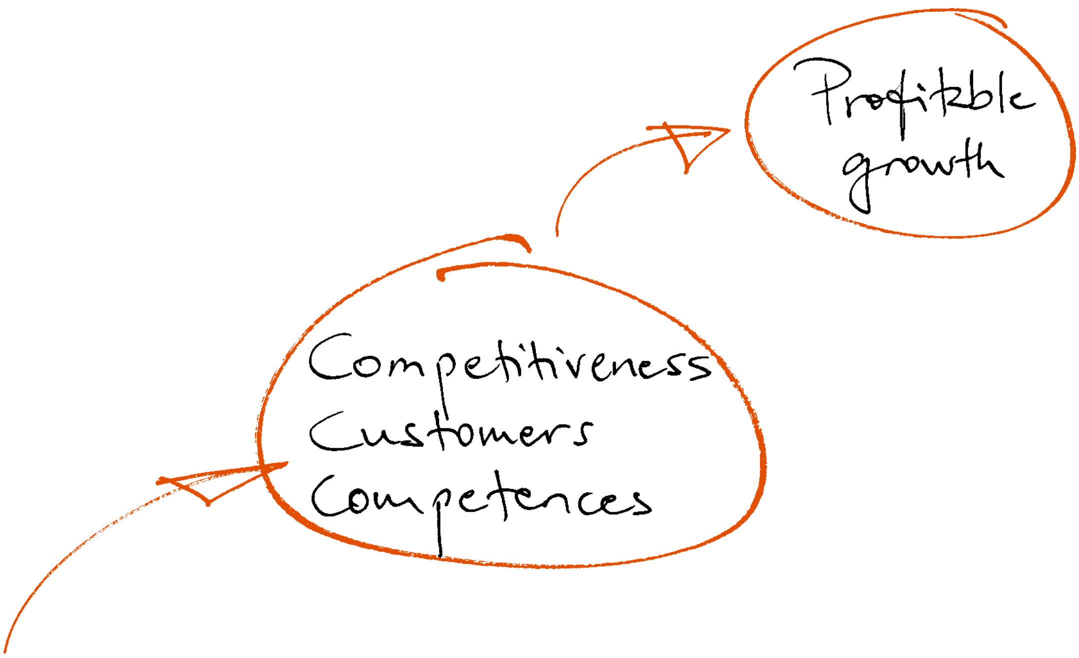
Profitable growth
Competitiveness
Customers
Competences

outokumpu

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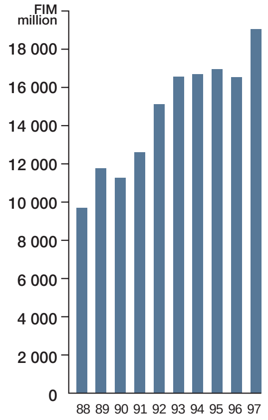
Key data

Net sales

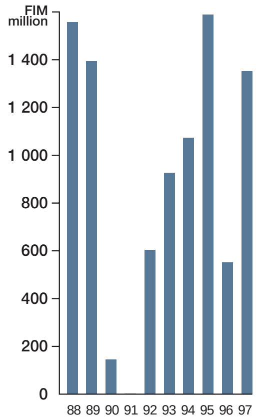


Key figures

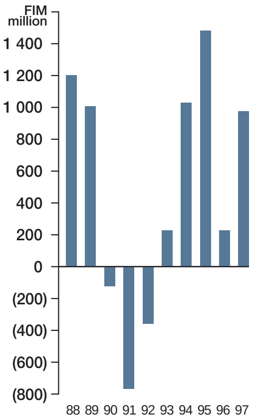
Key figures		1997	1996
Net sales	FIM million	**19 055**	16 549
– change from previous year	%	**15.1**	(2.4)
Operating profit	FIM million	**1 353**	552
– in relation to net sales	%	**7.1**	3.3
Profit before extraordinary items and taxes	FIM million	**975**	229
Return on capital employed	%	**11.1**	5.3
Cash provided by operating activities	FIM million	**1 134**	1 299
Net interest-bearing debt	FIM million	**5 751**	4 621
– in relation to net sales	%	**30.2**	27.9
Equity-to-assets ratio	%	**42.5**	43.4
Debt-to-equity ratio	%	**74.2**	64.8
Income per share (exluding extraordinary items)	FIM	**5.65**	1.51
Net income per share	FIM	**5.65**	1.51
Shareholders' equity per share	FIM	**61.94**	57.01
Dividend per share	FIM	**2.00** [1]	1.00
Share price on Dec. 31	FIM	**66.50**	78.50
Market capitalization on Dec. 31	FIM million	**8 281**	9 776
Capital expenditure	FIM million	**2 045**	1 553
Personnel on Dec. 31		**13 734**	13 622

[1] Board of Directors' proposal to the Anual General Meeting

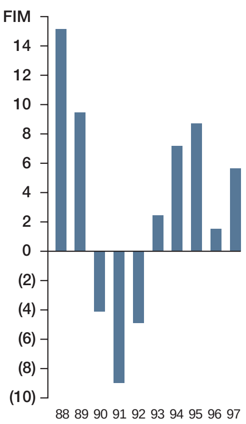
Operating profit



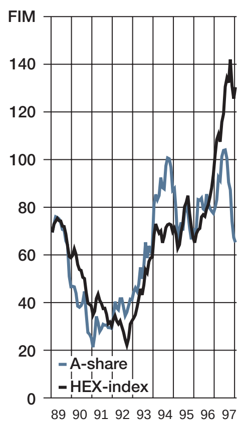
Profit before extra-ordinary items and taxes



Income per share



Price of A-shares



1997 in brief

Markets grew strongly
– until the Asian crisis created uncertainty and weakened outlook

Both the world economy and global metals consumption continued to grow strongly during 1997. Towards the year-end, however, the economic problems that surfaced in Asia weakened growth forecasts, and this was quickly reflected in the prices of base metals in particular.

Marked improvement in financial result

Consolidated net sales grew by 15 % and amounted to over FIM 19 billion. The growth was the result of increased deliveries and the strengthening of the US dollar.

Despite a weak third tertial, the Group's financial result for 1997 was markedly better than for 1996.

Operating profit rose to FIM 1 353 million and profit before extraordinary items and taxes to FIM 975 million. Income per share was FIM 5.65.

Return on capital employed rose to 11.1 %.

Net interest-bearing debt amounted to FIM 5 751 million. Nevertheless, the equity-to-assets ratio remained at a satisfactory level and was 42.5 %.

The Board of Directors recommends a dividend of FIM 2.00 per share.

Investments bring new capacity and better efficiency

The Group's capital expenditure in fixed assets rose to FIM 2 045 million.

The main completed investments comprised an expansion of cold-rolled stainless steel production capacity in Tornio, Finland, a new brass strip casting line at the Zutphen mill in the Netherlands and the Silver Swan nickel mine in Australia, which went into production in 1997.

The main ongoing investment is an expansion of the Kokkola zinc plant in Finland, which will be completed in the autumn of 1998. A mill for drawn copper products and copper tubes under construction in Malaysia will go on stream gradually during 1998 and 1999.

The cost efficiency of copper and nickel production at the Harjavalta smelter has improved markedly after the new, expanded capacity went on line. The consolidation of electrostrip production in the United States to the Buffalo mill will clearly improve productivity in this product group.

Outlook for the near future

Demand for metals is expected to remain fairly strong in Outokumpu's main markets in both Europe and the United States. Outokumpu's state-of-the-art and expanding production capacity will further improve the company's competitiveness during 1998. Despite the uncertainty about the development of the global economy, the preconditions are in place for Outokumpu to achieve a satisfactory financial result in 1998 also.

To achieve profitable growth, we must sharpen focus on

- products and markets, in which our earnings potential is best and competitive position strongest
- adding value to our customers
- continuously improving our competences

Business organization

The Outokumpu Group is organized into four sub-groups called business areas. The parent companies of all the sub-groups are wholly owned by Outokumpu Oyj. The Group's other operations comprise Corporate Management, Corporate Services and Outokumpu's industrial holdings.

Base Metals

Net sales	FIM 5 874 million
Capital employed	FIM 5 356 million
Personnel	3 291

Outokumpu's base metals production involves the mining, smelting and refining of copper, nickel and zinc. *Mining operations* are located in Australia, Chile, Ireland, Norway and Finland. Exploration is carried out in these countries as well as in Spain, Canada, Sweden and Russia. *Copper* is produced at the Harjavalta smelter and the Pori refinery, both in Finland, as well as at the Zaldívar associated mine in Chile. *Nickel* is produced in Harjavalta and *zinc* in Kokkola, Finland.

Stainless Steel

Net sales	FIM 4 947 million
Capital employed	FIM 4 383 million
Personnel	2 391

The stainless steel chain encompasses the production of ferrochrome, rolled stainless steel and stainless steel tubes. *Outokumpu Chrome* mines chromite ore at the Kemi mine in Finland and produces ferrochrome nearby in Tornio. *Outokumpu Polarit* produces stainless steel in Tornio. Part of the cold-rolled production is processed in Terneuzen, the Netherlands. *Ja-Ro* processes stainless steel into tubes and tube fittings in Pietarsaari and Veteli, Finland.

Copper Products

Net sales	FIM 8 268 million
Capital employed	FIM 3 995 million
Personnel	5 525

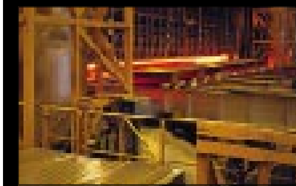
The business area's wrought copper and copper alloy products encompass five product groups. *Tube Products* comprise copper tubes for plumbing, air-conditioning and refrigeration as well as other industrial applications. *Drawn Products* consist of profiles, bars, wire and machined copper products. *Strip Products* are supplied for use in heat exchangers as well as connectors and cables for electrical and electronics equipment. *Rolled Products* comprise sheet, strip, coin blanks and other blanking mill products. Other business units include brass rod and specialty products. The production plants are located in the United States, Finland, Sweden, Spain, the Netherlands, China, Austria, the United Kingdom and Malaysia.

Technology

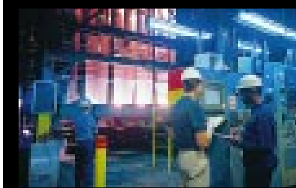
Net sales	FIM 1 598 million
Capital employed	FIM 434 million
Personnel	1 763

The technology products marketed by Outokumpu are plants and processes for the mining and metallurgical industry, machines and equipment, as well as engineering services and project management. *Outokumpu Mintec* focuses on mineral processing, *Outokumpu Engineering Contractors* on metallurgy, *Outokumpu Wenmec* on casting shops and refineries and *Outokumpu Castform* on casting shops, metal-working plants, materials handling systems for metallurgical plants, and galvanizing plants.

Base Metals .... page 15



Stainless Steel .... page 22



Copper Products ...... page 26

Technology .... page 31

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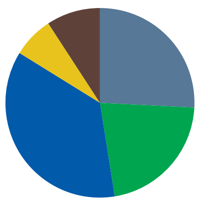
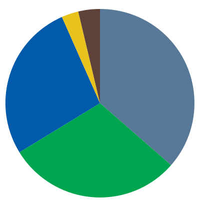
Net sales, capital employed and personnel by business area in 1997

Net sales



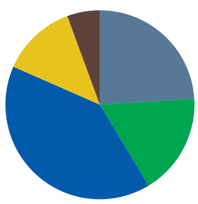
- Base Metals 25.8 %
- Stainless Steel 21.7 %
- Copper Products 36.3 %
- Technology 7.0 %
- Other operations 9.2 %

Capital employed



- Base Metals 36.4 %
- Stainless Steel 29.8 %
- Copper Products 27.2 %
- Technology 3.0 %
- Other operations 3.6 %

Personnel



- Base Metals 24.0 %
- Stainless Steel 17.4 %
- Copper Products 40.2 %
- Technology 12.8 %
- Other operations 5.6 %

Business philosophy, strategies and financial objectives

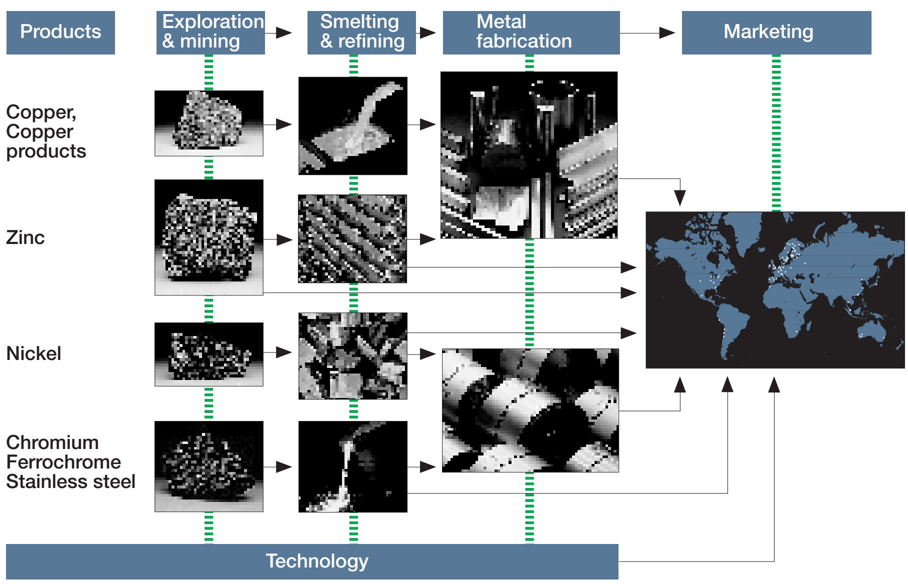
Throughout its long history, Outokumpu has gradually built up its business to cover production of several metals. In addition to the base metals production of copper, nickel and zinc, Outokumpu has a strong and fully integrated stainless steel chain starting with chromium mining, and an extensive copper products fabrication business. Technology sales are based on Outokumpu's own strong expertise in its field. In this business concept, material flows, technology, and other competences in the metals business, as well as the Group's worldwide marketing network, offer many synergies which the Group seeks to utilize as fully as possible.

Outokumpu focuses its business development efforts on achieving profitable growth by emphasizing those operations where the Group has the best prerequisites for success: cost-efficient production, a good competitive position and strong competence. The Group strategies define the full stainless steel chain from chromium production to finished products as Outokumpu's primary growth area in the next few years. In copper, nickel and zinc production the emphasis is clearly shifting from mining to smelting and refining, and in copper products to higher value-added products that also contribute considerable added value to the customers.

For the Group and all of its business areas, management has set clear numerical financial objectives: profitable growth that yields an average return on capital employed of no less than 15 % over a business cycle, and which maintains the Group's equity-to-assets ratio above 40 %.

"The world needs metals. Our task and mission is to put our expertise to use in responsible metals production and thus contribute to meeting this need."

Common values are strongly emphasized in the management of the Outokumpu Group. Clearly expressed and documented views on Outokumpu's mission, core values and business principles have proven valuable in the development of a strong corporate culture.



Dear shareholder, The first eight months of 1997 saw us making good progress in both operations and results, but the outlook changed rapidly as we headed toward year-end. The economic problems surfacing in Asia soon spread to affect the metal markets, prices and growth forecasts not only regionally but worldwide. During the last tertial, our production ran smoothly and delivery volumes increased, but falling metal prices and some major one-time charges took their toll on profit. Taking all into account, however, I believe we can claim to have come out of a turbulent year with quite a satisfactory result.

Within our Base Metals business area, we were successful in utilizing new capacity and financial performance improved considerably from the previous year's heavy loss to a healthy operating profit. In Technology we achieved a record profit, reflecting high-quality work coupled with a sharp business focus. In Copper Products, we had both ups and downs – success in radiator strip, drawn products and special rolled products, but clear difficulties in some others such as copper tubes. The big investments in Stainless Steel at Tornio were completed on schedule and our strength in this business is evidenced by the satisfactory result achieved despite a tough market with low prices. Overall, I am confident that the Group is on track for firm growth in several core areas. With better cost-efficiency and a stronger competitive position, the prerequisites for earnings growth should improve, too.

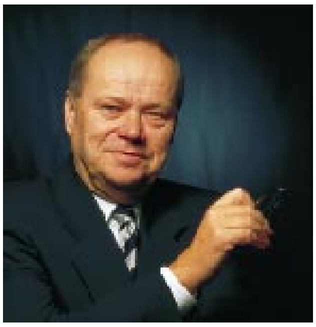
A major change took place in 1997 in our corporate governance. Following the Annual General Meeting in April, we moved from a two-tier structure with a Supervisory and an Executive Board to an Anglo-Saxon model with a mainly non-executive external Board of Directors and with the day-to-day business managed by the President with the support of the Group Executive Board. The new Board of Directors has contributed to a refreshed dialogue about Group targets and strategies and top management's foremost responsibility for shareholder value.

Outokumpu's share price developed quite well during the early part of the year. The Asian crisis, however, had a major impact on metal industry stocks worldwide, and Outokumpu's share price was also hit by the sector's plummeting trend. This happened despite our belief that we are in fundamentally good shape and the fact that our main markets in Europe and the United States remain reasonably strong.

Looking 1-2 years ahead, I see our competitiveness and production volumes developing encouragingly on the basis of recently completed or on-going investments. The expansion at our stainless steel cold-rolling mill in Tornio was completed at the beginning of 1998. In 1997, we also brought the new strip-casting line on stream at our Zutphen copper products plant in the Netherlands and started production at the rich Silver Swan nickel mine in Australia. The new investments in copper products plants in both China and Malaysia will gradually build up new volume for our sales in Asia. In Harjavalta the expanded capacity is now fully in operation, enabling more cost-efficient production of both copper and nickel. Our pride in this achievement, however, was abruptly shattered in the summer by an explosion at the smelter that left two men seriously injured. In our corporate culture, industrial safety is an area on which we have traditionally put strong emphasis and where we are continuously working on further improvement. Consequently, the accident came as a terrible shock. At all our operations we need to pay close attention to safety, and do so increasingly. Safety must always come first.

During the past few years, we have given a good deal of thought to strategy formulation. To achieve profitable growth and to best increase shareholder value,

Our dividend proposal for the year is FIM 2.00 per share, which amounts to 35.4 % of our net result. It is well in line with the target level for average dividends over a business cycle, as expressed in an explicit dividend policy now set by the Board of Directors: the dividend should over the business cycle be at least a third of the net result for the period. In its annual dividend proposals, the Board will in addition to the financial result take into consideration the company's development and investment needs.



we must focus on those businesses where our position is the strongest. To gain competitive advantage in the market, we must become increasingly quality-conscious in everything that we do and must seek to forge still closer relationships with our customers. They have to be able to rely on our assistance and expertise in helping them solve their problems and promote their business. For us to be successful, we must not only fulfill our customers' needs, we must exceed their expectations.

Looking at our business portfolio, it is quite obvious that our highly efficient stainless steel production chain, including chrome-ore mining and ferrochrome production, will be our foremost growth area. Once we have the newly installed expanded cold-rolling capacity at Tornio up and running and as the current rather blurred market outlook clears, we can start looking ahead at our new plans for further investments. An environmental impact assessment of a possible doubling of production at the Tornio works has been carried out as a permitting precondition for such investments, which can be carried out step-by-step under a long-term program.

In base metals production, we are becoming more and more geared to the refining end, shifting from mining to metallurgy, which is one of Outokumpu's traditionally strong competence areas. We will not necessarily need major new investments to improve performance in this business area. Rather, we can continue to upgrade our operations with continuous incremental process development work to improve cost-efficiency and competitiveness.

In copper products fabrication we must sharpen performance further. In the mature markets, we must focus on improving our competitiveness. In the faster growing emerging markets, we can seek to build up new business with our strongest product lines and also by starting up efficient new production of specialty products. In this scenario, close cooperation in both process and product development work with key customers is becoming increasingly important.

In our technology businesses, we have a strong market position in many special products and services and hence also good opportunities to further develop and grow our sales in these niches.

To conclude, I want to thank all Outokumpu people for yet another year of good and hard work. As we venture ahead, we will no doubt face many new challenges. How we succeed depends above all on ourselves – on our competences, attitudes and determination to succeed. Overall, I believe we have a good corporate culture and share common values that guide us towards common goals globally. In addition, we have a good fighting spirit. At the same time, I believe we could and should try to accomplish more, by further developing our skills and focusing on ways of doing things better. Above all, we must make serving our customers well an even stronger priority and must prove it by the way we operate. It is only through such partnerships that our business can flourish and our earnings grow.

Jyrki Juusela
Chief Executive

Investor relations – ongoing dialogue about objectives and outlook

Outokumpu emphasizes the importance of close contact with investor audiences. This includes ongoing dialogue about the Group's business development plans, objectives and outlook with owners as well as with all other parties active in the securities market.

Analysts appreciate visits to key production plants. In January 1998, a group of over 40 analysts had the opportunity to see Outokumpu's stainless steel production. The visit included the Kemi mine as well as a full tour of the Tornio steel mill, where the cold-rolling expansion had just been completed.

These two pages contain recent examples of questions frequently posed to Outokumpu and top management's responses to them.

Outokumpu now seeks growth, but does the Group have adequate resources to achieve growth in all business areas without endangering its financial strength?

● We intend to retain our equity-to-assets ratio at its present level above 40 %. Therefore, we must carefully prioritize our investments and proceed with them according to cash flow.

Our main growth area is stainless steel, where we are already highly competitive. With a long-term expansion program, we could as much as double our current production in Tornio, but naturally we must consider development opportunities elsewhere, too.

Would it not make sense to withdraw from some businesses altogether?

● If we had to compromise on the development needs of a business area for an extended period of time, we would be forced to consider alternatives, but this would not necessarily mean total withdrawal. Cooperation or alliances with other producers could offer opportunities to improve competitiveness and add shareholder value. Tied-up equity could also be released by reducing shareholdings or by diluting ownership in connection with new investments. It is quite typical of our industry worldwide to implement large mine or smelter projects as joint ventures among several producers.

The stainless steel market is in surplus. Don't you think that the plans for further expansion in Tornio will threaten your own profitability under the circumstances?

● Global stainless steel consumption is growing quite rapidly and, consequently, the present surplus will probably disappear within a few years. Increasingly severe competition in recent years has weakened profitability in the entire industry, and the weakest producers are unlikely to be able to implement major expansions in the near future. Potential expansions in Tornio can be implemented gradually over an extended period of time and considering market conditions. Moreover, production expansions would further lower our unit costs. Focusing additionally on customer service and quality, we would thus further strengthen our competitive position as one of the most cost-efficient stainless steel producers in the world.

Outokumpu is a significant fabricator of wrought copper products. Is a global strategy justifiable in this business? How can you possibly conquer the world with all products?

● It is important to understand the term global correctly. Our strategy in copper products is to operate globally, but not everywhere with every product. We supply each product only in areas where we can achieve the market position and profitability targets. Our investments in emerging, growing market areas are also made in close cooperation with customers as they expand their production internationally.

We can supply special products with high added value to a large clientele from

"We promote a true picture of our activities through open and continuous communications."

one production unit. Standard products can be marketed profitably only to more local markets; success in these products primarily depends on cost-efficient production, high quality and good customer service.

What is Outokumpu's growth potential in technology sales?

● We have a very high global market share in many products, and this as such limits our opportunities to grow. Additional sales can be generated by developing new applications for the products. The forecasted growth in the use of flash converting in smelters will definitely open new opportunities.

However, perhaps more important than growth is now our ability to maintain markedly better profitability than in the past. The improvement is largely due to our increased competence and efficiency in deliveries. Much of the credit for these improvements goes to the quality programs that we have implemented.

What is Outokumpu's view of the European Monetary Union, and how has the Group prepared itself for it?

● We view the EMU very favorably, because we see it having a clear benefit for us. The potential EMU countries, including Finland, constitute a large single market which seeks to minimize trade barriers and costs. This increases the area's efficiency and offers competitive advantage to companies operating in it. There will also be immediate gains in financing activities, as currency exchange and cash management costs decrease and a part of exchange and interest rate risks are removed.

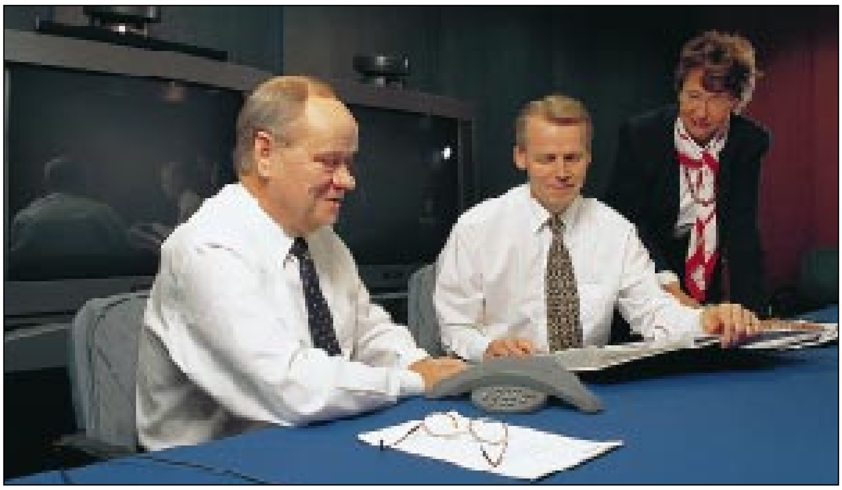
Our preparations for transition to the euro have progressed well. We intend to introduce the euro in our financial management from the very beginning and adopt it as broadly as possible in all our commercial activities.

Alongside with EMU preparations, the Group has been investigating information technology problems related to the year 2000 and has drawn up the necessary plans to deal with them.

Environmental issues have emerged as a threat to the development of basic industries in many countries. What concerns does Outokumpu have in this respect?

● Within our industry, Outokumpu is recognized as being at the forefront of technological development, which today places special emphasis on environmental values. As a result, our operations stand on very firm ground in comparison with many of our competitors. We believe that environmental responsibility in all operations is a precondition for success in our industry. In our own production, we constantly strive to reduce our environmental impact through systematic improvements. A bigger concern to us than tightening environmental standards is how to help make both legislators and the general public understand our business and metals better. People know the crucial importance of metals to mankind and its prosperity but seldom recognize that metals are actually some of the most environmentally beneficial materials because of their durability and recyclability. A good example is copper: more than 80 % of all copper ever produced throughout history is still in use today.

In conjunction with the release of its annual and interim results, Outokumpu organizes both a press and a teleconference in the company headquarters. The teleconference offers international investors and analysts the opportunity to hear top management's immediate comments and ask further questions. Pictured are Chief Executive Jyrki Juusela and his deputy Ossi Virolainen waiting for the lines to open, assisted by Katarina Lybeck, Senior Vice President – Corporate Communications.

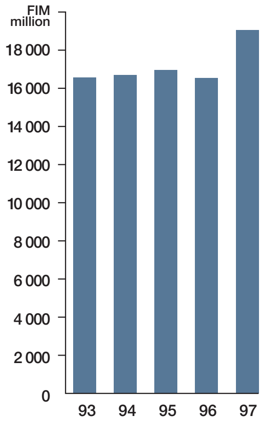


Corporate review of the year

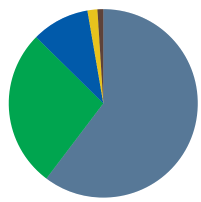
Outokumpu's financial result for 1997 was markedly better than for 1996. Towards the year-end 1997, financial performance was weakened by sharp declines in metal prices and certain write-offs in Copper Products. The Group's operating profit rose to FIM 1 353 million and profit before extraordinary items and taxes to FIM 975 million. Base Metals improved its operating profit by more than FIM 900 million from 1996, which was the largest improvement of all business areas. Technology posted an excellent result, and Stainless Steel's result was satisfactory. Copper Products' result was weakened by write-offs related to the consolidation of the business area's electrostrip production.

The Board of Directors proposes to the Annual General Meeting a dividend of FIM 2.00 per share, which corresponds to 35.4 % of net income per share.

Net sales



Net sales by market area 1997



Market conditions

World economic growth remained strong during 1997. Overall, industrial production and industrial investments developed favorably. Growth was steady in the United States and strengthened in Europe towards the year-end. The Finnish economy also developed favorably. During the last few months of the year, however, the economic crisis in Asia caused a great deal of uncertainty and weakened the global economic growth outlook.

The metal markets were characterized by two opposing trends during 1997. In early 1997, the markets developed favorably and prices rose. Mounting uncertainty about future economic trends had a negative impact on the metal markets late in the year, and the prices of base metals in particular declined.

The consumption of most Outokumpu metals and metal products grew faster than the long-term average. Growth was strongest in stainless steel and ferrochrome, amounting to about 8 %. Nickel consumption grew by about 7 %. In Asia, consumption growth slowed towards the year-end. In other parts of the world, consumption remained strong throughout the year. The production of metals and metal products also grew vigorously. On the whole, inventories were at normal levels, although those of copper, nickel and stainless steel grew during late 1997.

The market prices of base metals, and particularly the zinc price, first rose markedly during early 1997 but then started to decline sharply towards the year-end. On average, the zinc price rose by 30 % from 1996. The copper price remained at the 1996 level, but the nickel price remained 8 % lower than in 1996. Treatment and refining charges of copper and zinc were somewhat higher than in 1996, although they started to decline during the last quarter of 1997.

The market price of stainless steel rose in the early months of the year but came to a halt, and the average prices of deliveries remained below 1996 levels. The average market price of ferrochrome also declined.

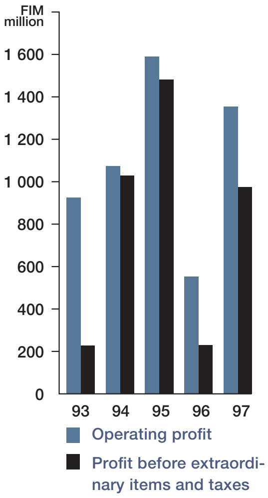
On average, the conversion prices of copper products remained at 1996 levels.

The strengthening of the US dollar had a positive impact on Outokumpu's profitability. The dollar rose by 13 % against the Finnish mark. The Finnish mark strengthened by about 2 % against Central European currencies.

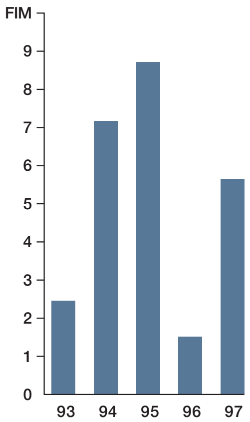
Net sales

Consolidated net sales grew by 15 % from 1996 and totalled FIM 19 055 million. Deliveries increased in all business areas and particularly in Stainless Steel. The effect of metal price changes on net sales was minor with the exception of zinc. The growth in net sales was aided by the strengthening of the US dollar.

