Minority interests have been separated from the Group's shareholders' interests, from optional reserves and from the profit, and they are shown as a separate item in the consolidated balance sheet and the profit and loss account.

Amounts in foreign currency

Items in foreign currency have been entered at the exchange rate on the transaction date. Balance sheet items at the end of the financial year have been valued at the exchange rate quoted by the Bank of Finland on the balance sheet date. Exchange rate dif-

ferences related to ordinary business operations are treated as items adjusting turnover and purchases. Exchange rate differences related to financing are stated in the profit and loss account in financial income and expenses.

Open forward exchange contracts and currency swaps have been valued at the exchange rate quoted by the Bank of Finland on the balance sheet date. Exchange rate differences are entered in financial income and expenses in the profit and loss account. The interest rate difference of forward contracts has been entered as accrued interest expense according to the maturity of the agreements. Premiums on foreign exchange options have been entered in advance payment receivables or liabilities. Currency options that are open at the end of the financial year have been marked to market. The net results of the options, including premiums on options that have fallen due, are included in financial income and expenses. Foreign exchange differences that have arisen from the hedging of specific purchase and sale commitments denominated in foreign currency are entered in the profit and loss account as an item adjusting turnover and purchases when the hedging contract falls due.

In the consolidated financial statements, the balance sheet items of foreign companies have been translated into Finnish marks at the rate quoted by the Bank of Finland on the last day of the accounting period. The profit and loss accounts of foreign companies have been translated into Finnish marks at the average exchange rate during the financial year. Translation differences of shareholders' interests are included in the shareholders' interest in such a way that the translation difference of the restricted equity at the time of acquisition is in the restricted equity and the translation difference of the nonrestricted equity at the time of acquisition is in the non-restricted equity. Foreign exchange differences arising from the hedging of the shareholders' equity items of foreign companies have been entered in the consolidated balance sheet against translation differences applied to nonrestricted equity. A translation difference resulting from translating a profit and loss account and a balance sheet at different rates is given in the nonrestricted equity.

Other derivative contracts

Interest rate swaps used to hedge the Group's long-term interest-bearing receivables and liabilities are not valued in the financial statements. Interest on interest rate swaps is periodized over the contract period and booked in a net amount as an adjustment to interest income or liabilities depending on whether the contract has been taken out to hedge receivables or liabilities. Where interest rate swaps are used to hedge specific securities held in financial assets, an amount corresponding to the opposite sign change entered for the securities has been booked as the change in the value of the interest rate swaps.

The net results of forward exchange contracts, interest rate options and futures used to hedge short-term investments and liabilities are periodized over the maturity of the contract. Option premiums are entered in advanced payment receivables or liabilities in the balance sheet and periodized over the maturity of the option. Open forward rate agreements as well as option and futures contracts are not valued in the financial statements.

The hedging of currency and exchange rate risks is discussed in Note 20.

Covering pension expenses and pension liabilities

The Group companies apply different pension systems in each country according to local conditions and conventions. Pension expenses are calculated on the basis of time and they are entered in the profit and loss account. Pensions are normally arranged through pension insurance companies or pension funds.

The uncovered pension liability from previous years is given in the valuation items and in the obligatory reserves. Non interest bearing pension loans contain a portion of the pension liability that has been entered as an expense in the profit and loss account to the extent that it has not been covered for the pension funds. The method of calculating certain pensions was changed in 1996. The reduction in the pension liability due to the change in the method of calculation was FIM 44 million, by which amount the valuation items in the balance sheet were reduced, as was the uncovered pension liability included in obligatory provisions.

Inventories

Inventories are valued at the acquisition price, or at the probable replacement price or selling price (if lower). The costs are defined on a FIFO basis.

In the inventory account, indirect purchasing and manufacturing expenses have also been capitalized in addition to direct acquisition costs.

Fixed assets and depreciation

The values of fixed assets are based on the original acquisition cost, with the exception of the revaluation of certain land areas

and buildings. Wearing assets are depreciated according to a plan based on the estimated economic useful life of the asset.

Gains and losses on the sale of fixed assets are included in the profit and loss account, either in the operating profit or in extraordinary items, depending on the nature of the transactions.

Extraordinary income and expenses

Extraordinary income and expenses include exceptional business transactions and events that are of material importance. The parent company's extraordinary income and expenses also include Group contributions. Previously, extraordinary expenses also included changes in the value of shares and other investments, but these items are now included in the parent company's profit and loss account under the heading write-offs on investments and in the consolidated profit and loss account under financial income and expenses.

Taxes

The consolidated financial statements include direct taxes based on Group companies' taxable profits for the year, and they have been calculated according to local tax legislation.

The deferred tax liability has been taken into account to the extent it can be assumed that voluntary provisions and the depreciation difference have had to be discharged, thus having an impact on the company's taxes.

Research and development expenses

Research and development expenses are booked as an expense of the year in which they arise.

Individual figures and sums stated in the notes have been rounded off to the nearest million from the exact figures. This may lead to minor discrepancies upon addition or subtraction.

1. External turnover by division and by market area

Turnover is calculated by deducting VAT and rebates from sales of products and services.

	Group				Rautaruukki Oy			
	1996 MFIM	1996 %	1995 MFIM	1995 %	1996 MFIM	1996 %	1995 MFIM	1995 %
Turnover by division								
Raahe Steel	2590	20.2	2737	29.7	2652	39.5	2684	39.5
Strip Products	2186	17.0	2231	24.2	2535	37.8	2764	40.7
Metform	1919	15.0	2382	25.9	1041	15.5	1146	16.9
Steel Structure Division	1114	8.7	836	9.1	105	1.6	52	0.8
Engineering Division	465	3.6	552	6.0	379	5.6	139	2.0
Fundia	3807	29.7						
Other units	753	5.9	476	5.2	1	0.0	8	0.1
	12834	100.0	9213	100.0	6715	100.0	6794	100.0
Turnover by market area								
Finland	3117	24.3	3007	32.6	2407	35.8	2767	40.7
Other EU countries	6884	53.6	4585	49.8	3202	47.7	3202	47.1
Other Europe	1943	15.1	1241	13.5	624	9.3	537	7.9
Other countries	891	6.9	380	4.1	482	7.2	288	4.2
Total external turnover, of which	12834	100.0	9213	100.0	6715	100.0	6794	100.0
- Exports from Finland	4663	36.3	3665	39.8	4308	64.2	4027	59.3
- International operations	5217	40.7	2602	28.2				

2. Wages, salaries and other personnel expenses

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Salaries, wages and fringe benefits				
Salaries, fees and fringe benefits of members of the Supervisory Board and Board and Managing Directors	34	20	7	7
Other salaries, wages and fringe benefits	2125	1522	1125	995
	2159	1542	1131	1001
Including fringe benefits	12	9	3	3
Wages and salaries in the profit and loss account				
	2148	1533	1128	998
Indirect employee expenses				
Pension insurance premiums and pensions	271	226	157	175
Other indirect personnel expenses	317	230	140	136
	587	456	297	311

3. Depreciation and change in depreciation difference

Planned depreciation is based on the original acquisition cost of the fixed asset and the estimated economic life, which in the case of buildings and structures is 10–40 years, 20 years for process machinery and equipment as well as vessels, 5 years for computer equipment and software, and 5–10 years for other machinery and equipment.

Licence fees included in intangible rights, establishing and organizing expenses and other long-term expenses are depreciated on the straightline basis over a 5–10 year period.

Depreciation is calculated from the beginning of the month after the item is taken into use.

Rautaruukki Oy's planned depreciation and change in depreciation difference by the balance sheet line:

	Accumulated difference in depreciation 1.1.96	Planned depreciation 1996	Change in depreciation difference		Accumulated difference in depreciation 31.12.96
			Total depreciation 1996	Change in depreciation difference 1996	
Establishing and organizing expenses	1	6	6	0	1
Intangible rights	0	2	2	0	0
Goodwill	0	39	39	0	0
Other long-term expenses	8	11	11	0	8
Buildings and structures	418	49	74	25	13
Machinery and equipment	287	388	665	277	195
Total	715	495	796	301	208

Rautaruukki Group's planned depreciation and change in depreciation difference by the balance sheet line:

	Accumulated difference in depreciation 1.1.96	Planned depreciation 1996	Total depreciation 1996	Change in depreciation difference	
				1996	31.12.96
Goodwill	0	61	61	0	0
Other long-term expenses	10	23	22	-1	9
Buildings and structures	438	89	108	19	457
Machinery and equipment	322	592	1 040	449	770
Total	770	765	1 232	466	1 236

In the case of international subsidiaries, the planned depreciation used is in accordance with local accounting practice, which is not significantly different from the principles applied to depreciation by the parent company.

4. Financing income and expenses

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Interest income				
From long-term investments	4	3	101	48
From short-term investments	29	44	28	57
	33	47	129	105
Other financing income and expenses				
Change in the value of investments		-30	-176	31
Dividend income	4	2	17	5
Other financing income and expenses	-14	-15	-13	-11
	-10	-43	-172	26
Currency exchange differences	-3	-1	-10	-9
Interest expenses	-475	-434	-387	-415
Total financing income and expenses	-456	-431	-440	-293

Intra-Group financing income and expenses

FIM million	Rautaruukki Oy	
	1996	1995
Financing income from Group companies		
Interest income from long-term investments	99	45
Interest income from short-term investments	18	23
Other financing income	117	69
Financing income paid to Group companies		
Interest expenses	7	46
	7	46

NOTES TO THE ACCOUNTS *cont.*

5. Extraordinary income and expenses

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Extraordinary income				
Group contributions			52	44
			52	44
Extraordinary expenses				
Merger losses			-7	-181
Covering the pension liability	-138			-138
Other items from previous years		-6		
		-144	-7	-320
Extraordinary items, total		-144	45	-275

6. Obligatory provisions

Obligatory provisions in 1994 included all uncovered pension liabilities and liability due to pensions paid directly by the Group companies. In 1995 the part of the liability, which is booked through profit and loss account but not covered to the pension fund is transferred to non interest bearing pension liabilities. The part of the liability, which is not booked through the profit and loss account is shown in obligatory provisions and on the assets side under valuation items.

Obligatory provisions also include guarantee, restructuring and other provisions for future liabilities and charges.

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Pension liabilities 1.1.				
Change	169	336	155	283
	-28	-167	-44	-128
	141	169	111	155
Other obligatory reserves 1.1.				
Change	15	19	0	0
	-1	-3	1	0
	14	15	1	0

7. Tangible and intangible assets

Acquisition cost on January 1 has been calculated using December 31 exchange rates

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Intangible assets				
Establishing and organization expenses				
Acquisition cost 1.1.	80	84	80	80
Increases 1.1.-31.12.	0	0		
Decreases and adjustment 1.1.-31.12.		4		0
Acquisition cost 31.12.	80	80	80	80
Accumulated planned depreciation 1.1.	60	58	60	54
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.		4		
Planned depreciation 1.1.-31.12.	6	6	6	6
Book value 31.12.	14	20	14	20
Intangible rights				
Acquisition cost 1.1.	46	72	40	33
Increases 1.1.-31.12.	4	4	2	5
Decreases and adjustment 1.1.-31.12.	-7	30	0	-2
Acquisition cost 31.12.	57	46	41	40
Accumulated planned depreciation 1.1.	27	54	23	19
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	-5	30		-2
Planned depreciation 1.1.-31.12.	4	2	2	2
Book value 31.12.	21	19	16	16
Goowill				
Book value 1.1.	278	335	256	341
Increases 1.1.-31.12.	137	2		10
Decreases and adjustment 1.1.-31.12.	0	1		55
Planned depreciation 1.1.-31.12.	62	60	39	40
Book value 31.12.	352	277	217	256
Other long-term expenses				
Acquisition cost 1.1.	100	125	91	77
Increases 1.1.-31.12.	18	15	9	14
Decreases and adjustment 1.1.-31.12.	-1	41		-1
Acquisition cost 31.12.	119	100	100	91
Accumulated planned depreciation 1.1.	62	59	57	47
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	-2	7		-1
Planned depreciation 1.1.-31.12.	12	11	11	9
Book value 31.12.	42	38	32	35
Tangible assets				
Land and water areas				
Book value 1.1.	132	136	35	33
Increases 1.1.-31.12.	46	2	3	2
Decreases and adjustment 1.1.-31.12.	38	6	0	0
Book value 31.12.	140	131	37	35

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Revaluations included in the acquisition cost of land areas				
Revaluations 1.1.	14	14	14	14
Increases 1.1.-31.12.				
Decreases 1.1.-31.12.				
Revaluations 31.12.	14	14	14	14
Buildings and structures				
Acquisition cost 1.1.	2624	2546	2033	1868
Increases 1.1.-31.12.	389	47	91	63
Decreases and adjustment 1.1.-31.12.	68	-29	12	-102
Acquisition cost 31.12.	2945	2623	2112	2033
Accumulated planned depreciation 1.1.	948	823	764	617
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	19	-40	1	-102
Planned depreciation 1.1.-31.12.	89	85	49	45
Book value 31.12.	1928	1676	1299	1268
Revaluations included in the acquisition cost of buildings				
Revaluations 1.1.	181	181	181	181
Increases 1.1.-31.12.				
Decreases 1.1.-31.12.				
Revaluations 31.12.	181	181	181	181
Machinery, equipment and other material goods				
Acquisition cost 1.1.	7354	7011	6411	5912
Increases 1.1.-31.12.	1748	549	596	475
Decreases and adjustment 1.1.-31.12.	449	206	269	-24
Acquisition cost 31.12.	8652	7354	6738	6411
Accumulated planned depreciation 1.1.	3996	3711	3421	3024
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	244	170	177	-38
Planned depreciation 1.1.-31.12.	590	458	388	359
Book value 31.12.	4309	3354	3105	2990
Book value of machinery 31.12.			2023	2905
Advance payments and incomplete acquisitions				
Acquisition cost 1.1.	254	166	228	141
Changes 1.1. - 31.12.	251	86	216	87
Book value 31.12.	505	252	443	228

8. Taxation values of fixed assets

The taxation values of real property and shares have been shown at the most recently confirmed taxation value. If no taxation value is in use, the book value is given.

