# ANNUAL REPORT 1998


outokumpu

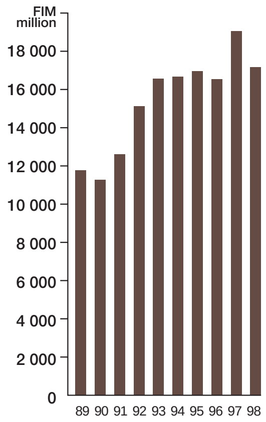
# Contents



outokumpu

# Key data

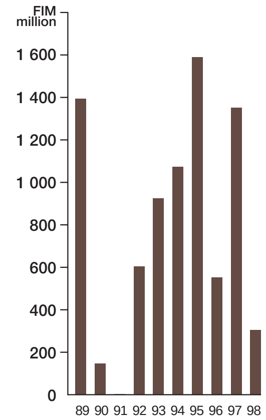
## Net sales




| | | 1998 | 1997 |
|---|---|---|---|
| Net sales | FIM million | **17 176** | 19 055 |
| – change from previous year | % | **(9.9)** | 15.1 |
| Operating profit | FIM million | **306** | 1 353 |
| – in relation to net sales | % | **1.8** | 7.1 |
| Profit before extraordinary items and taxes | FIM million | **(25)** | 975 |
| Return on capital employed | % | **2.5** | 11.1 |
| Cash flow from operating activities | FIM million | **1 771** | 1 134 |
| Net interest-bearing debt | FIM million | **5 524** | 5 751 |
| – in relation to net sales | % | **32.2** | 30.2 |
| Equity-to-assets ratio | % | **42.9** | 42.5 |
| Debt-to-equity ratio | % | **74.0** | 74.2 |
| Income per share (excluding extraordinary items) | FIM | **0.14** | 5.65 |
| Net income per share | FIM | **0.14** | 5.65 |
| Shareholders' equity per share | FIM | **59.72** | 61.94 |
| Dividend per share | FIM | **0.50** [1] | 2.00 |
| Share price on Dec. 31 | FIM | **46.80** | 66.50 |
| Market capitalization on Dec. 31 | FIM million | **5 828** | 8 281 |
| Capital expenditure | FIM million | **1 481** | 2 045 |
| Number of personnel on December 31 | | **13 179** | 13 734 |

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

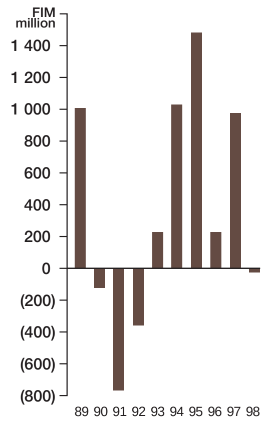
## Operating profit



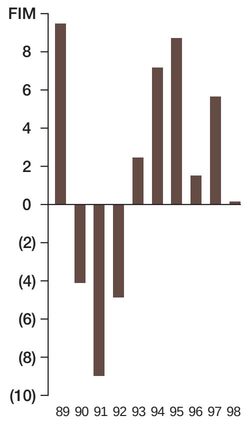

KEY FIGURES IN EUROS

| | | 1998 | 1997 |
|---|---|---|---|
| Net sales | EUR million | **2 889** | 3 205 |
| Operating profit | EUR million | **51** | 228 |
| Profit before extraordinary items and taxes | EUR million | **(4)** | 164 |
| Cash flow from operating activities | EUR million | **298** | 191 |
| Net interest-bearing debt | EUR million | **929** | 967 |
| Income per share (excluding extraordinary items) | EUR | **0.02** | 0.95 |
| Net income per share | EUR | **0.02** | 0.95 |
| Shareholders' equity per share | EUR | **10.04** | 10.42 |
| Dividend per share | EUR | **0.08** | 0.34 |
| Share price on Dec. 31 | EUR | **7.87** | 11.18 |
| Market capitalization on Dec. 31 | EUR million | **980** | 1 393 |
| Capital expenditure | EUR million | **249** | 344 |

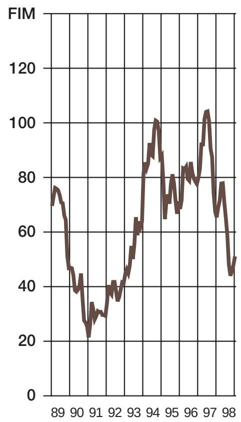
## Profit before extraordinary items and taxes




## Income per share




## Price of A-shares



# 1998 in brief



### Exceptionally low metal prices

The weak global economic background had a direct impact on the metal market. Demand for metals and metal products fell sharply in Asia, but remained high in Europe and the United States.