Profit



Income per share



Net sales by business area

FIM million	1997	1996	Change %
Base Metals	5 874	4 766	23
Stainless Steel	4 947	4 486	10
Copper Products	8 268	7 495	10
Technology	1 598	1 113	44
Other operations	2 106	1 475	43
Intra-group sales	(3 738)	(2 786)	34
The Group	19 055	16 549	15

Net sales by country

	1997		1996	
	FIM million	%	FIM million	%
Europe				
Germany	2 033	10.7	1 701	10.3
Finland	1 575	8.3	1 439	8.7
United Kingdom	1 560	8.2	1 264	7.6
Italy	1 165	6.1	1 011	6.1
Sweden	1 129	5.9	1 066	6.4
France	785	4.1	656	4.0
Spain	736	3.9	671	4.1
The Netherlands	549	2.9	384	2.3
Belgium	495	2.6	390	2.4
Denmark	276	1.4	243	1.5
Russia	224	1.2	107	0.6
Norway	220	1.2	196	1.2
Switzerland	195	1.0	272	1.6
Poland	111	0.6	104	0.6
Austria	108	0.6	87	0.5
Other	331	1.7	248	1.5
	11 492	60.4	9 839	59.4
North and South America				
United States	3 948	20.7	3 654	22.1
Chile	429	2.2	215	1.3
Canada	395	2.1	271	1.6
Mexico	152	0.8	197	1.2
Other	240	1.3	208	1.3
	5 164	27.1	4 545	27.5
Asia				
Rep. of Korea	331	1.7	248	1.5
Japan	221	1.2	224	1.4
India	212	1.1	170	1.0
China	187	1.0	158	1.0
Taiwan	177	0.9	152	0.9
Turkey	152	0.8	132	0.8
Thailand	147	0.8	142	0.8
Hong Kong	98	0.5	196	1.2
Other	364	1.9	392	2.4
	1 889	9.9	1 814	11.0
Australia	310	1.6	210	1.3
Other countries	200	1.0	141	0.8
Total	19 055	100.0	16 549	100.0

The geographical break-down of the Group's sales remained largely unchanged. The share of Europe of consolidated net sales increased somewhat, and that of Asia decreased. Southeast Asia and Korea represented about 3.5 % of total sales.

Exports from Finland totalled FIM 8 261 million (1996: FIM 7 248 million).

Financial development

Outokumpu's financial performance in 1997 improved markedly from 1996. Good performance in early 1997 was attributable particularly to a significant improvement in Base Metals' profitability. However, the Group's result for the last tertial of 1997 was weak because of sharp declines in base metal prices and write-offs in Copper Products.

The Group's operating profit was FIM 1 353 million (1996: FIM 552 million). An inventory gain generated in early 1997 by the price increases of purchased metal raw materials was temporary and, as a result of price decreases in late 1997, the financial statements show an inventory loss of FIM 56 million (1996: inventory loss of FIM 192 million).

Operating profit includes some special components, which are itemized below.

Special charges and income

FIM million	1997	1996
Restructuring of operations	(207)	(65)
Write-downs on fixed assets of mines	–	(144)
Gains (losses) on sales of business operations and shares	89	73
Other special charges and income	89	16
Total	(29)	(120)

The main charges on the restructuring of operations were the write-downs and provisions for the consolidation of electrostrip production in the United States, totalling FIM 177 million, and the costs for the discontinuation of stainless steel tube manufacture in the Netherlands, totalling FIM 29 million.

Special charges and income are explained in more detail in the business area reviews and section 4 of the Notes to the consolidated financial statements.

In addition to the zinc price increase and the strengthening of the US dollar, the considerable improvement in Base Metals' financial result was due to increased efficiency both in mining operations and at the Harjavalta smelter.

Stainless Steel achieved a satisfactory result despite the difficult market conditions.

Copper Products' result was aggravated by write-offs due to the consolidation of electrostrip production. The benefits from the consolidation will be manifest in the business area's profitability in the next few years.

Technology achieved an excellent result by doubling its operating profit. This result was due to strong demand, successful deliveries and increased cost efficiency.

Equity earnings in associated companies amounted to a loss of FIM 67 million (1996: loss of FIM 124 million). The Zaldívar associated mine improved its result significantly, and operating profit rose to FIM 213 million. The result after financial items was, however, a loss. The financial development of Outokumpu's main associated companies is explained in more detail in the business area reviews and section 9 of the Notes to the consolidated financial statements.

Financial expenses grew by FIM 70 million from 1996 because of an increase in debt and costs for hedging of exchange rate risks.

The Group's profit before extraordinary items and taxes amounted to FIM 975 million (1996: FIM 229 million) and income per share to FIM 5.65 (1996: FIM 1.51).

Return on capital employed was 11.1 % and return on equity 9.5 % (1996: 5.3 % and 2.6 %).

Income taxes amounted to FIM 269 million (1996: FIM 42 million) due to the improvement in financial performance. The Group's effective tax rate was 28 % (1996: 18 %).

The Group's net income was FIM 703 million (1996: FIM 188 million).

Financing and financial position

The Group's financial position remained fairly stable during 1997. Despite the improvement in financial result, cash provided by operating activities was lower than in 1996 because of an increase in working capital. The equity-to-assets ratio was 42.5 % on December 31, 1997, which was somewhat weaker than a year before.

Net interest-bearing debt grew from 1996 and amounted to FIM 5 751 million at year-end. Due to the strengthening of the US dollar, foreign-currency denominated debt increased.

The terms of syndicated revolving credit facilities used as liquidity reserves were improved by establishing a new, seven-year credit facility worth USD 520

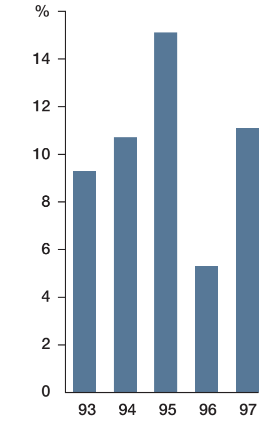
Operating profit by business area

FIM million	1997	1996	Change
Base Metals	542	(386)	928
Stainless Steel	550	616	(66)
Copper Products	86	273	(187)
Technology	238	114	124
Other operations	(50)	(46)	(4)
Intra-group items	(13)	(19)	6
The Group	1 353	552	801

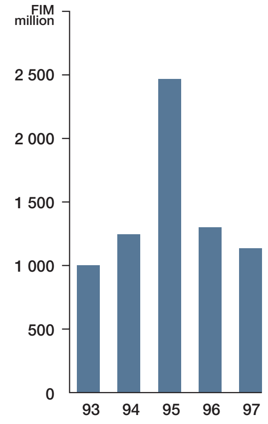
Operating profit excluding the effect of inventory gains and losses
(using the LIFO method)

FIM million	1997	1996	Change
Base Metals	570	(345)	915
Stainless Steel	514	646	(132)
Copper Products	150	394	(244)
Technology	238	114	124
Other operations	(50)	(46)	(4)
Intra-group items	(13)	(19)	6
The Group	1 409	744	665

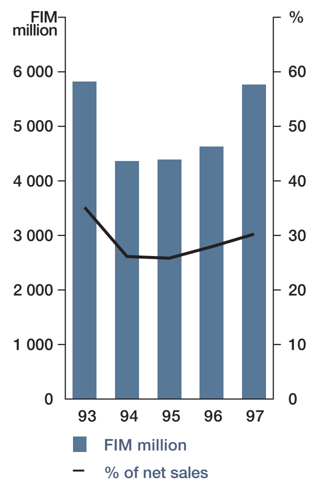
Return on capital employed



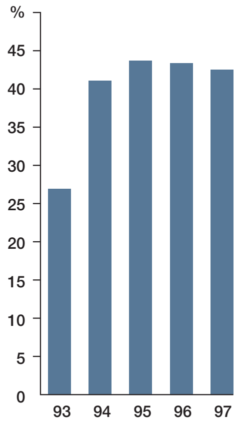
Cash provided by operating activities



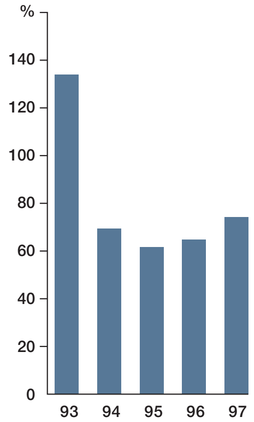
Net interest-bearing debt



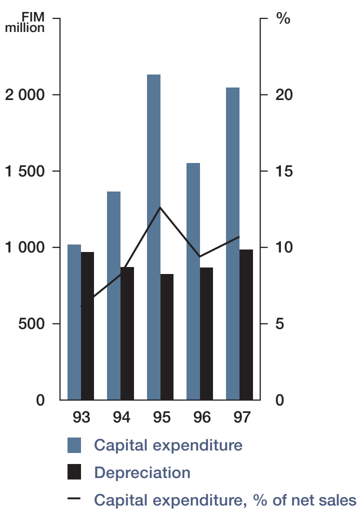
Equity-to-assets ratio



Debt-to-equity ratio



Capital expenditure



million, which replaced corresponding previous credit facilities worth USD 320 million and USD 200 million.

Net interest and other financial expenses increased by FIM 70 million from 1996. The increase was ascribable both to an increase in net debt and to costs for hedging via forward exchange transactions due to the interest rate differences of certain foreign currencies important for the Group.

From a financing point of view, the main exchange rate movements were the strengthening of the US dollar by 13 % and the British pound by 19 % against the Finnish mark. Net financial expenses include exchange losses of FIM 78 million, largely caused by foreign currency loans and forward foreign exchange contracts to hedge the foreign currency exposure.

The Group's liquidity remained good throughout the year. At year-end, cash and marketable securities totalled FIM 544 million. In addition, committed credit facilities available to the Group amounted to about FIM 2.2 billion.

Key indicators to illustrate changes in the financial position

FIM million	1997	1996
Net interest-bearing debt		
Long-term debt	3 854	3 306
Current debt	2 441	1 916
Total debt	6 295	5 222
Cash and marketable securities	(544)	(601)
Net debt	5 751	4 621
Net debt, in relation to net sales (%)	30.2	27.9
Shareholders' equity	7 714	7 099
Debt-to-equity ratio (%)	74.2	64.8
Equity-to-assets ratio (%)	42.5	43.4
Cash provided by operating activities	1 134	1 299
Net financial expenses		
Net interest and other financial expenses	(233)	(163)
Exchange gains (losses)	(78)	(36)
Net financial expenses	(311)	(199)
Net financial expenses in relation to net sales (%)	1.6	1.2

Investments

The Group's capital expenditure totalled FIM 2 045 million, or 11 % of net sales. Maintenance investments represented over FIM 700 million of this amount.

The main investments completed comprised the expansion of Stainless Steel's cold rolling mill in Tornio, Finland (about FIM 1 000 million), a strip casting line at Copper Products' rolling mill in the Netherlands (about FIM 200 million) and the Silver Swan nickel mine in Western Australia (FIM 165 million).

The main ongoing investment project is the approximately FIM 500 million expansion of the Kokkola zinc plant, which will be completed in the autumn of 1998. A mill for special drawn copper products and inner-grooved copper tubes is under construction in Malaysia. The cost for the first phase of this investment is about FIM 120 million; the entire investment cost will amount to around FIM 260 million. Production at the mill will commence gradually during 1998-99.

An environmental impact assessment in Tornio and the vicinity related to possible expansions of stainless steel production was completed in May.

The total 1998 capital expenditure are estimated to remain below the 1997 amount.

Capital expenditure by business area

FIM million	1997	1996
Base Metals	654	445
Stainless Steel	820	643
Copper Products	456	383
Technology	39	28
Other operations	76	54
The Group	2 045	1 553

Exploration and R&D

The Group's overall expenditure in exploration and research & development was at the 1996 level, but the focus shifted from exploration to R&D. The exploration expenditure totalled FIM 135 million, or 0.7 % of consolidated net sales (1996: FIM 182 million and 1.1 %), and the R&D expenditure was FIM 210 million, or 1.1 % of consolidated net sales (1996: FIM 155 million and 0.9 %). Outokumpu's R&D activities are described more in depth on page 35 of this report.

Environmental protection

In accordance with the Group core values, Outokumpu constantly works towards reducing the impact of its operations on the environment. As a result of investments and continuous improvement, Outokumpu's environmental impact has been reduced markedly despite increases in production volumes. Management is not aware of any environmental liabilities or risks with a material effect on the Group's financial position. Outokumpu's environmental protection activities are described on page 36 of this report.

Personnel

Total personnel in the Group's employ numbered 13 734 at year-end. Personnel grew by more than 100 during the year. The average number of personnel was 14 016 (1996: 13 808). The Parent Company employed 191 persons at year-end (1996: 157), and the average for the year was 180 (1996: 154). Outokumpu's human resource development activities are described on page 37 of this report.

Changes in the Group structure

Outokumpu's Group structure was simplified further during 1997. A number of subsidiaries were either merged or dissolved. New marketing companies were established in the United States and Austria. The changes in the Group structure are presented in detail in the list of subsidiaries on pages 55-57.

New corporate governance

Outokumpu Oyj's Annual General Meeting on April 3, 1997 revised the corporate governance by abolishing the Supervisory Board and establishing in its place a Board of Directors which consists of mainly external non-executive members. In the new corporate governance system, the Company's administrative bodies are the Annual General Meeting, the Board of Directors, the President and the Group Executive Board. The members of the Board of Directors and the Executive Board as well as the corporate governance system are presented on pages 70-74 of this report.

Outlook for the near future

Global economic growth and increases in metals consumption are expected to continue in 1998. However, the outlook for the near future is overshadowed by uncertainty about the global repercussions of the economic crisis in Asia. In addition, overcapacity in many metals and metal products increases the uncertainty related to the future outlook.

Base Metals will continue efforts to improve cost-efficiency in all operations. Nickel and copper production has reached new, higher levels, and zinc production capacity will also increase after the completion of the Kokkola expansion in late 1998. The low metal price level will, however, affect profitability at least during the first months in 1998.

Stainless Steel's competitive strength, which derives from the integrated production chain, and further improvements in efficiency due to the recent investments, form prerequisites for good profitability despite uncertainty about the market outlook.

Personnel by business area

Dec. 31	1997	1996
Base Metals	3 291	3 427
Stainless Steel	2 391	2 355
Copper Products	5 525	5 485
Technology	1 763	1 651
Other operations	764	704
The Group	13 734	13 622

Copper Products' ongoing business development programs aim at strengthening the business area's competitive position in its core product groups, in which the business area seeks profitable growth on a global basis. Demand for copper products is expected to continue fairly strong in Europe and the United States, but in Asia consumption will decline at least temporarily.

Technology's 1998 outlook is cautiously optimistic. The uncertainty related to global economic trends may, however, weaken investment activity among the business area's customers.

Demand for metals is expected to remain fairly strong in Outokumpu's main markets, which are Europe and the United States. The Group's state-of-the-art and expanding production capacity will further improve Outokumpu's competitive strength during 1998. Despite the uncertainty about the development of the global economy, the preconditions are in place for Outokumpu to achieve a satisfactory result also in 1998.

Board of Directors' proposal for the distribution of profit

In accordance with Outokumpu's approved dividend policy, the Board of Directors in its annual proposal for the distribution of profit takes into account the financial result as well as the Company's investment and development needs. The target set by the Board is to have dividends amount to no less than one-third of net income over a business cycle.

According to the financial statements of December 31, 1997, the distributable funds of the Group are FIM 1 449.0 million and those of the Parent Company FIM 580.9 million.

The Board of Directors recommends to the Annual General Meeting that a dividend of FIM 2.00 per share be distributed and that the remaining distributable funds be carried forward as retained earnings.

Espoo, February 20, 1998

Gerhard Wendt

Matti Puhakka
Ahti Hirvonen

Mauri Kainu
Harri Pynnä

Ilkka Suominen
Pekka Tuomisto

Jyrki Juusela
President

Financial statements

The consolidated and Parent Company financial statements including notes to the financial statements are presented on pages 43-75. The 1997 reviews of the business areas and certain other operations and functions, presented on pages 15-42, form appendices to the Group's financial statements.

Auditors' report

To the shareholders of Outokumpu Oyj,

We have audited the bookkeeping, the financial statements and the administration of Outokumpu Oyj for the financial year 1997. The financial statements prepared by the Board of Directors comprise a review of operations, and both the consolidated and the Parent Company income statement, balance sheet and notes to the financial statements. Based on our audit, we express an opinion on these financial statements and on administration.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of administration included examining whether the Supervisory Board, the Board of Directors and the President have legally complied with the regulations of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and all other rules and regulations in force. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of both the consolidated and the Parent Company result of operations and financial position. The financial statements can be approved, and the members of the Supervisory Board and the Board of Directors as well as the President be discharged from liability for the financial year audited by us. The proposal by the Board of Directors for the distribution of profit is in compliance with the Finnish Companies Act.

We have reviewed the interim reports published during the financial year. In our view, these have been prepared in accordance with pertinent regulations.

Espoo, February 23, 1998

SVH Coopers & Lybrand Oy
Authorized Public Accountants
Pekka Nikula, APA

Base Metals

The Silver Swan nickel mine in Australia went into production in June. Planned annual production is 12 000 tonnes of nickel in concentrates during five years. The entire production will be shipped to the Harjavalta nickel smelter in Finland.

In its base metals production, Outokumpu focuses on copper, nickel and zinc. The Group produces 2 % of the world's copper, 4 % of nickel and 3 % of zinc.

Outokumpu's copper production units in Harjavalta and Pori, Finland, mainly supply the Group's own copper products mills in Pori. Most of the nickel from Harjavalta is sold to stainless steel mills in Northern and Central Europe. Harjavalta's largest single nickel customer is Outokumpu's own stainless steel mill in Tornio, Finland. The majority of world zinc production is used for corrosion prevention in the construction and automotive industries. Outokumpu's zinc is mostly sold to hot-dip galvanizing plants in Europe, and some is used as an alloying metal in the Group's own copper-alloy products fabrication.

Outokumpu's objective in base metals production is to gain full benefit from its recent expansion investments as well as to improve profitability further by reducing costs and increasing efficiency. Another objective is to develop and exploit both existing and new mineral resources and ore reserves.

Key figures

FIM million	1993	1994	1995	1996	1997
Net sales	4 644	3 935	3 869	4 766	5 874
Share of the Group's net sales (%)	26	21	20	25	26
Operating profit	190	45	(442)	(386)	542
Operating profit margin (%)	4	1	neg.	neg.	9
Operating profit excluding inventory gains and losses	214	(36)	(423)	(345)	570
Profit before extraordinary items and taxes	145	164	(528)	(700)	154
Return on capital employed (%)	7	4	neg.	neg.	11
Capital employed Dec. 31	4 582	4 249	5 115	5 148	5 356
Capital expenditure	434	780	1 121	445	654
Depreciation and amortization	431	362	375	416	441
Personnel Dec. 31	4 140	4 082	3 879	3 427	3 291

The consumption of the metals that Outokumpu produces grew vigorously during 1997. The metal markets, however, were characterized by opposing trends. In early 1997, the markets developed favorably and prices rose. Later in the year, the markets became weaker as uncertainty about future economic trends mounted. Inventories started to grow, and prices declined. By year-end, base metal prices had reached their lowest levels in 1997 with the exception of zinc. The strengthening of the US dollar diminished the effect of reduced prices on the Group's financial result.

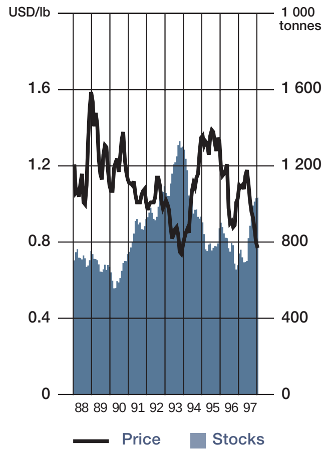
The output of Outokumpu's base metal mines was reduced to some extent from 1996. The production of both copper and nickel metal continued to grow. The Zaldívar associated mine in Chile reached full capacity utilization in late 1997.

Base Metals' net sales grew by 23 % mostly as a result of increased copper and nickel deliveries, a higher zinc price than in 1996, and the strengthening of the US dollar. The business area's operating profit improved by FIM 928 million from 1996 and totalled FIM 542 million.

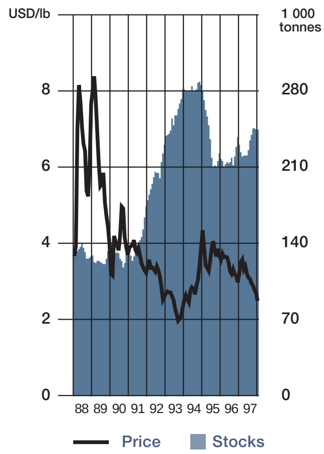
The Silver Swan nickel mine in Australia, jointly owned by Outokumpu and an Australian partner, went into production in June. The expansion of the Kokkola zinc plant in Finland proceeded on target.

Mining and cathode production proceeded well at the Zaldívar copper mine in Chile both in terms of volume and quality: the 1997 output was 96 200 tonnes of cathodes, and 98% was of the LME grade.

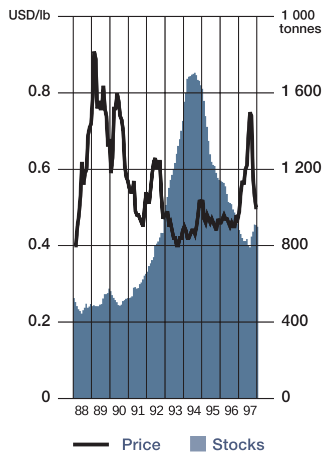
Copper price and stocks



Nickel price and stocks

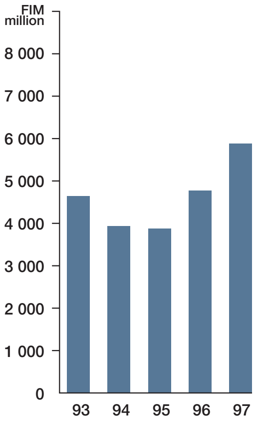


Zinc price and stocks

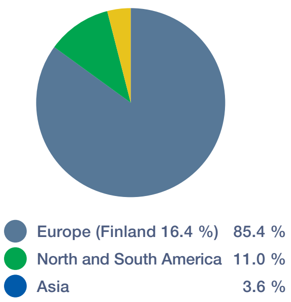


London Metal Exchange cash quotations converted into USD/lb.
Estimated total stocks (CRU, Outokumpu).
Figures include January 1998.

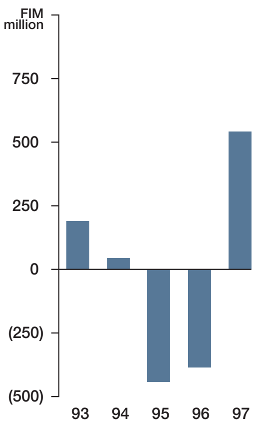
Net sales



Net sales by market area 1997



Operating profit



Market conditions

During 1997, global metal consumption grew faster than the long-term average. The growth was rapid early in the year, but slowed in Asia towards the year-end. In Europe and North America, demand remained good throughout the year.

Copper consumption grew by about 3 %. Demand increased in the electronics, automotive and construction industries in particular. Despite the good consumption growth, the copper market suffered from surplus supply from the summer onwards because of production increases. As a result, inventories started to grow and the price declined. By year-end, copper inventories had reached close to normal levels.

The substantial growth in nickel consumption, amounting to about 7 %, was based on increased stainless steel production. However, supply of nickel increased faster than demand, and the market was in surplus throughout the year. Nickel inventories grew, and the price kept declining. Supply was increased particularly by exports from Russia and good availability of scrap.

Zinc consumption grew by about 3 %. Use of zinc increased significantly in the North American and European construction and automotive industries. The market was in clear deficit in early 1997, and inventories fell to low levels. The slowing of growth in demand and an increase in production output in China caused the zinc price to decline sharply in late 1997.

The year, which began favorably for base metals, ended with clearly declining prices and, at year-end, prices reached their all-year lows with the exception of zinc. The average market price of copper remained at the 1996 level, and that of nickel declined 8 %. The average price of zinc, however, rose by 30 %. Treatment and refining charges of copper and zinc rose somewhat during the year.

Annual average metal market prices

		1997	1996	Change %
Copper	USD/lb	1.03	1.04	(1.0)
	FIM/kg	11.82	10.51	12.5
Nickel	USD/lb	3.14	3.40	(7.6)
	FIM/kg	35.91	34.41	4.4
Zinc	USD/lb	0.60	0.46	30.4
	FIM/kg	6.84	4.70	45.5

London Metal Exchange cash quotations converted into USD/lb and FIM/kg.

Financial development

Base Metals' net sales grew by 23 % from 1996 and amounted to FIM 5 874 million. The growth was attributed to increased deliveries of both copper and nickel, a higher zinc price than in 1996, and a strengthening of the US dollar by 13 %.

The business area increased its profitability markedly and posted an operating profit of FIM 542 million (1996: operating loss of FIM 386 million). Return on capital employed was 11 % (1996: neg.). This result includes an inventory loss of FIM 28 million (1996: inventory loss of FIM 41 million). In addition to the zinc price increase and the strengthening of the US dollar, the marked improvement in financial performance was due to increased efficiency in both mine production and at the Harjavalta smelter. Moreover, the sale of some exploration rights produced a profit of FIM 64 million. Base Metals' profit was generated during the first two tertials, whereas the third tertial showed a moderate loss.

Net sales by business unit

FIM million	1997	1996
Mining operations	1 463	1 157
Metal production		
Copper	2 234	1 872
Nickel	1 487	1 221
Zinc	1 973	1 429
Other business units	85	273
Sales within the business area	(1 368)	(1 186)
Total	5 874	4 766

The Zaldívar copper mine, owned by Outokumpu and Placer Dome Inc. of

Both copper and nickel production volumes rose at the Harjavalta smelter despite stoppages in the summer. New records were achieved: the smelter produced 159 000 tonnes of blister copper and 35 300 tonnes of nickel.

Canada (50/50), reached its full capacity utilization rate in late 1997. The mining company's profitability improved, and operating profit rose to FIM 213 million (1996: FIM 94 million). After financial items, however, Zaldívar showed a loss of FIM 61 million.

Mining operations

Total ore excavated at Outokumpu's mines excluding Zaldívar was 6.1 million tonnes, which is 18 % less than in 1996. Metals in concentrates remained at 1996 levels with the exception of copper. Copper mine production declined by 39 %. This significant decline was mostly the result of the closure of the Viscaria mine in Sweden. The mine was closed in March due to the depletion of ore reserves.

Production ran smoothly at the Forrestania nickel mine in Australia, and productivity improved markedly. The mine's profitability was considerably better than in 1996.

The Silver Swan nickel mine, which went into production at the beginning of June, produced a total of 6 200 tonnes of nickel in concentrates during the year. The entire mine output is shipped to the Harjavalta nickel smelter in Finland. The mine's annual production target is about 12 000 tonnes of nickel in concentrates during an estimated mine life of five years. Outokumpu owns the mine jointly with Mining Project Investors Pty. Ltd. of Australia. Direct and indirect shareholdings combined, Outokumpu owns 67 % of the mine.

Production at the Tara zinc-lead mine in Ireland was somewhat below 1996 levels. Efforts to increase efficiency at the mine continue, aiming at reduced unit costs and improved competitiveness.

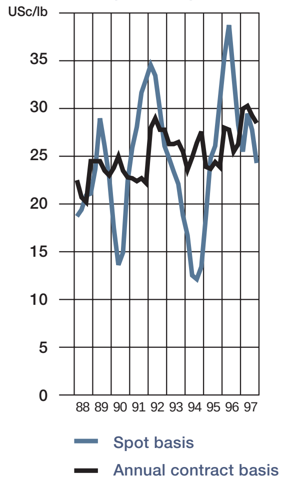
Total mine output at Zaldívar remained at 1996 levels, totalling 14.1 million tonnes. Still, cathode copper production rose by 24 % to 96 200 tonnes, of which 98 % was LME-grade. Production levels at the full capacity utilization rate of 125 000 tonnes per year were achieved in December. The construction of a concentrator neared completion by year-end, and the plant is scheduled to go on line

Mine production

tonnes	1997	1996
Ore excavated (million tonnes)		
Forrestania	0.4	0.7
Silver Swan 50%	0.04	–
Hitura	0.6	0.6
Mullikkoräme	0.3	0.1
Orivesi	0.2	0.2
Pyhäsalmi	1.2	1.4
Tara	2.2	2.5
Grong	0.4	0.5
Nikkel og Olivin 70%	0.6	0.7
Viscaria	0.1	0.7
Total	6.1	7.4
Copper in concentrates		
Pyhäsalmi	8 500	9 300
Grong	6 700	7 400
Viscaria	1 900	11 400
Total	17 100	28 100
Nickel in concentrates		
Forrestania	7 900	9 500
Silver Swan 50%	3 100	–
Hitura	2 500	3 100
Nikkel og Olivin 70%	2 500	2 800
Total	16 000	15 400
Zinc in concentrates		
Pyhäsalmi	31 200	25 700
Tara	160 100	163 400
Grong	2 400	4 600
Total	193 700	193 700
Lead in concentrates		
Pyhäsalmi	2 200	1 200
Tara	43 100	45 400
Total	45 300	46 600
Gold in concentrates (kg)		
Orivesi	1 550	1 340
Pampalo	–	330
Pyhäsalmi	350	320
Viscaria	10	100
Total	1 910	2 090
Pyrite concentrate		
Pyhäsalmi	740 000	869 000
ASSOCIATED COMPANIES		
Zaldívar 50%		
Ore excavated (million tonnes)	7.1	7.2
Cathode copper	48 100	38 700
Mining Project Investors 34% (Silver Swan)		
Ore excavated (million tonnes)	0.01	–
Nickel in concentrates	1 050	–

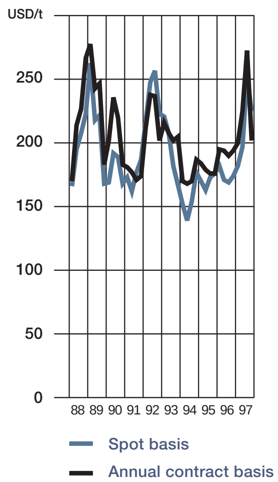
Outokumpu's ownership interest in the mine is 100% unless otherwise indicated. For Silver Swan and Zaldívar, the table presents only that share of production which corresponds to the Group's ownership interest.