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Land and water areas	91	74	47	48
Buildings and structures	1114	835	645	674
Stocks and shares	1121	998	1114	1571

9. Stocks, shares and loans receivable included in long-term investments

Long-term loans receivable include loans due for repayment in one year or later. Loans receivable in foreign currency have been valued in the manner described in the notes to the accounts.

FIM million	Rautaruukki Oy	
	1996	1995
Group companies		
Shares	946	733
Loans receivable	2358	647
Total	3304	1379
Associated companies		
Shares	453	1083
Loans receivable		9
Total	453	1092
Loans receivable include subordinated loans		
To subsidiaries	67	79
To associated companies	0	9
To other companies	1	1
	68	89
Long-term receivables from the company's Board members	0	0

At the balance sheet date, the book value of the listed shares owned by Rautaruukki Oy was FIM 1 million lower than the corresponding market value.

NOTES TO THE ACCOUNTS cont.

10. Fixed assets and other long-term investments, summary

FIM million	Intangible assets	Tangible assets	Stocks & shares*	Loans receivable*	Total
Group					
Acquisition cost/book value 1.1.96 *	504	10364	1178	57	12102
Increases 1.1.-31.12.96	159	2434	-572		2021
Decreases and adjustment 1.1.-31.12.	-2	-555	-48		-606
Change in loans receivable and shares			86	2	88
Acquisition cost 31.12.96	661	12242	644	59	13605
Accumulated planned depreciation 1.1.96	149	4944			5094
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.96	3	263			266
Planned depreciation 1.1.-31.12.96	84	679			763
Book value 31.12.96	431	6881	644	59	8014
Book value 31.12.95 at the exchange rate of 1995	354	5413	1178	57	7001
Translation adjustment	3	6	-2		7
Book value 31.12.95 at the exchange rate of 1996	357	5419	1176	57	7008
Depreciation in the profit and loss account is calculated at the average rate of the accounting period.					
Rautaruukki Oy					
Acquisition cost 1.1.96	610	8706	1868	698	11881
Increases 1.1. -31.12.	11	905	277	1698	2891
Decreases and adjustment 1.1. -31.12.	0	281	715		996
Acquisition cost 31.12.96	620	9330	1430	2396	13776
Accumulated planned depreciation 1.1.96	283	4185			4468
Accumulated planned depreciation of decreases and adjustment 1.1. -31.12.96		178			178
Planned depreciation 1.1. -31.12.96	57	437			495
Book value 31.12.96	279	4885	1430	2396	8991
Book value 31.12.95	326	4521	1868	698	7413

11. Stocks and shares 31.12.1996

The statutory financial statements also include information on the profits/losses and equities of the subsidiaries and associated companies

FIM million	Country	Number of shares	Group share of share capital	voting rights	Nominal value currency thousands	Book values 1000 FIM held by	
						Rautaruukki Oy	other Group companies
Subsidiaries of Rautaruukki Oy:							
August Lindberg Oy	FI	5	100.0	100.0	FIM 250	3 662	
A/S Carl Christensen og Brødre Holding	NO	66	100.0	100.0	NOK 2310	98 583	
DCA-instruments Oy	FI	990	97.2	71.0	FIM 990	990	
Etnarör Ab	FI	100	100.0	100.0	FIM 1	1	
Kyrön Konepaja Oy (former Hydoring Oy)	FI	10000	100.0	100.0	FIM 100	3 893	
Oy JIT-Trans Ltd	FI	150	100.0	100.0	FIM 1500	5 500	
Keskimetalli Oy	FI	6000	100.0	100.0	FIM 60000	242 316	
Kiinteistö Oy Dental-talo	FI	26	65.0	65.0	FIM 13	751	
Kiinteistö Oy Myllynummentie 17	FI	100	100.0	100.0	FIM 15	2 581	
Kiinteistö Oy VM-Hallit	FI	1580	100.0	100.0	FIM 158	1 356	
Mäkelä Metals Oy	FI	500	100.0	100.0	FIM 5000	45 000	
Polarplan Oy	FI	100	100.0	100.0	FIM 200	1 105	
Polartherm Oy	FI	3100	100.0	100.0	FIM 3100	7 852	
Rannila Steel Oy	FI	1000	100.0	100.0	FIM 10000	55 000	
Rautaruukki Holding AB	SE	570000	100.0	100.0	SEK 57000	188 371	
Rautaruukki Holding B.V.	NL		100.0	100.0	NLG 40	85	
Rautaruukki Holding Danmark A/S	DK	1000	100.0	100.0	DKK 4000	3 733	
Rautaruukki Holding GmbH	DE		100.0	100.0	DEM 4050	248 618	
Rautaruukki (Norge) A/S	NO	200	100.0	100.0	NOK 200	260	
Rautaruukki Polska Sp.z o.o.	PL		100.0	100.0	PLZ 2317	5 661	
Rautaruukki (S.E.A.) Pte Ltd	SG	100000	100.0	100.0	SGD 100	383	
Rautaruukki (UK) Ltd.	GB	10000	100.0	100.0	GBP 10	81	

FIM million	Country	Number of shares	Group share of share capital	Group share of voting rights	Nominal value		Book values 1000 FIM held by	
					currency	thousands	Rautaruukki Oy	other Group companies
Rautaruukki USA Inc.	US	200	100.0	100.0	USD	0.2	5 919	
SKJ-yhtiöt Oy	FI	1000	100.0	100.0	FIM	500	836	45
Star Tubes (UK) Ltd.	GB	2800000	100.0	100.0	GBP	2800	14 017	166
Steel Building Systems Oy	FI	1520	76.0	76.0	FIM	91	91	
							936 646	211
Subsidiaries not eliminated from consolidated accounts:								
Housing and real estate corporations 12 companies							8 982	
Other subsidiaries of Rautaruukki Oy (non-trading) 6 companies							108	
Non-eliminated subsidiaries, total							9 090	
							945 736	211
Subsidiary of A/S Carl Christensen og Brødre Holding:								
CCB Stål AS	NO	600	100.0	100.0	NOK	600		9 104
Subsidiary of DCA-Instruments Oy:								
Nordic Instruments Inc.	US	10000	100.0	100.0	USD	10		41
Subsidiaries of Keskometalli Oy:								
Rautaruukki Eesti Oü	EE	1	100.0	100.0	EEK	40		65
Rautaruukki Metalcentrs SIA	LV	35	100.0	100.0	LVL	35		312
								377
Subsidiary of Mäkelä Metals Oy:								
Alamentti Oy	FI	100	100.0	100.0	FIM	100		1 468
Subsidiaries of Rannila Steel Oy:								
A/O Rannila Steel Rossija	RU	48100	100.0	100.0	RUR	48100		144
A/O Rannila Taldom	RU	18000	62.5	62.5	RUR	1800000		2 000
AS Rannila Profiil	EE	1500	100.0	100.0	EEK	4395		2 015
Rannila Steel Latvia S.I.A	LV	110	100.0	100.0	LVL	11		110
Rannila Steel Vilnius U.A.B	LT	30	100.0	100.0	LTL	30		35
								4 304
Subsidiaries of Rautaruukki Holding AB:								
Fundia AB	SE	3500000	100.0	100.0	SEK	350000		890 736
Gasell Profil AB	SE	162000	100.0	100.0	SEK	16200		34 952
Rautaruukki AB	SE	3000	100.0	100.0	SEK	300		214
Rautaruukki Sverige AB	SE	9000	100.0	100.0	SEK	900		642
Wirsbo Stålrör AB	SE	50000	100.0	100.0	SEK	5000		13 496
								940 040
Subsidiary of Rautaruukki Holding B.V.:								
Rautaruukki Finance B.V.	NL	40	100.0	100.0	NLG	40		106
Subsidiaries of Rautaruukki Holding Danmark A/S:								
Nordisk Simplex A/S	DK		100.0	100.0	DKK	20000		34 900
Stelform A/S	DK		100.0	100.0	DKK	30000		16 329
								51 229
Subsidiaries of Rautaruukki Holding GmbH:								
Carl Froh GmbH	DE		100.0	100.0	DEM	6800		183 164
Carl Froh Verwaltungs-GmbH	DE		100.0	100.0	DEM	200		663
Ragal Feinblech GmbH	DE		100.0	100.0	DEM	300		896
Rautaruukki (Deutschland) GmbH	DE		100.0	100.0	DEM	300		896
Rautaruukki Stahlservice GmbH	DE		100.0	100.0	DEM	50		22 380
Schmacke Rohr GmbH	DE		100.0	100.0	DEM	4000	280	20 707
							280	228 707
Subsidiaries of Rautaruukki (USA) Inc.:								
Finnsteel Inc.	US	3000	100.0	100.0	USD	30		139
Ruukki Inc.	US	100	100.0	100.0	USD	0.1		9 288
								9 427
Subsidiary of SKJ-yhtiöt Oy:								
ZAO Peterski	RU	80	100.0	100.0	FIM	7		7
Subsidiaries of Fundia AB:								
Fundia Bar & Wire Processing AB	SE	400000	100.0	100.0	SEK	40000		47 236

NOTES TO THE ACCOUNTS *cont.*

FIM million	Country	Number of shares	Group share of share capital	Group share of voting rights	Nominal value		Book values 1000 FIM held by	
					currency	thousands	Rautaruukki Oy	other Group companies
Fundia Bygg AS	NO	230000	100.0	100.0	NOK	230000		289 489
Fundia GmbH	DE		100.0	100.0	DEM	9000		45 556
Fundia Ltd.	GB	1000	100.0	100.0	GBP	1		495
Fundia Profiler AS	NO	70000	100.0	100.0	NOK	70000		101 220
Fundia Special Bar AB	SE	106000	100.0	100.0	SEK	106000		269 920
Fundia Wire Oy Ab	FI	200	100.0	100.0	FIM	20000		182 871
								936 786
Subsidiaries of Fundia Bar & Wire Processing AB:								
Fundia Cromax AB	SE	1000	100.0	100.0	SEK	100		67
Fundia Dalwire Oy Ab	FI	120000	100.0	100.0	FIM	120000		12 200
Fundia Hjulstro AB	SE	8000	100.0	100.0	SEK	800		13 496
Fundia Mandal Stål AS	NO	10000	100.0	100.0	NOK	10000		9 386
Fundia Steelservice AB	SE	60000	100.0	100.0	SEK	60000		6 073
Fundia SWL AB	SE	8000	100.0	100.0	SEK	800		675
								41 897
Subsidiaries of Fundia Bygg AB:								
Fundia Welbond BV	NL	499	100.0	100.0	NLG	500		1 514
Fundia Welbond Ltd.	GB	249999	100.0	100.0	GBP	250		3 290
Fundia Welbond SA	FR	20249	100.0	100.0	FRF	2500		2 218
Fundia Ølstykke A/S	DK	38	100.0	100.0	DKK	1000		4 302
Hjulstro AB	SE	7500	100.0	100.0	SEK	750		1 822
								13 146
Subsidiaries of Fundia Bygg AS:								
Fundia Betoniteräkset Oy	FI	1570	100.0	100.0	FIM	15700		16 167
Fundia Bygg AB	SE	600000	100.0	100.0	SEK	600000		52 722
Fundia Maidenhead Ltd.	GB	998	99.8	99.8	GBP	1		8
Norsk Jernverk BRD GmbH	DE	50	100.0	100.0	DEM	50		107
Robocon International Latino America SA	CL	20249	99.0	99.0	USD	20		253
Robocon International SA	NO	500	100.0	100.0	NOK	50		1 117
SNJ Gesellschaft für Walzhandel GmbH	DE	500	100.0	100.0	DEM	50		99
								70 474
Subsidiaries of Fundia Cromax AB:								
Fundia Bright Bar AB	SE	50000	100.0	100.0	SEK	5000		3 374
Fundia Mora AB	SE	38500	100.0	100.0	SEK	8010		5 405
Fundia Redon S.A.	FR	25050	100.0	100.0	FRF	2505		5 407
Fundia Twente B.V.	NL	5000	100.0	100.0	NLG	5000		1
								14 187
Subsidiary of Fundia Profiler AS:								
Fundia PreStål AS	NO	3500	100.0	100.0	NOK			2 523
Subsidiaries of Fundia Special Bar AB:								
Flatenbergs Hyttelag AB	SE	500	100.0	100.0	SEK	100		
Fundia Acier S.A.R.L.	FR	100	100.0	100.0	FRF	1000		72 406
Fundia Stahl GmbH	DE		100.0	100.0	DEM	50000		102 418
Fundia Steel B.V.	NL	28	80.0	80.0	NLG	1000		48 393
Fundia Tankoteräs Oy	FI	150	100.0	100.0	FIM	100		15 967
Scansider AB	SE	10000	100.0	100.0	SEK	100		675
								239 859
Subsidiaries of Fundia Wire Oy Ab:								
Asunto Oy Lappohjan Kerrostalot	FI	34556	100.0	100.0	FIM	3456		3 511
Bostads Ab Sägars	FI	15263	100.0	100.0	FIM	4579		4 940
Fastighets Ab Järnstången	FI	10100	100.0	100.0	FIM	101		3
Fastighets Ab Lapphyddan	FI	810	81.0	81.0	FIM	81		81
Fundia Tråd AB	SE	500	100.0	100.0	SEK	50		5 580
Fundia Wire Rod Ltd.	GB	1000	100.0	100.0	GBP	1		8
								14 122
Subsidiaries of Gasell Profil AB:								
Gasell Profil A/S	DK	500	100.0	100.0	DKK	500		1 001
Gasell Profil AS	NO	500	100.0	100.0	NOK	50		37
Gasell Profil Polska Sp.z o.o.	PL	32	80.0	80.0	PLZ	3		7