The prices of all metals produced by Outokumpu dropped to extremely low levels.

### Result weakened considerably

Consolidated net sales decreased by 10% to just over FIM 17 billion. Increased deliveries and improved cost-efficiency were not sufficient to offset the effect of lower metal prices.

Operating profit decreased to FIM 306 million and profit before extraordinary items and taxes to a loss of FIM 25 million. Income per share was FIM 0.14. Return on capital employed dropped to 2.5%. The equity-to-assets ratio improved slightly to 42.9%.

The Board of Directors proposes a dividend of FIM 0.50 per share.

### Investments for greater efficiency and growth

The Group's capital expenditure totaled FIM 1.5 billion. The most important investments completed were the expansion of the zinc plant at Kokkola, the copper products mill in Malaysia, as well as the modernisation of the first cold rolling mill at the stainless steel plant in Tornio.

In conjunction with the plans to eventually further expand ferrochrome and stainless steel production, a decision was made in December to launch an investment to prepare for a move to underground mining at Kemi chromium mine. Alternative methods of carrying out the broader expansion program to double the entire stainless steel production chain are still under investigation.

### Short term market situation remains difficult

Global economic growth is likely to remain slow and metal prices are not expected to rise significantly in the coming months. Consequently the Group result is forecast to remain weak in the early part of the year. However, in the longer term metal prices are predicted to improve above the present exceptionally low levels, possibly well above.

Outokumpu has set the target of achieving a satisfactory result as soon as possible. Efforts are supported by the investments completed in Tornio and Kokkola, which allow for expanded production volumes. This objective further requires the continuous improvement of cost-efficiency and competencies to strengthen Outokumpu's competitive position.

### 1999 – An Outokumpu Technology Jubilee with focus on the future

As this century comes to a close, at Outokumpu we can look back at numerous examples of our successful innovative process, equipment and product development work. This has earned the Group and its people a strong reputation as leading contributors of new technology and trendsetters in the mining and metal industry worldwide.

The year 1999 marks the $50^{th}$ anniversary of flash-smelting. This flagship of Outokumpu technology, first introduced at the Harjavalta smelter, is the method with which about half of the world's copper is produced today. The year sees many anniversaries in other parts of Outokumpu, too, and they will all be celebrated under our joint jubilee year symbol.

During the jubilee year, we above all want to focus on the future – the challenges that we and our peers and partners in industry will face in the new millennium. At Outokumpu we are committed to meeting these challenges in close cooperation with our customers – with technology and innovation – as trendsetters in the future, too.

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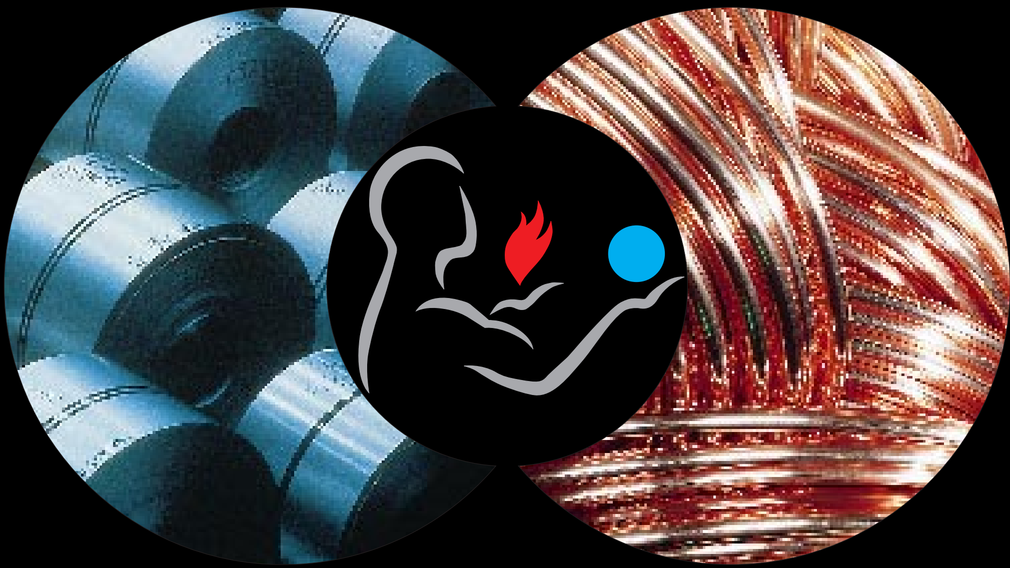


We seek to achieve profitable growth by effectively harnessing technology – our core competence – to improve overall performance and strengthen our competitive position.