Copper treatment and refining charges



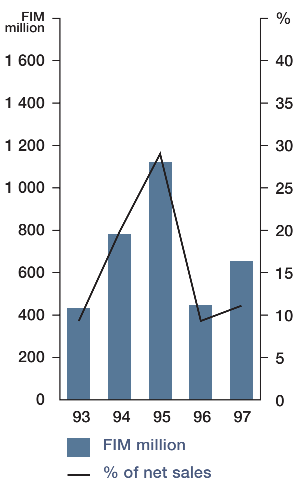
Source: CRU

Zinc treatment charges



Source: CRU

Capital expenditure



in early 1998. The mine will then also produce an annual 5 000 to 10 000 tonnes of copper in concentrates, which will improve the mine's total recovery of copper.

Metal production

tonnes	1997	1996
Harjavalta		
Blister copper	159 000	150 000
Nickel	35 300	29 300
Pori		
Cathode copper	116 000	111 000
Gold (kg)	3 900	3 070
Silver (kg)	32 200	33 800
Kokkola		
Zinc	175 000	176 000

In addition, the Zaldívar associated company produced cathode copper, as presented in the table on mine production.

Metal production

Outokumpu's competitiveness in copper and nickel production has improved substantially as production at Harjavalta has reached the levels corresponding to the expanded capacities. Operations during 1997 were, however, hampered by serious setbacks. At the end of June, an explosion occurred in the slag furnace of the nickel smelter, and two people were severely injured. In July, the vault of the copper flash furnace was damaged. After repair and maintenance, copper production was resumed at the end of August and nickel production in mid-September. The production losses incurred by the accidents were 5 000 tonnes of nickel and nearly 10 000 tonnes of copper. The financial losses were covered by insurances excluding customary deductibles.

The expansion of the Kokkola zinc plant in Finland has progressed according to plan, and zinc production has proceeded at normal levels at all times. Pictured are new cooling columns.

In October, Outokumpu signed an important purchase agreement for nickel raw material with Mineração Serra da Fortaleza Ltda, which is part of the Rio Tinto group. The agreement helps secure Harjavalta's nickel raw material supply for the long term. From 1998 onwards, the Harjavalta nickel plant will receive annually 10 000 tonnes of nickel in matte from the Fortaleza de Minas smelter in Brazil.

Production of zinc metal at Kokkola ran well. Production output remained at 1996 levels despite ongoing expansion work at the plant.

Investments and R&D

Base Metals' capital expenditure totalled FIM 654 million (1996: FIM 445 million). The main target of investment was the Kokkola zinc plant, which is implementing an expansion worth about FIM 500 million. The capacity increase from the current 170 000 tonnes to 225 000 tonnes per year has proceeded on target and will go into production by the end of 1998. The expansion is based on an Outokumpu-developed method for direct leaching of zinc concentrates, and it will increase productivity and enhance the plant's competitiveness.

The Silver Swan mine investment worth FIM 165 million was completed on schedule in June.

Base Metals has paid special attention to environmental protection in its investments. Improvements in occupational safety have also been emphasized and, during 1997, occupational accidents were reduced by about 30 %.

The business area's R&D expenditure was FIM 58 million (1996: FIM 60 million), or 1.0 % of net sales.

Exploration

Base Metals' total exploration expenditure was FIM 135 million (1996: FIM 182 million). Early-stage exploration represented FIM 86 million (1996: FIM 104 million) and advanced-stage exploration FIM 49 million (1996: FIM 78 million) of the sum. Exploration expenditure represented 2.3 % of net sales.

The business area's total mineral resources grew from 1996, mostly because of an increase in Outokumpu's ownership in the Honeymoon Well nickel deposit and further depth extensions of the Pyhäsalmi ore deposit. Exploration efforts focused mainly on nickel exploration and further studies in Australia, Canada, Finland and Russia.

In September, Outokumpu purchased the 65 % share of its partner Rio Tinto Exploration Pty. Ltd in the Honeymoon Well nickel deposit. This nickel project located in Western Australia is now wholly owned by Outokumpu. Feasibility studies are continuing in the area.

Exploration activities and studies continued in the vicinity of the Silver Swan nickel mine. Further underground drilling was conducted at the Montcalm nickel project in Canada to investigate the grades and tonnage of the deposit. Studies were continued at the Kevitsa nickel deposit in Northern Finland in accordance with an exploration program.

Outokumpu and Norilsk Nickel of Russia decided in December to establish a project company to investigate possibilities for joint mining operations in the Pechenga region on the Kola Peninsula, Russia. The agreement is based on mines operated by Petshenganikel and on this company's considerable nickel deposits.

Zinc exploration activities are focused on areas in Ireland, Spain and Finland. Copper is explored in Chile and Finland. Drilling at the south-western extensions of the Tara zinc-lead deposit in Ireland continued to yield positive results. Moreover, Outokumpu signed a cooperation agreement with Navan Resources plc on exploration of zinc-lead ores in Central Ireland. Studies continued on the Panorama zinc-copper project in Australia. As a result of further studies on the Pyhäsalmi copper-zinc-pyrite ore body in Finland, the mine's mineral resources and grades have increased considerably.

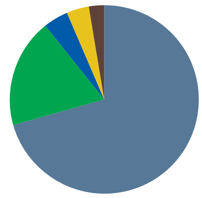
Work in conjunction with underground studies was conducted at the Pampalo gold deposit in Ilomantsi, Finland, and the construction of a decline was started. Further measures will be decided after the studies are completed.

Outlook for the near future

The outlook for the near future of Base Metals is overshadowed by uncertainty about economic development in Southeast Asia and its global repercussions. Economic growth and increases in base metals consumption are, however, expected to continue. The markets are characterized by some surplus, although demand for metals is still high. Inventories are at normal or somewhat above normal levels.

Base Metals will continue efforts to improve cost-efficiency in all operations during 1998. Copper and nickel production has reached higher levels, and the plants are in good condition. Zinc production capacity will grow by one-third after the Kokkola expansion is completed in late 1998. The business area's objective in mine operations is to develop and exploit both existing and new mineral resources and ore reserves. A special effort will be put into nickel ore exploration.

Personnel by country 1997



Finland	2 324
Ireland	615
Norway	140
Australia	126
Other countries	86

Personnel by business unit

Dec. 31	1997	1996
Mining operations	1 459	1 597
Metal production		
Copper	548	544
Nickel	456	465
Zinc	793	754
Other business units	3	10
Parent company	32	57
Total	3 291	3 427

Ore reserves and mineral resources on December 31, 1997

	ORE RESERVES		MINERAL RESOURCES		
	Proven	Probable	Measured	Indicated	Inferred
MINES					
Australia					
Forrestania	0.4 Mt	0.7 Mt		2.7 Mt	2.1 Mt
	2.1 % Ni	2.1 % Ni		2.1 % Ni	1.4 % Ni
Silver Swan 67 %	0.2 Mt[3]	0.5 Mt[3]			0.1 Mt[3]
	9.2 % Ni	9.3 % Ni			10.6 % Ni
Cygnet 67 %		1.0 Mt[3]			
		2.2 % Ni			
Black Swan 67 %					7.0 Mt[3]
					0.8 % Ni
Chile					
Zaldívar 50 %	266.7 Mt[1) 3) 5)]		311.5 Mt[2) 3) 4)]		129 Mt[3)4)]
	0.9 % Cu		0.4 % Cu		0.6 % Cu
Finland					
Hitura	0.4 Mt	0.3 Mt	0.9 Mt	0.7 Mt	3.9 Mt
	0.7 % Ni	0.8 % Ni	0.7 % Ni	0.8 % Ni	0.8 % Ni
Mullikkoräme	0.3 Mt		0.1 Mt	0.1 Mt	0.1 Mt
	7.6 % Zn		5.2 % Zn	7.7 % Zn	7.8 % Zn
	0.5 % Cu		0.3 % Cu	0.6 % Cu	0.2 % Cu
	1.3 % Pb		0.2 % Pb	1.0 % Pb	0.7 % Pb
	14 % S		31 % S	21 % S	24 % S
	1.0 g/t Au		0.3 g/t Au	0.8 g/t Au	0.8 g/t Au
Orivesi	0.2 Mt	0.1 Mt			0.2 Mt
	9.7 g/t Au	9.4 g/t Au			8.3 g/t Au
Pyhäsalmi	2.9 Mt			5.0 Mt	2.6 Mt
	0.9 % Cu			1.2 % Cu	1.2 % Cu
	1.9 % Zn			2.8 % Zn	2.6 % Zn
	35.9 % S			42 % S	42 % S
Ireland					
Tara	5.9 Mt	10.5 Mt	1.2 Mt	3.7 Mt	15.4 Mt
	9.3 % Zn	7.4 % Zn	6.4 % Zn	5.0 % Zn	7.3 % Zn
	2.5 % Pb	2.5 % Pb	1.6 % Pb	2.0 % Pb	2.1 % Pb
Norway					
Grong	0.3 Mt				
	1.9 % Cu				
	1.0 % Zn				
Nikkel og Olivin 70 %	0.7 Mt	0.8 Mt	0.3 Mt	0.1 Mt	0.2 Mt
	0.6 % Ni	0.5 % Ni	0.5 % Ni	0.5 % Ni	0.5 % Ni

	MINERAL RESOURCES	
	Indicated	Inferred
MAIN EXPLORATION TARGETS		
Australia		
Cliffs Mt Keith		5.5 Mt
		2.3 % Ni
Honeymoon Well	118 Mt[6)]	10 Mt[6)]
	0.8 % Ni	0.7 % Ni
Panorama 64 %		
Copper deposit	2.4 Mt[3)]	0.1 Mt[3)]
	4.1 % Cu	3.5 % Cu
	1.1 % Zn	0.5 % Zn
Zinc deposit	3.4 Mt[3)]	1.7 Mt[3)]
	10.5 % Zn	9.1 % Zn
	30 g/t Ag	40 g/t Ag
Canada		
Montcalm	6.6 Mt	0.6 Mt
	1.7 % Ni	2.0 % Ni
	0.8 % Cu	1.0 % Cu
Chile		
Relincho	133 Mt	
	0.7 % Cu	
	0.03 % Mo	
Santa Catalina	110 Mt	
	0.6 % Cu	
	0.1 % Mo	
Finland		
Kylylahti	2.5 Mt	2.5 Mt
	2.5 % Cu	0.6 % Cu
	0.4 % Co	0.2 % Co
	0.8 g/t Au	1.2 g/t Au
Pampalo	0.3 Mt	0.3 Mt
	8.6 g/t Au	6.2 g/t Au

The information has been prepared in accordance with the “Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, July 1996”. A mineral resource is a deposit the extent and grades of which have been assessed by geological methods. Ore reserves are the economically exploitable part of the mineral resources defined on the basis of feasibility studies.

The percentage figure after the name of the deposit indicates Outokumpu’s ownership interest in the mine, mine project or exploration target. In case no percentage is given, Outokumpu’s ownership interest is 100 %. The table presents the total tonnes of the deposits, including those that are not wholly owned by Outokumpu. Ore reserves are not included in mineral resources.

The extent of ore reserves and mineral resources is presented in millions of tonnes (Mt) and the grades as percentages (%) or grams per tonne (g/t).

Cu = copper, Ni = nickel, Zn = zinc, Pb = lead, S = sulphur, Mo = molybdenum, Co = cobalt, Au = gold, Ag = silver

1) Comprises proven and probable ore reserves.

2) Comprises measured and indicated mineral resources.

3) Reported by the operator.

4) The increase in mineral resources from 1996 is due to the fact that the figures for 1997 include primary sulphide mineralizations.

5) In addition, 11.6 million tonnes of stored ore the grade of which is 0.8 % Cu.

6) Cut-off 0.5 % Ni.

The temperature of the stainless steel slabs from the steel melting shop is raised in a walking beam furnace at the hot rolling mill. The furnace capacity is 120 tonnes per hour.

Outokumpu has a strong position as a cost-efficient producer of quality stainless steel. The Group's stainless steel operations gain competitive advantage from an integrated production chain from chromite mining to finished stainless steel products in the Kemi-Tornio region in Northern Finland.

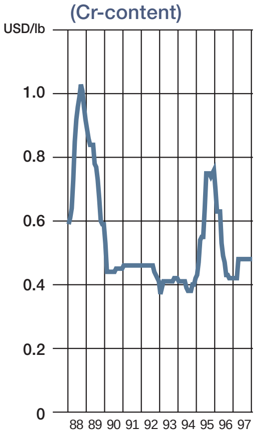
Outokumpu produces 10 % of the rolled stainless steel products consumed in Europe, Outokumpu's main market area, and 5 % of global consumption. The main applications of Outokumpu's stainless steel are in the foodstuffs and process industries, transportation and construction.

Stainless steel production is the Group's primary strategic growth area. Outokumpu's objective is to expand the Kemi-Tornio production complex further and to strengthen its leading position as a cost-efficient producer.

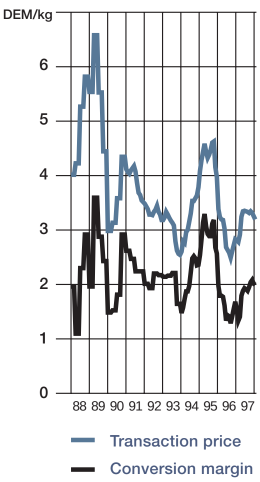
Key figures

FIM million	1993	1994	1995	1996	1997
Net sales	3 808	4 398	5 655	4 486	4 947
Share of the Group's net sales (%)	21	23	29	23	22
Operating profit	844	909	1 756	616	550
Operating profit margin (%)	22	21	31	14	11
Operating profit excluding inventory gains and losses	825	858	1 745	646	514
Profit before extraordinary items and taxes	720	954	1 776	616	559
Return on capital employed (%)	28	29	52	17	14
Capital employed Dec. 31	3 321	3 126	3 837	3 735	4 383
Capital expenditure	213	235	545	643	820
Depreciation and amortization	205	214	221	241	275
Personnel Dec. 31	2 259	2 283	2 346	2 355	2 391

Ferrochrome price
(Cr-content)



Stainless steel price



Annual average metal market prices

	1997	1996	Change %
Ferrochrome (Cr-content)			
USD/lb	0.46	0.51	(9.8)
FIM/kg	5.26	5.20	1.2
Stainless steel (transaction price)			
DEM/kg	3.21	2.90	10.7
FIM/kg	9.62	8.85	8.7
Stainless steel (conversion margin)			
DEM/kg	1.81	1.59	13.8
FIM/kg	5.42	4.84	12.0

Sources:

Ferrochrome: Metal Bulletin – lumpy Cr charge, basis 52 % Cr, free market

Stainless steel: CRU – German transaction price and conversion margin (2 mm cold rolled 304 sheet). CRU estimate of average prices for new orders delivered during the following few months. Due to differences in timing and different computation methods the CRU price differs from the price level of actual deliveries.

Both the consumption and production of stainless steel grew strongly during 1997. Because of global overcapacity, competition remained severe and kept prices low. Demand for stainless steel tubes remained fairly good in Europe, which is Outokumpu's main market for these products, but price levels were still low. Ferrochrome consumption grew with the increasing stainless steel production, and the ferrochrome price rose during the second quarter of the year.

Although production volumes increased significantly, the Stainless Steel business area's profitability was weaker than in 1996 due to low price levels. Operating profit was FIM 550 million.

The manufacture of stainless steel tubes in the Netherlands was discontinued in the summer, and all tube production was focused in Finland.

The expansion of the Tornio cold rolling plant was completed according to plan with the last equipment coming on line in January 1998. The expansion raises cold rolling capacity to 400 000 tonnes per year.

Market conditions

Global stainless steel production grew by almost 10 % during 1997, amounting to about 17 million tonnes. Despite good consumption levels, the increase meant that the market remained in surplus. New producers have entered the market at the same time as old producers have raised production output.

Rapid consumption growth in Europe and North America was not sufficient to raise prices to satisfactory levels. Competition remained severe, and the periods of delivery remained short. Prices increased in Europe early in the year, but this trend was halted in the summer. The situation improved to some extent towards the year-end as far as new orders were concerned. Despite a record level of demand, prices declined in North America during the year. In Asia, prices first rose in the early part of the year but then started to decline. The economic crisis in Asia aggravated the situation in late 1997. The average prices of deliveries remained below 1996 levels.

Demand for ferrochrome was good owing to growth in stainless steel production. Demand grew clearly from 1996, but since the growth volumes were equalled by new production in South Africa, global supply and demand remained in bal-

Coils are transferred at the cold rolling mill by 16 automatic guided vehicles.

ance. In the second quarter of 1997, the ferrochrome price rose from the low level of USc/lb 40 at the beginning of the year to USc/lb 46 and stayed at that level for the rest of the year. The average annual price was 10 % lower than in 1996.

Demand for stainless steel tubes remained largely unchanged from 1996, with a slight increase towards the year-end. Price competition was severe, and the market remained in surplus.

The six robots of the automatic coil packaging line can handle up to 30 coils per hour.

Net sales by business unit

FIM million	1997	1996
Outokumpu Chrome	673	580
Outokumpu Polarit	4 429	3 948
Ja-Ro	484	462
Other business units	216	359
Sales within the business area	(855)	(863)
Total	4 947	4 486

Financial development

Stainless Steel's net sales grew by 10 % mostly due to increased deliveries and totalled FIM 4 947 million. The steel melting shop's expanded capacity was in full use, and stainless steel deliveries grew by 15 % from 1996. Deliveries of stainless steel tubes and tube fittings grew by 12 %, although production in the Netherlands was discontinued in July. Ferrochrome deliveries also increased somewhat.

Despite severe competition, the business area's financial result for 1997 was satisfactory, mainly because production ran smoothly. Operating profit was FIM 550 million (1996: FIM 616 million), which includes an inventory gain of FIM 36 million due to price increases of metal raw materials (1996: inventory loss of FIM 30 million). Return on capital employed was 14 % (1996: 17 %). Profitability was weakened by lower prices of deliveries than in 1996 and the discontinuation of production in the Netherlands, the cost of which was FIM 29 million.

The results of Outokumpu Chrome and Outokumpu Polarit were good. Because of the one-time write-off in the Netherlands, Ja-Ro's result was weak.

Investments and R&D

Stainless Steel's capital expenditure for 1997 amounted to FIM 820 million. In addition to production expansions, these included various items to improve efficiency.

The cold rolling plant expansion worth about one billion Finnish marks was completed according to plan, and test runs of the last item of the project – a slitting line – were started in January 1998. Cold rolling capacity will rise to about 400 000 tonnes per year, in addition to which Outokumpu can deliver more than 100 000 tonnes of hot rolled products per year.

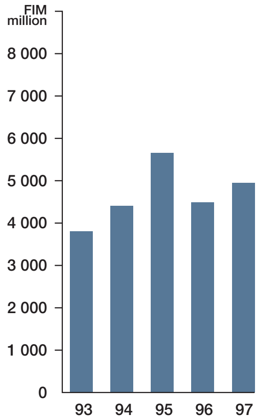
The first cold rolling mill in Tornio, which has been in continuous operation since 1976, will be modernized during the spring of 1998. It is estimated that the cold rolling plant will reach the full production rate of 400 000 tonnes after the first cold rolling mill resumes production.

The main investment in ferrochrome production comprised a new wet-grind-

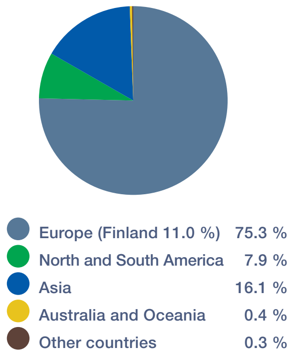
Production

tonnes	1997	1996
Outokumpu Chrome		
Ore excavated (million tonnes)	1.0	1.1
Ferrochrome	237 000	236 000
Outokumpu Polarit		
Steel slabs	544 000	472 000
Cold rolling mill production:		
Cold rolled products	303 000	274 000
White hot strip	127 000	111 000
Ja-Ro		
Tubes and tube fittings	29 700	26 400

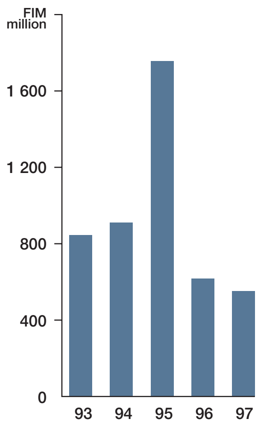
Net sales



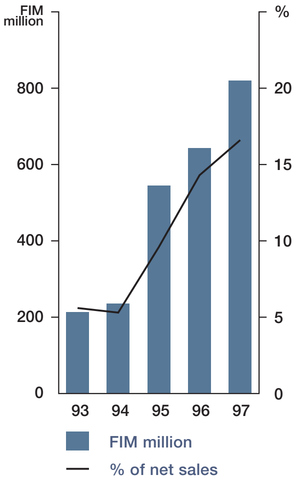
Net sales by market area 1997



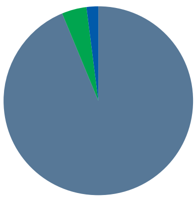
Operating profit



Capital expenditure



Personnel by country 1997



Finland	2 242
The Netherlands	101
Germany	48

Personnel by business unit

Dec. 31	1997	1996
Outokumpu Chrome	305	308
Outokumpu Polarit	1 687	1 639
Ja-Ro	345	357
Other business units	48	44
Parent company	6	7
Total	2 391	2 355

Chromium ore reserves

The Kemi mine possesses one of the world's foremost chromium deposits with abundant ore reserves to last far into the future. Proven and probable ore reserves are about 70 million tonnes. Additional mineral resources amount to nearly 150 million tonnes.

Outokumpu owns a 250-hectare land area at Röyttä in Tornio. About 10 % of the area is currently covered by buildings.

ing circuit introduced in June. In addition, studies were continued on alternatives for underground operations at the Kemi mine. A decline has been completed, and further drilling is conducted. Underground operations are estimated not to raise the total cost of mining.

The main focus of investments in stainless steel tube manufacture was still on rationalization of production. The main target of investment was the modernization of a continuous tube line in Pietarsaari, completed in August.

The business area commenced an Environmental Impact Assessment (EIA) in Tornio in 1996 related to future production expansions. The EIA, completed in May 1997, covered plans to raise ferrochrome capacity up to 500 000 and steel slab capacity up to 1 200 000 tonnes per year. Hot and cold rolling capacities would be raised to levels corresponding to slab production. No decisions have been made yet on this long-term investment program.

The business area's R&D expenditure totalled FIM 52 million (1996: FIM 40 million), or 1.1 % of net sales.

Outlook for the near future

In early 1998, the consumption growth of stainless steel is estimated to remain strong in Europe, Outokumpu's main market area for the product. The market is, however, expected to remain in surplus, which will considerably restrict opportunities for price increases. The economic problems in Asia constitute a significant and not easily predictable threat in the stainless steel market.

Ferrochrome capacity has increased rapidly in South Africa during the past two years. This has resulted in global overcapacity. Increased demand worldwide and production problems is Kazakstan have helped to balance the situation, and the ferrochrome price seems to have stabilized at USc/lb 46-47. However, the ferrochrome price easily reacts to changes in supply and demand.

Demand for stainless steel tubes and tube fittings increased in Europe towards the year-end 1997. The market still remains in surplus and, consequently, the price development of stainless steel tubes is likely to follow that of rolled stainless steels.

Overall, Outokumpu's competitiveness in its integrated stainless steel production chain and further improvements in efficiency due to the recent investments give Outokumpu's stainless steel business area the opportunity to continue to show good profitability in the future.

With its new, flexible casting capacity, the Buffalo mill has been able to remove bottlenecks in production and improve services further. This has made it possible to consolidate the U.S. electrostrip production in the mill. All strip production of the Kenosha mill will be gradually moved to Buffalo by mid-1999.

Outokumpu is one of the world's leading fabricators of wrought copper and copper alloy products. The company is the only fabricator in the world with production in both Europe and North America as well as production capacity under construction in Asia.

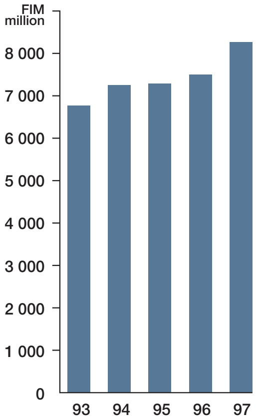
Outokumpu produces 6 % of the world's wrought copper products. The company has significant market shares in radiator strip, oxygen-free copper products as well as air-conditioning and refrigeration tubes. The main users of copper products are the construction, automotive, electrical and electronics industries.

The company's objective in copper products fabrication is to seek growth in product groups with high added value, to serve its international customers on a global basis and to continuously deepen cooperation with customers.

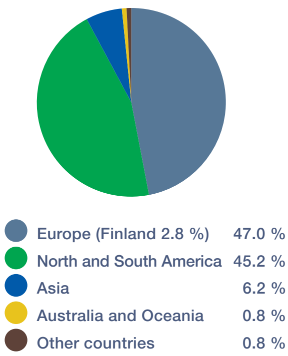
Key figures

FIM million	1993	1994	1995	1996	1997
Net sales	6 768	7 257	7 291	7 495	8 268
Share of the Group's net sales (%)	37	39	38	39	36
Operating profit	(166)	378	388	273	86
Operating profit margin (%)	neg.	5	5	4	1
Operating profit excluding inventory gains and losses	(94)	190	413	394	150
Profit before extraordinary items and taxes	(517)	117	164	74	(138)
Return on capital employed (%)	neg.	12	12	9	3
Capital employed Dec. 31	3 163	3 327	3 509	3 498	3 995
Capital expenditure	284	219	387	383	456
Depreciation and amortization	229	201	174	195	222
Personnel Dec. 31	6 234	5 268	5 368	5 485	5 525

Net sales



Net sales by market area 1997



Global demand for copper products remained fairly good throughout 1997. Demand for standard products for the construction industry was weak in Europe during the first half of the year, which resulted in tightening competition particularly in tube products. However, demand strengthened towards the year-end. In North America, consumption levels remained unchanged in all other product groups except air-conditioning tubes. Copper products consumption in Asia remained strong, and the economic crisis which began in the latter half of the year did not yet weaken demand by year-end. The average prices (conversion prices) were at 1996 levels.

The Copper Products business area's profitability weakened from 1996, and operating profit was FIM 86 million. The weakening was largely due to one-time write-offs.

The business area's main development activities involved improvements in productivity and strengthening of the global positions of the main product groups. A new strip casting line at the Zutphen plant in the Netherlands improves Outokumpu's productivity in thin brass strip production. The construction of a copper products mill in Malaysia and its equipment installations have proceeded according to plan, and production will be started during the second quarter of 1998. The decision to consolidate the entire United States electrostrip production in Buffalo was made in December.

Market conditions

Demand for copper products varied significantly between market areas and product groups. In Europe, demand for products for the construction industry was weak for most of the year but strengthened in late 1997. At this time, prices, which had declined to very low levels, started to rise. Demand for industrial products and their prices remained on satisfactory levels. Overall, demand for Outokumpu's key copper products in Europe grew only by about 1 %. In North America, copper products demand grew vigorously, at an estimated rate of about 6 %. The consumption of copper tubes diminished considerably in Japan as a result of a cyclical decline in the air-conditioning industry. In other Asian countries, consumption continued to grow in most product groups.

The global market conditions for air-conditioning tubes weakened during 1997. This was due to a relatively cool summer in the United States and Japan as well as the high equipment inventories of the air-conditioning industry. Demand for plumbing tubes declined in Europe and, coupled with a significant surplus in the market, this made competition increasingly severe. However, prices recovered after the summer season when market conditions improved.

Demand for drawn copper and copper-alloy products remained good in all main market areas. Deliveries also grew considerably from 1996.

Demand for rolled products was satisfactory. The consumption and prices of industrial products, such as radiator strip, electrostrip and oxygen-free copper strip, remained stable. The prices of sheet and strip for the construction industry were still low in Europe. Demand for coin blanks increased, although the effect of the new euro coins on the consumption and deliveries will be seen in the market only from 1998 onwards.

Capacity utilization rates were high at all production units except the tube mills, which operated at lower rates than in 1996. Order backlogs were good at year-end and markedly higher than a year before.

Financial development

Copper Products' net sales were FIM 8 268 million (1996: FIM 7 495 million).

The increase was due to a 3 % growth in deliveries and the strengthening of the US dollar against the Finnish mark. The average prices of copper products (conversion prices) remained at the 1996 level because of low prices of tube products.

The business area's profitability weakened. Operating profit was FIM 86 million (1996: FIM 273 million) and return on capital employed 3 % (1996: 9 %). The result includes a one-time write-off of FIM 177 million caused by the consolidation of electrostrip production in the United States. Furthermore, the decrease of the copper price caused an inventory loss of FIM 64 million (1996: inventory loss of FIM 121 million). Operating profit was FIM 327 million (1996: FIM 394 million) excluding the one-time write-offs and inventory losses.

The financial result was aggravated by a considerably weakened result in the tube products, which was due to reduced prices, a decline in delivery volumes and poor profitability at the tube mill in China during the mill's start-up phase. The profitability of the Kenosha strip mill also remained poor.

Most business units achieved either a good or satisfactory level of profitability. Of the product groups, radiator strip, drawn products and special rolled products showed good profitability. The long-term productivity enhancement program at the associated company Laminados Oviedo-Córdoba S.A. in Spain (Outokumpu ownership 50 %) resulted in a marked improvement in profitability, and the company showed profit. The company's deliveries grew by 10 % from 1996.

Investments and R&D

The business area's capital expenditure totalled FIM 456 million (1996: FIM 383 million). The primary objective of the investment activity is to raise productivity, to increase the share of higher added-value products of total production, and to strengthen Copper Products' global competitive position.

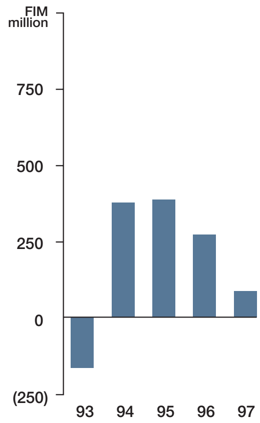
In November, the brass strip mill in Zutphen, the Netherlands, started up a strip casting line in which raw material melting, casting and rough rolling take place in a continuous process. The investment cost was FIM 200 million.