FIM million	Country	Number of shares	Group share of share capital	Group share of voting rights	Nominal value		Book values 1000 FIM held by	
					currency	thousands	Rautaruukki Oy	other Group companies
Gasell Profiles Ltd.	GB	900	90.0	90.0	GBP	1		6
								1 051
Stocks and shares in subsidiaries, total							946 016	2 564 938
Associated companies, voting rights 20–50 %								
A+R Profilstahl GmbH	DE	33	33.3	33.3	DEM	1000		8 964
Asva Oy	FI	770	20.0	20.0	FIM	7700	47 823	
Asva Stal Serwis Sp. z o.o	PL	1250000	50.0	50.0	PLZ	2500	2 211	
BET-KER Oy	FI	120	40.0	33.3	FIM	1200		1 200
Bregal Bremer Galvanisierungs GmbH	DE		25.0	25.0	DEM	24950		74 551
Helens Rör AB	SE	4500	25.0	25.0	SEK	4500	39 800	
Hämeen Kunnossapito Oy	FI	1350	45.0	45.0	FIM	135	270	
Kiinteistö Oy Teknocent	FI	1916	47.9	47.9	FIM	1916	1 916	
Kings Lynn Steel (Holdings) Ltd.	GB	5000	50.0	50.0	GBP	500		3 228
Mofjellet Berghaller AS	NO	600	40.0	40.0	NOK	1000		662
Norsk Jern Eiendom AS	NO	3600	30.0	30.0	NOK	22500		42 760
Osuuskunta Teollisuuden Romu	FI	2	33.3	33.3	FIM	20	10	10
Patron Products Inc.	CA	49000	48.9	48.9	CAD	49		180
PPTH Teräs Oy	FI	20000	40.0	40.0	FIM	20000	20 002	
Raahen Kauppaklubin Kannatus Oy	FI	15	33.3	33.3	FIM	150	151	
Rannila-Centrostal Bydgoszcz Sp.z o.o.	PL	13202	49.0	49.0	PLZ	660		1 687
Teknos Steel Oy	FI	4500	45.0	45.0	FIM	450	10 668	
Valtameri Oy	FI	405540	24.6	21.7	FIM	4055	38 335	
YIT-yhtymä Oy	FI	4912000	20.1	20.1	FIM	49120	291 623	
							452 808	133 242
							586 050	
Associated companies' profits and goodwill							-23 489	
Associated companies' value in balance sheet							562 561	
Other stocks and shares, share of voting rights less than 20 %:								
Ancofer Stahlhandel GmbH	DE		10.0	10.0	DEM	2800		18 812
Brøderne Sundt Verktoymaskinfabrik A/S	NO	2939	15.0	15.0	NOK	74		143
Oy Datacity Center Ab	FI	1000	7.0	7.0	FIM	100	100	
Ekokem Oy Ab	FI	230	1.3	1.3	FIM	460	460	
Elma Oy	FI	1	4.5	4.5	FIM	10	50	
Europäisches Entwicklungszentrum für Kokereitechnik GmbH	DE	1	1.0	1.0	DEM	25	59	
Franzefoss Gjennvinning AS	NO	150	17.7	17.7	NOK			11 366
Hangöudds Utvecklingsbolag Ab	FI	800	10.0	10.0	FIM	800		813
Helsingin Arvopaperipörssi Osuuskunta	FI	1			FIM		150	
Incap Oy	FI	17436	8.8	8.8	FIM	1744	2 720	
AB Järnbruksförmödenheter	SE	623			SEK	100		69
Metalplast-Oborniki Polska z o.o	PL	149903	16.9	16.9	PLZ		3 376	
Odda Recycling AS	NO	166	16.6	16.6	NOK	1000		326
Oulun Teknologiakylä Oy	FI	2000	0.3	0.3	FIM	100	100	
Posion Kehitysyhtiö Oy	FI	20	3.4	3.4	FIM	200	200	
Raahen Liikuntahalli Oy	FI	17	8.5	8.5	FIM	17	1 055	
Raahen Seelareitten Teräsatama Oy	FI	1	0.3	0.3	FIM	5	5	
Raahen Tietotekniikka Oy	FI	10	2.3	2.3	FIM	10	50	
Raahen Yrityspalvelu Oy	FI	2	2.6	2.6	FIM	100	100	
Raksila Invest Oy	FI	200	2.4	2.4	FIM	20	20	
Savonlinnan Oopperajuhlat Oy	FI	1000	0.5	0.5	FIM	25	30	
Skandinavisk Link Finska Oy	FI	100	7.7	7.7	FIM	15	100	
Suomen Osakekeskusrekisteri Osuuskunta	FI	10	2.2	2.2	FIM	700	700	
Tammet Oy	FI	900	15.0	15.0	FIM	324		4 439
Toijalan Seutu Oy	FI	310	0.6	0.6	FIM	13	0	
Shares in housing and real estate companies							16 770	3 963
Other stocks and shares							5 432	1 365
Total other stocks and shares							31 477	41 297

NOTES TO THE ACCOUNTS *cont.*

12. Valuation items

Pension liabilities

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Pension funds'				
uncovered pension liability 1.1.	167	167	167	167
Change in uncovered pension liability due to calculation method	-44		-44	
Pension funds' uncovered pension liability 31.12.	123	167	123	167
In addition to this liability pension funds have an obligatory uncovered pension liability of 18 FIM million. Rautaruukki Oy has booked to expenses, but not covered to the pension fund	-13	-13	-13	-13
Uncovered pension liability in the company's balance	110	155	110	155
Liability for pensions paid directly by company 1.1.	15	129		116
Change in uncovered pension liability	16	-114		-116
Liability for pensions paid directly by company 31.12.	31	15		0
Total pension liabilities	141	169	110	155

Rautaruukki Pension Scheme has been finished, and its liabilities (FIM 8 million) have been moved to Nova Life Insurance Company Ltd.

Capitalized interest during construction period

The interest for the period the Raahe Steel Works' coking plant was under construction. Annual booking to interest costs.

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Capitalized interest in valuation items as at 1.1.	29	37	29	37
Change	-7	-8	-7	-8
	22	29	22	29

Other valuation items

Other valuation items include activated expenses on loans payable and deferred tax receivable.

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Other valuation items 1.1.	1	4		
Change in 1996	4	-3		
Other valuation items 31.12.	5	1		
Other valuation items, total	27	30	22	29
Valuation items, total	168	199	132	184

13. Inventories

Inventories are valued at the acquisition price or at the probable replace cost, whichever is the lower, or at the disposal price. Costs are determined on a FIFO basis.

14. Short-term receivables, securities included in current assets, and cash in hand and at bank

Short-term receivables include receivables that fall due for payment within one year. Financial assets in foreign currency have been valued in the manner described in the accounting principles.

FIM million	Rautaruukki Oy	
	1996	1995
The parent company's current assets include the following short-term receivables from subsidiaries:		
Accounts receivable	169	156
Short-term loans and other receivables	355	238
Accruals	61	50
Other short-term receivables	2	6
	586	449

The parent company's current assets include the following short-term receivables from associated companies:

Accounts receivable	99	83
	99	83

15. Management pension commitments

One of the members of Rautaruukki Oy's Board has the right, if he so wishes, to retire at the age of 60.

16. Shareholders' interests

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Restricted equity				
Share capital 1.1.	1202	1202	1202	1202
Share capital 31.12.	1202	1202	1202	1202
Reserve fund 1.1.	782	782	782	782
Reserve fund 31.12.	782	782	782	782
Revaluation fund	195	195	195	195
Translation adjustment	-22	-1		
Restricted equity 31.12.	2157	2179	2180	2180

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Nonrestricted equity				
Profit/loss from previous years 1.1.	779	140	1092	578
Dividend distribution	-204	-120	-204	-120
Translation adjustment and other equity	-50	-27		
Profit/loss from previous years 31.12.	524	-7	888	458
Profit for the year	199	787	172	635
Nonrestricted equity 31.12.	723	779	1060	1092
Shareholders' equity 31.12.	2880	2958	3240	3272

The shareholders of Rautaruukki Oy according to the share register at 31.12.1996

Shareholder	Number of shares	Shares % MFIM	Shares % MFIM
Republic of Finland	82 549 681	68.7	825
Pension-Varma Mutual Insurance Company	3 710 157	3.1	37
Pension Insurance Company Ilmarinen Ltd.	3 150 000	2.6	32
Local Government Pensions Institution	1 137 917	0.9	11
Mutual Life Insurance Company Suomi	1 085 000	0.9	11
Sampo Enterprise Insurance Company Ltd.	590 194	0.5	6
Salama Life Insurance Company Ltd.	546 000	0.5	5
Teollisuusvakuutus Oy	519 370	0.4	5
Sampo Insurance Company Ltd.	500 000	0.4	5
Nova Life Insurance Company Ltd.	499 603	0.4	5
Administrative registrations	9 941 863	8.3	99
Other owners	15 998 631	13.3	160
	120 228 416	100.0	1202

17. Optional reserves and accumulated depreciation difference

FIM million	Group		Rautaruukki Oy	
	1996	1995	1996	1995
Accumulated depreciation difference 1.1.	770	804	715	762
Change in profit and loss account	466	-35	463	-48
Change due to merger			46	
Accumulated depreciation difference 31.12.	1236	770	1224	715
Transition reserve 1.1.	260	292	252	282
Change in profit and loss account	-66	-32	-66	-30
Change due to merger and acquisitions	10		4	
Transition reserve 31.12.	204	260	190	252
Optional reserves and accumulated depreciation difference, total 31.12.	1440	1030	1414	966

In Group accounts deferred tax liability of 52 FIM million has been separated from untaxed reserves and depreciation difference.

Changes in obligatory provisions are shown in note no. 6.

18. External liabilities

External liabilities denominated in foreign currency have been valued in the balance sheet at the Bank of Finland rate quoted on the last day of the accounting period.

FIM million	Rautaruukki Oy	
	1996	1995
Rautaruukki Oy's external liabilities include the following debts to subsidiaries:		
Accounts payable	-4	70
Accruals	28	17
Short-term debts	80	231
Long-term debts		416
	104	734

Rautaruukki Oy's external liabilities include the following debts to associated companies:

Accounts payable	10	2
Accruals	35	33
Long-term debts		4
	45	40

The currency mix and interest maturity of long-term debt as of 31.12.1996

including currency swaps FIM 2075 million and interest rate swaps FIM 2257 million used for hedging long-term loans.

	MFIM	% of total debt	% fixed rate (over 12 month interest period)	average maturity of fixed rate position
FIM	2 945	51 %	63 %	2 years
SEK	1 377	24 %	0 %	
DEM	1 088	19 %	8 %	2 years
NOK	186	3 %	54 %	1.5 years
DKK	135	2 %	59 %	2 years
Other	62	1 %	0 %	
	5 793	100 %	37 %	2 years

NOTES TO THE ACCOUNTS *cont.*

Repayment schedule of interest bearing long-term debt as of 31.12.1996 including currency swaps used for hedging long-term loans

Annual repayments,	Group, MFIM
1997	703
1998	590
1999	253
2000	1 544
2001	1 140
2002-	1 563
Total	5 793

Bonds

	interest rate	currency	amount mill. units	1996 MFIM	1995 MFIM
1991-1996	7.0 %	CHF	100	0	379
1993-1997	8.5 %	FIM	300	300	300
1994-2001	floating	USD	75	348	327
Bonds issued with warrants					
1994-1999	6.0 %	FIM	1	1	1
				649	1006

19. Contingent liabilities

FIM million	Group 1996	Rautaruukki Oy 1995	Group 1996	Rautaruukki Oy 1995
For own debts				
Mortgaged real estates	320	560	294	518
	320	560	294	518
For Group companies				
Guarantees			346	773
Mortgaged real estates	1		1	
	1		346	773
For associated companies				
Mortgaged real estates	20	20	20	20
Guarantees	107	308	105	306
	127	328	125	326
For others				
Guarantees	5	27	3	26
	5	27	3	26
Leasing liabilities				
Due next year	139	49	4	4
Due later	501	70	6	11
	640	119	11	15

Rautaruukki Oy is liable to find a buyer for leased vessels (multi-unit pusher barge) at the end of the lease period in 2006, when the carrying value of the vessels will be FIM 74 million.

20. Management of financial risks; derivative contracts

Principles of managing the Group's financial risks

The Group's operations are international. Exports from Finland and international operations accounted for 77 per cent of consolidated turnover. The Group's equity ratio was 34.4 per cent and the gearing ratio was 129 per cent as at 31 December 1996. Interest-bearing net debt totalled FIM 5 588 million. Changes in foreign exchange and interest rates have a significant effect on the Group's earnings trend.