- Customers benefit from the value we can add with our expertise in metallurgy and metalworking.
- In our own operations, technology helps us to find new solutions to improve cost-efficiency.
- New innovative technological solutions may also lead to totally new business opportunities.

## Dear shareholder,

Most of you will be aware that Outokumpu's business environment is highly cyclical – changes are often rapid and difficult to predict. The global economy and interaction of metals supply and demand set the background for our products, and prices are set by the open market. Volatility in the market inevitably feeds through to affect both our operations and annual results. The mood in our industry is undoubtedly very gloomy at the moment. However, if past experience teaches us anything, it is that years of strong prices – and strong earnings – will always follow weak periods. We have not entered into an era of permanent low prices.

Last year, in the wake of the Asian crisis, the price trend in metals and metal products was very unfavorable. Physical demand was good in our main markets in Europe and the United States, but prices declined sharply. This meant that we could not maintain profitability, despite the enhanced efficiency of production. Our mining operations, which were hardest hit by the price slump, produced heavy losses. Earnings in our other business operations also weakened and, as results were further aggravated by substantial increases in inventory valuation reserves, the total Group profit before extraordinary items and taxes turned into a loss.

Despite the poor result, Outokumpu's Board of Directors proposes to the Annual General Meeting that a dividend of FIM 0.50 per share be distributed. This reflects our policy of taking the business cycle into account in the payout of dividends.

Our strategic target is to achieve a satisfactory result even at times when market conditions are poor. Clearly we did not manage to do this last year. We must therefore improve our performance further, and I am convinced that we can. The expansion of the Kokkola zinc plant using a new cost-efficient process, the investments in our stainless steel and copper products areas, as well as numerous smaller efficiency-enhancing and restructuring measures, are good examples of steps already taken to improve competitiveness, and results should soon be forthcoming.

The aim to improve earnings, to further strengthen our competitive position and to promote close customer relations will continue to be cornerstones underpinning all the decisions that we make.

Profitable growth will remain at the heart of our strategy. However, this must not be achieved at the expense of our balance sheet. Most of the capital expenditure needed will and can be financed by cashflow from operations or by freeing capital from strategically less important operations.

In fact, I see us reaching our goals with plans that are quite clear. First and foremost is the focus on investment in our stainless steel business. Over the years we have built up a very strong integrated production chain for ferrochrome and stainless steel that is firmly rooted in the huge chromium ore deposit at the Kemi mine. In the long term we intend to vigorously expand and develop this business, though the exact scale and timing of investments will take into account the market outlook and changes in the competitive environment.

In other business areas we will not require any major new investment in the next few years; instead we will be concentrating on improving profitability. Our strategy is to put particular emphasis on our ability to efficiently exploit our core competences in process metallurgy and metalworking. Technology helps us find new solutions to improve the cost-efficiency of our own operations but also adds value to the products and services that we develop for our customers. New innovative technological solutions may also open up totally new business opportunities.

Active commitment to Group strategies by our employees is a prerequisite for success. We have been able to create a good open culture within Outokumpu, something which is important if the Group's goals are to be achieved but is also very supportive when difficult decisions have to be made. The credit for this goes to all Outokumpu people, and I thank them for it.

We will be celebrating the last year of this century as an Outokumpu technology jubilee. As we honor past Outokumpu employees for their pioneering work, we at the same time want to encourage a spirit of learning and even greater innovation among today's staff. The challenge is to ensure that Outokumpu maintains its leadership in technology in our field – not only today but also in the new millennium.

Although we do not foresee any significant improvement in the market outlook in the near term, our target must be to achieve a satisfactory result as soon as possible. This demands that we further sharpen the focus on our strategic objectives and core businesses, carry out relentless cost-cutting and continuously improve competitiveness in all operations. Only this way can we be prepared to exploit the opportunities that appear as stronger economic growth resumes and as the markets recover.

Jyrki Juusela
Chief Executive

# Business organization

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

## Stainless Steel

Outokumpu occupies a strong position as one of the most cost-effective producers of stainless steel in the world. Its share of the rolled stainless steel market in Europe is 10% and globally 4%.