The construction and equipment in-

Net sales by business unit

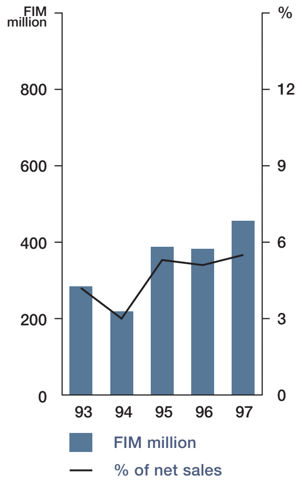
FIM million	1997	1996
Tube products	2 347	2 248
Drawn products	1 484	1 223
Strip products	1 944	1 778
Rolled products	2 524	2 351
Other business units	778	628
Sales within the business area	(809)	(733)
Total	8 268	7 495

Operating profit



Valleycast and The Nippert Co. of the United States were again successful in their specific markets. Outokumpu has a strong market positions in alloy wire and special profiles manufactured using Outokumpu-developed technology.

Capital expenditure



stallations of a mill in Pasir Gudang in Malaysia have proceeded on target. The mill will be producing special drawn products and inner-grooved copper tubes. Production will be started gradually during 1998 and 1999. The total investment cost will be about FIM 260 million. The main equipment and processes have been developed by Outokumpu. The investment will considerably improve Outokumpu's service to its global customers operating in Asia.

Production

tonnes	1997	1996
Tube products	114 300	117 500
Drawn products	65 900	57 500
Strip products	104 500	103 600
Rolled products	184 100	196 900
Other business units	26 000	17 700
Deliveries within the business area	(61 400)	(71 200)
Total	433 400	422 000
Associated companies:		
Rolled products *)	13 800	12 800
(Laminados Oviedo-Córdoba 50 %)		

*) The Group's share of production in relation to ownership.

Other significant investments included production lines for welded inner-grooved copper tubes in Pori, Finland, and Zaratamo, Spain. Both lines went on stream in late 1997. These investments will strengthen Outokumpu's position as a leading air-conditioning tube manufacturer.

A number of decisions and agreements concerning electrostrip production were made during the year. In June, Outokumpu signed a license agreement which gives the company the exclusive right to produce and market electrostrip alloys developed by Kobe Steel Ltd of Japan to the electrical and electronics industry in North, Central and South America. In late 1997, a decision was taken to consolidate Outokumpu's North American electrostrip production in the Buffalo rolling mill, to where the entire production of the Kenosha mill will be transferred gradually by mid-1999. By consolidating the production, Outokumpu can better utilize the investments made in Buffalo in the past few years including recent, state-of-the-art casting and slitting lines. These measures will improve the profitability of Outokumpu's electrostrip production and strengthen the position of the Buffalo mill as the world's largest fabrication unit for rolled copper and copper alloy products.

The business area's R&D expenditure totalled FIM 37 million (1996: FIM 26 million), or 0.4 % of net sales.

The Pori rolling mill is making preparations for production of the Nordic Gold alloy for the euro coins to be introduced in 2002 and the blanking mill for the fabrication of the coin blanks.

Outlook for the near future

The Mortara service center in Italy processes rolled products, coils them into smaller delivery volumes, and slits and cuts both strip and circles into dimensions specified by customers. Pictured Silvano Callegari. Copper Products has similar centers in Sweden and the Netherlands.

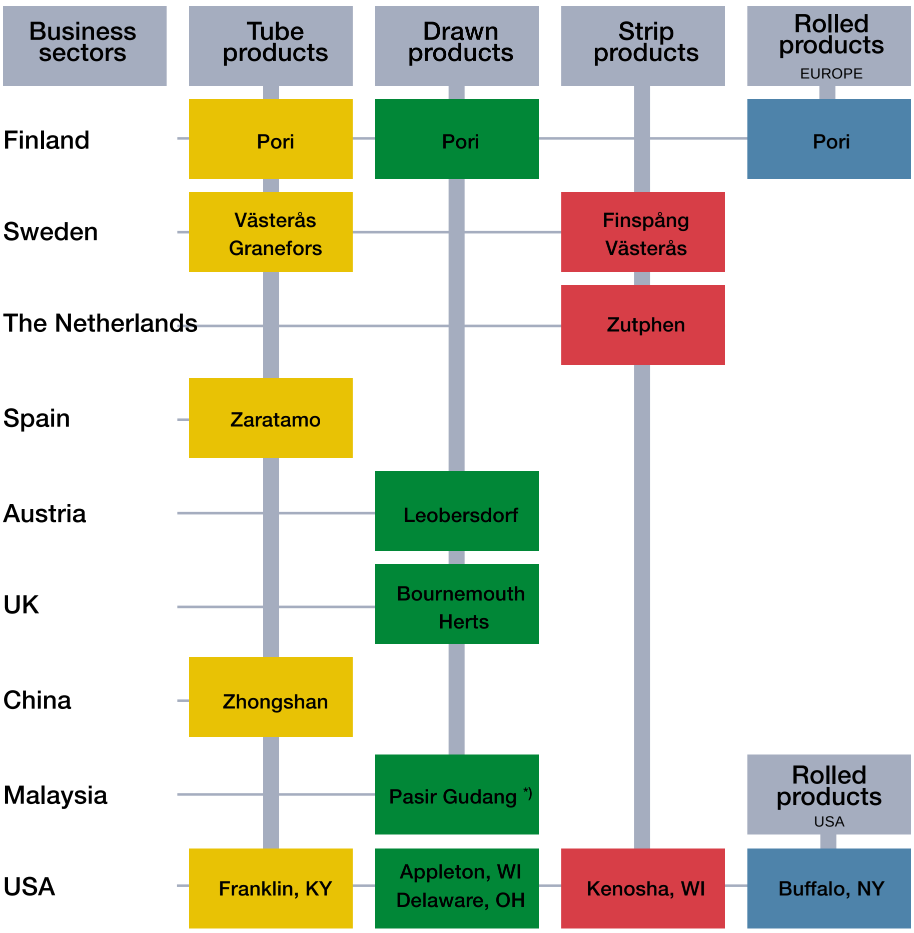
The European markets for copper products are expected to remain satisfactory. Total demand will probably be strengthened by the need for coin blanks for the new euro coins. A significant share of these coins will be made of the Nordic Gold alloy developed by Outokumpu.

The outlook in North America is still relatively good, although competition is likely to remain severe.

The unstable economic conditions in Asia also affect demand for copper products in the region. It is uncertain how this will impact upon total demand in North America and Europe. The considerable price decrease of copper metal improves the competitiveness of copper products compared with competing materials.

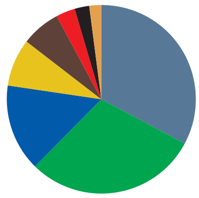
Copper Products' business development programs are aimed at strengthening the business area's position in its key product groups, in which it seeks profitable growth on a global basis.

Business sectors and production plants of Copper Products



Other business units: Superconductors and Plating (Pori), Brass Rod (Västerås) and Service Centers in Västerås (Sweden), Mortara (Italy) and Zutphen (the Netherlands).
*) Production starts mid-1998. Tube mill operational at the end of 1998.

Personnel by country 1997



United States	1 812
Finland	1 634
Sweden	827
Spain	450
The Netherlands	370
China	181
Austria	138
Other countries	113

Personnel by business unit

Dec. 31	1997	1996
Tube products	1 457	1 482
Drawn products	928	883
Strip products	1 002	1 002
Rolled products	1 153	1 161
Other business units	960	931
Parent company	25	26
Total	5 525	5 485

The main implementation project of 1997 was the Radomiro Tomic copper leaching plant and refinery for Codelco in Chile. The project office was manned by Jarkko Hakkarainen, Jaime Schmessame (in the back), Juhani Lyyra, Bror Nyman, Erkki Yllö and Petri Taipale.

Outokumpu is one of the leading suppliers of technology in its own field of industry. The company has over forty years of experience in the sales of technologies and equipment for the mining, metallurgical and metal-working industries.

Outokumpu is the market leader in many product groups. Close to 50 % of all primary copper produced in the world today is made with the flash smelting method developed and marketed by the company. Outokumpu is also a significant supplier of anode casting shops, flotation cells, ceramic filters, vertical casting equipment as well as small and medium-sized tube mills.

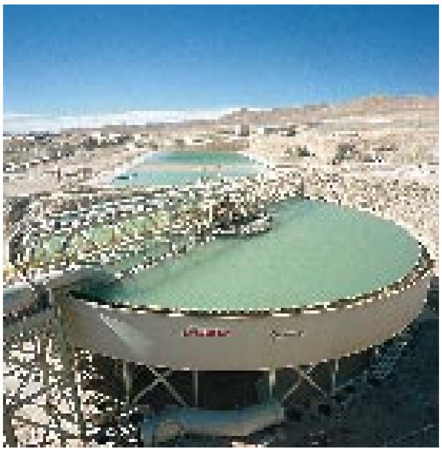
The company's objective is to strengthen its technology business in Outokumpu's key areas of competence by developing and expanding its range of technology products and by advancing cooperation with customers.

Key figures

FIM million	1993	1994	1995	1996	1997
Net sales	926	1 149	1 074	1 113	1 598
Share of the Group's net sales (%)	5	6	6	6	7
Operating profit	11	15	76	114	238
Operating profit margin (%)	1	1	7	10	15
Profit before extraordinary items and taxes	(41)	15	76	118	237
Return on capital employed (%)	10	9	30	39	62
Capital employed Dec. 31	451	339	281	370	434
Capital expenditure	18	25	58	28	39
Depreciation and amortization	28	28	21	22	24
Personnel Dec. 31	1 524	1 670	1 171	1 651	1 763

The business area was reorganized at the beginning of 1995. The comparative figures for 1993-94 have been restated to reflect the new organizational structure.

Investment activity in the mining and metallurgical industry remained fairly high throughout 1997. A good order backlog at the beginning of 1997, as well as new orders received during the year, strengthened the market positions of Technology's products, particularly those of equipment and systems, in the business area's main market areas. The business area's profitability was excellent, and operating profit rose to FIM 238 million.



The Australian subsidiary Supaflo Technologies received a large number of orders for thickeners. Pictured is a thickener delivered to Outokumpu's Zaldívar associated mine in Chile.

Market conditions

The world mining and metallurgical industry's investments in equipment increased, particularly in flotation cells, thickeners, anode casting shops and vertical casting equipment. Many copper smelter, leaching plant and tube mill projects progressed to planning and study phases in 1997, although final investment decisions were put off until 1998. An exceptionally large number of feasibility studies, as well as project tenders, were made throughout the year.

New orders received by Technology remained at 1996 levels. The order backlog at year-end amounted to FIM 730 million (1996: FIM 917 million).

Significant orders received in 1997 included a concentrator for Outokumpu's Zaldívar associated mine in Chile, flotation cells and anode casting and tankhouse equipment for Western Mining's Olympic Dam plant in Australia, the Barsuchi Log concentrator in Russia, the Cuajone concentrator project for Southern Peru and the basic engineering of the Ilo smelter in Peru, tankhouse equipment and a leaching plant for the Morenc plant of Phelps Dodge in the United States, and flotation cells for the Century Zinc project in Australia.

A joint feasibility study by Outokumpu and Endesa S.A. of Chile on a possible copper smelter and refinery to be built in Chile was completed in August. In January 1998, however, Endesa decided to withdraw from the project because of other strategically important projects. Outokumpu continues the planning for the project by studying various alternatives for project implementation.

The main markets for Outokumpu's technology products were North and South America, Asia, Australia and South Africa. Russia grew in importance as an emerging market for Technology.

Financial development

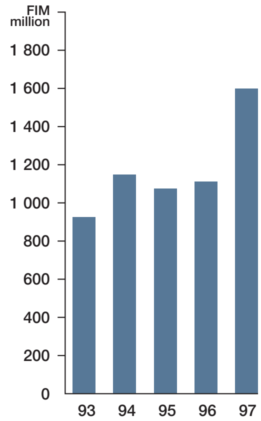
Technology's net sales grew by 44 % and totalled FIM 1 598 million. The growth was the result of strong demand and well-advanced and successful project deliveries. Nearly all business units increased their net sales. The largest increase was recorded by Outokumpu Indepro, a subsidiary in Chile.

The business area's operating profit was doubled from 1996 and amounted to FIM 238 million (1996: FIM 114 million). Return on capital employed was 62 % (1996: 39 %). The improvement in

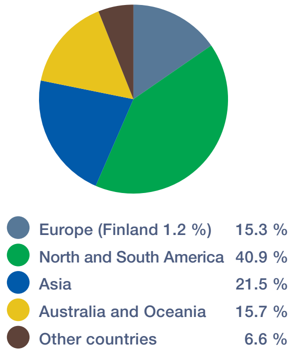
Net sales by business unit

FIM million	1997	1996
Outokumpu Mintec	478	391
Outokumpu Engineering Contractors	518	239
Outokumpu Wenmec	235	154
Outokumpu Castform	340	270
Other business units	162	165
Sales within the business area	(135)	(106)
Total	1 598	1 113

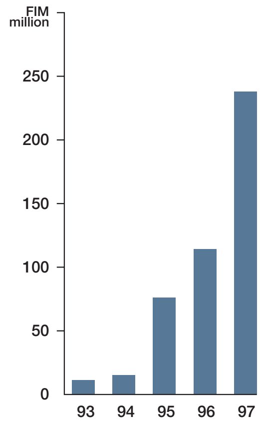
Net sales



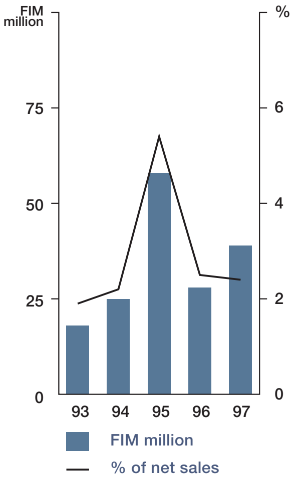
Net sales by market area 1997



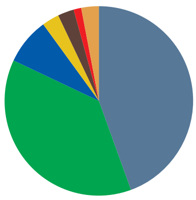
Operating profit



Capital expenditure



Personnel by country 1997



Chile	784
Finland	662
Canada	140
Australia	52
Sweden	49
USA	23
Other countries	53

Personnel by business unit

Dec. 31	1997	1996
Outokumpu Mintec	311	284
Outokumpu Engineering Contractors	847	785
Outokumpu Wenmec	110	103
Outokumpu Castform	191	179
Other business units	304	300
Total	1 763	1 651

profitability was due to the growth in net sales, increased cost-efficiency due to quality systems, and advances in project management. The operations of Outokumpu Engineering Services and Outokumpu Turula as Technology's in-house subcontractors developed favorably and contributed to the improvement in the operations and financial performance of the other business units.

Outokumpu Engineering Services provided planning and project services for the Kokkola zinc plant expansion. Pictured is an interior of the three-dimensional model of the expansion.

Personnel numbered 1 763 at year-end (1996: 1 651), including 617 temporary project staff (1996: 582).

Outokumpu's representative office in Peru was transformed into a marketing company through the founding of Outokumpu Técnica Perú S.A.

Project deliveries

The main completed project deliveries were the following: the Bangkok Metal tube mill in Thailand, the Radomiro Tomic copper leaching plant and refinery in Chile, the Jinlong copper smelter and anode casting shop in China, Codelco's Andina concentrator in Chile, as well as anode casting shops for Kennecott, Swil and Kyshtym in the United States, India and Russia respectively.

The main ongoing projects at the end of the year were the Indo Gulf copper smelter and refinery in India, the Samancor ferrochrome plant in South Africa, the LG Metals tube mill in Republic of Korea and the Barsuchi Log concentrator in Russia.

Outokumpu Engineering Services, which was involved in a number of the Group's investment projects, continued to develop operations and improve customer service further by founding a planning team in Tornio to complement similar teams in Harjavalta and Kokkola.

Research and development

The business area's R&D expenditure totalled FIM 43 million (1996: FIM 32 million), or 2.7 % of net sales.

An important emerging area in product development is projects carried out in cooperation with customers outside the Outokumpu Group. Technology also aims to develop and expand its range of technology products in cooperation with the Group's other business areas and with Outokumpu Research Oy.

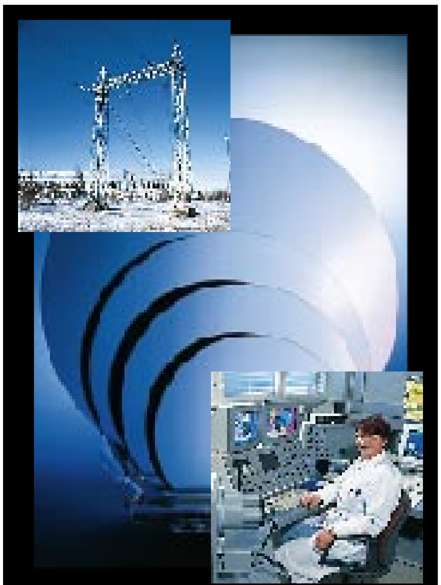
The main development projects in 1997 comprised further work on analyzers and filters for mineral processing, casting technology, refinery equipment as well as the flash smelting and flash converting processes.

Outlook for the near future

Excluding the Far East, the conditions in Outokumpu's main market areas for mining and metallurgical technology are expected to remain fairly good. The economic conditions in Asia may, however, weaken the global market conditions.

Technology's order backlog is expected to develop favorably in early 1998, because decisions will be made on many projects that were in the tendering phase in 1997. Continuous product development and internal operational improvements achieved by the development of quality systems and new operating methods will enhance Technology's competitiveness during 1998 also.

Other operations



The Outokumpu Group's other operations comprise Corporate Management, Corporate Services and Outokumpu's industrial holdings.

Corporate Services

Outokumpu has marketing companies in over 20 countries. These serve all business areas. A new marketing company was founded in Vienna in late 1997 to boost marketing efforts in eastern Central Europe. In addition to Austria, this company's operating area encompasses Hungary, the Czech Republic and Slovakia. Information transfer between marketing companies and production plants was improved and made faster during 1997 by connecting most of the marketing companies to the Group's internal Outonet data network.

Outokumpu Rossija comprises a group of companies specializing in trade with Russia – in both the marketing of the Group products and procurement of raw materials for Outokumpu's production plants. The Group's Russian trade grew significantly in 1997, and net sales of Outokumpu Rossija totalled FIM 922 million. The majority of the trade consisted of raw material purchases, but the sales of metal products, particularly of stainless steel, to Russia developed favorably, too.

Outokumpu Research Oy is a research center which develops processes, equipment and products mainly for the Group business units. In 1997, the company's research and development efforts focused on the processes of the Group's metallurgical plants and on projects that serve raw material procurement. The research activities of the geoanalytical laboratory were transferred from the town of Outokumpu to Pori, and the analysis services business was sold to the Technical Research Centre of Finland.

The other Corporate Services units provide assistance to other Group subsidiaries and units in the areas of real estate, training, legal affairs, patents, financing, utilities, information technology, occupational health and insurance.

Industrial holdings

The Outokumpu subsidiary Princeton Gamma-Tech, Inc. manufactures electronic measurement and analyzing equipment in the United States. The company's net sales remained at the 1996 level and the company's result was still unsatisfactory. SKT-Granit Oy, which engages in rock processing operations in Finland, almost doubled its net sales as a result of replacement and expansion investments as well as an increased marketing effort. The company improved its financial result and showed profit.

Okmetic Oy, Outokumpu's associated company (49 %) specializing in silicon wafer manufacture in Finland, completed a FIM 360 million investment in December. As a result, the company's production capacity will nearly double. Demand for silicon wafers weakened markedly during early 1997, but growth in demand resumed during the autumn. The company's net sales grew by 21 % from 1996 and profitability improved. Profit before extraordinary items and taxes was FIM 11 million (1996: FIM 7 million). The outlook for 1998 is encouraging and provides the background for plans to further expand the capacity of the new plant.

Net sales by business unit

FIM million	1997	1996
Corporate Management	80	78
Marketing companies	412	140
Outokumpu Rossija	922	567
Outokumpu Research	59	–
Other service units	578	476
Princeton Gamma-Tech	52	51
SKT-Granit	27	15
Other units	–	150
Sales within units	(24)	(2)
Total	2 106	1 475

The marketing companies were transferred from the business areas to Corporate Management on September 1, 1996 and Outokumpu Research on December 31, 1996. The figure for Other units includes some 1996 net sales of disposed business operations.

Personnel by business unit

Dec. 31	1997	1996
Corporate Management	79	71
Marketing companies	208	167
Outokumpu Rossija	37	29
Outokumpu Research	180	198
Other service units	124	100
Princeton Gamma-Tech	95	98
SKT-Granit	40	40
Other units	1	1
Total	764	704

"We must continuously invest in technology and R&D to secure our position at the forefront of our industry."

Outokumpu's technology strategy, which steers the Group's research and development activities, is based on the policy throughout the Group to always apply efficient and environmentally sound technology to ensure profitability and sustainable competitiveness in all operations and provide added value for customers. Outokumpu's production units utilize both in-house developed and purchased technology. Outokumpu mainly markets technologies which have been developed by the Group. These technologies have often through in-house use proven efficient and of top quality.

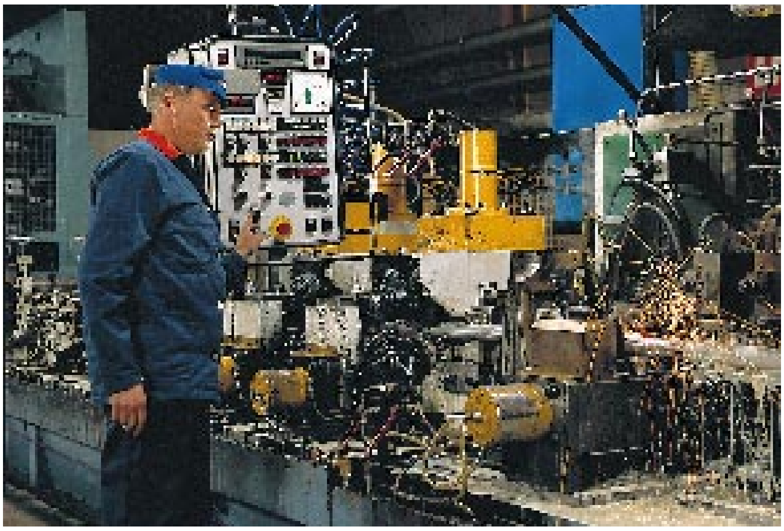
Outokumpu has continued its strong focus on investments geared to the development of competences as well as of production technologies and new products. Total R&D personnel in the four business areas and in corporate service units averaged about 590 in 1997 (1996: 610). The Group's total R&D expenditure was FIM 210 million, or 1.1 % of net sales (1996: FIM 155 million, 0.9 % of net sales).

The "Intelligent Mine Implementation" project, which is focused on applying modern information technology to mining operations, has proceeded as expected. An extensive minerals technology development program is also underway. One result of the program is a large, 160-cubic-meter TankCell® flotation cell, which has already been launched.

An important goal in the continuous development of the flash smelting/flash converting process has been to strengthen Outokumpu's own nickel business. The main efforts have focused on increasing the possibilities to use raw materials that contain impurities and on raising the nickel plant capacity at Harjavalta. The direct nickel smelting process, which has been in production at Harjavalta for a couple of years, has been sold to one other producer, who proceeded to the start-up phase in 1997. The expansion of the Kokkola zinc plant, scheduled for completion by the end of 1998, will apply a new, Outokumpu-developed method for direct leaching of zinc concentrates. Investments in the development of extraction technologies have also produced good results and established Outokumpu as a leading supplier of the entire mixer-settler production line. Other examples of new product launches include the Courier® 30SX X-ray analyzer for continuous analysis of solutions and belt sintering equipment for ferrochrome production.

New copper and copper-alloy products are developed in partnership with customers. One example is the euro coins to be introduced in the European Union. Three of these coins will be manufactured of the Nordic Gold alloy developed by Outokumpu, and part of them will have the Outokumpu-developed bimetallic structure.

Jaro has applied new laser-welding technology in stainless steel tube manufacture after this technology received a quality certificate.



Outokumpu's copper products mill in Zutphen, the Netherlands, started up a new casting line which utilizes in-house developed, continuous strip casting technology. The basic processes of the copper profiles and tube mill under construction in Malaysia have also been developed by Outokumpu.

New information technology applications have been developed for process control in stainless steel production. A new control system for continuous casting based on neural networks has increased casting speed and productivity. The Outokumpu pickling and regeneration process OPAR was developed further during 1997. A second regeneration line went on stream and has yielded excellent results.

The environmental impact of Outokumpu's production units has decreased, despite increases in production volumes, as a result of continuous improvements in processes and production methods. The most important factor in the decrease has, however, been the personnel's growing awareness of environmental matters. As processes have improved, hazardous emissions to the environment have been reduced. Outokumpu has suffered no major environmental accidents.

"We must constantly work towards reducing the impact of our operations on the environment."

Throughout the Group, work continued during 1997 on the building of environmental management systems. A system in accordance with the Eco Management and Audit Scheme (EMAS) was completed at the Pori works, due to be included in the European Union's EMAS register in early 1998. Many other units are in the process of finalizing similar EMAS or ISO-standard systems. In May, the Lapland Regional Environment Centre approved the environmental impact assessment (EIA) for a possible expansion of stainless steel production in Tornio, but mandated some complementary studies to be made when seeking the eventual environmental permits. The expansion of the Kokkola zinc plant was granted an environmental permit. The EIA for their waste storage plans was approved, and Kokkola expects to receive the corresponding permit in early 1998. Because of new legislation, the waste permits of all Outokumpu production units in Finland are under renewal. No units outside Finland were in major permitting processes during 1997.

The Silver Swan mine in Australia commenced production in 1997, under very strict environmental regulations.

Emissions to the environment continue to diminish at Outokumpu production plants. The Harjavalta smelter's sulphur dioxide emission decreased further during 1997 despite increased production output. This emission totalled only 2 700 tonnes, or 16 kg per tonne of metal, which is one of the best results in the world even among the newest smelters. The Harjavalta smelter has had problems with dust emissions due to fire damage in one of the new filter units. This situation will be corrected as soon as the anode gas treatment process is altered.

Outokumpu specialists have participated in many international regulatory projects in the areas of, for example, the classification of chemicals, transportation of waste and definition of waste. Preparations for the European Union's NATURA 2000 program have aroused much discussion in Finland about possible limitations imposed on land use. It has been proposed that about 15 % of Finland's area would be included in the program. Outokumpu has sought to influence the preparations so that NATURA 2000 will both allow the exploitation of mineral resources that are important for the national economy and take into account the development needs of the mining industry.

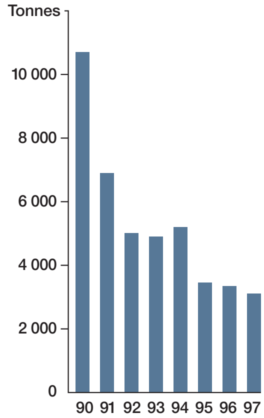
Outokumpu has also participated in a number of projects on metal life-cycle analysis. Research programs on increased waste utilization and on the treatment of waters with an elevated metal content have been continued in Finland.

The reclamation of the Enonkoski mine site was completed in 1997. The Viscaria mine was closed, and landscaping, which had been begun earlier at the site, was continued during the year.

The Group's environmental investments totalled about FIM 100 million in 1997.

Corporate Management is not aware of any environmental liabilities or risks with a material effect on the Group's financial position.

SO_2 emissions



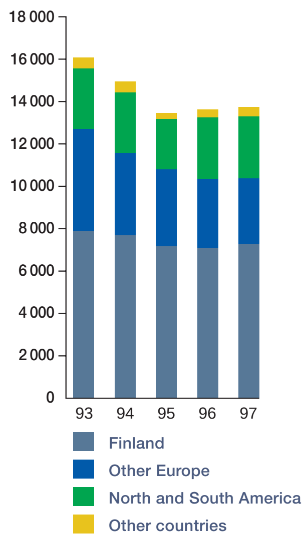
The figure presents the SO_2 emissions of the Group's production plants in Finland.

Human resource development

Personnel by country

Dec. 31	1997	1996
Europe		
Finland	7 291	7 083
Sweden	905	1 020
Ireland	615	666
The Netherlands	489	527
Spain	466	477
Norway	148	157
Austria	138	120
UK	106	101
Germany	84	79
Russia	54	47
Italia	31	16
France	18	18
Other	24	26
	10 369	10 337
North and South America		
United States	1 946	1 999
Chile	818	752
Canada	151	143
Peru	12	10
Mexico	6	7
	2 933	2 911
Asia		
China	192	153
Malaysia	19	–
Singapore	16	14
Japan	10	10
Other	4	11
	241	188
Australia	178	178
Africa	13	8
Total	13 734	13 622

Personnel



Outokumpu emphasizes the importance of competences in its business strategies. The Group strives for profitable growth by focusing on its strongest areas of competence. Success in these areas, however, requires continuous development of knowledge and skills. That is why the Group emphatically encourages all Outokumpu people to use their competences and to strive for continuous improvement.

> "To secure our competitiveness, we must continuously improve our competence."

The 1997 Outokumpu Personnel Forum was held in Finspång, Sweden. William Hurles, Patrick J. Finnegan and Seamus Reynolds are speaking with Jyrki Juusela during a break.

The Group's human resource development and training efforts focused on the needs for continuous learning on both the individual and organizational levels. The Outokumpu Competence Development Program stems from these needs. By the end of 1997, almost 700 Outokumpu people from all business areas had participated in the program. The Outokumpu Executive Development Program focuses on continued enhancement of leadership skills and practices with the aim of ensuring that Outokumpu's core competences and synergies are utilized throughout the Group in its integrated operations model. This program has so far been attended by 100 managers, representing all business operations and staff functions.

Internal mobility has been promoted in order to advance an effective and broad utilization of all talent throughout the Group. The Outokumpu Expatriate Policy, which defines common principles for international assignments, has effectively supported internal mobility. The need to increase mobility across national and organizational boundaries was also emphasized in, for example, the Outokumpu Management Forum in January 1997, which was attended by over 100 Outokumpu managers from Group units all around the world.

Another important area of development has been communication and interactive skills. These were also one of the themes of the 1997 Outokumpu Personnel Forum, an annual meeting for information exchange between management and personnel. The Group's comprehensive Outonet data network and increasingly compatible information systems help to enhance opportunities for effective cooperation. To promote this goal, human resource development activities and training in information technology were increased during 1997.

A key target for continuous improvement is also occupational safety, which forms part of the quality concept of operations. Outokumpu units made special efforts to improve occupational safety through various programs during 1997. In addition to occupational safety, maintenance of continued ability to work is becoming an integral part of everyday operations. Systematic and comprehensive activities to support this goal involve close cooperation between the occupational health staff, the human resource management and the entire organization.