The Group's financing and the management of financial risks are handled on a centralized basis. The Board of Directors confirms the risk management policy and levels of risk. Matters connected with financial risks are dealt with regularly both in meetings of the Group's Board of Directors and in its Financing Committee. The industrial divisions are responsible for their own foreign exchange result and financing measures and primarily manage their financial risks through intra-Group transactions. Fundia's foreign exchange risk was still managed separately in 1996. The objective of financial risk management is to recognize the financial risks connected with business operations (foreign exchange, interest rate and liquidity risks) as well as to hedge the Group's earnings primarily for the current financial year, but also in the medium to long term. The tools used for hedging include derivative contracts such as forward foreign exchange contracts and forward interest rate agreements as well as currency and interest rate swaps and options. These are not used at present for trading purposes. The nominal values of the derivative contracts described below do not necessarily represent amounts exchanged by the parties and thus, when examined in isolation, they do not give a measure of the Group's risk position.

The Group constantly evaluates the market and credit risks of its financial assets and liabilities, including derivative contracts, as well as their effect on earnings. To assess market risks, it constantly compares different instruments against market prices and estimates their price sensitivity to changes in market factors. Rautaruukki minimizes the credit risks related to financial contracts, i.e. the risk that the counterparty may not be able to fulfil its obligations, by making contracts only with leading Finnish and foreign banks and financial institutions and by investing liquid assets only in insurance companies, financial institutions and other companies which have adequate financial soundness and have been approved by the Group's Board of Directors. Default by the other party is not to be expected.

Management of foreign exchange risks

The Group's operative foreign exchange exposure

The Rautaruukki Group's turnover excluding Fundia was FIM 9 027 million, of which 27 per cent was generated by foreign subsidiaries outside Finland. The subsidiaries' sales and purchases were made mainly in their own currencies. Exports from Finland represented about 44 per cent of turnover. The foreign exchange surplus against the Finnish markka is offset by purchases of raw materials, which are made largely in United States dollars. The following table illustrates the Group's (excl. Fundia) average annual net cash flow risk against the Finnish markka:

Currency	Countervalue, (FIM million)	Effect of an average 1 % foreign currency change on the Group's operating profit (without hedging)
USD	- 700	- 7
ERM currencies	+1 500	15
SEK	+ 500	5
NOK	+ 200	2
GBP	+ 200	2
Other	+ 100	1
Total	+ 1 800	+/- 18

The base production of the Fundia Group is in Sweden, Norway and Finland. Roughly half of Fundia's FIM 3 807 million of sales comes from the Nordic countries. The foreign exchange risk is offset by sales occurring between the Nordic countries. A foreign exchange surplus arises in the currencies of the EU countries, and this is offset by purchases of raw materials in EU currencies and in United States dollars. Because the net foreign exchange surplus is against the Swedish krona, Norwegian krone and Finnish markka, it does not change the Rautaruukki Group's overall foreign exchange position substantially.

Hedging foreign exchange risk

The Group's foreign exchange risk is managed both by countries and different currencies. The Group undertakes separate hedging of the **balance sheet risk**, which includes all foreign currency-denominated items in the balance sheet as well as the off-balance sheet contracts used to hedge them. In 1996 the Group's balance sheet risk was on average fully hedged against the base currencies. In addition to balance sheet risk, the company hedges **cash flow risk**, i.e. future, anticipated purchases and sales denominated in foreign currency. The degree of hedging has varied between zero and three months during 1996.

At the end of the financial period, the gross value of outstanding forward foreign exchange contracts was FIM 2 535 million and the gross amount of open currency swaps to hedge the cash flow exposure was FIM 302 million. There were no outstanding currency options at year-end.

Most of Rautaruukki's purchases of raw materials are based on long-term delivery agreements. Purchases in US dollars are partially hedged up to the end of 1998 by forward foreign exchange contracts. The exchange and interest rate differences arising from these hedging transactions are charged to income as an adjustment to the purchase transaction in question at the end of the hedging period. The gross amount of open forward foreign exchange contracts made for this purpose at the end of 1996 was FIM 453 million and the unrealized profit was FIM 30 million.

The Group also uses foreign currency loans and forward foreign exchange contracts to hedge a portion, as determined by the Board of Directors, of the shareholders' equity of foreign subsidiaries and associated companies (**Equity hedging**). The amount of outstanding hedging transactions for this purpose was FIM 309 million at the end of 1996, of which forward foreign exchange contracts represented a portion amounting to FIM 148 million.

Management of the loan portfolio and interest rate risks

The total amount of the Group's interest-bearing liabilities as

at 31 December 1996 was FIM 6 046 million and interest-bearing receivables and liquid assets amounted to FIM 458 million. The Group's parent company is mainly responsible for obtaining debt financing and for the treasury management of liquid assets. Subsidiaries obtain borrowed capital mainly by way of internal loans. Currency swaps are employed to a considerable extent in managing the loan portfolio, whereby the loans are converted to correspond to the Group's objective for managing the foreign exchange balance sheet risk. The gross amount of currency swaps hedging the loan portfolio was FIM 2 075 million.

The interest rate risk arising from a mismatch between the interest rate periods of interest-bearing liabilities and receivables (net debt) is managed currency by currency. The objective is to hedge against changes resulting from a sharp rise in the level of interest rates a few years ahead. Borrowing and investment operations are spread out across fixed and variable rate instruments, and derivative contracts are used.

The Group's open interest rate swaps as at 31 December 1996 were FIM 2 257 million, of which contracts denominated in markkaa totalled FIM 1 870 million, the remainder of FIM 387 million being in pounds sterling, Deutsche marks, Norwegian kroner and Danish kroner. The average maturity of the swaps was about two years. On the basis of agreements that have been entered into, Rautaruukki pays a fixed average interest rate of 6.4 per cent against variable rates.

The Group's total interest rate risk position encompasses the net liabilities position, in which foreign exchange derivative contracts hedging both balance sheet risk and cash flow risk are also taken into account, loans denominated in Finnish markkaa accounted for a share of about 50% as at 31 December 1996, the corresponding figures for loans in Swedish kronor being 25% and those of loans in other currencies about 25%. Some 60% of the loans in Finnish markkaa have been pegged to fixed rates by means of interest rate swaps up to the year 1998-89 at an average interest rate of 6.2%, the remainder being variable rate loans. Loans denominated in Swedish kronor are completely variable rate loans and about 30% of the other foreign currency loans have been pegged at fixed rates up to 1998 at an average 7% interest rate, the remainder being variable rate loans.

All the variable interest rate loans amounted to a total share of about 60% of the loan portfolio as at 31 December 1996. The interest rate derivative contracts pegging the loan portfolio to fixed rates will mature gradually over the next couple of years.

Forward rate agreements are used to hedge short-term investments and loans. The amount of open three-month forward rate agreements as at 31 December 1996 was FIM 100 million. There were no outstanding interest rate option contracts on the balance sheet date.

Management of liquidity risk

The liquidity position of the Group is monitored using the ratio of liquid assets to liquid liabilities. In calculating the liquidity position, the Group's cash and bank receivables (FIM 282 million as at 31 December 1996), negotiable debt securities (FIM 138 million) as well as open and binding revolving credit facilities granted by banks (FIM 663 million) are counted as positive items. Negotiable securities held as financial assets in-

clude treasury bills having a maturity of less than 12 months. In addition, the company has unused commercial paper and bank overdraft facilities totalling approximately FIM 2 200 million.

Short-term interest-bearing loans and repayments of long-term loans due in the next 12 months (FIM 956 million) are treated as items that decrease the liquidity position. In addition, the Group continually monitors the forecast change in net liabilities, since this affects the total liquidity position.

Fair values of derivative contracts as at 31 December 1996

The following table shows the nominal values, carrying amounts (= balance sheet values) and fair values of derivative contracts connected with the management of foreign currency and interest rate risks. Fair value is defined as the amount at which the given instrument could be exchanged between willing parties in a non-forced sales situation.

FIM million	Nominal value	Carrying amount	Fair value
Foreign currency contracts			
Forward foreign exchange contracts	3 136	- 22	8
Currency swaps	2 377	-161	-159
Interest rate contracts			
Forward rate agreements	100	0	0
Interest rate swaps	2 257	-87	-219

Principles for calculating fair value

The fair value of *forward foreign exchange contracts* is calculated based on the market rates on the balance sheet date. The carrying amount does not include the exchange rate difference of forward foreign exchange contracts hedging long-term purchases of raw materials.

The fair value of *currency swaps* is calculated based on the market rates on the balance sheet date. The fair value of the interest rate flows connected with these has been estimated on the basis of the present value of future cash flows. In addition to the exchange rate difference, the carrying amount includes accrued interest. Currency swaps include contracts connected with the hedging of both the loan portfolio and the cash flow.

The fair value of *forward interest rate agreements* is calculated based on market rates on the balance sheet date.

The carrying amount of *interest rate swaps* consists of accrued interest. The fair value is estimated on the basis of the present value of future cash flows.

EXCHANGE RATES

	Average rates				Year-end rates				
	1996	1995	1994	1993	1996	1995	1994	1993	1992
USD	4.5905	4.3658	5.2184	5.7189	4.6439	4.3586	4.7432	5.7845	5.245
DEM	3.0530	3.0471	3.2169	3.4584	2.9880	3.0435	3.0615	3.335	3.2485
SEK	0.6847	0.6123	0.6758	0.735	0.6748	0.6546	0.6358	0.6945	0.7436
DKK	0.7921	0.779	0.8207	0.8822	0.7809	0.7862	0.7794	0.8549	0.8407
NOK	0.7111	0.6889	0.7393	0.8059	0.7209	0.6899	0.7014	0.7701	0.7602
GBP	7.164	6.891	7.982	8.582	7.869	6.741	7.409	8.554	7.957
FRF	0.8978	0.8746	0.9406	1.0096	0.8862	0.8906	0.8873	0.9817	0.9532
ITL	0.00298	0.00268	0.00324	0.00364	0.00304	0.00275	0.00292	0.00338	0.00356
ECU	5.751	5.644	6.175	6.685	5.770	5.597	5.815	6.459	6.340

21. PROFIT AND EQUITY IN ACCORDANCE WITH IAS

The differences between international and Finnish accounting practice

The accounting principles adopted by Rautaruukki Group are in compliance with IAS (International Accounting Standards) apart from a few exceptions. Differences have arisen in handling revaluations and some other fixed asset items, sale and lease back agreements and the booking of pension liabilities.

Following calculations show the reconciliated profit and equity in accordance with IAS.

FIM million	1996	1995
Profit for the year in the consolidated accounts	199	786
Goodwill depreciation allocated to reserves	38	38
Depreciation of revaluations	-5	-5
Adjustment to other depreciation	23	20
Pension expenses	48	138
Associated companies	5	5
Sale & lease back and other agreements	-4	31
Imputed deferred tax liability portion of provisions	-53	
Change in reserves	400	-66
Profit for the year in the IAS accounts	651	947
Shareholders' interests in the consolidated accounts	2880	2958
Optional reserves	1430	1030
Imputed deferred tax liability portion of provisions	-53	
Pension liabilities entered to expenses	-110	-158
Goodwill depreciation allocated to reserves	-118	-156
Sale & lease back and other agreements	-62	-119
Depreciation of intangible assets	-34	-57
Depreciation of revaluations	-112	-107
Associated companies	-8	-13
Shareholders' interests in the IAS accounts	3813	3378

BOARD PROPOSAL FOR THE USE OF PROFIT

At the closing of the accounts for 1996 the consolidated nonrestricted equity capital of the Group was FIM 722.8 million, of which the profit for the year was FIM 198.6 million.

The nonrestricted equity capital of the parent company was made up as follows:

Net profit for the year	FIM	172 128 773.66
Retained earnings from previous years	FIM	887 786 516.28
Total	FIM	1 059 915 289.94

The Board of Directors will recommend to the Annual General Meeting that

on the share capital of	FIM	1 202 284 160.00
a dividend of 15 per cent be paid	FIM	180 342 624.00
and the remainder of the profit be posted to the retained earning account bringing it to a total of	FIM	879 572 665.94

Helsinki, 12 February 1997

BOARD OF DIRECTORS

Mikko Kivimäki

Lauri Mannerkoski	Pekka Einamo	Aulis Saarinen
Gösta Engman	Seppo Ahonen	Seppo Sahlman

AUDITORS' REPORT

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Rautaruukki Annual Report 1996

To the shareholders of Rautaruukki Oy

We have audited the accounting records and the financial statements, as well as the administration by the Supervisory Board, the Board of Directors and the Managing Director of Rautaruukki Oy for the year ended 31 December 1996. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and the company's administration. We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the ad-

ministration has been to examine that the Supervisory Board, the Board of Directors and the Managing Director have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

We have acquainted ourselves with the interim financial statements made public by the company during the year. It is our understanding that the interim financial statements have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki, 13 February 1997

KPMG WIDERI OY AB
Hannu Niilekselä
Authorized Public Accountant

STATEMENT BY THE SUPERVISORY BOARD

Having today considered the company's financial statements and consolidated financial statements for 1996, as well as the Auditors' Report, the Supervisory Board of Rautaruukki Oy proposes to the 1997 Annual General Meeting of shareholders that the profit and loss accounts and the balance sheets of the company and the Group be approved. The Supervisory Board concurs with the Board of Directors' proposal con-

cerning the disposal of profit.