The integrated production chain in Northern Finland comprises *Outokumpu Chrome*'s chromium mine at Kemi and ferrochrome smelter in Tornio, and *Outokumpu Polarit*'s steel melting shop, hot rolling mill and cold rolling mill on the same site in Tornio. Some of the rolled production is cut to customer specifications at Terneuzen, the Netherlands. *Ja-Ro* processes stainless steel into tubes and tube fittings in Pietarsaari and Veteli, Finland.

## Copper Products

Outokumpu is the world's leading fabricator of copper products, the only company in the sector to have substantial production in North America, Europe and Asia. It accounts for 10% of the global market.

During the year, the business area's organization was based on product groups. *Tube Products* comprise plumbing, air-conditioning and refrigeration tubes and other industrial tubes. *Drawn Products* consist of a variety of profiles, bars and wires and machined products. *Strip Products* are employed in heat exchangers and in the connectors and cables used in electrical and electronics equipment. *Rolled Products* comprise sheet and strip, coin blanks and other blanking mill products. The manufacturing plants are located in the United States, Finland, Sweden, Spain, the Netherlands, China, Malaysia, Austria and the United Kingdom.

From the beginning of 1999, Copper Products was reorganized around business lines by customer groups. The new operating model focuses on exploiting technological expertise to offer solutions that best serve customer needs.

## Base Metals

Outokumpu's base metals operations encompass zinc, copper and nickel mining and metal production. The Group accounts for 3% of the world's zinc production, 2% of copper and 4% of nickel.

*The mining operations* are located in Australia, Chile, Ireland, Norway and Finland. In addition to these countries, exploration is conducted in Spain, Canada, Sweden and Russia. *Zinc* is produced at the recently expanded Kokkola zinc plant in Finland, *copper* at the Harjavalta smelter and Pori refinery in Finland and at the Chilean Zaldívar associated mine. *Nickel* is produced at Harjavalta.

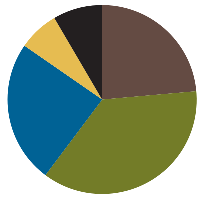
## Technology

Outokumpu's range of technology products covers plants and processes, machinery and equipment, as well as engineering and project management services for the mining and metallurgical industries. Many of Technology's products enjoy high market shares.

*Outokumpu Mintec* focuses on mineral processing, *Outokumpu Engineering Contractors* on metallurgy, *Outokumpu Wenmec* on casting shops and refineries, and *Outokumpu Castform* on continuous casting, metalworking, galvanizing plants and materials handling systems for metallurgical plants.

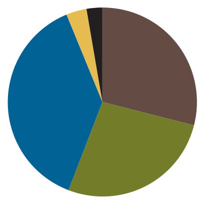
## GROUP BY BUSINESS AREAS

### Net sales
### FIM 17 176 million



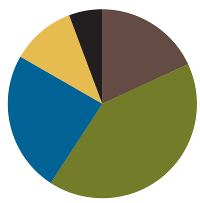
| | |
|---|---|
| Stainless Steel | 23.5% |
| Copper Products | 36.9% |
| Base Metals | 24.3% |
| Technology | 6.9% |
| Other operations | 8.4% |

### Capital employed
### FIM 13 528 million



| | |
|---|---|
| Stainless Steel | 29.0% |
| Copper Products | 26.9% |
| Base Metals | 38.0% |
| Technology | 3.5% |
| Other operations | 2.6% |

### Personnel
### 13 179



| | |
|---|---|
| Stainless Steel | 18.1% |
| Copper Products | 41.1% |
| Base Metals | 24.1% |
| Technology | 11.0% |
| Other operations | 5.7% |

## Business concept, strategies and financial objectives

Outokumpu is a versatile metals group focusing on metals production and fabrication. We leverage our extensive expertise that ranges from mining, through metallurgy, to the global marketing of metals, wrought products and related technologies.

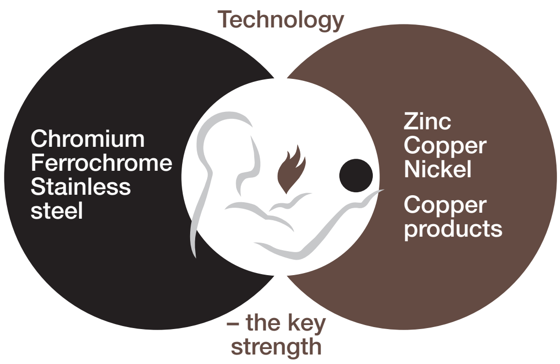
In all our business operations we recognize the crucial importance of the customer, good profitability and responsibility for the environment. We seek to ensure competitiveness by continuously developing our competencies.