Financing and management of financial risks

THE GROUP'S FINANCIAL POSITION

The Group's financial position is outlined on pages 10-11 of the Corporate Review of the Year.

On December 31, 1997, floating-rate loans represented 86 % of the FIM-denominated long-term debt and 69 % of all long-term debt. The FIM-denominated floating-rate loans include pension loans and loans attached to the base rate of the Bank of Finland. The average interest rate on all long-term debt was 5.9 % on December 31, 1997 (Dec. 31, 1996: 6.2 %).

The Group strives to retain good liquidity under all circumstances. At year-end, cash and marketable securities totalled FIM 544 million (Dec. 31, 1996: FIM 601 million). In addition, confirmed, committed long-term credit facilities available to the Group amounted to about FIM 2.2 billion. The Group has about FIM 2.4 billion worth of both domestic and Euro Commercial Paper programs for short-term financing needs.

MANAGEMENT OF FINANCIAL RISKS

The Outokumpu Group's business operations involve many financial risks including exchange rate, interest rate, credit and refinancing risks. According to the financial-risk management policy determined by the Group Executive Board and Corporate Finance Management, Outokumpu seeks to hedge all significant financial risks.

Outokumpu's financial and risk management activities are mostly centralized in the Group's Finance function.

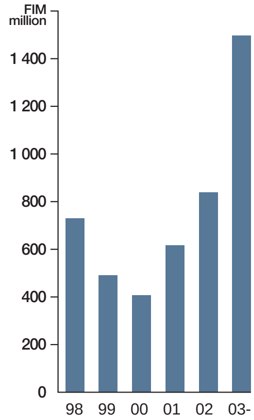
Exchange rate risks

The majority of the Group's cash flows, receivables and loans are denominated in currencies other than the Finnish mark. Exports from Finland represent a significant share of the Group's business, and approximately one-half of the business transactions are carried out by Group companies outside Finland. In addition, products are largely priced in currencies other than that of the country of production. Consequently, exchange rate movements have a significant impact on Outokumpu's financial development and competitiveness. The potential European Monetary Union (EMU) would diminish the Group's exchange and interest rate risks and would also make financial risk management less complicated with fewer currencies to manage.

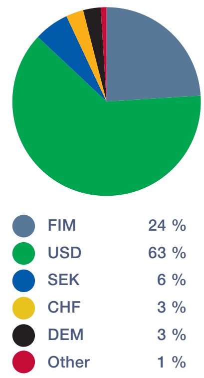
The most important currencies for Outokumpu's business and financing are the US dollar and the Finnish mark. A 10 % movement of the dollar against other currencies has an impact of roughly FIM 400 million on the Group's annual operating profit. The corresponding impact of a 10 % movement of the Finnish mark against other currencies is roughly FIM 500 million. These amounts do not take into account the effect of hedging of exchange rate risks.

The Group's foreign currency exposure primarily consists of receivables, loans and other contractual commercial items (transaction exposure), added with anticipated cash flows in other currencies (economic exposure), so that, as a rule, the foreign currency exposure covers the cash flows during the following 6-12 months. The Group's exchange-risk management policy is to hedge the transaction exposure in its entirety and the economic exposure to a significant extent. The degree of hedging the economic exposure varies between business operations.

Repayment schedule for long-term debt Dec. 31, 1997



Breakdown of long-term debt by currency Dec. 31, 1997



Outokumpu is making preparations for the European Monetary Union (EMU), with the objective to adopt the euro in its financial management from the very beginning of the transition period and apply the currency as broadly as possible in all commercial transactions.

One of the key responsibilities of Outokumpu's Finance function is to hedge the Company against all major financial risks. A morning meeting in the dealing room is attended by (from left) Raili Salminen, Juha Hakala, Robin Backman, Esa Lager and, facing a screen, Hannu Kaijomaa.

In addition, the Group hedges some of the main tender risks as well as some equity exposures of its foreign subsidiaries and associated companies.

The foreign currency exposure is hedged mainly with forward foreign exchange contracts and options, foreign currency loans and currency swaps. The Group's Finance function manages a considerable part of the foreign exchange risks. Speculation is not a feature of Outokumpu's risk management policy.

Receivables, loans and derivative instruments in foreign currencies are translated into Finnish marks at the exchange rates on the balance sheet date, and exchange gains and losses are recognized in income within "Financial income and expenses". The exchange gains and losses of derivative contracts and loans to hedge off-balance sheet items are recognized in income on the date of the hedged cash flow. On December 31, 1997, a net amount of FIM 92 million of exchange gains from such derivative contracts were deferred (Dec. 31, 1996: FIM 213 million of exchange gains).

The total foreign-currency denominated shareholders' equity of the Group's foreign subsidiaries and associated companies was FIM 4 155 million on December 31, 1997 (1996: FIM 2 104 million). Of this equity exposure, 18 % was hedged (1996: 41 %). The reduction in the degree of hedged equity exposure has taken place mainly in probable EMU currencies. The loans and derivative contracts used to hedge the shareholders' equity produced FIM 113 million of exchange losses in 1997 (1996: FIM 85 million of exchange losses). In the consolidated financial statements, the exchange gains and losses on the hedging are recorded in non-restricted equity against the translation differences arising from the translation of the foreign-currency denominated shareholders' equity into Finnish marks.

The interest rate differential between the Finnish mark and the US dollar in particular causes the Group significant hedging costs. As a result, the net interest income from derivative contracts recognized in income in previous years was replaced by net interest expenses in 1997. These expenses were FIM 30 million (1996: FIM 3 million of net interest income).

Exchange rates

	Closing rates					Average rates	
	1993	1994	1995	1996	1997	1996	1997
USD	5.7845	4.7432	4.3586	4.6439	5.4207	4.5905	5.1944
CAD	4.354	3.378	3.196	3.390	3.782	3.367	3.753
GBP	8.554	7.409	6.741	7.869	8.992	7.164	8.506
IEP	8.158	7.325	6.956	7.788	7.759	7.345	7.871
SEK	0.6945	0.6358	0.6546	0.6748	0.6863	0.6847	0.6799
NOK	0.7701	0.7014	0.6899	0.7209	0.7394	0.7111	0.7339
DEM	3.3350	3.0615	3.0435	2.9880	3.0275	3.0530	2.9939
NLG	2.9812	2.7337	2.7185	2.6624	2.6861	2.7247	2.6603
ESP	0.0407	0.0360	0.0359	0.0354	0.0358	0.0363	0.0355
AUD	3.920	3.680	3.247	3.698	3.549	3.593	3.859
ECU	6.459	5.815	5.597	5.770	5.989	5.751	5.864

The Bank of Finland's exchange rates.

Interest rate risks

Outokumpu's policy is to hedge all significant interest rate risks. The Group's interest-rate exposure is monitored through price risks (changes in value as interest rates change) and interest flow risks (the effect of changes in interest rates on financial expenses). In order to effectively manage interest rate risks, the Group's loans and investments are dispersed in fixed and floating rate instruments. In addition, interest rate swaps and forward rate agreements are actively used. In the management of interest rate risks, the most important currencies are the US dollar and Finnish mark. The average interest period of interest-bearing financial items is less than one year.

Other financial risks

Credit risks are mostly related to investments or counterparty risks with derivative contracts. The Group seeks to minimize these risks by making transactions only with financial institutions with a high credit rating. The majority of the investments are made in liquid instruments with short maturity and low risk. Credit risks did not produce bad debts during 1997.

The Group's sales receivable are generated by a large number of customers in various industries in many parts of the world.

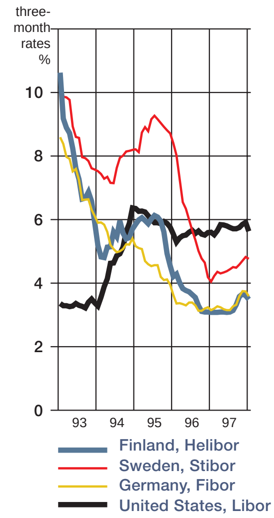
The Group seeks to minimize refinancing risks with a balanced distribution of the maturities of loans, sufficiently long loan periods and sufficient financial reserves.

Derivative contracts

Outokumpu uses derivative contracts to the extent permitted by the Group's approved financial-risk management policy.

The Group's open derivative financial instruments to hedge financial risks as well as the related contract amounts, carrying values and fair values on December 31, 1997 are presented in section 13 of the Notes to the consolidated financial statements.

Market interest rates



Management of metal price risks

Metal prices can fluctuate significantly depending on world economic trends, supply and demand for metals and, occasionally, metal speculation. Metal price movements have a major impact on Outokumpu's financial results.

The adjacent table presents the estimated impact of metal price movements on Outokumpu's annual operating profit and equity earnings in associated companies. The figures are suggestive only. They are based on the average prices and exchange rates of 1997 as well as on the projected 1998 production. Neither inventory gains or losses caused by price movements nor the effect of hedging have been taken into account in these figures.

Sustained 10 % change in price	Effect on result (FIM million)
Copper price	100
Nickel price	100
Zinc price	140
Ferrochrome price	70
Conversion price of stainless steel	270
Conversion price of wrought copper products	310

The profitability of mining operations is directly dependent on metal prices. Price levels for mine production are secured with the help of forward sale contracts and/or option contracts (price fixing) on metal exchanges. These are intended to mitigate the impact of price decreases on the profitability of mines. The treatment and refining charges of smelters and refineries are partly dependent on metal prices (price participation); the related risk can also be reduced by forward sale contracts and/or option contracts.

In addition, metal production and fabrication units are affected by risks arising from the time difference between raw material purchase and product sale. These risks are hedged through forward contracts on metal exchanges (offset hedging). The basic inventory permanently tied up in the production of these units is not hedged. Together with the FIFO valuation of inventories, this produces inventory gains or losses in the financial statements when metal prices change. From the beginning of 1998 onwards, metal inventories will be valued according to the LIFO method.

The gains and losses on derivative contracts hedging against metal price risks are recognized in income as adjustments to sales revenue and raw material costs in the period in which the underlying sales and raw material purchases take place. On December 31, 1997, deferred losses on such derivative contracts totalled FIM 108 million (1996: FIM 84 million of gains).

As of the beginning of 1998, the Outokumpu Group applies the LIFO method (last in – first out) in the valuation of purchased metal inventories instead of the previous FIFO method (first in – first out). The LIFO valuation method better describes the Group's operative result when metal prices change.

The Group Executive Board has given authority to make a limited number of strategic derivative contracts. The gains and losses arising from the valuation of these contracts are always entered into income. A gain of FIM 2 million was recognized from these transactions in 1997 (1996: a gain of FIM 8 million).

The counterparty risks related to derivative contracts are minimized by making transactions only through brokers with a high credit rating.

Outokumpu's business with metal exchanges is centralized in Base Metals' Exchange Trading department and Copper Products' raw materials company in London.

Annual average metal market prices

		1993	1994	1995	1996	1997
Copper	USD/lb	0.87	1.05	1.33	1.04	1.03
	FIM/kg	10.95	12.07	12.82	10.51	11.82
Nickel	USD/lb	2.40	2.88	3.73	3.40	3.14
	FIM/kg	30.20	33.09	35.95	34.41	35.91
Zinc	USD/lb	0.44	0.45	0.47	0.46	0.60
	FIM/kg	5.49	5.21	4.50	4.70	6.84
Ferrochrome	USD/lb	0.41	0.40	0.64	0.51	0.46
(Cr-content)	FIM/kg	5.10	4.59	6.14	5.20	5.26
Stainless steel	DEM/kg	3.03	3.24	4.38	2.90	3.21
transaction price	FIM/kg	10.48	10.42	13.35	8.85	9.62
Stainless steel	DEM/kg	2.04	2.07	2.93	1.59	1.81
conversion margin	FIM/kg	7.05	6.66	8.93	4.84	5.42

Copper, nickel and zinc: London Metal Exchange (LME) cash quotations
Ferrochrome: Metal Bulletin – lumpy Cr charge, basis 52% Cr, free market
Stainless steel: CRU – German transaction price and conversion margin (2 mm cold rolled 304 sheet). CRU estimate of average prices for new orders delivered during the following few months. Due to differences in timing and different computation methods the CRU price differs from the price level of actual deliveries.

Derivative contracts

The Group's open derivative financial instruments to hedge metal price risks as well as the related contract amounts, carrying values and fair values were as follows on December 31, 1997:

	Maturity	Contract amount		Carrying value		Fair value	
FIM million	months	1997	1996	1997	1996	1997	1996
Price fixing of mine production							
Copper forward sale contracts 6 300 t for average price of 0.99 USD/lb (1996: 19 550 t)	1-5	80	220	–	–	9	45
Bought copper put option contracts No open contracts (1996: 20 000 t)	–	–	200	–	10	–	18
Forward metal sales and purchases relating to offset hedging of metal production and fabrication	1-24	2 530	1 160	–	–	(120)	36
Strategic derivative contracts							
Bought zinc call option contracts 15 000 t for average price of 0.63 USD/lb (1996: –)	1-3	110	–	0	–	0	–

The contract amounts presented in the above table illustrate the scope of the Group's hedging activities. The fair values of forward metal contracts and metal options are based on quoted metal prices on the balance sheet date.

FINANCIAL STATEMENTS
Consolidated income statement

FIM million		1997	1996
Net sales	[1]	**19 055**	16 549
Cost of sales	[2]	**(16 090)**	(14 399)
Gross margin		**2 965**	2 150
Selling and marketing expenses		**(491)**	(445)
Administrative expenses		**(760)**	(754)
Exploration, research and development expenses		**(320)**	(308)
Other operating income and expenses	[4]	**(8)**	(89)
Amortization of goodwill on consolidation		**(33)**	(2)
Operating profit	[3-5, 8]	**1 353**	552
Equity earnings in associated companies	[9]	**(67)**	(124)
Financial income and expenses	[6]		
Net interests and other financial expenses		**(233)**	(163)
Exchange gains (losses)		**(78)**	(36)
		(311)	(199)
Profit before extraordinary items and taxes		**975**	229
Extraordinary income and expenses		**–**	–
Profit before taxes		**975**	229
Income taxes	[7]		
Current taxes		**(119)**	(55)
Deferred taxes		**(150)**	13
		(269)	(42)
Minority interest in earnings		**(3)**	1
Net income		**703**	188
Income per share (excluding extraordinary items)	FIM	**5.65**	1.51
Net income per share	FIM	**5.65**	1.51
Average number of shares		**124 529 660**	124 529 605

Figures in brackets refer to the Notes to the consolidated financial statements on pages 49-54.

Consolidated balance sheet

FIM million		**1997**	1996
ASSETS			
Fixed assets and other long-term investments	[8]		
Intangible assets			
Intangible rights		**27**	15
Goodwill		**5**	5
Goodwill on consolidation		**7**	11
Other long-term expenses		**213**	135
		252	166
Property, plant and equipment			
Land		**203**	184
Mine properties		**292**	294
Buildings		**1 941**	1 590
Machinery and equipment		**6 414**	5 452
Construction in progress		**382**	592
Advances paid for fixed assets		**76**	215
Other fixed assets		**152**	111
		9 460	8 438
Long-term financial assets			
Investments in associated companies	[9]	**282**	343
Other long-term equity investments		**152**	130
Long-term loans receivable		**1 327**	993
Deferred tax asset	[7]	**105**	103
Other long-term financial assets		**29**	31
		1 895	1 600
Total fixed assets and other long-term investments		**11 607**	10 204
Current assets			
Inventories			
Raw materials		**594**	723
Fuels and supplies		**243**	229
Work in process		**1 159**	1 123
Finished goods and merchandise		**934**	921
Advances paid for inventories		**6**	7
		2 936	3 003
Receivables	[10]		
Accounts receivable		**2 487**	2 159
Loans receivable		**1**	10
Prepaid expenses and accrued income		**565**	520
Deferred tax asset	[7]	**83**	29
Other receivables		**176**	154
		3 312	2 872
Cash and marketable securities			
Deposits and debt securities		**11**	62
Cash and cash equivalents		**533**	539
		544	601
Total current assets		**6 792**	6 476
TOTAL ASSETS		**18 399**	16 680

FIM million		1997	1996
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	[11]		
Restricted equity			
Share capital		**1 245**	1 245
Premium fund		**2 435**	2 435
Reserve fund		**70**	73
		3 750	3 753
Non-restricted equity			
Retained earnings		**3 261**	3 158
Net income for the year		**703**	188
		3 964	3 346
Total shareholders' equity		**7 714**	7 099
Minority interest		**36**	33
Long-term liabilities			
Long-term debt	[12]		
Bonds and debentures		**350**	388
Loans from financial institutions		**3 049**	2 403
Pension loans		**406**	450
Other long-term loans		**49**	65
		3 854	3 306
Other long-term liabilities			
Accounts payable		**3**	1
Deferred exchange gains		**90**	167
Deferred tax liability	[7]	**1 196**	972
Other long-term liabilities		**277**	212
		1 566	1 352
Current liabilities			
Current debt			
Loans from financial institutions		**663**	602
Bills payable		**12**	13
Other current loans		**1 036**	475
Current portion of long-term debt	[12]	**730**	826
		2 441	1 916
Other current liabilities			
Advances received		**165**	233
Accounts payable		**1 251**	1 307
Accrued expenses and prepaid income		**1 188**	1 172
Deferred exchange gains		**2**	46
Deferred tax liability	[7]	**19**	34
Other current liabilities		**163**	182
		2 788	2 974
Total liabilities		**10 649**	9 548
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**18 399**	16 680

Consolidated statement of cash flows

FIM million	1997	1996
Operating activities		
Income financing		
Net income	**703**	188
Depreciation and amortization	**985**	889
Write-downs on fixed assets and other long-term investments	**196**	144
Undistributed earnings in associated companies	**67**	124
Deferred taxes	**150**	(13)
Other items [1]	**(374)**	(131)
	1 727	1 201
Change in working capital		
(Increase) decrease in inventories	**66**	(149)
(Increase) decrease in receivables	**(485)**	416
Increase (decrease) in current non-interest-bearing liabilities	**(182)**	(225)
	(601)	42
Other adjustments to cash [2]	**8**	56
Cash provided by operating activities	**1 134**	1 299
Investing activities		
Capital expenditure	**(2 045)**	(1 553)
Investment in associated companies and other equity investments	**(168)**	(110)
Proceeds from sales of business operations and fixed assets [3]	**106**	226
(Increase) decrease in other long-term financial assets	**(4)**	208
(Increase) decrease in working capital related to fixed assets	**34**	(64)
Cash used in investing activities	**(2 077)**	(1 293)
Cash flow before financing activities	**(943)**	6
Financing activities		
Borrowings of long-term debt	**1 684**	833
Repayments of long-term debt	**(1 349)**	(1 138)
Increase (decrease) in current debt	**621**	369
Dividends paid	**(125)**	(224)
Other financial items	**9**	27
Cash used in financing activities	**840**	(133)
Decrease in cash and marketable securities	**(103)**	(127)
Adjustments [4]	**46**	36
Decrease in cash and marketable securities in the consolidated balance sheet	**(57)**	(91)

[1] Includes gains and losses on sales of business operations and fixed assets, provisions, exchange gains and losses, and minority interest in earnings.

[2] Includes change in non-interest-bearing long-term liabilities.

[3] Proceeds from sales of business operations are reported net of cash and marketable securities in the balance sheets of subsidiaries sold.

[4] Includes the effect of exchange rates on cash and marketable securities in the consolidated balance sheet.

Principles applied in the financial statements

As of January 1, 1994, all Group companies have applied uniform accounting standards based on the Finnish accounting legislation. The consolidation and valuation principles set out in these accounting standards comply with the United States Generally Accepted Accounting Principles (US GAAP) in all material respects. However, pension and postretirement benefits are treated in accordance with the local accounting principles of each individual Group company. Management estimates that future implementation of a uniform accounting standard for pension and postretirement benefits will not have a significant effect on the Group's financial position.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company Outokumpu Oyj and those companies in which Outokumpu Oyj directly or indirectly holds more than 50 % of the shares' voting rights, or in which it otherwise has control.

The results of subsidiaries acquired or disposed of during the year are included from the date of their acquisition or up to the date of their disposal.

The consolidated financial statements are a compilation of the Parent Company's and subsidiaries' income statements, balance sheets and notes to the financial statements. The statutory accounts of individual Group companies have, for the purposes of inclusion in the consolidated accounts, been restated where necessary to comply with Outokumpu's uniform accounting standards.

Inter-company transactions and balances, inter-company profits, and internal dividends have been eliminated in consolidation.

In applying the purchase method in accounting for acquisitions, the cost of acquiring shares in subsidiaries is allocated to the fair values of the underlying assets and liabilities, and the remaining difference is carried as goodwill on consolidation and amortized over its useful life, generally not exceeding 5 years. Allocations to fixed assets are amortized according to the depreciation plan of the underlying asset.

Translation differences arising from the elimination of foreign shareholdings have been credited or charged to non-restricted equity.

Minority interests in earnings and shareholders' equity are reported separately in the income statement and balance sheet.

Earnings in associated companies in which Outokumpu holds 20-50 % of the shares and voting rights are included in the consolidated accounts on the equity method. The Group's share of earnings in such companies, less amortization of goodwill arising from acquisition, is presented in the consolidated income statement, and dividends received from associated companies are eliminated. In the consolidated balance sheet, investments in associated companies and non-restricted equity have been adjusted with the Group's share of earnings after the time of acquisition, less accumulated amortization of goodwill. Where significant differences exist, the results and shareholders' equities of associated companies are restated to comply with Outokumpu's uniform accounting standards.

The income statements and balance sheets of such jointly-owned, non-incorporated companies which are managed by Outokumpu together with the other owners are included in the consolidated financial statements line by line in accordance with Outokumpu's shareholding.

Foreign currency items and derivative financial instruments

Foreign currency transactions during the year are recorded in the accounts at the exchange rate in effect at the time of transaction. Receivables and liabilities in foreign currencies are translated into the accounting currency at the closing rate on the balance sheet date. Advances paid and received appear in the balance sheet at the exchange rate in effect on the date on which they were paid or received.

Unrealized exchange gains and losses on receivables and liabilities are recognized in income within financial income and expenses.

Derivative financial instruments hedging against exchange and interest rate risks are valued at the exchange rate or market rate on the balance sheet date, and changes in value are recognized in income. The interest component inherent is accrued as interest income or expense, and exchange gains and losses are reported within financial income and expenses. Exchange gains and losses on loans and on derivative financial instruments designated to hedge off-balance sheet foreign currency cash flows are, however, deferred until the underlying cash flow is recognized in income (hedge accounting). Deferred exchange gains and losses are presented in the balance sheet.

The income statements of foreign subsidiaries are translated at the average exchange rate for the accounting period, and the balance sheets at the closing rate on the balance sheet date. The Bank of Finland's exchange rates used in the consolidation of subsidiaries' financial statements are presented on page 39.

Foreign currency denominated long-term loans as well as forward and swap contracts have been used to hedge the shareholders' equity of foreign subsidiaries and associated companies against exchange rate risks. The exchange gains and losses on such loans and derivative financial instruments have been credited or charged against translation differences arising from the translation of the shareholders' equity of subsidiaries and associated companies.

Fixed assets and other long-term investments

The balance sheet values of fixed assets are based on historical cost. Interest is capitalized on major investment projects.

Assets held under capital leases are accounted for as purchase of the asset and incurrence of an interest-bearing liability. Assets held under operating leases are not recognized on the balance sheet, and the lease payments are charged to income as incurred.

Depreciation and amortization is based on historical cost and the estimated useful life of investments. Depreciation and amortization is calculated on a straight-line or declining-balance basis over the useful lives, which vary between subsidiaries according to the nature of their operations. Estimated useful lives for various fixed assets are:

– intangible rights	5-10 years
– goodwill and goodwill on consolidation	5 years
– other long-term expenses	5-10 years
– buildings	25-40 years
– machinery and equipment	5-20 years
– other fixed assets	4-40 years

Mine properties are amortized using the unit of production method based on depletion of ore reserves.

Long-term financial assets include financial investments which are intended to be held for over one year. Marketable securities are stated at the lower of cost or market.

Inventories

Inventories are valued by using the FIFO method, and at the lower of cost or market. The cost of inventories includes a proportionate share of overhead costs arising from the purchase and production of goods.

Cash and marketable securities

Cash and cash equivalents include cash, funds held on call accounts and in deposits with a maturity under three months, and other funds equivalent to cash.

Marketable securities include equity securities as well as deposits and debt securities which are intended to be held for under one year. Marketable securities are stated at the lower of cost or market.

Net sales

Net sales include revenue from goods sold less discounts and sales-related taxes.

Revenue on goods sold is recognized at the time of exchange except for revenue on significant long-term construction contracts, which is recognized on the percentage-of-completion method.

Metal price hedging

The gains and losses on derivative financial instruments hedging against metal price risks are deferred until the recognition of the underlying transaction, and reported as adjustments to the underlying sales and raw material purchases.

Exploration and mining activities

Exploration and evaluation costs are charged against income when incurred. When the commercial viability of a mineral deposit has been reasonably assured through feasibility studies or otherwise, subsequent exploration and development costs relating to the area of interest are capitalized.

Mine closure and reclamation costs are accrued as part of operating expenses over the life of the mine.

Research and development

Research and development costs are expensed as incurred.

Other operating income and expenses

Other operating income and expenses include income and expenses from business activities outside ordinary production, such as gains and losses on sales of mineral deposits and mining projects, gains and losses on sales of fixed assets and other long-term investments, write-offs, write-downs and write-backs on shares, as well as rental income. Furthermore, incremental income, expenses and provisions for the sale, restructuring or discontinuation of business operations are accounted for as other operating income and expenses.

Extraordinary income and expenses

Extraordinary income and expenses include unusual and significant transactions outside the scope of the Group's actual business activities.

Extraordinary items in the separate financial statements of the Group companies also include group contributions paid or received.

Contingent losses

Provisions are made for any contingent losses the future realization of which is known with reasonable certainty and of which the amount can be reasonably estimated. Provisions are presented as non-interest bearing liabilities in the balance sheet.

Pension plans

Costs for pension and postretirement benefits are treated in accordance with the local accounting principles of each individual Group company.

Pension insurance has been organized for the Group's personnel in Finland. Additional pension benefits for the personnel of some Finnish Group companies have been organized through Outokumpu Oyj's pension trusts, which were closed in 1985. When the assets of the pension trusts are assessed at current market values, the value of these assets exceeds the existing pension liability.

Pensions in subsidiaries outside Finland have been arranged according to the local practice. The pension liabilities of foreign subsidiaries are also covered.

Untaxed reserves

The tax legislation in Finland and in some other countries allows companies to transfer, as a premature expense, a part of pretax income into untaxed reserves in the balance sheet.

All allocations to untaxed reserves, including accumulated depreciation difference, in the accounts of individual Group companies are reversed on consolidation, and deferred tax is provided for.

The Finnish Companies Act stipulates that untaxed reserves included in the consolidated non-restricted equity can not be distributed as dividends to the shareholders.

Income taxes

Income taxes presented in the income statement consist of current and deferred taxes. Current taxes include estimated taxes corresponding to the results for the financial year of the Group companies and adjustments of taxes for previous years.

A deferred tax liability or asset has been determined for all temporary differences between the tax bases of assets and liabilities and their financial reporting amounts, using the enacted tax rates effective for future years. Deferred tax liabilities are recognized in the balance sheet in full, and deferred tax assets at their estimated realizable amounts.

FUTURE CHANGES IN ACCOUNTING STANDARDS

The revised Finnish accounting legislation has been applied in the Outokumpu Group from the beginning of 1998 onwards. This legislation causes no major changes in the Company's accounting standards.

As of the beginning of 1998, the Outokumpu Group applies a new principle for the valuation of inventories. Purchased metal raw materials are valued according to the LIFO method. The effects of this change in the inventory valuation principle on the Group's financial position are presented in the first interim report of 1998. As of the beginning of 1998, Outokumpu moved to quarterly reporting.

Notes to the consolidated financial statements

FIM million	1997	1996

1. Net sales

Net sales include FIM 477 million (1996: FIM 197 million) of revenue recognized on the percentage of completion method for long-term construction contracts in the Technology business area.

2. Cost of sales

Raw materials and merchandise	**(8 604)**	(7 385)
Fuels and supplies	**(1 436)**	(1 377)
Wages and salaries	**(2 038)**	(1 959)
Other personnel expenses	**(542)**	(504)
Rents and leases	**(60)**	(50)
Energy expenses	**(986)**	(878)
Depreciation and amortization	**(872)**	(817)
Other cost of sales	**(1 572)**	(1 606)
Production for own use	**171**	84
Change in inventories	**(151)**	93
	(16 090)	(14 399)

The change in inventories includes an inventory loss of FIM 56 million (1996: loss of FIM 192 million). Inventory gains or losses are calculated by comparing the change in inventories according to the FIFO method (first in – first out) used in the financial statements with the change in inventories according to the LIFO method (last in – first out).

3. Personnel expenses

Supervisory Board's, Boards of Directors' and Managing Directors' fees and salaries *)	**53**	59
Other wages and salaries	**2 585**	2 448
Pension contributions	**254**	250
Other personnel expenses **)	**467**	412
Personnel expenses in the income statement	**3 359**	3 169
Taxable value of fringe benefits	**14**	13

*) Includes bonuses of FIM 4.3 million (1996: FIM 7.3 million).
**) Includes FIM 18 million (1996: FIM 1 million) of profit-sharing bonuses based on the Finnish Personnel Funds Act.

FIM million	1997	1996

4. Other operating income and expenses

Other operating income		
Gains on sales of business operations and shares	**89**	47
Insurance refund *)	**45**	6
Refund of actuarial surplus	**37**	–
Gains on sales of fixed assets	**20**	12
Write-backs on shares	**9**	16
Gains on sales of interests in mineral deposits and mining projects	**–**	33
Other income items	**46**	43
	246	157
Other operating expenses		
Restructuring expenses and provisions **)	**(207)**	(65)
Losses on dispositions of fixed assets	**(20)**	(9)
Write-downs on shares	**(2)**	–
Write-downs on fixed assets	**–**	(144)
Losses on sales of business operations and shares	**–**	(7)
Other expense items	**(25)**	(21)
	(254)	(246)
Other operating income and expenses, total	**(8)**	(89)

*) Insurance refund in 1997 relates to the accident at the Harjavalta smelter and its stop-loss insurance.

**) FIM 101 million of the restructuring costs relate to write-downs of fixed assets in the US electrostrip operations and FIM 22 million to write-downs of fixed assets in the stainless steel tube plant in the Netherlands. The total restructuring costs are FIM 177 million in the US electrostrip operations and FIM 29 million in the stainless steel tube plant in the Netherlands respectively.