The following members of the Supervisory Board are due to retire at the 1997 Annual General Meeting of the shareholders: Deputy Chairman Jorma Rantanen and Members Juhani Alaranta, Georg Ehrnrooth, Tuula Haatainen and Timo Ihamäki.

Helsinki, 7 March 1997

SUPERVISORY BOARD

	Martti Korhonen	
Jorma Rantanen	Göran J. Ehrnrooth	Tauno Heikonen
Juhani Alaranta	Georg Ehrnrooth	Tuula Haatainen
Marjut Kaarilahti	Timo Ihamäki	Tauno Matomäki
	Hannes Manninen	

Raahe Steel manufactures and markets hot rolled plate and strip and prefabricated products to meet the needs of customers and the Group's other units. It also markets steel industry byproducts ja provides transport services.

The investment programme will improve profitability



Heikki Rusila
Senior Vice President

Deliveries of Raahe Steel's hot rolled products in Finland decreased. This was due to a weakening demand, particularly in the shipbuilding industry, as well as to the winding down of wholesalers' and end users' stocks in the first part of the year. Deliveries to other parts of Europe and to overseas markets grew.

Raahe Steel's deliveries of rolled products were 2 290 000 tonnes (2 204 000). Deliveries to the Group's own upgrading operations amounted to 57 per cent (58) of total deliveries.

Drop in prices weakens profitability

Raahe Steel's turnover was FIM 4 508 million (5 031). The contraction in turnover was due to the fall in steel prices and the change in the pricing bases of intra-Group deliveries towards the end of 1995.

Operating profit was FIM 613 million (1 085). The division's profitability weakened due to lower prices and the larger-than-planned use of purchased slabs. The division's profitability was acceptable.

To increase sales effectiveness, the division continued to target specific products at selected market areas. The value added was raised further by increasing the sale of prefabricated plate products. Operational efficiency was boosted through the use of information technology in direct customer link-ups and in monitoring delivery precision.

To promote the use of Rautaruukki's steel, Raahe Steel published *Designer's Guide* in eleven languages. The book contains information on the technical properties of Rautaruukki's flat and tubular products.

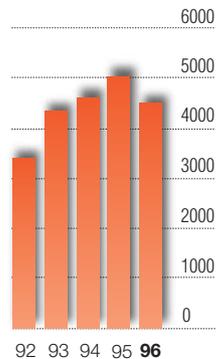
Mill-wide renewal

The modernization of blast furnace no. 2 was completed in June. Implementation of

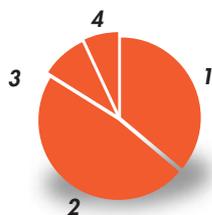
Oy JIT-Trans Ltd's scheduled transports bring the Group's products to customers.



Turnover, FIM million



External sales by region, 1996



- 1 Finland 36 %
- 2 Other EU countries 48 %
- 3 Other Europe 9 %
- 4 Other countries 7 %

Division's units

RAAHE STEEL WORKS

- Sintering plant
- Coking plant
- Blast furnaces
- Steel plant
- Plate rolling mill
- Strip rolling mill
- Prefabricated products line

- PRESTEEL OY
- OY JIT-TRANS LTD
- AUGUST LINDBERG OY
- SKJ COMPANIES

Key figures

	1996	1995	Change,%
Turnover, MFIM	4 508	5 031	- 10
Operating profit, MFIM	613	1 085	- 14
Return on net assets, %	11.9	20.0	
Steel production, 1000 t	2 018	2 007	+ 1
Personnel at year-end	3 709	3 688	+ 1

the Rautaruukki 2000 investment programme was continued. The programme will raise Raahe Steel's output of steel and rolled products step by step to 2.8 million tonnes by the year 2000. The capital expenditures are being carried out by modernizing the existing production lines.

The most important stages of the investment programme were connected with raising the charge weight of the steel plant. At the strip mill, investments connected with increasing the slab heating capacity were started. A new continuous casting machine and slab heating furnace will be completed by the end of 1997. A ladle metallurgy plant that is required in the manufacture of demanding grades of steel will be completed towards the end of 1998.

The investment programme is described in more detail on pages 52-53.

Environmental programme reaches completion

Raahe Steel has set the objective of being one of the world's front-ranking steel manufacturers in the management of environmental affairs, as in other areas of competence. The environmental system was changed

in accordance with the ISO 14001 standard. Auditing aiming at certification of the environmental system will be carried out in the spring 1997.

SKJ Companies expanded its slag handling business to international markets by building slag handling plants in Russia and Ukraine.

Rautaruukki and Valmet Corporation established PreSteel Oy, a company that manufactures roll blanks and other preprocessed plate products, in February 1997. Rautaruukki has a 55 per cent holding in the company and Valmet 45 per cent.

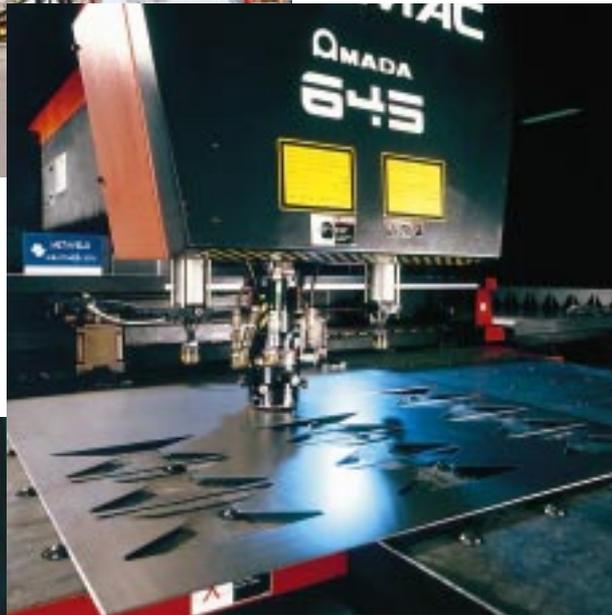
Outlook for 1997

The consumption of hot rolled flat products is forecast to grow somewhat in Raahe Steel's main market areas. Deliveries to the Group's own upgrading operations are estimated to increase. The division will retain its market position in its traditional market areas.

Highly upgraded products that are tailored to customers' needs represent a growing proportion of Raahe Steel's sales. The fall in prices came to a halt at the end of 1996, and in 1997 prices are expected to rise. Raahe Steel's profitability is estimated to remain at the level of 1996.



Raabe Steel is delivering a total of 30 000 tonnes of thermomechanical TMCP steel for two oil drilling platforms to be fabricated in the Gulf of Mexico.



Customers in continental Europe in particular have wholeheartedly adopted the RAEX LASER product group, which speeds up cutting operations whilst improving cutting quality.



The most important part of the ongoing capital expenditure programme was increasing the charge weight of the converters.



Modernization of the blast furnaces involves building a new joint control room for them.

Rautaruukki Strip Products manufactures and markets cold rolled, galvanized and colour-coated strip products for construction, interior design and furnishing, the automotive and transport industry, household appliances and packaging.

Profitability increases significantly



Pekka Vaarno
Senior Vice President

The demand for cold rolled sheets weakened in the main markets in Europe and prices dropped. The demand for colour-coated products recovered after the summer and prices headed upwards at the end of the year.

In the United States, the market situation for all product groups remained good. A severe winter delayed the start-up of construction in Eastern Europe, but in the summer there was strong growth in the demand for strip products.

Profitability increases

Strip Products' aggregate deliveries were 1 001 000 tonnes (957 000), of which 26 per cent (27) were intra-Group deliveries.

Strip Products' turnover was FIM 2 954 million. Operating profit rose to FIM 335 million (176). The profitability of Strip Products was good. Profitability was boosted by the improved price ratio of finished strip products compared with hot rolled steel that is used as a raw material.

The Rautaruukki 2000 Investment Programme was carried out at the Hämeenlinna Works. It will gradually increase cold rolling production to 1.25 million tonnes by the year 2000.

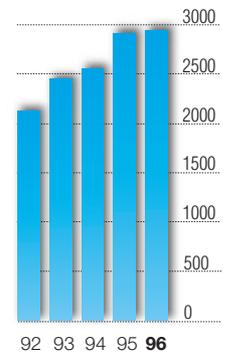
New colour-coatings

Strip Products developed new colour-coatings for steel sheets. A lead-free zinc coating is now being used in gal-

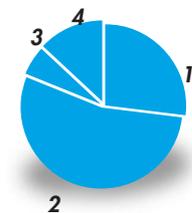
Key figures

	1996	1995	Change, %
Turnover, MFIM	2 954	2 925	+ 1
Operating profit, MFIM	335	176	+ 90
Return on net assets, %	26.2	17.8	
Personnel at year-end	1 056	1 036	+ 2

Turnover, FIM million



External sales by region 1996



- 1 Finland 27 %
- 2 Other EU countries 53 %
- 3 Other Europe 7 %
- 4 Other countries 13 %

Division's units

COLD ROLLING AND GALVANIZING

Hämeenlinna Works
Bregal GmbH
Ragal GmbH
Rautaruukki Stahlservice GmbH

COLOUR COATING

Hämeenlinna unit
Kankaanpää Works



Rautaruukki's galvanized sheet manufacturing operations went over to using an environmentally acceptable lead-free colour coating.

Important applications of sheets are various pieces of equipment and furnishings.

vanization. It is not only environmentally-friendly but also has good technical properties. In the colour-coating of steel, we have begun to use CPE-coating for machine-seamed sheets and Pural-coating for sheets that will be profiled.



Rautaruukki Stahlservice GmbH gained ISO 9001 approval for its quality system.



Rautaruukki sheet also goes into making car seat frames.

Quality service in Germany

Rautaruukki Stahlservice GmbH, a Steel Service Centre located in Duisburg, started up a new slitting line in July. This will increase the company's competitiveness. In September, the company was the first European Steel Service Centre to get its quality system approved according to the ISO 9001 standard. The certification was granted by the German classification association TÜV.

At the end of the year, Strip Products divested the Danish affiliate Metalcolour A/S, which colour-coats steel sheets. The company's product selection does not fit in with Rautaruukki's colour-coated product range or its development aims.

Outlook for 1997

The demand for coated sheets is estimated to increase in all of Strip Products' markets. The new market economy countries in the Baltic area are experiencing the strongest growth, especially in the demand for sheets used in construction. The demand for cold rolled sheets is expected to rise.

The prices of sheets and especially those of colour-coated products are expected to rise during 1997. The profitability of Strip Products is expected to increase.

Metform manufactures and markets welded steel tubes and pipes and value-added products based on them. Metform is Europe's third largest manufacturer of welded precision tubes and hollow sections. It has plants in Finland, Sweden, Denmark and Germany.

*Deliveries decrease
profitability remains good*



Juha Järvelä
Senior Vice President

The demand for structural tubing was down at the beginning of the year, but strengthened by its end. Deliveries of structural tubing contracted from the previous year. The quantity of line pipes delivered remained high due to sales to large projects. The deliveries of upgraded tubular products decreased slightly.

The deliveries of Metform's tubular products decreased by 12 per cent from last year.

Profitability remains good

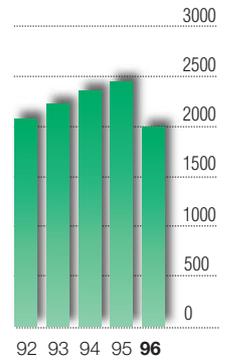
Metform's turnover was FIM 1 990 million (2448). The decrease in turnover was influenced not only by the weakening of the markets but also by the division's structural changes: the works that manufacture cold-formed sections were transferred to the Steel Structure Division in September 1995 and the Swedish hydraulics tube manufacturer Structo AB was sold in December 1995.

The division's operating profit was FIM 172 million (185). In spite of the decrease in deliveries and prices, Metform's profitability remained good.

Key figures

	1996	1995	Change,%
Turnover, MFIM	1 990	2 448	- 19
Operating profit, MFIM	172	185	- 7
Return on net assets, %	19.0	17.8	
Personnel at year-end	1 644	1 670	- 2

Turnover, FIM million



External sales by region 1996



- 1 Finland 19 %
- 2 Other EU countries 73 %
- 3 Other Europe 6 %
- 4 Other countries 2 %

Metform's units

STRUCTURAL TUBING
Hämeenlinna Tube Works
Lappohja Works
Pulkkila Works
Nordisk Simplex A/S

LINE PIPES
Oulainen Works
Wirsbo Stålrör AB

UPGRADED PRODUCTS
Carl Froh GmbH

SALES COMPANY
Star Tubes (UK) Ltd



Metform's hollow sections give Helsinki's new Museum of Modern Art its structural rigidity.

Carl Froh GmbH is Europe's leading manufacturer of tubular vacuum cleaner sections



The furniture industry is an important application of precision tubes

Investing to increase competitiveness

Metform continued to make investments aimed at developing the division's competitiveness in technology and delivery capability. The Pulkkila Works' inductive welding equipment and continuous strip welding equipment were modernized. The refurbishing of production lines was continued at the Hämeenlinna Tube Works and the Nordex Simplex works. Carl Froh GmbH began the rationalization of basic tube production and the development of production methods for vacuum cleaner tubes.

The Metocs pilot project was continued at the Hämeenlinna Tube Works. It aims to modernize the factory and, later on, the data processing of the whole division's sales and production control.

Outlook for 1997

The demand for tubes is estimated to grow slightly and prices are set to strengthen. Raw material costs are expected to rise during 1997. If the rise in the price of steel raw material is not unusually strong, Metform's profitability is expected to stay at the same level as it was in 1995.