Outokumpu's special strength lies in our technological expertise and our ability to apply it to generate added value for our customers. In recent years Outokumpu has built up the share of higher added value products in the portfolio. In our own operations the technological expertise serves to ensure that the methods we employ are the most effective, are safe and as environmentally sound as possible.

The Group's main strategic objective over the next few years is to take maximum advantage of the potential inherent in our efficient, integrated stainless steel production chain in Kemi-Tornio. The chain starts from the chromium deposit in Kemi containing approximately 4% of the world's known chromium reserves; these are sufficient for over a century of mining at current production levels.

At Outokumpu, we seek to achieve profitable growth in our operations and to maintain a healthy financial structure. Our profitability target is an average return on capital employed of at least 15% over a business cycle, and for solvency our objective is to retain a minimum equity-to-assets ratio of 40%.

According to the dividend policy set by the Board of Directors, the payout ratio over a business cycle should be at least one third of the period's net income. In its annual dividend proposal, the Board will, in addition to the financial result, take into consideration the company's development and investment needs.



# 2 Business environment

- Weakest economic background since the early 1980s
- Economic slow-down hit metals consumption
- Gloomy expectations contributed to slump in prices
- A varied picture in copper products
- Group is highly sensitive to changes in metal prices
- Movements in the US dollar remain very important for the Group
- Active management of metal price, currency and interest risks

# Market review

OUTOKUMPU GROUP SALES BY END-USE MARKET

The single most important end-use market for Outokumpu is the building and construction industry. Almost 25% of Group sales go to this sector, and it is clearly the most important market for both Base Metals and Copper Products business areas.

Transportation is the next most important end-use for both these business areas, and accounts for about 17% of Group sales.

Industrial machinery and equipment is the most important end-use for Stainless Steel, and this sector represents some 16% of total Group sales.

In the case of Outokumpu Technology, all its sales are made to the mining, metallurgical and metals processing industries. For the Group as a whole, this sector accounts for less than 10% of sales.

Some 10% of Group sales are made to the domestic appliance and general products sector, while a similar proportion of sales goes to electrical, electronics and communications end-uses.

## Weakest economic background since the early 1980s

The global financial and economic crisis that began in developing Asia in mid-1997 intensified during 1998, exacerbating the recession in Japan and spreading through Russia and Latin America. But although the United States and Western Europe were certainly affected by the crisis, economic activity in these regions remained relatively good. Even so, growth in world GDP in 1998 is estimated to have been only about 1.7%, the lowest figure since the early 1980s.

Short term economic prospects remain poor. However, recent months have seen a widespread and co-ordinated easing in monetary policy, suggesting that global recession will be avoided. The most likely outlook for the United States and Europe is for a modest slowdown rather than recession, though activity in the important metals-intensive construction and automobile sectors is expected to be particularly slow.

## Economic slow-down hit metals consumption

The weak global background during 1998 inevitably had a depressing impact on metals consumption, though the wide variation in economic performance resulted in sharply differing trends between the regions: consumption rose strongly in both Europe and North America, but slumped dramatically in Japan and developing Asia. Trends also varied markedly between metals. In the case of copper, refined consumption was boosted by the shortage of scrap, and total Western world demand is estimated to have risen by close to 2%. For zinc, higher consumption in the European and North American construction market was offset by lower global demand from the auto industry, and Western world consumption rose by less than 1%. Stainless steel was slightly worse affected, reflecting the fact that Asia accounts for a high proportion of global stainless demand, and Western world apparent consumption of cold rolled flat products is estimated to have fallen by about 1%. Total melted output of stainless steel also fell, and this in turn contributed to lower consumption of the key alloying elements, nickel and ferrochrome.