5. Provisions for restructuring measures

Provisions on Jan. 1	**67**	41
Translation differences	**7**	2
Restructuring costs charged against provisions	**(32)**	(11)
New provisions recorded	**75**	35
Provisions on Dec. 31	**117**	67

The new provisions in 1997 refer mainly to the consolidation of electrostrip production.

FIM million	1997	1996

6. Financial income and expenses

Dividends received	**2**	2
Interest income		
On long-term financial assets	**81**	77
Other interest income	**88**	139
Other financial income	**4**	6
Interest expenses	**(387)**	(366)
Other financial expenses	**(21)**	(21)
Exchange gains (losses)	**(78)**	(36)
	(311)	(199)

Interest capitalized on investment projects during the year was FIM 37 million (1996: FIM 52 million). Accrued interest component of derivative financial instruments consists of FIM 35 million (1996: FIM 63 million) in other interest income, and of FIM 65 million (1996: FIM 60 million) in interest expenses.

Exchange gains (losses) on derivative financial instruments		
Realized	**(228)**	(82)
Unrealized	**38**	(27)
	(190)	(109)
Other exchange gains (losses)		
Realized	**35**	12
Unrealized	**77**	61
	112	73
Total exchange gains (losses)	**(78)**	(36)

At the balance sheet date, FIM 92 million of net exchange gains on financial instruments were deferred (1996: FIM 213 million).

7. Income taxes

Current taxes		
Accrued taxes for the year		
Finnish Group companies	**(39)**	(16)
Group companies outside Finland	**(85)**	(38)
Tax adjustments for prior years		
Group companies outside Finland	**5**	(1)
	(119)	(55)
Deferred taxes		
Finnish Group companies	**(150)**	(7)
Group companies outside Finland	**(0)**	20
	(150)	13
Total income taxes	**(269)**	(42)

FIM million	1997	1996

7. Income taxes (continued)

The difference between income taxes computed at the statutory tax rate in Finland (28 %) and income taxes reported in the consolidated income statement is reconciled as follows:

Hypothetical income taxes at Finnish tax rate	**(273)**	(64)
Effect of different tax rates outside Finland	**34**	25
Non-deductible expenses and tax exempt income	**1**	(3)
Losses incurred at Group companies outside Finland for which no deferred tax benefit is recognized	**(110)**	(158)
Taxable items with no effect on the Group's result	**10**	10
Write-downs on subsidiary shares	**41**	51
Changes in carrying amounts of deferred tax assets on Jan. 1	**2**	103
Expected changes in tax rates	**23**	(2)
Other items	**3**	(4)
Income taxes in the consolidated income statement	**(269)**	(42)

Deferred taxes in the balance sheet consist of the following tax consequences from temporary differences between the tax bases of assets and liabilities and their amounts in financial reporting:

Deferred tax assets		
Tax losses carried forward	**192**	248
Provisions for future expenses	**131**	94
Other items	**115**	101
	438	443
Deferred tax liabilities		
Depreciation and amortization of fixed assets	**(1 201)**	(1 000)
Untaxed reserves	**(44)**	(116)
Valuation of inventories	**(41)**	(56)
Capitalized interest	**(36)**	(31)
Other items	**(143)**	(114)
	(1 465)	(1 317)
Net deferred tax liability	**(1 027)**	(874)

Deferred taxes in the balance sheet:		
Long-term assets	**105**	103
Current assets	**83**	29
Long-term liabilities	**(1 196)**	(972)
Current liabilities	**(19)**	(34)
	(1 027)	(874)

Both long-term and current deferred taxes have been reported in the balance sheet as a net balance for the Group companies which file a consolidated tax return, or may otherwise be consolidated for tax purposes.

8. Fixed assets and other long-term investments

FIM million	Historical cost on Jan. 1, 1997	Translation difference	Additions	Disposals	Accumulated depreciation	Carrying value on Dec. 31, 1997
Intangible assets						
Intangible rights	46	1	15	(0)	(35)	27
Goodwill	30	1	2	–	(28)	5
Goodwill on consolidation	338	8	29	(26)	(342)	7
Other long-term expenses	403	18	97	(96)	(209)	213
	817	28	143	(122)	(614)	252
Property, plant and equipment						
Land	184	7	15	(3)	–	203
Mine properties	908	106	33	(1)	(754)	292
Buildings	2 565	66	436	(78)	(1 048)	1 941
Machinery and equipment	10 227	355	1 686	(246)	(5 608)	6 414
Construction in progress	592	16	408	(634)	–	382
Advances paid for fixed assets	215	0	24	(163)	–	76
Other fixed assets	170	2	47	(3)	(64)	152
	14 861	552	2 649	(1 128)	(7 474)	9 460
Long-term financial assets						
Investments in associated companies *)	343	(10)	30	(81)	–	282
Other long-term equity investments *)	130	3	31	(12)	–	152
Long-term loans receivable	993	117	269	(52)	–	1 327
Deferred tax asset	103	1	49	(48)	–	105
Other long-term financial assets	31	5	5	(12)	–	29
	1 600	116	384	(205)	–	1 895
Total fixed assets and other long-term investments	17 278	696	3 176	(1 455)	(8 088)	11 607

*) Shares and stock held by the Group on December 31, 1997 are listed on page 58.

FIM million	1997	1996
Depreciation		
Depreciation and amortization by group of assets		
Intangible rights	**3**	2
Goodwill	**2**	2
Goodwill on consolidation	**33**	2
Other long-term expenses	**32**	61
Mine properties	**67**	70
Buildings	**110**	104
Machinery and equipment	**731**	643
Other fixed assets	**7**	5
	985	889
Depreciation and amortization by group of expenses		
Cost of sales	**872**	817
Selling and marketing expenses	**12**	9
Administrative expenses	**53**	44
Exploration, research and development expenses	**15**	17
Amortization of goodwill on consolidation	**33**	2
	985	889

FIM million	1997	1996
9. Associated companies		
Investments in associated companies at cost		
Historical cost on Jan. 1	**549**	512
Translation difference	**2**	1
Additions	**30**	79
Disposals	**(9)**	(43)
Historical cost on Dec. 31	**572**	549
Equity adjustment to investments in associated companies		
Jan. 1	**(206)**	(152)
Change in translation difference	**(12)**	1
Dividends received during the year	**(0)**	(0)
Conversion of subsidiary into an associated company	**–**	73
Disposals and other changes	**(5)**	(4)
Equity earnings in associated companies	**(67)**	(124)
Dec. 31	**(290)**	(206)
Carrying value of investments in associated companies	**282**	343
Receivables from and payables to associated companies		
Long-term loans receivable	**1 109**	780
Accounts receivable	**3**	0
Other receivables	**18**	9
Current payables	**0**	2

The Group's result includes interest income of FIM 78 million (1996: FIM 51 million) on loans receivable.

FIM million	1997	1996

9. Associated companies (continued)

Significant associated companies

Compañía Minera Zaldívar		
Net sales (100 %)	**1 087**	752
Operating profit (100 %)	**213**	94
Profit before extraordinary items and taxes (100 %)	**(131)**	(206)
Outokumpu's share of net income (50 %)	**(78)**	(103)
Effects of hedging	**17**	13
Presented in the consolidated income statement	**(61)**	(90)
Mining Project Investors Pty. Ltd. (Silver Swan)		
Net sales (100 %)	**108**	82
Operating profit (100 %)	**(27)**	5
Profit before extraordinary items and taxes (100 %)	**(2)**	14
Outokumpu's share of net income (34 %) [1)]	**(1)**	3
Laminados Oviedo-Córdoba S.A.		
Net sales (100 %)	**397**	348
Operating profit (100 %)	**17**	(39)
Profit before extraordinary items and taxes (100 %)	**0**	(65)
Outokumpu's share of net income (50 %)	**0**	(32)
Okmetic Oy		
Net sales (100 %)	**180**	149
Operating profit (100 %)	**17**	11
Profit before extraordinary items and taxes (100 %)	**11**	7
Outokumpu's share of net income (49 %) [2)]	**0**	(2)

1) Outokumpu's direct holding (50 %) in the Silver Swan nickel mine has been included in the consolidated financial statements line by line in accordance with Outokumpu's ownership interest.

2) Okmetic Oy was an Outokumpu subsidiary (85 %) until August 16, 1996, after which Outokumpu's equity earnings in the company have been included in the consolidated financial statements using the equity method.

10. Receivables

The Group companies have no loans to the Parent Company's or subsidiaries' management (1996: -).

Receivables include FIM 0 million of non-current receivables in 1997 (1996: FIM 2 million).

FIM million	1997	1996

11. Shareholders' equity

Restricted equity		
Share capital on Jan. 1 and Dec. 31	**1 245.3**	1 245.3
Premium fund on Jan. 1 and Dec. 31	**2 434.9**	2 434.9
Reserve fund		
Jan. 1	**73.1**	35.9
Transfers from retained earnings	**2.0**	1.6
Directed share issue of subsidiary and conversion into an associated company	**–**	34.3
Other changes	**(5.7)**	1.3
Dec. 31	**69.4**	73.1
Other restricted equity		
Jan. 1	**–**	5.9
Transfers to retained earnings	**–**	(6.1)
Other changes	**–**	0.2
Dec. 31	**–**	0.0
Total restricted equity on Dec. 31	**3 749.6**	3 753.3
Non-restricted equity		
Jan. 1	**3 346.1**	3 355.3
Dividends paid	**(124.5)**	(224.2)
Transfers (to) from restricted equity	**(2.0)**	4.5
Change in translation difference	**43.8**	41.6
Directed share issue of subsidiary and conversion into an associated company	**–**	(18.4)
Other changes	**(2.4)**	(0.6)
Net income for the year	**703.1**	187.9
Dec. 31	**3 964.1**	3 346.1
Total shareholders' equity on Dec. 31	**7 713.7**	7 099.4
Distributable funds		
Non-restricted equity	**3 964.1**	3 346.1
Less untaxed reserves in non-restricted equity	**(2 513.2)**	(2 142.6)
Less amounts to be transferred according to local regulations to restricted equity of subsidiaries	**(1.9)**	(0.6)
Distributable funds on Dec. 31	**1 449.0**	1 202.9
Untaxed reserves on Dec. 31		
Accumulated depreciation difference	**3 461.4**	2 706.0
Transitional reserve in Finland	**–**	262.0
Other untaxed reserves	**47.3**	30.5
	3 508.7	2 998.5
Deferred tax liability on untaxed reserves	**(995.5)**	(855.9)
Untaxed reserves in non-restricted equity on Dec. 31	**2 513.2**	2 142.6

12. Long-term debt

Repayment schedule of long-term debt on Dec. 31, 1997:

FIM million	Repayments 1998	1999	2000	2001	2002	2003–	Total
Bonds and debentures	38	125	125	100	–	–	388
Loans from financial institutions	653	322	251	491	818	1 167	3 702
Pension loans	27	23	22	20	19	322	433
Other long-term loans	12	22	10	7	2	8	61
	730	492	408	618	839	1 497	4 584

Bonds and debentures (FIM million)		Interest rate-%	1997	1996
Bonds with warrants				
1994-99	FIM	6.00 [1]	**0**	0
Other bonds				
1991-01	FIM	11.75	**100**	100
1993-97	FIM		**–**	100
1993-97	DEM		**–**	105
1993-98	FIM	[2]	**38**	108
1993-00	FIM	[2]	**250**	250
			388	663

All bonds are issued by the Parent Company. The interest component does not take into account the effects of interest-rate swaps.

[1] The conditions for the bond with warrants are presented on page 67.

[2] Floating rate, based on Helibor.

13. Financial instruments

The carrying and fair values of financial instruments at the balance sheet date are presented in the table below.
The contract amounts presented in the table illustrate the scope of the Group's hedging activities.

FIM million	Maturity	Dec. 31, 1997 Contract amount	Dec. 31, 1997 Carrying value	Dec. 31, 1997 Fair value	Dec. 31, 1996 Contract amount	Dec. 31, 1996 Carrying value	Dec. 31, 1996 Fair value
Investments and receivables							
Other long-term equity investments			**152**	**245**		130	143
Long-term loans receivable			**1 327**	**1 299**		993	972
Current loans receivable			**1**	**1**		10	10
Cash and marketable securities			**544**	**544**		601	601
Debt							
Long-term debt			**4 584**	**4 609**		4 132	4 190
Current debt			**1 711**	**1 711**		1 090	1 090
Derivative financial instruments [*]							
Forward foreign exchange contracts	**1-17**	**8 900**	**100**	**103**	8 100	176	186
Currency swaps	**4-36**	**810**	**26**	**33**	560	10	31
Currency options							
Purchased	**4-9**	**930**	**1**	**1**	70	0	0
Written	**5-9**	**700**	**(3)**	**(3)**	50	(0)	(0)
Interest rate swaps	**1-47**	**720**	**6**	**4**	930	3	6
Forward rate agreements	**3-12**	**1 300**	**–**	**0**	1 620	–	1

[*] The positive values refer to assets and the negative values to liabilities in the column of carrying values of derivative instruments.

The fair value of marketable equity investments is based on quoted market prices. For other equity investments, the carrying value approximates fair value. The fair value of long-term loans receivable is estimated using discounted cash flow analyses, based on current market interest rates. The carrying value of current loans receivable approximates fair value due to the relatively short period to maturity. The carrying value of cash and cash equivalents approximates fair value. The fair value of marketable securities is based on quoted market prices.

The fair value of long-term debt is estimated using discounted cash flow analyses, based on current market interest rates. The carrying value of non-market floating rate loans approximates fair value. The carrying value of current debt approximates fair value due to the relatively short period to maturity.

The fair values of currency options and forward rate agreements are based on quoted market prices. The fair values of other derivative financial instruments are estimated using discounted cash flow analyses, based on current market interest rates.

FIM million	1997	1996

14. Commitments and contingent liabilities

Pledges on Dec. 31		
Mortgages to secure own borrowings	**594**	892
Other pledges to secure borrowings of associated companies	**270**	231
	864	1 123
Guarantees on Dec. 31		
On behalf of associated companies for financing	**69**	69
On behalf of other parties		
For financing	**0**	0
For other commitments	**48**	42
	117	111

The Group has also issued guarantees for the fulfillment of its own commitments. Management expects that the pledges and guarantees given on behalf of the Group's own commitments and on behalf of other parties will not have a material adverse effect on the Group's result or financial position.

Minimum future lease payments on operating leases on Dec. 31		
Next year	**45**	53
Thereafter	**82**	112
	127	165

The additional pensions of employees of some Finnish subsidiaries have been arranged through Outokumpu Oyj's pension trusts, which operate as mutual pension trusts. According to the contributory payment agreement made between the Company and the pension trusts, the Company is responsible for ensuring that the pension liabilities are sufficiently funded at all times. The total pension liabilities of Outokumpu Oyj's pension trusts on December 31, 1997 were FIM 561 million (1996: FIM 606 million). When the assets of the pension trusts are assessed at current market values, the value of these assets exceeds the existing pension liability.

15. Disputes and litigations

Tara Mines Limited ("Tara Mines"), an indirectly owned Irish subsidiary of Outokumpu Oyj, is involved in Irish litigation relating to an adjoining zinc-lead ore deposit.

Tara Mines has an Irish State mining lease over that part of the zinc-lead ore body which is located on the south side of the River Blackwater in Co Meath, Ireland. Bula Limited (in receivership) ("Bula") is the owner of the other part of the same zinc-lead ore body on the north side of the river. In November 1986, Bula (without any participation by the receiver) and certain directors and indirect and direct shareholders of Bula, began proceedings against Tara Mines, Outokumpu Oyj, twelve current or former directors of Tara Mines (including three Irish government nominated directors), the Irish Minister for Energy and a former government nominated director of Bula.

The allegations against the Tara Mines/Outokumpu Oyj -related defendants can be divided into three broad categories:

1) that Tara Mines had trespassed into the Bula orebody beneath the River Blackwater and had stolen ore from the Bula orebody;
2) that Tara Mines had acted in breach of its State mining lease with the Irish Minister of Energy in a manner prejudicial to Bula as an alleged constructive non-party beneficiary; and
3) that Tara Mines, Outokumpu Oyj and the Irish Minister for Energy took part in a civil conspiracy against Bula in order to prevent Bula from independently developing its part of the orebody and in order to seek to force Bula to sell its orebody to Tara Mines at a price below the market value.

Bula's claim was for an amount between IEP 139 million and IEP 327 million (depending on the way in which the Bula orebody might have been developed).

The hearing of the case commenced before the Irish High Court in December, 1993. In October, 1994, two of the four personal plaintiffs withdrew their claim which was then dismissed by the court. The trial in the High Court ended on November 29, 1996, and the judgment was delivered on February 6, 1997 in which the court dismissed all claims against all plaintiffs. Certain of the original plaintiffs have appealed the High Court judgement to the Irish Supreme Court which procedure is still pending.

Princeton Gamma-Tech, Inc. ("PGT"), a U.S. subsidiary acquired in 1985, has been nominated, together with certain other parties, a potentially responsible party for ground water contamination at and around its production facilities in Princeton, New Jersey by the United States Environmental Protection Agency ("USEPA"). USEPA has subsequently sued PGT to recover costs of investigation and clean-up of the site. The alleged contamination relates to time prior to the acquisition of PGT by Outokumpu. PGT is discussing with USEPA the suitable clean-up method. Outokumpu has received partial compensation for the costs incurred from prior owners and PGT has made claims to others who, it is believed, have contributed to the contamination.

PGT has also made claims to and has initiated litigation against its insurance carriers under insurance policies in effect during the relevant period to recover the above costs. Some of the carriers settled the claims against them before commencement of the trial in October, 1996.

The trial court issued a partial decision on June 5, 1997. At that time, the court determined that all but one of the insurance carriers have a legal obligation to defend PGT against the claims made by USEPA, and also must indemnify PGT for the costs of addressing this contamination. The court also ruled that three of the insurance carriers committed bad faith with respect to the manner in which they considered the PGT insurance claim. The final phases of the trial court proceedings are yet to be completed and a final judgement to be entered. The final judgement can be appealed to the Appellate Division of the New Jersey Superior Court.

It is not anticipated that the potential costs to PGT for the clean-up or any other contingent matters will have a material adverse impact on the Group's financial position.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. Management believes that the outcome of such disputes will not have a material effect on the Group's financial position.

Subsidiaries by business area on December 31, 1997

	Country	Nature of activity	Group holding %	Book value FIM million	Net sales FIM million	Personnel Dec. 31	Group's share of result FIM million	Group's share of shareholders' equity FIM million
Base Metals								
Outokumpu Base Metals Oy	Finland	■	100	1 265	71	32	**154**	**2 357**
•Nikkel og Olivin A/S	Norway	▲	70	0	85	54	(2)	15
•Norsulfid A/S	Norway	▲	100	6	69	86	6	21
•Outokumpu Mining Oy	Finland	▲	100	119	454	509	(46)	115
•Outokumpu Mining Australia Pty. Ltd.	Australia	▲	100	332	186	126	(72)	176
•Tara Mines Limited	Ireland	▲	100	218	606	615	149	243
•Viscaria AB	Sweden	▲	100	10	25	9	5	31
•Outokumpu Harjavalta Metals Oy	Finland	▲	100	1 031	3 721	1 004	114	1 027
•Outokumpu Zinc Oy	Finland	▲	100	490	587	779	182	489
•OAO Kivijärvi 1) 2)	Russia	◆	85	4	0	5		
•OAO Kola-Mining 1) 2)	Russia	◆	96	1	0	2		
•Outokumpu Copper Resources B.V.	The Netherlands	●	100	859	6	3		
••Minera Outokumpu Chile S.A.	Chile	◆	100	6	0	34		
••Minera Santa Catalina S.A.	Chile	◆	100	135	0	–		
•••Minera Relincho S.A.	Chile	◆	100	86	0	–		
••Outokumpu Exploraciones S.A.	Chile	◆	100	31	0	–		
•Outokumpu Minera Española S.A.	Spain	◆	100	4	3	8		
•Outokumpu Mines Ltd.	Canada	◆	100	201	0	11		
•Outokumpu Transport Oy	Finland	◗	100	15	6	–		
•Outokumpu Zinc Australia Pty. Ltd.	Australia	◆	100	47	0	–		
•Outokumpu Zinc Commercial B.V.	The Netherlands	●	100	157	1 927	14		
•Tara Prospecting Limited	Ireland	◆	100	1	0	–		
Stainless Steel								
Outokumpu Steel Oy	Finland	■	100	1 677	23	6	**559**	**3 341**
•Outokumpu Chrome Oy	Finland	▲	100	271	673	305	60	421
•Outokumpu Polarit Oy	Finland	▲	100	1 323	4 421	1 575	534	2 835
••Kandelinin Seuraajat Oy	Finland	◗	100	1	15	17		
••Outokumpu Steel Processing B.V.	The Netherlands	▲	100	0	92	95		
•Oy JA-RO Ab	Finland	▲	100	69	431	339	(13)	91
••Finero B.V.	The Netherlands	●	100	0	59	6		
•Outokumpu Holding GmbH	Germany	■	100	19	0	–	(23)	2
••Outokumpu Grundstücks GmbH & Co KG	Germany	◗	100	13	0	–		
••Outokumpu Service Center GmbH 1)	Germany	▲	100	5	194	48		
Copper Products								
Outokumpu Copper Products Oy	Finland	■	100	400	63	25	**(138)**	**1 245**
•Outokumpu Poricopper Oy	Finland	▲	100	150	2 213	1 537	44	348
•Outokumpu Copper AB	Sweden	■	100	55	21	17	66	72
••Outokumpu Copper Brass Rod AB	Sweden	▲	100	12	212	137		
••Outokumpu Copper Partner AB	Sweden	◗	100	9	106	89		
••Outokumpu Copper Strip AB 1)	Sweden	▲	100	245	896	366		
••Outokumpu Copper Tubes AB	Sweden	▲	100	66	356	218		
•Outokumpu Copper B.V.	The Netherlands	■	100	87	6	–	69	193
••Neumayer GmbH	Austria	▲	50	15	82	138		
•••Neumayer Corporation 3)	USA	●	100	0	1	3		
••Outokumpu Copper Strip B.V.	The Netherlands	▲	100	96	751	369		

		Country	Nature of activity	Group holding %	Book value FIM million	Net sales FIM million	Personnel Dec. 31	Group's share of result FIM million	Group's share of shareholders' equity FIM million
•Outokumpu Copper Limited		UK	■	100	32	6	14	4	43
••Outokumpu Rawmet (UK) Limited		UK	◗	100	40	2 618	11		
••Thatcher Alloys Limited		UK	●	100	2	20	8		
•Outokumpu Rawmet, S.A.	1)	Spain	◗	100	14	2	5	(4)	10
•Outokumpu Copper Tubes, S.A.		Spain	▲	100	74	575	445	(31)	(12)
•Outokumpu Copper, Inc.		USA	■	100	485	16	5	(170)	438
••Outokumpu Drawn Products, Inc.		USA	■	100	65	13	10		
•••Valleycast Inc.		USA	▲	100	54	280	127		
••Outokumpu American Brass, Inc.		USA	▲	100	352	1 590	858		
••Outokumpu Copper Franklin, Inc.		USA	▲	100	27	645	261		
••Outokumpu Copper Kenosha, Inc.		USA	▲	100	243	365	267		
••The Nippert Company		USA	▲	100	23	299	284		
•••Nippert-Dawson Ltd.		UK	▲	51	1	18	24		
•Holton Machinery Limited		UK	▲	100	11	41	23	3	3
•Outokumpu Centro Servizi S.p.A.		Italy	◗	100	3	73	14	(2)	1
•Outokumpu Copper Tube (Malaysia) Sdn. Bhd.	3)	Malaysia	▲	100	74	0	19	(5)	54
•Outokumpu Copper Tube (Zhongshan) Ltd.		China P.R.	▲	85	111	13	181	(42)	88
•Outokumpu Plating Oy		Finland	▲	100	2	14	31	1	5
•Outokumpu Superconductors Oy		Finland	▲	100	12	17	39	(6)	12

Technology

Outokumpu Technology Oy		Finland	■	100	158	30	35	**237**	**191**
•Outokumpu Mintec Oy		Finland	▲	100	47	248	149	21	65
••ZAO Mineral Processing Engineers	1)	Russia	◗	60	0	3	20		
••MPE Service Oy		Finland	◗	100	0	4	2		
••Outokumpu Mexicana, S.A. de C.V.		Mexico	●	100	1	1	6		
••Outokumpu Mintec Australia Pty. Ltd.		Australia	●	100	0	5	4		
••Outokumpu Mintec South Africa (Pty) Ltd.		South Africa	●	100	1	20	13		
••Outokumpu Mintec U.S.A. Inc.		USA	●	100	30	35	17		
••Outokumpu Técnica-Chile Ltda.		Chile	●	100	0	31	27		
••Outokumpu Técnica Perú S.A.	3)	Peru	●	100	0	6	12		
••Supaflo Technologies Pty Ltd.		Australia	▲	51	4	155	48		
•Outokumpu Engineering Contractors Oy		Finland	▲	100	25	274	92	83	52
••International Project Services Ltd. Oy		Finland	◗	100	0	0	–		
••Kumpu Engineering, Inc.		USA	◗	100	0	0	–		
••OEC Inversiones S.A.	1)	Chile	■	100	13	0	–		
•••Indepro S.A.		Chile	■	100	7	20	18		
••••Indepro Ingeniería Limitada		Chile	◗	100	46	246	737		
•••Outokumpu Ingeniería Limitada		Chile	●	100	0	0	–		
••Outokumpu Processos, Engenharia é Comercio Ltda		Brazil	●	100	0	0	–		
•Outokumpu Wenmec Oy		Finland	▲	100	14	186	66	50	10
••Outokumpu Wenmec AB	1)	Sweden	▲	100	15	52	38		
••Outokumpu Wenmec, Inc.	1)	USA	●	100	0	12	6		
•Outokumpu Castform Oy		Finland	▲	100	23	166	53	83	42
••AISCO Systems Inc.		Canada	▲	100	4	197	140		
••Outokumpu WTT AB		Sweden	▲	100	7	18	11		
•Outokumpu Engineering Services Oy		Finland	◗	100	2	58	131	4	6
•Outokumpu Turula Oy		Finland	▲	100	18	74	138	8	24

		Country	Nature of activity	Group holding %	Book value FIM million	Net sales FIM million	Personnel Dec. 31	Group's share of result FIM million	Group's share of shareholders' equity FIM million
Other operations									
Corporate Services									
Outokumpu Benelux B.V.		The Netherlands	●	100	1	3	6		
Outokumpu China Oy	1)	Finland	●	100	1	15	11		
Outokumpu Copper (Portugal) Ltda.		Portugal	●	100	0	1	2		
Outokumpu Copper (U.S.A.), Inc.		USA	●	100	47	8	12		
Outokumpu Danmark A/S		Denmark	●	100	1	10	9		
Outokumpu Deutschland GmbH		Germany	●	100	15	58	36		
Outokumpu España, S.A.	1)	Spain	●	100	1	4	8		
Outokumpu France S.A.		France	●	100	1	14	18		
Outokumpu Istanbul Dis Ticaret Limited Sirketi		Turkey	●	98	0	1	2		
Outokumpu Italia S.r.l.		Italy	●	100	2	23	17		
Outokumpu Japan K.K.		Japan	●	100	0	93	10		
Outokumpu Metall GmbH	3)	Austria	●	100	0	0	–		
Outokumpu Metals (U.S.A.), Inc.		USA	●	100	1	8	11		
Outokumpu Norge A/S		Norway	●	100	1	5	8		
Outokumpu Poland Sp. z o.o.		Poland	●	100	1	3	6		
Outokumpu Rawmet (Switzerland) Ltd.		Switzerland	●	100	15	1	2		
Outokumpu (S.E.A.) Pte Ltd		Singapore	●	100	4	58	16		
Outokumpu Stål & Metall AB		Sweden	●	100	7	95	17		
Outokumpu (U.K.) Limited		UK	●	100	4	14	17		
Outokumpu Rossija Oy		Finland	◗	100	8	922	12		
•ZAO Outokumpu Moskva		Russia	◗	100	0	1	10		
•ZAO Outokumpu Skt Peterburg		Russia	◗	100	1	2	15		
•Finenco Limited		UK	◗	100	0	0	–		
Outokumpu Research Oy		Finland	◆	100	10	59	180		
Outokumpu Alueverkko Oy		Finland	◗	100	0	13	–		
Outokumpu Finance B.V.		The Netherlands	◗	100	1	0	–		
Outokumpu Financial Services AB		Sweden	◗	100	3	0	2		
Outokumpu Metals Treasury		Ireland	◗	100	35	0	–		
Outokumpu Työterveyspalvelut Oy		Finland	◗	100	1	3	10		
Pancarelian Ltd.		Bermuda	◗	100	5	12	–		
Granefors Bruk AB		Sweden	■	100	127	0	–		
•Kopparlunden AB		Sweden	◗	100	34	15	–		
Orijärvi Oy		Finland	◗	100	0	0	–		
Industrial holdings									
Outokumpu Invest (U.K.) Ltd.		UK	■	100	60	0	–	3	59
Princeton Gamma-Tech, Inc.		USA	▲	100	13	49	88	(10)	(105)
•Princeton Gamma-Tech U.K. Ltd.		UK	●	99	0	7	7		
SKT-Granit Oy		Finland	▲	100	11	27	40	0	13

This list does not include dormant companies or all holding companies. The indentation follows the business organization. However, the organization of Copper Products is presented by geographical ownership.
The Group holding corresponds to the Group's share of voting rights.

The Group's share of the result (profit before extraordinary items and taxes) and shareholders' equity refer to the most significant production companies, or subgroups when the corresponding figures refer to the subgroup's consolidated result and shareholders' equity. Net sales and personnel always refer to the specific company. All figures conform to the Outokumpu Group's uniform accounting principles.