The Steel Structure Division manufactures and markets steel products for construction. The division's main products are profiled sheets, load-bearing sections and facade elements. The division is the leading manufacturer of profiled sheets in the Baltic Sea area. It has production in Finland, Sweden, Denmark, Poland, Estonia and Russia.

Continuing growth in the Baltic Sea area



Jorma Lukkari
Senior Vice President



Markku Koljonen
Vice President

After many weak years, the demand for construction products began to recover in the Nordic countries during 1996. Demand strengthened further in the Baltic countries, Russia and Poland, even though the long winter weakened demand at the beginning of the year. Product prices strengthened in the Steel Structure Division's main markets.

Operating profit improved markedly

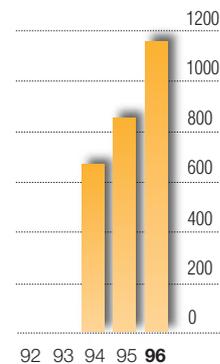
The Steel Structure Division's turnover was FIM 1 161 million (856). The growth in the division's turnover was partially influenced by the transfer from Metform, in September 1995, of units that manufacture cold-formed sections. The division's turnover net of these units grew by 14 per cent.

Operating profit was FIM 74 million (20). The profitability of the Steel Structure Division grew significantly to a satisfactory level.

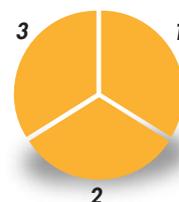
Operations in nearby markets on the increase

The division expanded its operations to new markets. Rannila Taldom AO began its profiling production close to Moscow in Russia. A joint venture was established in

Turnover, FIM million



External sales by region 1996



- 1 Finland 34 %
- 2 Other EU countries 32 %
- 3 Other Europe 34 %

Division's unit

Rannila Steel Oy
Toijala Works
Gasell Profil AB
Stelform A/S
AS Rannila Profil
Rautaruukki Polska Sp. z o.o
Rannila Taldom A/O
Rannila Velvary s.r.o.
Sales units
Gasell Profil AS
Rannila Steel Latvia Sia
Uab Rannila Steel Vilnius

Key Figures

	1996	1995	Change, %
Turnover, MFIM	1 161	856	+ 36
Operating profit, MFIM	74	20	+ 270
Return on net assets, %	13.6	3.8	
Personnel at year-end	908	783	+ 16



The Steel Structure Division developed a single-family house system based on the use of steel thermo-profiles.

Steel roofing is gaining in popularity in the East-European market.



Steel facade panels are strengthening their position with builders of business offices and industrial facilities. Seen here is Nokia's new mobile phone factory in Oulu.

the city of Velvary, close to Prague in the Czech Republic. It will start producing profiled sheets in 1997 under the name of Rannila Velvary.

Both Rannila Profiil in Estonia and Rautaruukki Polska in Poland initiated capital projects to enlarge their production areas and profiling capacities. A minority share of Metalplast Oborniki Sp. z o.o, a Polish company which manufactures building products, was acquired in January 1996.

The development of the division's structure was continued by starting up the merger of Mäkelä Metals Oy and Rannila Steel Oy. The merger will take place during spring 1997, but the companies' operational functions were already combined at the end of 1996.

Outlook for 1997

It is estimated that the market for construction products will develop positively during 1997. Due to the construction of new profiling lines, the division will increase its deliveries in the fastest-growing market areas and expand its sales to new areas.

The incipient recovery of the Finnish building industry is anticipated to strengthen somewhat. Due to an estimated increase in the price of raw materials, the division's profitability is expected to be at the same level as it was in 1996.

Fundia is the leading Nordic manufacturer of long steel products. The most important products are bar and wire for the engineering industry, profiles for the shipbuilding and offshore industries and reinforcing for the building industry. Fundia's further processed products include prestressed concrete strands, welding wire and hard-chromium plated bar.

Falling prices decrease Fundia's results



Lennart Kallioniemi
President and CEO, Fundia AB

Demand for long steel products weakened in Fundia's main markets in Europe and prices fell by an average 17 per cent in local currency. The falls in the price of special steel products were somewhat lower.

The result deteriorated

Fundia retained its market position in the Nordic countries and made advances in the rest of Europe. Deliveries were up by 7 per cent.

The main reason was that a number of plants were producing at less than full capacity in 1995 while major capital investments were being made. Turnover was FIM 3 852 million (3 879).

Operating profit was FIM 8 million (242). Main reason for the decrease were lower prices. Operating profit includes non-recurring costs for the closure of the rolling mill at Åminnefors and for a rundown of the work force of the Division. The price of the main raw material scrap fell by 15 per cent.

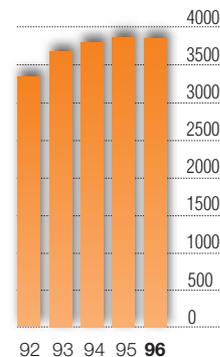
Action programme continued

In order to improve its competitiveness Fundia made a number of additional rationalizations. The rolling mill for reinforcing at Åminnefors, Finland was closed down and replaced by a distribution centre for the Finnish market. The decision

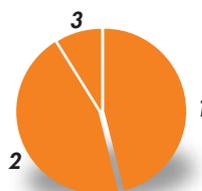
Key Figures

	1996	1995	Change, %
Turnover, MFIM	3 852	3 879	- 1
Operating profit, MFIM	8	242	- 97
Return on net assets, %	1	12	
Steel production, 1000 t	1 570	1 485	+ 6
Personnel at year-end	3 522	3 633	- 3

Turnover, FIM million



External sales by region 1996



Fundia's units

REINFORCING

Mo i Rana
Halmstad
Oslo
Ølstykke
Smedjebacken

SPECIAL BAR

Smedjebacken
Boxholm

WIRE

Koverhar
Dalsbruk

STRUCTURAL STEELS

Mo i Rana

BAR & WIRE PROCESSING

Dalsbruk
Mandal
Twente
Redon
Hjulsbro
Forsbacka
Mora
Hallstahammar



Fundia's hard-chromium plated bars are used among others for hydraulic pistons

to reduce the number of employees was taken at main units. The first part of a programme to cut Fundia's costs by about FIM 200 million was completed.

New products introduced

During 1996 Fundia Structural Steel launched two new products, the T-Bulb profile and the container guide both of which were well received in the market. The container guide is used to steer containers into position on vessels and fix them securely.

Fundia Bar & Wire Processing introduced a new uncoppered welding wire, which has been developed in collaboration with ESAB. This new type of welding wire gives environmental advantages and permits higher welding speeds.

Certification to the environmental system

Fundia Bygg AS, Mo i Rana obtained in August the ISO 14001 certification to its environmental management system.

Fundia Special Bar started up a plant for the pelletizing of dust from the electric-arc furnace. Pelletizing makes it possible to recover zinc from the dust.

Outlook for 1997

In the long steel products sector, levels of stocks have returned to normal during 1996. On the basis of general economic forecasts, some improvement in deliveries is expected in 1997.

Fundias profitability will be improved by the current cost-cutting programme and by an increase in the proportion of special steel products and an expansion of further processing.



The experimental project on the reinforcing of concrete roads produced good results

Fundias new uncoppered welding wire improves working conditions, too



The Engineering Division manufactures and markets rolling stocks, dished ends and other engineering products, and it sells technology developed within the Group.

The division has a positive trend

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Rautaruukki Annual Report 1996



Jorma Lukkari
Senior Vice President

The Engineering Division's earnings increased substantially. The division's structure has been streamlined by peeling away non-core units that do not fit in with the steel business. In addition, Transtech's operations have been harmonized in line with the market situation. The

Engineering Division's turnover was FIM 484 million (594). Operating profit was FIM 8 million (-51). The division's profitability is still weak.

Transtech gets large orders

Transtech delivered rolling stock worth a total of some FIM 200 million and other engineering products worth a total of approximately FIM 40 million. Slightly more than 200 goods wagons were

delivered to Sweden, Norway, Finland and England. Five electric locomotives were delivered to VR Corporation (formerly the Finnish State Railways) and 10 locomotive bodies to ABB.

The preparations for the production and designing of the double-decker IC wagons ordered by VR have commenced. The first wagons will be delivered in 1997. The design of the trams ordered by the city of Helsinki

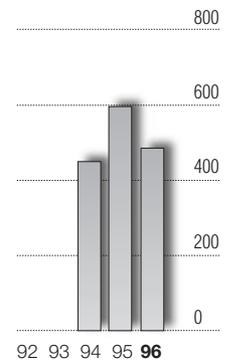
Key figures

	1996	1995	Change, %
Turnover, MFIM	484	594	- 19
Operating profit, MFIM	10	- 51	
Return on net assets, %	4.7	neg.	
Personnel at year-end	858	1 012	- 15

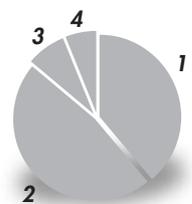


The new hydraulic press at the Halikko Works is capable of manufacturing tank dished ends up to 10 metres in diameter.

Turnover, FIM million



External sales by region 1996



- 1 Finland 39 %
- 2 Other EU countries 47 %
- 3 Other Europe 7 %
- 4 Other countries 7 %

Division's units

Transtech
Halikko Works
Polartherm Oy
DCA-Instruments Oy
Rautaruukki Engineering

was begun in cooperation with the main supplier, the German company ABB Henschel.

Halikko Works' expansion completed

The demand for the pressure vessel dished ends manufactured by the Halikko Works remained good, as did the factory's profitability. The expansion of the factory's production areas was completed. A new 1000 tonne hydraulic press was put into use.

Automation to the Far East

Rautaruukki Engineering received orders for blast furnace automation from the Republic of China, for coking automation equipment from Poland and an order for sandblaster robots from Canada. An Indian steel mill ordered a blast furnace automation unit. This is Rautaruukki Engineering's tenth delivery to India.

Outlook for 1997

Transtech's order book comprises FIM 700 million worth of rolling stock, of which a third will be delivered in 1997. The division's profitability is expected to stay at the same level as it was in 1996.

Sixty per cent of Rautaruukki's deliveries are sold directly to customers. The rest are sold through retail dealers. The Group has its own sales companies in the major European countries as well as in the United States, Singapore and Dubai.

Rautaruukki has two steel wholesale businesses which sell the Group's own steel products: Keskometalli Oy and CCB Stål AS. Strip Products has a Steel Service Centre in Germany, Rautaruukki Stahlservice GmbH, and Fundia operates the Fundia GmbH Steel Service Centre. In the UK, Metform has a tubular products wholesale business, Star Tubes (UK) Ltd. Rautaruukki is a minority shareholder in many wholesale businesses.

Keskometalli Oy

Rautaruukki acquired Keskometalli Oy, a steel wholesale business, in August 1996. It has been consolidated with the Rautaruukki Group since 1 September 1996.

Keskometalli's warehouse and Steel Service Centre are located in Naantali. Keskometalli has a payroll of 174 people.

In the autumn it was decided that Keskometalli will build a Steel Service Centre in the city of Pärnu, Estonia, to service the entire Baltic area. The Steel Service Cen-

tre will begin operations in autumn 1997.

Keskometalli is also building a sales company network to cover the Baltic area. For this purpose, Keskometalli bought the business operations of A/S Baltmet, an Estonian wholesale and distribution company. It was integrated into Rautaruukki (Eesti) OÜ. In Latvia, Keskometalli bought the wholesale and distribution company SIA Arcus-Metalcentrs, which operates under the name SIA Rautaruukki Metalcentrs. Keskometalli established its own sales company in Lithuania.

CCB Stål AS

CCB Stål AS (formerly CCB-Gruppen) is the second largest steel wholesale business in Norway, and it has offices in nine localities in Norway. The company employs 151 people.

CCB Stål's turnover was FIM 472 million (477). The company's profitability stayed at the previous year's level. Operating profit was FIM 27 million (33).

Rautaruukki's shares in steel wholesalers and service centres

Company	Country	Rautaruukki's share
Keskometalli Oy	Finland	100%
CCB Stål AS	Norway	100%
Rautaruukki Stahlservice GmbH	Germany	100%
Star Tubes (UK) Ltd	Great Britain	100%
Fundia GmbH	Germany	100%
Asva Stal Serwis Sp. z o.o	Poland	50%
A+R Profilstahl GmbH	Germany	33%
Heléns Rör AB	Sweden	25%
Asva Oy	Finland	20%
Ancofer Stahlhandel GmbH	Germany	10%

RAUTARUUKKI REINFORCES ITS COMPETITIVE POSITION

Rautaruukki is an international group of companies that focuses on steel manufacturing and related upgrading. Its operational strategy is based on a high degree of steel upgrading, cost efficiency, the high quality of its products and a wide selection of products. It also emphasizes flexibility in production and sales, and high quality customer service. Rautaruukki has a strong position in the markets of the Nordic countries and the countries in the Baltic Sea area.

Rautaruukki produces hot and cold rolled plate and coil, and coated sheet and tubular products upgraded from them. These products accounted for 61 per cent of the group's turnover in 1996. The group's long steel products are reinforcing steel, bars, wire, rolled profiles and various upgraded products. Long products accounted for 30 per cent of the group's turnover in 1996.

Rautaruukki manufactures the steel used in its plate and coil products from iron ore, coke and limestone.

The group produces the steel for its long products at three steel works. Two thirds of this is made by melting down scrap iron and converting it into steel in electric furnaces; one third of production is ore-based.