## Gloomy expectations contributed to slump in prices

While the global demand picture for metals was weak during 1998, conditions were certainly not disastrous. However, market sentiment was extremely gloomy, with a general expectation that demand would deteriorate further as a fall-out from the financial crisis. At the same time, many observers were forecasting rapid growth on the supply side of the industry, suggesting that markets were heading into surplus. The result of this combination of poor sentiment and an expected deterioration in market fundamentals was that prices and margins in almost all metals markets declined dramatically during the year. The importance of expectations behind this decline needs to be stressed, because in reality the fundamentals in most markets remained reasonably healthy. Nevertheless, in several of the markets in which Outokumpu is involved, average prices during 1998 in real inflation adjusted terms were close to their lowest ever levels.

## Dramatic fall in stainless steel prices

The slump in prices was particularly dramatic in stainless steel. Apparent consumption rose strongly in both Europe and the United States, though demand eased and delivery times contracted later in the year. But European base prices (transaction price minus alloy surcharge) for 2 mm grade 304, which were around 2.80 DEM/kg at the beginning of 1998, declined steadily to reach the remarkably low level of about 2.15 DEM/kg by year-end. The average conversion margin (transaction price of grade 304 stainless steel minus the cost of nickel and chrome raw materials) in 1998 was only marginally above its lowest-ever level in real terms. The main reason for the decline was global over-capacity in stainless steel production, reflecting heavy worldwide investment in new facilities in recent years, though falling raw material prices were also a contributory factor. European mills were also hit by the loss of traditional export markets in Asia and the threat and subsequent imposition of anti-dumping tariffs in the United States.

Continuing firm demand, coupled with some modest production cutbacks, suggests that stainless prices could improve a little in early 1999. Looking further ahead, the current cutback in investment being made by the stainless industry in response to poor profitability is likely to become increasingly significant, as it suggests that over-capacity will be eroded over the next 2-3 years. This in turn offers the possibility of a more substantial increase in prices over the medium term.

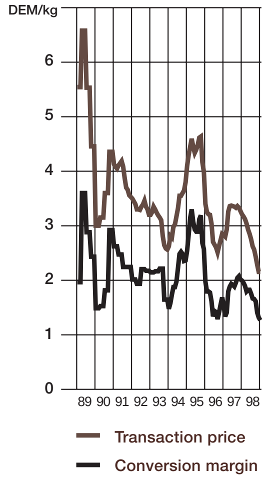
Demand for stainless steel tubes was reasonably good in the first half of 1998, but weakened in the second half, a trend exacerbated by destocking. Prices were under heavy pressure throughout the year, and followed the downward trend in flat products. 1999 is likely to be another difficult year, with both prices and margins expected to remain under pressure.

In high-carbon ferrochrome, prices held at 47-48 US¢/lb during the first half of 1998. But demand from the stainless steel industry slackened in the second half of the year, while production continued to rise strongly. As a result, the ferrochrome market moved firmly into surplus, leading to average monthly prices falling to only 37 US¢/lb in December. The behavior of the South African producers, which now account for nearly 60% of Western world output, will be the key influence on prices in this market. Low prices had already prompted some production cutbacks towards year-end.

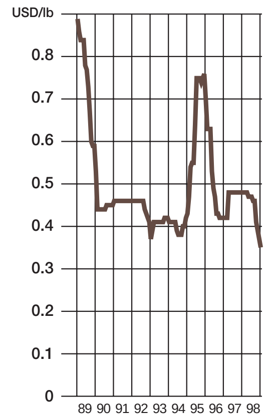
### Base metals prices crashed despite reasonable fundamentals

Prices of the base metals also deteriorated badly during 1998, with sentiment a major depressing influence. For most metals little serious deterioration in market fundamentals was evident, and the buoyancy of the physical market seemed inconsistent with low London Metal Exchange (LME) prices. Although prices are forecast to remain poor in the short term, they should benefit when sentiment about the economic background finally starts to improve. Another positive factor