Nature of activity

- ▲ Production
- ● Marketing
- ◆ Exploration or Research
- ◗ Service
- ■ Management or Holding

Explanation of references

1) Name change
2) Change in share of ownership
3) Founded

Changes in Group structure in 1997

Companies merged

COPPER PRODUCTS	Neuhold Inc.
	Outokumpu Superconductors B.V.
OTHER OPERATIONS	Outokumpu Granefors Oy
	Ecoboilers Oy

Companies dissolved

COPPER PRODUCTS	The Neumayer Company

Associated companies and other shares and stock on December 31, 1997

Company or enterprise		Country	Outokumpu holding %	Number of shares	Nominal value of shares	1 000 units	Book value of shares FIM 1 000	Group's share of profit (loss) FIM million	Group's share of shareholders' equity FIM million
Shares and stock in associated companies									
AOZT Arctic Nickel		Russia	40	200	RUR	20 000	19	0.0	0.0
Compañía Minera Zaldívar		Chile	50	59 898 901	USD	–	291 766	(61.4)	106.2
Constructora Indepro Cosapi Ltda		Chile	50	–	CLP	–	110	(2.7)	0.0
DIARC-Technology Oy	*)	Finland	25	700	FIM	70	314	0.0	0.3
Folldal Industrielektro A/S		Norway	40	100	NOK	100	72	0.0	0.3
Laattapörssi Oy	*)	Finland	34	23 200	FIM	2 320	1 586	0.0	0.0
Laminados Oviedo-Córdoba S.A.		Spain	50	2 000 000	ESP	2 000 000	34 451	0.1	61.7
Mining Project Investors Pty.Ltd.		Australia	34	7 500 000	AUD	7 500	27 735	(0.9)	34.0
MPI Gold (USA) Ltd.		USA	33	15 995	USD	16	7 497	(2.5)	(0.3)
Okmetic Oy	*)	Finland	49	12 027	FIM	12 027	4 304	0.0	74.9
Okphil Inc.		The Philippines	30	44 399	PHP	444	220	0.0	0.0
Oretec Resources Plc.		Ireland	34	1 999 999	IEP	40	2 875	0.0	2.2
Outokumpu (Thailand) Co., Ltd.		Thailand	49	14 698	THB	1 470	73	(0.1)	0.2
Placer Outokumpu Exploration Ltd.		UK	50	50	USD	50	200	0.0	1.3
Tepa-Mestarit Oy		Finland	50	500	FIM	50	50	0.8	1.2
Disposed associated companies							–	(0.7)	–
Total shares and stock in associated companies							**371 272**	**(67.4)**	**282.0**
Other shares and stock									
Ekokem Oy	*)		0.9	160	FIM	320	320		
Golfsarfvik Oy	*)		0.3	2	FIM	50	176		
Hambro International Venture Fund '85	*)		20.0	1	USD	196	847		
Helsingin Arvopaperipörssi Oy	*)		0.6	20 000	FIM	20	150		
Innopoli Oy	*)		2.9	20 000	FIM	2 000	2 300		
Merita Oyj	*)		0.2	1 795 833	FIM	17 958	34 753		
Mikkelin Arkistotalo Oy	*)		2.4	1	FIM	100	100		
Neorem Magnets Oy	*)		19.9	432	FIM	2 160	2 393		
Oy Liikkeenjohdon Koulutuskeskus Ab	*)		1.3	2	FIM	100	100		
Oy Nordgolf Ab	*)		0.3	6	FIM	150	117		
Oy Palace Hotel Ab	*)		0.8	101	FIM	10	148		
Sato-Yhtymä Oy	**)		2.7	59 200	FIM	592	18 654		
Sipa Resources International NL			12.8	18 421 230	AUD	4 605	18 066		
Suomen Osakerekisteri Osuuskunta	*)		2.4	15	FIM	1 050	1 050		
Talon Resources NL			4.6	1 146 990	AUD	287	0		
Tornion Golf Oy			1.9	6	FIM	6	150		
Sampo Insurance Company Limited	*)		1.2	703 132	FIM	14 063	50 524		
Housing and real estate company shares							14 232		
Housing and real estate company shares	*)						5 362		
Other shares and stock							2 014		
Other shares and stock	*)						723		
Total other shares and stock							**152 179**		

Foreign branches

Outokumpu China Oy Hong Kong Branch Office, China
Outokumpu Mining Oy, Sucursal en España, Spain
Outokumpu Mining Oy, Sucursal em Portugal, Portugal
Outokumpu Zinc Commercial B.V. Winterthur Branch, Switzerland

*) Shares and stock held by the Parent Company
**) 14 708 shares at book value of FIM 3 498 thousands held by the Parent Company

Key financial indicators and share-related data

Key financial indicators

		1993 [1]	1994	1995	1996	1997
Scope of activity						
Net sales	FIM million	16 566	16 683	16 952	16 549	19 055
– change in net sales	%	4.6	0.7	1.6	(2.4)	15.1
– exports from and sales outside Finland, of total net sales	%	92.2	91.4	89.4	91.3	91.7
Capital employed on Dec. 31	FIM million	12 319	11 719	12 184	12 354	14 045
Capital expenditure	FIM million	1 022	1 329	2 131	1 553	2 045
– in relation to net sales	%	6.2	8.0	12.6	9.4	10.7
Depreciation and amortization	FIM million	968	872	826	889	985
Exploration costs	FIM million	203	193	165	182	135
Research and development costs [2]	FIM million	154	193	156	155	210
– in relation to net sales	%	0.9	1.2	0.9	0.9	1.1
Personnel on Dec. 31		16 073	14 959	13 458	13 622	13 734
– average for the year		17 167	15 920	14 253	13 808	14 016
Profitability						
Operating profit [3]	FIM million	926	1 073	1 589	552	1 353
– in relation to net sales	%	5.6	6.4	9.4	3.3	7.1
Operating profit excluding inventory gains and losses	FIM million	1 003	753	1 622	744	1 409
Equity earnings in associated companies [3]	FIM million	(74)	(22)	(41)	(124)	(67)
Profit before extraordinary items and taxes	FIM million	228	1 028	1 481	229	975
– in relation to net sales	%	1.4	6.2	8.7	1.4	5.1
Profit before taxes	FIM million	509	1 022	1 431	229	975
– in relation to net sales	%	3.1	6.1	8.4	1.4	5.1
Net income	FIM million	505	831	1 037	188	703
– in relation to net sales	%	3.0	5.0	6.1	1.1	3.7
Return on shareholders' equity	%	6.0	15.8	16.3	2.6	9.5
Return on capital employed	%	9.3	10.7	15.1	5.3	11.1
Financing and financial position						
Liabilities	FIM million	12 050	9 195	9 376	9 548	10 649
Net interest-bearing debt	FIM million	5 815	4 352	4 380	4 621	5 751
– in relation to net sales	%	35.1	26.1	25.8	27.9	30.2
Net financial expenses	FIM million	624	23	67	199	311
– in relation to net sales	%	3.8	0.1	0.4	1.2	1.6
Net interest expenses	FIM million	593	281	131	150	218
– in relation to net sales	%	3.6	1.7	0.8	0.9	1.1
Interest cover		1.4	4.7	12.3	2.5	5.5
Share capital	FIM million	1 098	1 245	1 245	1 245	1 245
Other shareholders' equity and minority interest	FIM million	3 243	5 026	5 867	5 887	6 505
Equity-to-assets ratio	%	26.9	41.1	43.7	43.4	42.5
Debt-to-equity ratio	%	134.0	69.4	61.6	64.8	74.2
Cash provided by operating activities	FIM million	1 002	1 246	2 465	1 299	1 134
Equity issues	FIM million	1 344	1 180	0	0	–
Dividends	FIM million	–	124.5	224.2	124.5	249.1 [4]

[1] The figures for 1993 have been restated to comply with the accounting principles adopted at the beginning of 1994.

[2] The figures for 1993-95 include also development costs capitalized on investments.

[3] As of the beginning of 1996, equity earnings in associated companies are reported after Operating profit. Previously they were reported within Operating profit. The comparative figures for 1993-95 have been restated to reflect this reclassification.

[4] Board of Directors' proposal to the Annual General Meeting.

Share-related data [1)]

		1993 [2)]	1994	1995	1996	1997
Income per share (excluding extraordinary items)	FIM	2.45	7.17	8.72	1.51	5.65
Net income per share	FIM	5.55	7.12	8.33	1.51	5.65
Cash flow per share	FIM	11.01	10.68	19.79	10.43	9.11
Shareholders' equity per share	FIM	39.35	50.16	56.83	57.01	61.94
Dividend per share	FIM	–	1.00	1.80	1.00	2.00 [3)]
Dividend/earnings ratio	%	–	14.9	20.6	66.2	35.4
Dividend yield	%	–	1.1	2.6	1.3	3.0
Price/earnings ratio		27.9	12.3	7.9	52.0	11.8
Development of share price						
Average trading price	FIM	57.43	88.80	74.47	78.77	89.95
Lowest trading price	FIM	39.50	69.00	59.50	62.50	62.00
Highest trading price	FIM	70.00	108.00	92.70	90.00	108.00
Trading price at end of period	FIM	68.40	88.00	69.00	78.50	66.50
Market capitalization at end of period	FIM million	7 512	10 959	8 593	9 776	8 281
Development in trading volume [4)]						
Trading volume	1 000 shares	17 121	32 832	24 433	22 502	43 942
In relation to weighted average number of shares	%	19.5	28.1	19.6	18.1	35.3
Average number of shares		91 052 242	116 710 246	124 529 548	124 529 605	124 529 660 [5)]
Number of shares at end of period		109 829 055	124 529 543	124 529 554	124 529 660	124 529 660
Warrants [6)]						
Price development						
Average trading price	FIM		4.41	1.52	0.24	
Lowest trading price	FIM		2.50	0.17	0.09	
Highest trading price	FIM		5.50	4.30	0.70	
Trading price at end of period	FIM		4.10	0.17	–	
Trading volume	1 000 warrants		9 055	8 443	16 869	
Number of warrants at end of period			20 717 472	20 717 406	–	

1) All shares traded in 1993-97 were the Group's A-shares.
The share-related data for 1993 have been adjusted to reflect the rights issue in 1993.

2) The figures for 1993 have been restated to comply with the accounting principles adopted at the beginning of 1994.

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

4) Trading volume on the Helsinki Stock Exchange.

5) The average number of shares for 1997, diluted with the warrants held by the Group's top management, was 124 869 660. The fully diluted Income per share (excluding extraordinary items) for 1997 was FIM 5.64 and Net income per share FIM 5.64.

6) Warrants issued in connection with the share offering in 1994. Six warrants entitled the holder to subscribe for one new A-share for FIM 92 until June 28, 1996.

Financial development by tertial

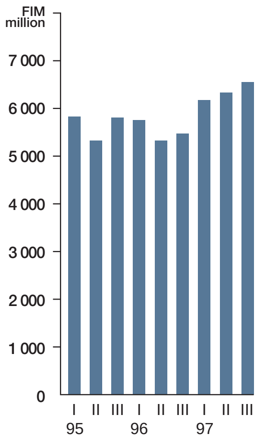
FIM million		I/95	II/95	III/95	I/96	II/96	III/96	I/97	II/97	III/97
Net sales										
Base Metals		1 239	1 145	1 485	1 629	1 528	1 609	1 976	2 013	1 885
Stainless Steel		1 938	1 839	1 878	1 677	1 443	1 366	1 705	1 576	1 666
Copper Products		2 627	2 251	2 413	2 622	2 447	2 426	2 698	2 741	2 829
Technology		333	293	448	251	332	530	397	541	660
Other operations		525	468	527	545	436	494	674	718	714
Intra-group sales		(836)	(674)	(947)	(973)	(860)	(953)	(1 273)	(1 259)	(1 206)
The Group		5 826	5 322	5 804	5 751	5 326	5 472	6 177	6 330	6 548
Operating profit										
Base Metals [1]		(58)	(94)	(290)	(37)	(267)	(82)	203	296	43
Stainless Steel		638	614	504	337	156	123	167	180	203
Copper Products [2]		161	124	103	133	(40)	180	206	90	(210)
Technology		14	5	57	2	24	88	28	83	127
Other operations [3]		10	(43)	(147)	23	13	(82)	2	3	(55)
Intra-group items		(1)	(13)	5	(6)	(7)	(6)	(0)	(12)	(1)
The Group		764	593	232	452	(121)	221	606	640	107
Equity earnings in associated companies		(2)	(6)	(33)	(42)	(55)	(27)	14	(20)	(61)
Net interest and other financial expenses		(70)	(37)	(31)	(59)	(52)	(52)	(84)	(81)	(68)
Exchange gains (losses)		97	(19)	(7)	(46)	32	(22)	(34)	(37)	(7)
Profit before extraordinary items and taxes		789	531	161	305	(196)	120	502	502	(29)
Net income per share	FIM	4.22	2.85	1.26	1.54	(1.26)	1.23	2.94	2.80	(0.09)
Inventory gain (loss) included in operating profit										
Base Metals		(34)	37	(22)	5	(66)	20	56	7	(91)
Stainless Steel		74	(21)	(42)	26	(41)	(15)	71	(2)	(33)
Copper Products		(26)	22	(21)	(25)	(157)	61	99	(3)	(160)
The Group		14	38	(85)	6	(264)	66	226	2	(284)
Capital employed at end of tertial		11 736	12 206	12 184	12 917	12 108	12 354	13 393	14 068	14 045
Net interest-bearing debt at end of tertial		4 146	4 438	4 380	5 184	4 396	4 621	5 441	5 644	5 751
Equity-to-assets ratio at end of tertial	%	41.8	43.2	43.7	41.8	43.2	43.4	42.3	42.6	42.5
Debt-to-equity ratio at end of tertial	%	63.4	64.1	61.6	72.6	63.3	64.8	73.2	72.4	74.2

[1] Includes write-downs of fixed assets of FIM 63 million in II/95, FIM 159 million in III/95 and FIM 144 million in II/96, restructuring expenses of FIM 60 million in II/96 as well as gains from sales of exploration rights of FIM 64 million in II/97.

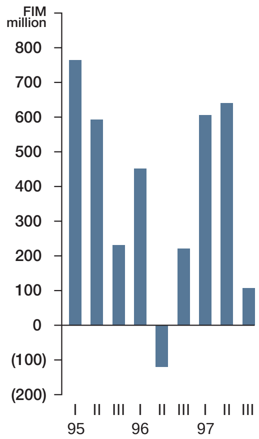
[2] Includes restructuring expenses of FIM 177 million in III/97.

[3] Includes gains from sales of shares of FIM 62 million in I/95 as well as write-downs of shares of FIM 59 million in III/95.

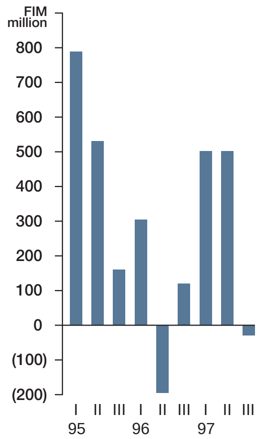
Net sales



Operating profit



Profit before extraordinary items and taxes



Definitions of key financial indicators

Capital employed	=	Total assets – non-interest-bearing liabilities
Research and development costs	=	Research and development expenses in the income statement (including expenses covered by grants received)
Return on shareholders' equity	=	$\frac{\text{Profit before extraordinary items and taxes – income taxes}}{\text{Shareholders' equity + minority interest (average for period)}} \times 100$
Return on capital employed	=	$\frac{\text{Profit before extraordinary items and taxes + interest expenses + other financial expenses +/– exchange losses/gains}}{\text{Capital employed (average for period)}} \times 100$
Net interest-bearing debt	=	Total debt – cash and marketable securities
Interest cover	=	$\frac{\text{Profit before extraordinary items and taxes + net interest expenses}}{\text{Net interest expenses}}$
Equity-to-assets ratio	=	$\frac{\text{Shareholders' equity + minority interest}}{\text{Total assets – advances received}} \times 100$
Debt-to-equity ratio	=	$\frac{\text{Net interest-bearing debt}}{\text{Shareholders' equity + minority interest}} \times 100$
Income per share (excluding extraordinary items)	=	$\frac{\text{Profit before extraordinary items and taxes – income taxes – minority interest in earnings}}{\text{Adjusted average number of shares during the period}}$
Net income per share	=	$\frac{\text{Net income}}{\text{Adjusted average number of shares during the period}}$
Cash flow per share	=	$\frac{\text{Cash provided by operating activities}}{\text{Adjusted average number of shares during the period}}$
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at end of period}}$
Dividend per share	=	$\frac{\text{Dividend for the financial period}}{\text{Adjusted number of shares at end of period}}$
Dividend/earnings ratio	=	$\frac{\text{Dividend for the financial period}}{\text{Profit before extraordinary items and taxes – income taxes – minority interest in earnings}} \times 100$
Dividend yield	=	$\frac{\text{Dividend per share}}{\text{Adjusted trading price at end of period}} \times 100$
Price/earnings ratio	=	$\frac{\text{Adjusted trading price at end of period}}{\text{Income per share (excluding extraordinary items)}}$
Average trading price	=	$\frac{\text{FIM amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$
Market capitalization	=	Number of shares at end of period x trading price at end of period
Trading volume	=	Number of shares traded during the period, and in relation to the weighted average number of shares during the period

Parent Company financial statements

Income statement

FIM million		1997	1996
Net sales		**615**	537
Cost of sales		**(641)**	(545)
Gross margin		**(26)**	(8)
Administrative expenses		**(108)**	(129)
Research and development expenses		**(17)**	–
Other operating income and expenses	[3]	**39**	44
Operating loss	[1, 2]	**(112)**	(93)
Financial income and expenses	[4]	**350**	246
Profit before extraordinary items and taxes		**238**	153
Extraordinary income and expenses	[5]	**(81)**	(255)
Profit (loss) before appropriations and taxes		**157**	(102)
(Increase) decrease in untaxed reserves			
Depreciation difference		**(33)**	(3)
Other untaxed reserves		**31**	–
Income taxes			
Accrued taxes for the year		**(29)**	(2)
Tax adjustments for prior years		**1**	(0)
Profit (loss) for the year		**126**	(107)

According to the Finnish regulations, the separate financial statements of the parent company have to be presented in addition to the consolidated financial statements. The income statement and balance sheet items of the Parent Company Outokumpu Oyj are mostly intra-group items and are eliminated in the consolidated financial statements.

Figures in brackets refer to notes to the Parent Company financial statements on pages 65-66.

Statement of cash flows

FIM million	1997	1996
Operating activities		
Income financing		
(Loss) profit for the year	**126**	(107)
Depreciation and amortization	**13**	5
Increase (decrease) in depreciation difference	**2**	3
	141	(99)
Change in working capital *)		
(Increase) decrease in receivables	**291**	1 749
Increase (decrease) in current non-interest-bearing liabilities	**(381)**	(1 600)
	(90)	149
Other adjustments to cash **)	**544**	450
Cash provided by operating activities	**595**	500
Investing activities		
Capital expenditure	**(67)**	(24)
Investments in subsidiaries and other equity investments	**(132)**	(690)
Proceeds from sales of fixed assets	**14**	27
(Increase) decrease in long-term financial assets	**(1 386)**	792
Cash used in investing activities	**(1 571)**	105
Cash flow before financing activities	**(976)**	605
Financing activities		
Increase in long-term debt	**954**	935
Repayments of long-term debt	**(811)**	(870)
Increase (decrease) in current debt	**127**	(181)
Dividends paid	**(125)**	(224)
Other financial items	**759**	(328)
Cash used in financing activities	**904**	(668)
Other adjustments to cash	**7**	–
Decrease in cash and marketable securities in the balance sheet	**(65)**	(63)

*) As of 1997 the change in group contributions receivable and payable is included in the change in working capital. The figures for 1996 have been restated.

**) Includes write-downs and write-backs on shares, gains and losses on sales of fixed assets, merger gains and losses, exchange gains and losses, and group contributions.

Balance sheet

FIM million		1997	1996
ASSETS			
Fixed assets and other long-term investments	[6]		
Intangible assets		**1**	2
Property and equipment			
Land		**95**	95
Buildings		**205**	180
Machinery and equipment		**28**	22
Other fixed assets		**15**	12
		343	309
Long-term financial assets			
Investments in subsidiaries		**3 770**	3 505
Other long-term equity investments		**109**	102
Long-term loans receivable	[8, 9]	**5 960**	4 825
		9 839	8 432
Total fixed assets and other long-term investments		**10 183**	8 743
Current assets			
Receivables	[8, 9]		
Accounts receivable		**49**	29
Loans receivable		**752**	1 238
Prepaid expenses and accrued income		**327**	355
Other receivables		**197**	279
		1 325	1 901
Cash and marketable securities			
Deposits and debt securities		**–**	50
Cash and cash equivalents		**232**	247
		232	297
Total current assets		**1 557**	2 198
TOTAL ASSETS		**11 740**	10 941

FIM million		1997	1996
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	[7]		
Restricted equity			
Share capital		**1 245**	1 245
Premium fund		**2 435**	2 435
		3 680	3 680
Non-restricted equity			
Retained earnings		**455**	687
(Loss) profit for the year		**126**	(107)
		581	580
Total shareholders' equity		**4 261**	4 260
Untaxed reserves			
Accumulated depreciation difference		**37**	9
Transitional reserve		**–**	8
		37	17
Long-term liabilities			
Long-term debt	[8]		
Bonds and debentures		**350**	388
Loans from financial institutions		**2 390**	1 838
Pension loans		**68**	74
Other long-term loans		**0**	–
		2 808	2 300
Other long-term liabilities			
Deferred exchange gains		**90**	167
Current liabilities			
Current debt	[8]		
Loans from financial institutions		**525**	516
Other current loans		**1 774**	1 655
Current portion of long-term debt		**651**	756
		2 950	2 927
Other current liabilities	[8]		
Accounts payable		**74**	74
Accrued expenses and prepaid income		**148**	195
Deferred exchange gains		**75**	55
Other current liabilities		**1 297**	946
		1 594	1 270
Total liabilities		**7 442**	6 664
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**11 740**	10 941

Notes to the Parent Company financial statements

FIM million	1997	1996

1. Personnel expenses

Supervisory Board's, Board of Directors' and Managing Director's fees and salaries *)	**3**	5
Other salaries	**39**	32
Pension contributions	**5**	6
Other personnel expenses	**6**	5
Personnel expenses in the income statement	**53**	48
Taxable value of fringe benefits	**3**	1

*) No bonuses were paid in 1997 (1996: FIM 0.5 million).

2. Depreciation and amortization

Depreciation and amortization by group of assets		
Other long-term expenses	**1**	1
Buildings	**7**	0
Machinery and equipment	**5**	4
	13	5
Depreciation and amortization by group of expenses		
Cost of sales	**0**	1
Administrative expenses	**13**	4
	13	5

3. Other operating income and expenses

Other operating income		
Refund of actuarial surplus	**32**	–
Rental income	**21**	22
Write-backs on shares	**9**	16
Gains on sales of shares and of fixed assets	**4**	6
Other income items	**13**	3
	79	47
Other operating expenses		
Merger losses	**(24)**	(2)
Losses on sales of shares	**(16)**	(1)
Other expense items	**(0)**	(0)
	(40)	(3)
Other operating income and expenses, total	**39**	44

4. Financial income and expenses

Dividends received	**110**	28
Interest income on		
Long-term financial assets	**365**	366
Current assets	**164**	203
Other financial income	**24**	21
Interest expenses	**(402)**	(427)
Other financial expenses	**(11)**	(9)
Exchange gains (losses)	**100**	64
	350	246
Financial income from and expenses to subsidiaries		
Dividends received	**108**	26
Interest income on		
Long-term financial assets	**359**	348
Current assets	**111**	129
Other financial income	**24**	21
Interest expenses	**(60)**	(120)
Other financial expenses	**(0)**	(0)

FIM million	1997	1996

5. Extraordinary income and expenses

Group contributions	**(81)**	(255)

6. See page 66.

7. Shareholders' equity

Restricted equity		
Share capital on Jan. 1 and Dec. 31	**1 245.3**	1 245.3
Premium fund on Jan. 1 and Dec. 31	**2 434.9**	2 434.9
Total restricted equity on Dec. 31	**3 680.2**	3 680.2
Non-restricted equity		
Jan. 1	**579.5**	910.9
Dividends paid	**(124.5)**	(224.2)
Profit (loss) for the year	**125.9**	(107.2)
Dec. 31	**580.9**	579.5
Total shareholders' equity on Dec. 31	**4 261.1**	4 259.7

8. Receivables from and payables to subsidiaries

Long-term loans receivable	**5 889**	4 744
Current loans receivable	**753**	1 238
Accounts receivable	**41**	19
Prepaid expenses and accrued income	**118**	146
Other receivables	**156**	278
Long-term loans	**0**	–
Current loans	**846**	1 314
Accounts payable	**21**	4
Accrued expenses and prepaid income	**33**	25
Other current liabilities	**1 273**	929

9. Receivables from associated companies

Long-term loans receivable	**23**	21

10. Commitments and contingent liabilities

Pledges on Dec. 31		
Mortgages to secure own borrowings	**216**	310
	216	310
Guarantees on Dec. 31		
On behalf of subsidiaries		
For financing	**1 007**	989
For other commitments	**425**	490
On behalf of an associated company		
For financing	**26**	27
On behalf of other parties		
For financing	**0**	0
	1 458	1 506
Minimum future lease payments on off-balance sheet leases on Dec. 31 (all next year)	**0**	4

The Parent Company's share of the total pension liabilities of Outokumpu Oyj's pension trusts on December 31, 1997 was FIM 478 million (1996: FIM 521 million). When the assets of the pension trusts are assessed at current market values, the value of these assets exceeds the existing pension liability.

6. Fixed assets and other long-term investments

	Historical cost on Jan. 1, 1997	Additions	Disposals	Accumulated depreciation	Carrying value on Dec 31, 1997
Intangible assets	26	0	(0)	(25)	1
Property, plant and equipment					
Land	95	0	(0)	–	95
Buildings	199	47	(9)	(32)	205
Machinery and equipment	40	13	(4)	(21)	28
Other fixed assets	13	4	–	(2)	15
	347	64	(13)	(55)	343
Long-term financial assets					
Shareholdings in subsidiaries	3 505	328	(63)	–	3 770
Other long-term equity investments	102	14	(7)	–	109
Long-term loans receivable	4 826	1 148	(14)	–	5 960
	8 433	1 490	(84)	–	9 839
Total fixed assets and other long-term investments	8 806	1 554	(97)	(80)	10 183

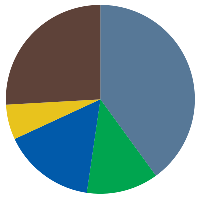
Mmk	**1997**	1996
Taxable values of real estate and shares		
Land	**43**	43
Buildings	**89**	75
Shares in Finnish subsidiaries	**3 690**	2 086
Equity investments in other Finnish entities	**199**	125

Book value has been used where a confirmed taxable value was not available.

Shareholdings in subsidiaries on December 31, 1997

Company or enterprise	Parent company holding %	Number of shares	Nominal value of shares	1 000 units	Book value of shares FIM 1 000
Granefors Bruk AB	100	1 000 000	SEK	100 000	127 092
Nokian Tuotek Oy	100	15	FIM	15	194
Orijärvi Oy	100	70 500	FIM	71	140
Outokumpu Alueverkko Oy	100	15	FIM	15	15
Outokumpu Base Metals Oy	100	49 000 000	FIM	490 000	1 265 000
Outokumpu Benelux B.V.	100	370	NLG	370	730
Outokumpu China Oy	100	20 000	FIM	200	656
Outokumpu Commercial A/S	100	11 300	DKK	11 300	3 123
Outokumpu Copper Products Oy	100	55 230 000	FIM	552 300	400 000
Outokumpu Danmark A/S	100	300	DKK	300	641
Outokumpu Engineering Enterprises, Inc.	100	1 000	USD	1	0
Outokumpu España S.A.	100	1 000	ESP	10 000	600
Outokumpu Finance B.V.	100	41	NLG	41	722
Outokumpu Financial Services AB	10	99	SEK	99	323
Outokumpu France S.A.	100	4 009	FRF	401	840
Outokumpu Holding GmbH	100	3	DEM	1 000	19 206
Outokumpu Invest (U.K.) Ltd.	100	8 346 564	GBP	8 347	59 500
Outokumpu Istanbul Dis Ticaret Limited Sirketi	98	45	TRL	1 125 000	40
Outokumpu Italia S.r.l.	100	1	ITL	299 000	1 807
Outokumpu Japan K.K.	100	400	JPY	20 000	0
Outokumpu Metall GmbH	100	1	ATS	500	215
Outokumpu Metals Treasury	4	300 003	USD	300	1 238
Outokumpu Norge A/S	100	50	NOK	500	870
Outokumpu Poland Sp. z o.o.	100	3 900	PLZ	390	582
Outokumpu Portugal Ltda.	65	260 000	PTE	260	20
Outokumpu Research Oy	100	401 500	FIM	4 015	10 175
Outokumpu Rossija Oy	100	20 000	FIM	2 000	8 412
Outokumpu (S.E.A.) Pte Ltd	100	800 000	SGD	800	3 568
Outokumpu Semitronic AB	100	4 000	SEK	400	1 000
Outokumpu Smelters B.V.	100	40	NLG	40	106
Outokumpu Steel Oy	100	58 000 000	FIM	580 000	1 677 373
Outokumpu Stål & Metall AB	100	50 000	SEK	5 000	7 086
Outokumpu Technology Oy	100	2 000 000	FIM	20 000	158 000
Outokumpu Työterveyspalvelut Oy	100	6 500	FIM	65	500
Outokumpu (U.K.) Limited	100	427 100	GBP	620	4 119
Pancarelian Ltd.	100	120 000	USD	120	4 866
Roll on Rock Oy	100	300	FIM	300	291
SKT-Granit Oy	100	20 000	FIM	200	11 270
Total shares in subsidiaries					3 770 320

Outokumpu Oyj's shares and shareholders



Shares and share capital

Outokumpu Oyj has issued a total of 124 529 660 A-shares. According to the Company's Articles of Association, Outokumpu may also issue C-shares. All shares have a nominal value of FIM 10. A-shares carry ten votes and C-shares one vote per share.

According to the Company's Articles of Association, Outokumpu Oyj's minimum share capital is FIM 750 million and maximum share capital FIM 3 000 million. The share capital can be increased or decreased within these limits without amending the Company's Articles of Association. The Company's fully paid share capital registered with the Finnish Trade Register on December 31, 1997 was FIM 1 245 296 600.

The Company's shares have been transferred into the Finnish book-entry securities system.

State ownership

The Finnish State holds 40.0 % of the Company's shares and voting rights. According to a resolution by Finnish Parliament in 1993, the Government can reduce the State shareholding in the Company. The State must, however, retain more than one-third of all shares and voting rights. Reductions below these limits can only be made on the authority of a new Parliament resolution.