Rautaruukki is one of the most efficient steel companies in Europe. This is shown by its high productivity figures, the efficient use of energy, and the fastest delivery times in Europe. Rautaruukki's operations have the highest degree of upgrading and the highest added value in the steel sector in Europe. This is why the average selling price obtained by Rautaruukki for its products is higher than that of its competitors.

Rautaruukki has a wide

range of products and customers in several sectors. Building and construction accounts for about 40 per cent of sales, mechanical engineering for about 25 per cent and ship building for nearly 10 per cent. Other important customer sectors are the automotive, energy, furniture and domestic appliance industries.

The large share of upgraded products and the diversity of customers make Rautaruukki less susceptible to the ups and downs in the economic cycle.

Rautaruukki raises its profitability

Rautaruukki continues to improve its profitability. The group is seeking to develop its operations so that the value of its shares rises. The group is raising cost efficiency and increasing the volume of its operations. Rautaruukki is launching even higher quality steel products and is reinforcing its position in the Nordic countries and the new market economy countries in the Baltic Sea area.

Rautaruukki has built up its steel operations considerably. At the beginning of 1996 the volume of Rautaruukki's operations grew by more than a third, when Fundia became a wholly owned subsidiary. This also made Rautaruukki

the largest steel company in the Nordic countries. Rautaruukki has concentrated on its steel operations and divested almost all other operations. At the end of 1996 about 98 per cent of its turnover came from steel operations.

Rautaruukki has been one of Europe's most profitable steel companies. During the past four years the group's operating margin has been on average 11.7 per cent of turnover and the return on net assets on average 12.3 per cent. The group has set a target of at least 12 per cent for its return on net assets during the business cycle.

The group structure changed during 1996 and the equity ratio stood at 34.4 per cent at the year-end. The equity ratio is rising again. The target of 40 per cent should be reached during 1998.

Rautaruukki pursues a competitive and stable dividend policy, that takes into account the group's performance and supports sufficient development of the equity ratio.

Investment programme raises cost efficiency

Rautaruukki refurbished both its blast furnaces during 1995 and 1996, fitting them with the latest technology. The

blast furnaces now produce 2.5 million tonnes of iron a year, more than 20 per cent more than previously.

Raising the capacity of the blast furnaces made it possible to carry out the Rautaruukki 2000, a programme of investments to improve the cost-efficiency and profitability of the flat steel production. The programme will be completed around the end of the decade.

Output from Raah Steel's steel and rolling mills will rise in stages from 2.3 to 2.8 million tonnes by the year 2000. At the same time, labour productivity in these operations will rise by 25 per cent. New steel grades will expand the product selection at the works and the quality of products will improve. Output from the cold rolling operations at the Hämeenlinna Works will rise at the same time from 930 000 to 1 250 000 tonnes and labour productivity will improve by 30 per cent. Environmental emissions from the works will fall considerably.

When the investment programme is completed in the year 2000, all the key components in steel production operations for flat products will have been upgraded with the latest technology available. Rautaruukki's steel production will be able to compete with integrated steel mills and minimills even into the next decade.

The investment programme is very cost-effective. The investments will start to bring returns in 1997. The investment programme has an estimated payback period of between five and six years and an estimated internal interest



rate of 30 per cent. The group's cash flow should remain positive during the investment period, the net debt should decrease and the equity ratio improve.

Most of the extra production will be sold as various upgraded products in domestic and nearby markets. The Steel Structure Division in particular is increasing its sales in the new market economy countries in the Baltic area.

Increased competitiveness in long steel products

The competitive strength of the subsidiary Fundia in long steel products is based on cost efficiency and high value-added products. A key target is to increase the share of low alloy special steels and added value products to two thirds of deliveries from the present 40 per cent.

Sales of ordinary commer-

cial steels will concentrate on the Nordic countries. More highly upgraded products will be sold in the Nordic countries and elsewhere in northern Europe. Fundia has a high market share in its main market area, the Nordic countries.

Fundia is carrying out a programme to cut costs, with the goal of savings of SEK 300 million a year by the year 1998. In 1995 the number of active personnel was about 3500. The aim is to reduce this workforce by at least 10 per cent before the end of the decade.

Rautaruukki is strong in its domestic market

Rautaruukki has a strong position in the domestic and nearby market of the Nordic countries and the new market economies in the Baltic Sea area. This area accounts for more than 60 per cent of the

group's sales. The company is the market leader in all its products in Finland. In the Nordic countries it is the leader in long steel products, coated sheet products and in welded steel tubes and hollow sections.

Group sales in the new market economies of the Baltic Sea area have grown rapidly in the last few years and this growth is expected to continue. In 1996 sales to this area were 5 per cent of turnover.

Rautaruukki has production units for steel roofing in Poland, Estonia and

Russia. Their output is being expanded. Production of steel roofing will start in the Czech Republic in 1997.

Rautaruukki is a major manufacturer of highly upgraded steel products by European standards. The group is the largest manufacturer of steel roofing in Europe, the third largest producer of welded precision tubes and hollow sections, and among the six largest manufacturers of coated sheet.

Rautaruukki aims to further strengthen its market position in its domestic and nearby market area. To achieve this it is improving customer service, building up its sales organization and increasing marketing.

The first of Rautaruukki's four basic values is to help its customers to succeed. This shows how committed all members of the personnel are to im-

proving customer service.

About 60 per cent of the group's products are delivered straight to the customers and the rest is sold by steel wholesalers and agents. The group has its own sales companies in almost ten countries in northern and central Europe and in the USA, Singapore and Dubai.

The group has strengthened its position especially in steel wholesale operations. Rautaruukki owns two steel wholesale companies, Kesko-metalli Oy in Finland, which Rautaruukki acquired in 1996, and CCB Stål AS, in Norway.

Rautaruukki owns 50 per cent of Asva Stal Serwis Sp. z o.o, a steel service centre in Poland, and considerable minority holdings in Asva Oy in Finland and Heléns Rör AB in Sweden. In December 1996 Rautaruukki established a steel service centre in Estonia serving the entire Baltic area and sales companies in all the Baltic countries.

In Rautaruukki's domestic market area, the company's products are also sold by many major retailers that are not part of the Rautaruukki Group.

Sales in other markets are effected through the company's own sales offices, through wholesalers in which the company has a holding, and through agents. In Germany Rautaruukki has its own steel service centres, Rautaruukki Stahlservice GmbH and Fundia GmbH as well as an associated company, A+R Profilstahl GmbH. Rautaruukki owns a tubular products wholesaler, Star Tubes (UK) Ltd, in Great Britain.

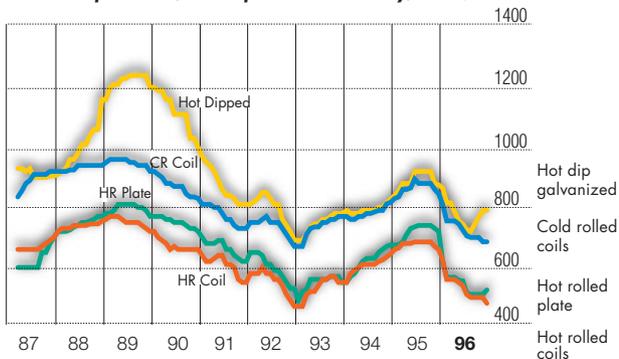
GROUP STATISTICS 1992–1996

		1996	1995	1994	1993	1992
Turnover	FIM million	12 834	9 213	8 255	7 683	7 064
Exports and international operations	%	77	68	70	74	73
Personnel at year-end		12 410	8 730	9 068	9 151	9 281
Personnel on average		12 812	9 318	9 444	9 437	9 873
Value added per person		378	436	386	351	296
Steel production	1000 t	3 588	2 007	2 267	2 201	2 094
Finance						
Operating profit	FIM million	1 171	1 385	1 050	762	252
% of turnover	%	9.1	15.0	12.7	9.9	3.6
Profit before extraordinary items, reserves and taxes	FIM million	715	954	658	78	-899
% of turnover	%	5.6	10.4	8.0	1.0	-12.7
Profit before reserves and taxes	FIM million	715	810	440	-42	-726
% of turnover	%	5.6	8.8	5.3	-0.6	-10.3
Return on net assets	%	12.5	15.5	12.1	9.0	3.6
Return on equity	%	14.4	23.4	21.6	2.6	-36.9
Equity ratio	%	34.4	37.7	31.6	21.1	17.4
Gearing		129	109	143	274	335
Gross investments	FIM million	2 021	778	544	432	742
% of turnover	%	15.7	8.4	6.6	5.6	10.5
Research and development	FIM million	96	80	66	65	82
% of turnover	%	0.7	0.9	0.8	0.8	1.2
Net interest expenses	FIM million	443	387	424	475	571
% of turnover	%	3.4	4.2	5.1	6.2	8.1
Interest bearing net debt	FIM million	5 588	4 347	4 850	6 246	6 643
Key figures						
Earnings per share, EPS	FIM	4.98	7.19	5.40	0.55	-9.54
Equity per share	FIM	35.93	33.16	28.28	22.20	21.10
Dividend per share	FIM	1.50*	1.70	1.00	0	0
Dividend per earnings	%	30.1*	23.7	18.5	0	0
Price per earnings, P/E		8.5	3.7	7.0	79.3	-1.7
Share trading	thousands	30 651	36 313	23 184	13 285	4 829
Share trading	FIM million	1 090	1 033	1 136	411	97
Average price of share	FIM	35.57	28.44	49.00	30.93	20.19
Adjusted average number of shares		120 228 416	120 228 416	113 935 813	92 923 861	92 647 166
Adjusted number of shares at year-end		120 228 416	120 228 416	120 228 416	101 828 416	92 647 166
Number of shares at year-end		120 228 416	120 228 416	120 228 416	101 828 416	92 647 166
Share price at year-end	FIM	42.50	26.50	38.00	43.90	16.50
Market capitalization at year-end	FIM million	5 110	3 186	4 569	4 470	1 440

* Board proposal

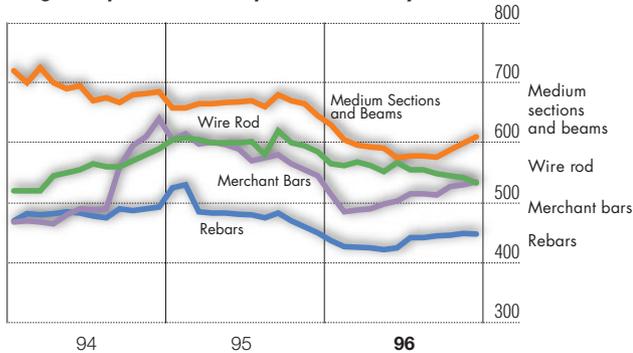
PRICE DEVELOPMENT OF STEEL AND RAW MATERIALS

Flat steel products, basic price in Germany, DEM/t



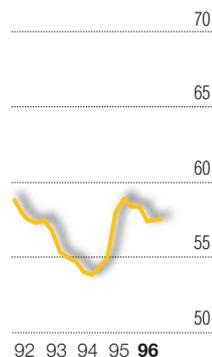
Source: MEPS, European Steel Review

Long steel products, sales price in Germany, DEM/t



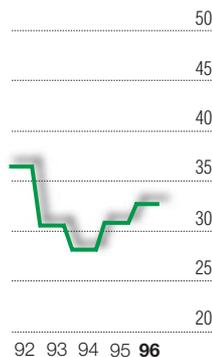
Source: MEPS, European Steel Review

Coking coal, USD/t



Source: European Commission, International Coal Report 96, Mid-Vol, EU CIF

Iron ore, US cents/t



Source: Metal Bulletin, LKAB Kiruna B fines

Iron scrap, DEM/t



Source: Bundesverband der Deutschen Schrottwirtschaft, Ruhr N:o 2; >3mm

Principles governing the calculation of key figures:

$$\text{Value added per person} = \frac{\text{operating profit} + \text{depreciation} + \text{wages} + \text{indirect employee costs} + \text{rents} - \text{share of associated companies' profits}}{\text{average personnel}}$$

$$\text{Return on net assets} = \frac{\text{profit before extraordinary items, reserves and taxes} + \text{interest expenses} \pm \text{exchange rate differences} + \text{other financing expenses (excl. change in the values of short-term investment)}}{[\text{balance sheet total} - \text{obligatory provisions} - \text{non-interest bearing debt}] \text{ (average of the beginning and end of the year)}}$$

$$\text{Return on equity} = \frac{\text{profit before extraordinary items, reserves and taxes} - \text{taxes}}{[\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference} + \text{minority interests}] \text{ (average of the beginning and end of the year)}}$$

$$\text{Equity ratio} = \frac{\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference} + \text{minority interests}}{\text{balance sheet total} - \text{short-term advanced payments received}}$$

$$\text{Earnings per share (EPS)} = \frac{\text{profit before extraordinary items, reserves and taxes} - \text{minority interest of profit} - \text{taxes}}{\text{adjusted average number of shares}}$$

$$\text{Equity per share} = \frac{\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference}}{\text{adjusted number of shares at year-end}}$$

$$\text{Dividend per share} = \frac{\text{dividends paid}}{\text{adjusted number of shares at year-end}}$$

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

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

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

$$\text{Market capitalization} = \text{number of shares} \times \text{share price at year-end}$$

$$\text{Interest bearing net debt} = \text{interest bearing debt} - \text{interest bearing receivables} - \text{cash and other liquid current assets}$$

$$\text{Gearing} = \frac{\text{interest bearing net debt}}{\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference} + \text{minority interests}}$$

Group management

Oulu Office

P.O. Box 217
FIN-90101 OULU
Tel +358 8 88 360
Fax +358 8 883 6450
Telex 32109 steel fi