Purchase obligation

The Company's Articles of Association include a paragraph on an obligation to purchase other shareholders' shares. The paragraph provides that a shareholder whose shareholding or aggregate voting rights reach or exceed 33 1/3 or 50 percent, as the case may be, shall, upon demand, acquire the shares held by other shareholders at a price calculated in the manner specified in the Articles of Association. This obligation does not apply to a shareholder whose ownership interest or voting rights had reached or exceeded the said threshold limits before this amendment was registered with the Finnish Trade Register on May 18, 1994, as long as the shareholder's ownership interest or voting rights remain above the said threshold limit.

Board of Directors' authority to increase share capital

Outokumpu Oyj's Board of Directors has no valid authorization to increase the Company's share capital.

Debt with warrants for members of management

The members of Outokumpu Oyj's Group Executive Board and the presidents of the four business areas subscribed for a directed debt issue with warrants worth FIM 340 000 in 1994. The term of the debt is five years and the annual interest rate is 6 %. The warrants entitle the holders to subscribe for a total of 340 000 new A-shares at a price of FIM 92 per share between December 1, 1998 and January 31, 2001.

Listing of shares

Outokumpu Oyj's A-share is listed on the Helsinki Stock Exchange and also traded in the London Stock Exchange's SEAQ International quotation system.

Price development and trading volume of shares

The trading price of Outokumpu's share declined by 15 % during 1997. The Helsinki Stock Exchange's HEX general index rose by 32 % during the year.

The share price finished the year at FIM 66.50. The year's highest price was FIM 108.00 and the lowest FIM 62.00. The average trading price during the year was FIM 89.95, which was 14 % higher than in 1996.

The number of Outokumpu shares traded on the Helsinki Stock Exchange during 1997 nearly doubled from 1996; a total of 43.9 million shares were traded at a total trading value of FIM 3 953 million.

The market capitalization of all shares was FIM 8 281 million at year-end.

Information about the development of the share price and trading volumes as well as other share-related data for the past five years are presented on page 60.

Principal shareholders on December 31, 1997

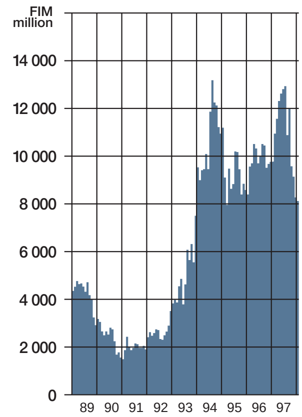
Shareholder	A-shares	%
The Finnish State	49 774 981	40.0
The Finnish Social Insurance Institution	15 295 455	12.3
Pension Insurance Company Ilmarinen Limited	2 800 000	2.2
Pension Varma Insurance Company	2 331 192	1.9
The Local Government Pensions Institution	1 378 648	1.1
Outokumpu Oyj's Workers' Pension Foundation	1 094 152	0.9
Outokumpu Oyj's Office Personnel Pension Foundation	863 204	0.7
Suomi Mutual Life Assurance Company	630 000	0.5
Pohjola Life Assurance Company Ltd.	609 000	0.5
United Nations / UN Joint Staff Pension Fund	590 000	0.5
Nominee accounts held by custodian banks	31 532 801	25.3
Other shareholders	17 630 227	14.1
Total	124 529 660	100.0

Management shareholding on December 31, 1997

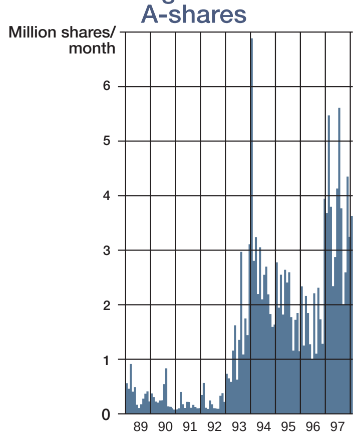
The members of Outokumpu Oyj's Board of Directors, the Company President and the Deputy President hold a total of 1 250 shares, corresponding to 0.0% of the Company's share capital and voting rights. In addition, the President and Deputy President hold FIM 160 000 worth of debt with warrants to subscribe for shares offered to management. The warrants entitle the holders to subscribe for a total of 160 000 new A-shares, corresponding to 0.1% of the Company's voting rights.

The members of the Group Executive Board (excluding the President and Deputy President) hold a total of 12 892 shares and FIM 90 000 worth of debt with warrants to subscribe for shares offered to management. The warrants entitle the holders to subscribe for a total of 90 000 new A-shares.

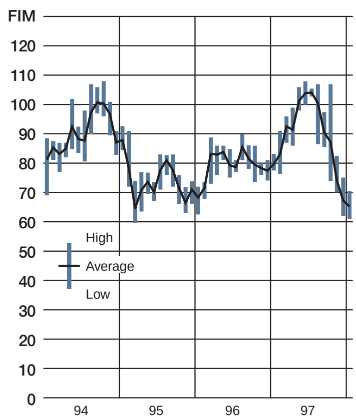
Market capitalization



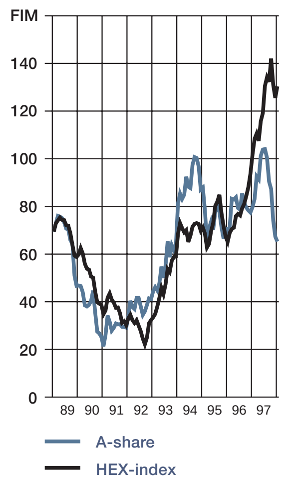
Trading volume of A-shares



A-share price fluctuation



Price of A-shares



Price development and trading volume on the Helsinki Stock Exchange.
Figures include January 1998.

Shareholders by group on December 31, 1997

Shareholder group	A-shares	%
Privately held companies	2 149 420	1.7
Publicly held companies	659	0.0
Financial and insurance institutions	8 734 789	7.0
The public sector and public organizations		
The Finnish State	49 774 981	40.0
The Finnish Social Insurance Institution	15 295 455	12.3
Occupational pension schemes	7 803 973	6.3
Nonprofit organizations	1 034 968	0.8
Households/private persons	7 499 236	6.0
International shareholders	32 213 634	25.9
Shares not transferred into the book-entry securities system	22 545	0.0
Total	124 529 660	100.0

Distribution of shareholdings on December 31, 1997

Number of shares	Number of share-holders	% of share-holders	Total shares	% of share capital	Average share-holding
1 – 100	1 727	19.8	96 227	0.1	56
101 – 500	3 257	37.3	833 072	0.7	256
501 – 1 000	1 308	15.0	1 044 911	0.8	799
1 001 – 10 000	2 279	26.1	6 313 470	5.1	2 770
10 001 – 100 000	123	1.4	3 817 551	3.1	31 037
100 001 – 1 000 000	28	0.3	8 194 655	6.6	292 666
over 1 000 000	6	0.1	72 674 428	58.3	12 112 405
	8 728	100.0	92 974 314	74.7	10 652
Nominee accounts held by custodian banks			31 532 801	25.3	
Shares not transferred into the book-entry securities system			22 545	0.0	
Total			124 529 660	100.0	

Increase in share capital 1993-97

		Number of A-shares	Share capital FIM
Share capital Jan. 1, 1993		79 857 546	798 575 460
Rights issue June 7-July 9, 1993	+	15 971 509	958 290 550
Directed issue Dec. 15 and 17, 1993	+	14 000 000	1 098 290 550
Directed issue July 6 and 20, 1994	+	14 700 000	1 245 290 550
Exercise of 2 928 warrants July 13-Dec. 31, 1994	+	488	1 245 295 430
Exercise of 66 warrants Jan. 1-Dec. 31, 1995	+	11	1 245 295 540
Exercise of 636 warrants Jan. 1-June 28, 1996	+	106	1 245 296 600
Share capital Dec. 31, 1997		124 529 660	1 245 296 600

Outokumpu Oyj's administration

Finnish guidelines on corporate governance

The Helsinki Stock Exchange has issued a recommendation stating that the companies listed on the Stock Exchange should from January 1, 1998 comply with the corporate governance guidelines prepared jointly by the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. Outokumpu Oyj complies with this recommendation. Moreover, the Board of Directors of the Company is committed to further develop the corporate governance in the best interests of the Company's shareholders.

Structure of the Outokumpu Group

The legal and operational structure of the Group has a major impact on the corporate governance. The operations of the Group are organized into four business areas: Base Metals, Stainless Steel, Copper Products and Technology. Each business area operates as a separate sub-group of companies, headed by a business area parent company, which in turn is in the exclusive control of Outokumpu Oyj. This structural division facilitates accounting for the results of each unit and allows efficient planning of their operations.

The ultimate responsibility for the Group's management and operations belongs to the constitutional bodies of Outokumpu Oyj. Prior to the Annual General Meeting of Shareholders held on April 3, 1997, such constitutional bodies included the General Meeting of Shareholders, the Supervisory Board, the Executive Board and the President. Following the decisions taken in the said Meeting of Shareholders, the constitutional bodies of the Company now comprise the General Meeting of Shareholders, the Board of Directors, the President (Chief Executive) and the Group Executive Board.

The parent company of each business area has a board of directors of its own, which consists of members of the Group Executive Board of the Company and of representatives of the business area management.

As the ultimate parent company of the Group, Outokumpu Oyj is responsible for the management, corporate planning, accounting and finance of the Group, and it also provides services related to the joint group functions for the business areas.

Duties and responsibilities of the Board of Directors

The Board of Directors of Outokumpu Oyj (the Board) acts within the powers and responsibilities provided in the Finnish Companies Act and in other applicable legislation. The General Meeting of Shareholders is the highest decision-making body of the Company, and normally convenes once a year. The Companies Act provides that certain critical decisions such as amendments to the Articles of Association, approval of the financial statements, establishing the amount of dividend and electing the Board of Directors and the auditors are exclusively reserved to the General Meeting of Shareholders.

The Board has the general authority to decide all matters which are not reserved by law or by the provisions of the Articles of Association to other bodies of the Company. The Board is responsible for organizing and supervising the management of the Company and its business. The Board must at all times act in the best interests of the Company.

The Board has adopted as its general policy to direct the Company's business and strategies in a manner that results in the maximum increase in shareholder value. The principal duties of the Board include:
– setting the business strategies of the Group;
– approving business plans and budgets and controlling their implementation;

– approving the aggregate annual investment in the Group and deciding on major investments and acquisitions and on disposals of material assets of the Group;
– setting the Company's dividend policy and preparing a proposal to the General Meeting of Shareholders on the annual dividend;
– setting the organization structure of the Group;
– appointing the President, his deputy and the members of the Group Executive Board and deciding their responsibilities and remuneration;
– deciding issues relating to risk management and internal controls; and
– setting the ethical standards of the Company.

The Board reviews its procedures and practices at least once a year.

Election of the Board

The Annual General Meeting of Shareholders elects the Chairman and Vice Chairman of the Board of Directors and the Directors for a term expiring at the close of the following Annual General Meeting of Shareholders. Accordingly, the entire Board is elected at each Annual General Meeting of Shareholders. A Director may at any time be removed from office by a majority vote at a General Meeting of the Shareholders of the Company. Proposals for the members of the Board of Directors which are given to the Board prior to a General Meeting shall be published in case the proposal is supported by shareholders holding a minimum of 20 % of all votes in the Company and in case the proposed person has given his or her consent for the task.

Current composition of the Board

The Company's Articles of Association provide that the Board consists of no less than five and no more than eight Directors. The current Board comprises eight Directors, one of whom has been elected on the basis of Company employee shareholdings upon their proposal. Also the President is a Director.

The Board supports a practice that the majority of the Directors are elected from persons who are not in the employ of the Company.

Board Meetings

The Board normally meets six to ten times a year. Most meetings are held at the Company's head office in Espoo, although a number of Board meetings take place at other offices of the Group when the Directors are visiting the Group's operations.

Duties and responsibilities of the President and the Group Executive Board

The President is responsible for the management and control of the Company's business in accordance with the instructions and decisions of the Board. He is supported in his work by the Group Executive Board which is constituted pursuant to a special provision in the Company's Articles of Association.

The Board approves the terms of reference for the Group Executive Board. The current terms of reference provide that the members of the Group Executive Board constitute the majority of the directors in the parent company of each business area. In this capacity, the members of the Group Executive Board are responsible for organizing and supervising the management of these companies by heading their respective business areas.

The Group Executive Board is also responsible for:
– supporting the Board and the President in the management of the Company;
– preparing matters to be discussed at the Board meetings; and

– preparing strategic and business plans for approval by the Board.

In addition, the Board has assigned a particular sphere of functional responsibilities for each member of the Group Executive Board.

Appointment of the President and members of the Group Executive Board

The President and the members of the Group Executive Board are appointed by the Board of Directors. According to the Company's Articles of Association, the President acts as the chairman of the Group Executive Board.

The President and the current Group Executive Board members

The President is the Chief Executive Officer of the Company. He is assisted by the Group Executive Board which currently is composed of five members.

Meetings of the Group Executive Board

The Group Executive Board usually meets twice a month.

Remuneration of Directors, President and his deputy

The aggregate remuneration received by the members of the Board of Directors, including the President and his deputy, amounted to FIM 4 045 351 in 1997. The members of the current Board, elected on April 3, 1997 were paid in aggregate FIM 574 000 in 1997 for their services as Directors.

The aggregate remuneration received by the members of the Supervisory Board during the period between January 1 and April 3, 1997 amounted to FIM 64 600.

Remuneration of the members of the Group Executive Board

The remuneration of the President and the members of the Group Executive Board is composed of a salary and employee benefits as well as a performance and solidity related bonus. No separate compensation is paid for their acting as members of the Group Executive Board or as Directors of the parent companies of the business areas.

The performance and solidity related bonuses for the President and the members of the Group Executive Board vary individually. In 1997, such bonuses could have amounted to a maximum of 15-20 % of each person's annual salary. In 1998, the bonus may amount to a maximum of 30 % of each person's annual salary.

Share ownership and options

The shares of the Company held by the Directors and by the members of the Group Executive Board are reported on page 68. Certain members of the Group management subscribed for debt with warrants issued by the Company in 1994. The terms of these warrants are described on page 67.

Control systems

The Company has established efficient financial reporting systems and control mechanisms which are designed to safeguard the assets and interests of the Group as well as to ensure the integrity and reliability of its reporting.

The Board of Directors has the ultimate responsibility for the accounting and internal controls of the Company. The President is responsible for the practical organizing of the accounting and control mechanisms.

The structural division of the Group into business areas and operating subsidiaries within these business areas facilitates the control of the operations and management of the various parts of the Group. Also, it enables clear lines of financial responsibility in the Group. The accounts of each business area are subject to a full annual external audit by the auditors of the Company. In addition, the Group has a well-functioning operational reporting system to facilitate the financial planning and control of the business.

The President, the members of the Group Executive Board and the executives responsible for the Corporate staff functions (Executive Staff) are responsible for ensuring that the day-to-day operations of the Group are carried out in compliance with law, the operating principles of the Company and the decisions of the Board.

Coopers & Lybrand is responsible for the audit of the Group companies worldwide. Outokumpu Oyj is audited by SVH Coopers & Lybrand Oy. The auditor in charge of the audit of Outokumpu Oyj is Mr. Pekka Nikula, APA, who is also responsible for instructing and co-ordinating the audit of all Group companies.

Each year the auditor in charge and the Company's management prepare jointly an auditing program for the Company. The Company does not operate a separate internal audit function of its own, and that is reflected in the scope and content of the audit.

The auditors of the Company issue an audit report to the Shareholders on the annual financial statements of the Company, as required by law. In addition, the auditors report their findings to the Board at least twice a year.

Board of Directors

Chairman

Gerhard Wendt, b. 1934, Ph.D.
President 1989-94, Divisional General Manager 1972-88: Kone Corporation
Chairman of the Board of Directors: Instrumentarium Corporation, Oy Algol Ab
Member of the Board of Directors: A. Ahlstrom Corporation, Assa-Abloy AB (publ), Imatran Voima Oy, Kone Corporation, Vaisala Oy, Wärtsilä NSD Corporation

Vice Chairman

Matti Puhakka, b. 1945, technician
Member of the Board of Directors and Deputy Director-General 1996- : Finnish Social Insurance Institution
Member of Parliament 1995-96 and 1975-91
Executive Director 1993-95: The Regional Council of North Karelia
Project Manager 1991-93: Enso Oyj
Member of the Council of State of Finland 1983-91
Member of the Board: Civil Aviation Administration

Members

Ahti Hirvonen, b. 1931, Ph.D. (Econ.) h.c.
Chairman of the Board of Directors and CEO 1992-95, President 1991-92: Unitas Ltd
Chairman of the Board of Management and CEO 1989-91, Chief General Manager 1983-88: Union Bank of Finland
Member of the Board of Directors: Nokia Corporation
Member of the Supervisory Board: Sampo Insurance Company Limited

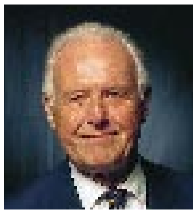
Jyrki Juusela, See: Group Executive Board

Mauri Kainu, b. 1949, filer-machinist
Chief Shop Steward 1990- : Outokumpu Zinc Oy
In the employ of the Outokumpu Group since 1966
Council member: The Central Organisation of Finnish Trade Unions SAK, The Finnish Metalworkers' Union

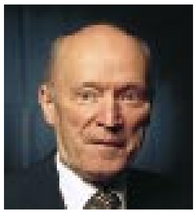
Harri Pynnä, b. 1956, LL.M.
Industrial Councillor 1994- : Ministry of Trade and Industry of Finland
Vice President 1985-94: Union Bank of Finland
Chairman of the Board of Directors: The Finnish Industry Investment Ltd
Member of the Board of Directors: Patria Industries Oy
Vice Member of the Board of Directors: PV Group plc

Ilkka Suominen, b. 1939, M.Pol.Sc.
President and CEO 1994- : Alko Group Ltd
Speaker of the Parliament of Finland 1991-94
Minister of Trade and Industry 1987-91
Member of the Supervisory Board: Merita Bank Ltd

Pekka Tuomisto, b. 1940, LL.M., M.Pol.Sc.
Director-General 1993- : Finnish Social Insurance Institution
Minister of Trade and Industry 1992-93
Secretary of State 1991-92: The Prime Minister's Office
Member of the Supervisory Board: Imatran Voima Oy, Merita Bank Ltd


Gerhard Wendt

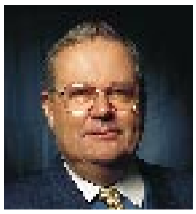

Matti Puhakka

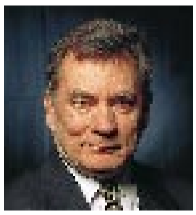

Ahti Hirvonen


Jyrki Juusela


Mauri Kainu


Harri Pynnä

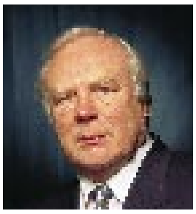

Ilkka Suominen


Pekka Tuomisto

Group Executive Board


Jyrki Juusela


Ossi Virolainen


Veikko Lehtinen


Risto Virrankoski


Juho Mäkinen

Jyrki Juusela,
b. 1943, D.Tech., Mining Counsellor
CEO and President 1992-
Chairman of the Group Executive Board 1997-
Member of the Board of Directors (former Executive Board) 1988-, in the employ of the Outokumpu Group since 1971
Member of the Board and Chairman of the Energy Policy Committee: The Confederation of Finnish Industry and Employers
Member of the Board: Association of Finnish Steel and Metal Producers
Member of the Board and Executive Committee: Federation of the Finnish Metal, Engineering and Electrotechnical Industries
Member of the Supervisory Board: Pension-Varma, Mutual Insurance Company; Sampo Insurance Company Limited; Merita Bank Ltd

Ossi Virolainen,
b. 1944, B.Sc. (Econ.), LL.M
Deputy Chief Executive, Deputy President 1992-
Vice Chairman of the Group Executive Board 1997-
Functional responsibilities: Finance, economic affairs and energy
Member of the Executive Board 1983-97, in the employ of the Outokumpu Group since 1967
Chairman of the Supervisory Board: Nova Life Insurance Company Ltd.
Vice Chairman of the Board of Directors: HEX Ltd, Helsinki Securities and Derivatives Exchange, Clearing House, Helsinki Telephone Corporation
Member of the Board of Directors: PV Group plc

Veikko Lehtinen, b. 1936, LL.M.
Member of the Group Executive Board 1997-
Functional responsibilities: legal affairs, administration, human resources and corporate communications
Member of the Executive Board 1977-97, in the employ of the Outokumpu Group since 1973
Chairman of the Supervisory Board: The Institute for Management and Technological Training, Pohto
Member of None-Life Insurance Committee: Industrial Insurance Company Ltd
Member of the Board of Trustees: Pension Service Ltd.

Risto Virrankoski,
b.1946, B.Sc. (Econ.)
Member of the Group Executive Board 1997-
Functional responsibilities: Business Development
Member of the Executive Board 1986-97, in the employ of the Outokumpu Group since 1969
Member of the Board: International Copper Association
Member of the Board of Directors: Partek Oyj Abp

Juho Mäkinen, b. 1945, D.Tech.
Member of the Group Executive Board 1997-
Functional responsibilities: Technology and environmental affairs
Member of the Executive Board 1996-97, in the employ of the Outokumpu Group since 1975
Vice Chairman: The Finnish Association of Mining and Metallurgical Engineers
Board Member: International Council on Metals and the Environment
Member and Chairman of the Group of Experts on Materials: Finnish Academies of Technology

Executive staff – Senior Vice Presidents

Jaakko Ahotupa, Corporate Administration
Jussi Asteljoki, Corporate Research and Development
Seppo Isoherranen, Corporate Commercial Affairs
Karri Kaitue, Corporate General Counsel
Matti Koponen, Corporate Environmental Affairs
Esa Lager, Corporate Treasurer
Kari Lassila, Corporate Controller
Katarina Lybeck, Corporate Communications
Markku Toivanen, Corporate Strategic Development
Seppo Turunen, Corporate Human Resources

Changes in the Group Executive Board as of April 1, 1998

Mr. Veikko Lehtinen, Group Executive Board member, will retire as of March 31, 1998. The Board of Directors of Outokumpu Oyj appointed Mr. Antti Närhi on December 5, 1997 to join the Group Executive Board as a new member as of April 1, 1998. Mr. Antti Närhi, b. 1944, M.Sc. (Eng), has been in the employ of the Outokumpu Group since 1971. He will join the Group Executive Board from the position of the President of Outokumpu Steel Oy and President of Outokumpu's Stainless Steel business area.

The Board of Directors has confirmed the new functional responsibilities of the Group Executive Board as of April 1, 1998 as follows:

Ossi Virolainen: Finance and economic affairs, information management, economic research, corporate communications and investor relations, legal affairs. Risto Virrankoski: Business development, commercial affairs, industrial investments, pension foundations, real estate. Juho Mäkinen: Technology, quality management, environment, health and safety, insurance. Antti Närhi: Administrative affairs and labor relations, human resources, energy affairs.

Business area management

Outokumpu Base Metals Oy

Asko Ojanen, President

Eero Laatio, Deputy President

Jukka Järvinen, Senior Vice President – Finance and Administration

Esko Pääkkönen, Senior Vice President – Business Development

Pentti Vanninen, President, Outokumpu Mining Oy

Markku Isohanni, Senior Vice President – Exploration, Outokumpu Mining Oy

Asko Parviainen, President, Outokumpu Harjavalta Metals Oy

Ville Sipilä, President, Outokumpu Zinc Oy

Outokumpu Steel Oy

Antti Närhi, President (to March 31, 1998)

Matti Rantamaula, President (from April 1, 1998)

Vesa Hopia, Vice President – Finance

Jorma Kemppainen, Vice President – Research and Development

Pekka Erkkilä, President, Outokumpu Chrome Oy

Matti Rantamaula, President, Outokumpu Polarit Oy (to March 31, 1998)

Niilo Suutala, President, Outokumpu Polarit Oy (from April 1, 1998)

Christer Asp, President, Oy JA-RO Ab

Outokumpu Copper Products Oy

Seppo Kreula, President

Ari Ingman, Deputy President

Erkki Ström, Senior Vice President – Technology

Esko Pirttijärvi, Vice President – Market Development

Jyrki Vesaluoma, Vice President – Controller

Martin Degerth, Vice President – Tube Products

Geoffrey Palmer, Vice President – Drawn Products

Staffan Anger, Vice President – Strip Products

Tero Tiitola, Vice President – Rolled Products, Europe

Warren Bartel, Vice President – Rolled Products, USA

Outokumpu Technology Oy

Kalevi Nikkilä, President

Markku Kytö, Vice President – Technology

Outi Lampela, Vice President – Finance and Administration

Erkki Ryynänen, Vice President – Business Development

Jukka Sulanto, Vice President – Marketing

Ilkka Virtanen, Vice President – Project & Trade Finance

Pekka Hynynen, President, Outokumpu Mintec Oy

Juhani Vahtola, President, Outokumpu Engineering Contractors Oy

Heikki Kandolin, President, Outokumpu Wenmec Oy

Seppo Rantakari, President, Outokumpu Castform Oy

Matti Maukola, President, Outokumpu Engineering Services Oy

Matti Tanskanen, President, Outokumpu Turula Oy

The board of directors of each business area parent company comprises the members of the Group Executive Board and one or two members of the business area management. CEO Jyrki Juusela acts as Chairman of the Board of all four business area parent companies. As of April 1, 1998, the Vice Chairmen will be Risto Virrankoski for Outokumpu Base Metals Oy, Antti Närhi for Outokumpu Steel Oy, Ossi Virolainen for Outokumpu Copper Products Oy and Juho Mäkinen for Outokumpu Technology Oy.

Annual General Meeting and dividend

Annual General Meeting

The Annual General Meeting of Shareholders of Outokumpu Oyj will be held in the Tapiola Hall at the Espoo Cultural Centre, Tapiolan Kulttuuriaukio, Espoo, Finland at 2 p.m. on Tuesday, March 31, 1998.

In order to take part in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by the Finnish Central Securities Depository Ltd. (Suomen Arvopaperikeskus Oy) no later than March 26, 1998. Shareholders who have placed their shares in trust must temporarily re-register the shares in their own name to allow them to participate in the Meeting. Such re-registration must be made no later than March 26, 1998.

Shareholders who wish to attend the Annual General Meeting must notify the company of their intention to do so, by telephone (Tel. +358 9 421 2451) or by letter addressed to Outokumpu Oyj, Share Register, P.O.Box 140, Riihitontuntie 7, FIN-02201 Espoo, Finland by no later than March 27, 1998. The letter must be received by the company on or before March 27, 1998.

A shareholder may attend and vote at the Meeting in person or by proxy. However, in accordance with Finnish practice the Company does not send forms of proxy to its shareholders. Shareholders wishing to vote by proxy should submit their own forms of proxy to the Company by no later than March 27, 1998.

Dividend

The Board of Directors proposes a dividend of FIM 2.00 per share. The dividend will be paid to the shareholders that are registered as shareholders by the Finnish Central Securities Depository Ltd. on April 3, 1998. It is proposed that the dividend will be paid on April 8, 1998.

Annual Report and interim reports

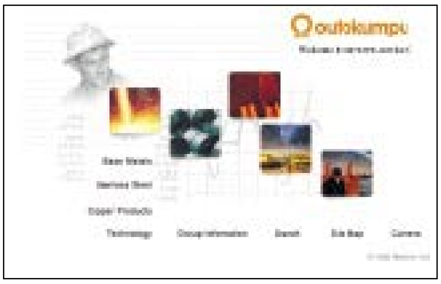
This Annual Report is also available in Finnish.

The Outokumpu Group moved to quarterly reporting from the beginning of 1998 and will, therefore, publish three interim reports during the year, as follows:

January-March	on May 8, 1998
January-June	on July 31, 1998
January-September	on October 30, 1998

The reports are printed in Finnish and English. All reports can be obtained from: Outokumpu Oyj / Corporate Communications, Riihitontuntie 7 B, PO Box 140, FIN-02210 Espoo, Finland. Telephone +358 9 421 2416, telefax +358 9 421 2429 and e-mail corporate.comms@outokumpu.com.

The Annual Reports, interim reports and major press releases will also be published at the Group's Internet home page http://www.outokumpu.com.



Outokumpu Espoo – our common address in the Helsinki metropolitan area

Outokumpu could for many reasons well be described as a "down-to-earth" company, as could the people who work for Outokumpu. If we add that we have always considered innovation and continuous R&D very important, you would probably think it only right and proper that our new joint facilities in the metropolitan Helsinki area are reminiscent of a university campus where people all work together.

At the beginning of December 1997, Outokumpu's Corporate Management and Finance department moved from their leased offices in Tapiola to the Company-owned site Outokumpu Espoo in Niittykumpu, which has accommodated many Outokumpu units for decades. Prior to the move, extensive development work was carried out at the campus-like site, and the oldest building was completely renovated to serve as the new Outokumpu headquarters. This facility, termed Building B, dates back to 1966 and first served as a physics research laboratory.

Now that all Outokumpu people in the Helsinki metropolitan area – approximately 800 of us – are located at the same site, we can combine our resources better than before. Outokumpu Espoo offers a convenient environment for closer cooperation between our units, enhancing the effective utilization of the strengths that stem from their proximity – competences and synergies. We believe that our new integration will benefit our partners as well as ourselves.

Group contact information

CORPORATE MANAGEMENT

Outokumpu Oyj

PO Box 140
Riihitontuntie 7 B
FIN-02201 ESPOO
Finland
Tel. +358 9 4211
Fax +358 9 421 3888

BASE METALS

Outokumpu Base Metals Oy

Business area management
PO Box 143
Riihitontuntie 7 A
FIN-02201 ESPOO
Finland
Tel. +358 9 4211
Fax +358 9 421 2205

STAINLESS STEEL

Outokumpu Steel Oy

Business area management
PO Box 82
FIN-95401 TORNIO
Finland
Tel. +358 16 4521
Fax +358 16 453 190

COPPER PRODUCTS

Outokumpu Copper Products Oy

Business area management
PO Box 144
Riihitontuntie 7 A
FIN-02201 ESPOO
Finland
Tel. +358 9 4211
Fax +358 9 452 2140

TECHNOLOGY

Outokumpu Technology Oy

Business area management
PO Box 86
Riihitontuntie 7 E
FIN-02201 ESPOO
Finland
Tel. +358 9 4211
Fax +358 9 421 3891

OTHER ADDRESSES

Up-to-date contact information about all Outokumpu subsidiaries and sites is available at the Group's Internet home page (http://www.outokumpu.com). Contact information can also be requested by telephone (+358 9 4211), telefax (+358 9 421 2429) or e-mail (corporate.comms@outokumpu.com).

outokumpu

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Trade register number: 70.759