Helsinki Office

P.O. Box 860
FIN-00101 HELSINKI
Tel +358 9 417 711
Fax +358 9 4177 6288
Telex 124887 steel fi

RAAHE STEEL

Raahe Steel Works

P.O. Box 93, FIN-92101 RAAHE
Tel +358 8 84 911
Fax (08) 849 2246
Telex 32312 steel fi

JIT-Trans Ltd Oy

P.O.Box 93, FIN-92101 RAAHE
Tel +358 8 849 3909
Fax +358 8 263 923
Telex 32230 jit fi

August Lindberg Oy

P.O. Box 84, FIN-92101 RAAHE
Tel +358 8 849 3880
Fax +358 8 849 3881
Telex 32181 alloy fi

SKJ Companies

Niittykatu 5, FIN-92100 RAAHE
Tel +358 8 84 913
Fax +358 8 849 3996

STRIP PRODUCTS

FIN-13300 HÄMEENLINNA
Tel +358 3 528 60
Fax +358 3 528 5355
Telex 2327 steel fi

Hämeenlinna Works

FIN-13300 HÄMEENLINNA
Tel +358 3 528 60
Fax +358 3 528 5355
Telex 2327 steel fi

RAGAL Feinblech GmbH

Birken Strasse 15
D-28195 BREMEN
Germany
Tel +49 421 175 940
Fax +49 421 175 9440

Rautaruukki Stahlservice GmbH

Kiffward 34
D-47138 DUISBURG,
Germany
Tel +49 203 45 19-0
Fax +49 203 45 19 270

Kankaanpää Works

Rautatienkatu 19
FIN-38700 KANKAANPÄÄ
Tel +358 2 523 8700
Fax +358 2 523 8749

METFORM

FIN-13300 HÄMEENLINNA
Tel +358 3 528 60
Fax +358 3 528 5873

Hämeenlinna Tube Works

FIN-13300 HÄMEENLINNA
Puh (03) 528 60
Fax (03) 528 5546

Lappohja Works

Satamatie 56,
FIN-10820 LAPPOHJA
Tel +358 19 268 7100
Fax +358 19 268 7256

Pulkkiila Works

Lehtolantie 36,
92600 PULKKILA
Tel +358 8 811 7011
Fax +358 8 811 7090

Nordisk Simplex A/S

Vejlegårdsvej 34
DK-2665 VALLENSBAEK
STRAND, Denmark
Tel +45 43 56 66 00
Fax +45 43 56 66 19
Telex 33400 tubes dk

Oulainen Works

Pyhäoentie 16,
FIN-86300 OULAINEN
Tel +358 8 840 7100
Fax +358 8 840 7175

Wirso Stålrör AB

P.O. Box 100
S-730 61 VIRSBO, Sweden
Tel +46 223 383 00
Fax +46 223 383 02

Carl Froh GmbH

P.O. Box 2040,
(Hachener Str. 157)
D-59087 SUNDERN
Germany
Tel +49 2935 810
Fax +49 2935 81202
Telex 84227 froh d

Star Tubes (UK) Ltd

Unit 3, Park Lane
Industrial Estate
PARK LANE, OLDBURY
WEST MIDLANDS B69 4JX,
U.K.
Tel +44 121 5444 666
Fax +44 121 5447 439

STEEL STRUCTURE DIVISION

Development unit (TEN)

P.O. Box 860
FIN-00101 HELSINKI
Tel +358 9 417 711
Fax +358 9 4177 6373

AS Rannila Profiil

Turba 5, PÄRNU,
EE-3600 Estonia
Tel +372 44 452 90
Fax +372 44 452 89

Rannila Steel Latvia S.I.A.

Grecinieku 22/24,
LV 1050 RIGA, Latvia
Tel +371 7 213 503
Fax +371 7 224 138

Rannila Steel Vilnius U.A.B.

T. Sevcenkos 19
VILNIUS, Lithuania
Tel +370 2 635 259
Fax +370 2 263 287

Rannila Steel A/O, Sales Office

Lermontovskij Pr. 44/1
198103 ST. PETERSBURG
Russia
Tel +7 812 251 7523
Fax +7 812 251 7510

Rannila Taldom A/O, Production

Moskovskoj oblasti
ul. Zagorodnaja, 1a
141900 TALDOM, Russia
Tel +7 096 202 1669
Fax +7 095 587 2544

Gasell Profil AB

- P.O. Box 7 (Landsvägen 68)
S-231 08 ANDERSLÖV,
Sweden
Tel +46 410 214 00
Fax +46 410 214 50

Gasell Profil AB

- P.O. Box 967
S-801 33 GÄVLE, Sweden
Tel +46 26 172 500
Fax +46 26 172 599

Gasell Profil A/S

Brobekkveien 80
N-0516 OSLO, Norway
Tel +47 22 72 20 90
Fax +47 22 65 77 66

Stelform A/S

Vejlbyvej 31,
DK-7000 FREDERICIA
Denmark
Tel +45 75 91 20 22
Fax +45 75 91 34 11

Rautaruukki Toijala Works

P.O. Box 69
FIN-37801 TOIJALA
Tel +358 3 549 811
Fax +358 3 549 8240

Rautaruukki Polska Sp. z o.o.

ul. Jaktorowska 13
96-300 ZYRARDOW
Poland
Tel +48 46 855 4793
Fax +48 46 855 3758

ENGINEERING DIVISION

Transtech, Oulu Office

P.O. Box 217
FIN-90101 OULU
Tel +358 8 88 360
Fax +358 8 883 6960
Telex 32109 steel fi

Rautaruukki Halikko Works

FIN-24910 HALIKKO AS
Tel +358 2 52 471
Fax +358 2 524 7392

Polartherm Oy

FIN-29100 LUVIA
Tel +358 2 529 2100
Fax +358 2 558 1844

DCA-Instruments Oy

Telekatu 14
FIN-20360 TURKU
Tel +358 2 238 2500
Fax +358 2 238 8993

Rautaruukki Engineering

P.O. Box 217
FIN-90101 OULU
Tel +358 8 88 360
Fax +358 8 883 6711
Telex 32109 steel fi

Rautaruukki Oy, Beijing Representative Office

Beijing Lufthansa Center,
Office Building, 2nd Floor,
C203, Office No. 18,
50 Liangmaqiao Road,
Chaoyang District,
BEIJING 100016, P.R. China
Tel +86 10 6465 1231
Fax +86 10 6465 1240

FUNDIA

Fundia AB

Kanalvägen 12
S-194 61 Upplands Väsby
Sweden
Tel +46 8 590 045 00
Fax +46 8 590 844 50

SALES UNITS

Keskometalli Oy

P.O. Box 431
FIN-20101 TURKU
TEL +358 10532 1100
Fax +358 10532 1410

Rautaruukki Eesti Oü

Liivalaia 14-612
TALLINN, EE 0100 Estonia
Tel +372 2 682 472
Fax +372 6 460 019

CCB Stål AS

Professor Birkelands vei 21
PB 140 Furuset
N-1001 OSLO, Norway
Tel +47 22 90 90 00
Fax +47 22 90 90 70

Finnsteel Inc.

5 Revere Drive, Suite 502
Northbrook, IL 60062, U.S.A.
Tel +1 847 480 0420
Fax +1 847 480 9466

Rautaruukki (Norge) AS

PB 4586 Torshov
(Nydalsveien 15)
N-0404 OSLO, Norway
Tel +47 22 58 44 20
Fax +47 22 58 44 30

Rautaruukki (Sverige) AB

Box 17605 (Fatburgsgatan 7)
S-118 92 STOCKHOLM
Sweden
Tel +46 8 642 42 25
Fax +46 8 643 73 40

Rautaruukki (Deutschland) GmbH

- Grafenberger Allee 87
D-40237 DÜSSELDORF,
Germany
Tel +49 211 669 030
Fax +49 211 689 842

- Müllerstraße 153
D-13353 BERLIN,
Germany
Tel +49 30 4650 900
Fax +49 30 4650 9099

Rautaruukki (UK) Ltd

Merevale House, Parkshot
Richmond, Surrey TW9 2RG
U.K.
Tel +44 181 948 8177
Fax +44 181 948 5716

Rautaruukki-Danmark

Vejlegårdsvej 34
DK-2665 VALLENSBAEK
STRAND, Denmark
Tel +45 43 56 66 66
Fax +45 43 56 66 79
Telex 33400 tubes dk

Rautaruukki (S.E.A.) Pte Ltd

360 Orchard Road #06-03
International Building,
SINGAPORE 238869
Tel +65 737 9992
Fax +65 737 9995

Rautaruukki Oy

Moscow Representative Office
Korovij val 7, kv. 13V
MOSCOW
117049 Russia
Tel +7 095 935 76 56
Fax +7 095 935 76 57

Rautaruukki Polska Sp. z o.o.

Biuro w Warszawie
Al. Jerolimskie 99 m 31
02-001 WARSZAWA, Poland
Tel +48 391 215 26
Fax +48 391 222 65

Rautaruukki (M.E.)

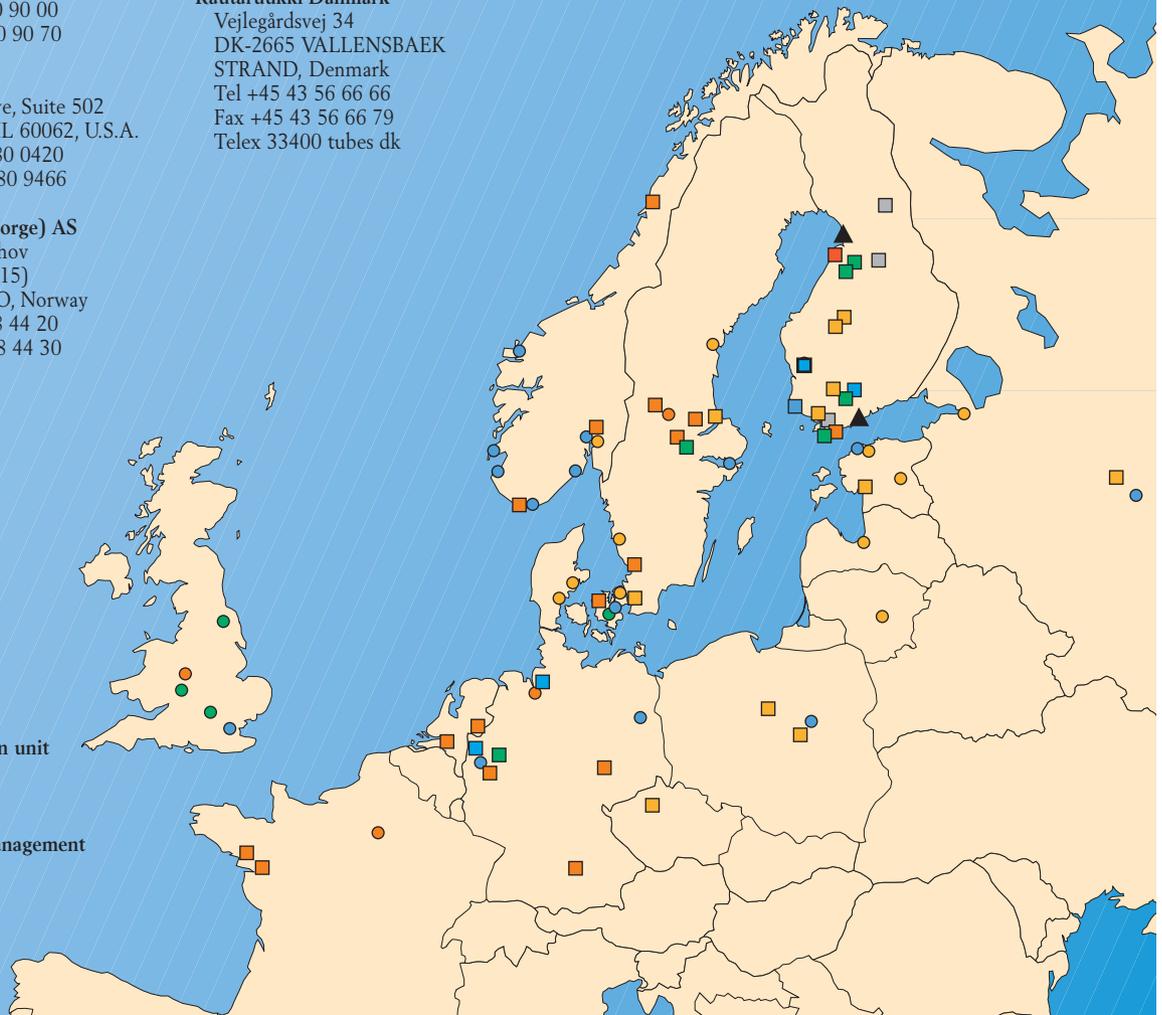
P.O. Box 92 04
Dubai World Trade Center
DUBAI, UAE
Tel +971 4 313 712
Fax +971 4 313 493

OTHER UNITS

Rautaruukki Information Systems

P.O. Box 93
92101 RAAHE
Tel +358 8 84 911
Fax +358 8 849 4001

- Production unit
- Sales unit
- ▲ Group management





RAUTARUUKKI
Group management

Helsinki Office

P.O. Box 860
FIN-00101 HELSINKI
Tel. +358 9 4177 11
Fax +358 9 4177 6288

Oulu Office

P.O. Box 217
FIN-90101 OULU
Tel. +358 8 883 60
Fax +358 8 883 6450