### Stainless steel price




### Ferrochrome price
(Cr-content)

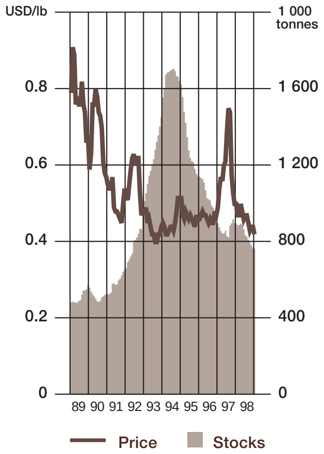



### Average metal market prices

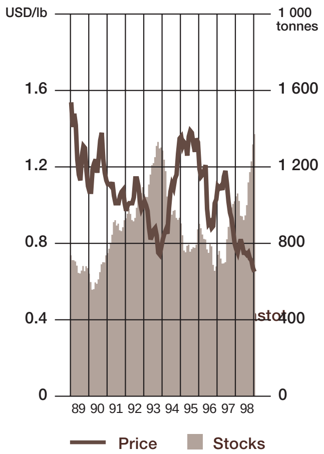
| | | 1994 | 1995 | 1996 | 1997 | **1998** | Change % 1998/1997 |
|---|---|---|---|---|---|---|---|
| Stainless steel | DEM/kg | 3.24 | 4.38 | 2.90 | 3.21 | **2.76** | (14.0) |
| Transaction price | FIM/kg | 10.42 | 13.35 | 8.85 | 9.62 | **8.38** | (12.9) |
| Stainless steel | DEM/kg | 3.00 | 3.88 | 2.41 | 2.73 | **2.50** | (8.4) |
| Base price | FIM/kg | 9.65 | 11.78 | 7.36 | 8.17 | **7.60** | (7.0) |
| Stainless steel | DEM/kg | 2.07 | 2.93 | 1.59 | 1.81 | **1.72** | (5.0) |
| Conversion margin | FIM/kg | 6.66 | 8.93 | 4.84 | 5.42 | **5.23** | (3.5) |
| Ferrochrome | USD/lb | 0.40 | 0.64 | 0.51 | 0.46 | **0.45** | (2.2) |
| (Cr-content) | FIM/kg | 4.59 | 6.14 | 5.20 | 5.26 | **5.30** | 0.8 |
| Zinc | USD/lb | 0.45 | 0.47 | 0.46 | 0.60 | **0.46** | (23.3) |
| | FIM/kg | 5.21 | 4.50 | 4.70 | 6.84 | **5.46** | (20.2) |
| Copper | USD/lb | 1.05 | 1.33 | 1.04 | 1.03 | **0.75** | (27.2) |
| | FIM/kg | 12.07 | 12.82 | 10.51 | 11.82 | **8.83** | (25.3) |
| Nickel | USD/lb | 2.88 | 3.73 | 3.40 | 3.14 | **2.09** | (33.4) |
| | FIM/kg | 33.09 | 35.95 | 34.41 | 35.91 | **24.65** | (31.4) |

Sources:
Stainless steel: CRU – German transaction and base price and conversion margin (2 mm cold rolled 304 sheet). CRU estimate of prices for orders received in Germany during the period. Prices for deliveries during the same period differ from the prices of orders.
Ferrochrome: Metal Bulletin – lumpy Cr charge, basis 52 % Cr, free market.
Zinc, copper and nickel: London Metal Exchange cash quotations converted into USD/lb.
Charts include January 1999.

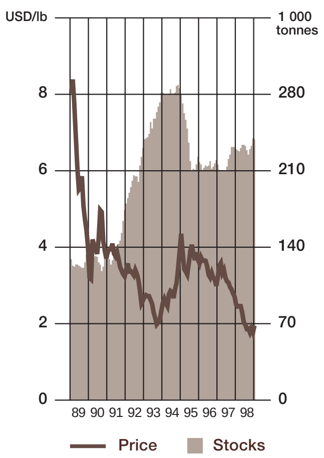
### Zinc price and stocks




### Copper price and stocks




### Nickel price and stocks




is that stocks of most metals are still low by historical standards, and very low compared to comparable periods of slow global growth in the past. This offers the hope of a quick recovery in prices once a turnaround in the markets begins to develop.

The anomaly between market fundamentals and prices during 1998 was particularly marked in zinc. Although aggregate demand was certainly weak, supply was restricted by a series of cutbacks and by lower Chinese exports. The result was that the zinc market was in modest deficit, while the stock-consumption ratio continued to fall. Despite this positive background, average prices fell to only 46 US¢/lb, more than 23% below the 1997 average and in real terms the lowest level for more than 30 years.

In nickel the extent of the price slump was even more spectacular. Cash prices fell from close to 2.50 USD/lb at the start of 1998 to an average of only 1.80 USD/lb in the final quarter. The average price for the year of just 2.09 USD/lb was, by a considerable margin, the lowest ever in real terms. Aggregate consumption declined, but refined output grew very slowly and Russian exports fell slightly. As a result the nickel market was only slightly in surplus. A further modest surplus is expected in 1999, though prices will remain sensitive to further supply cutbacks and to progress at the new leaching projects being developed in Australia.

In the case of copper, prices in 1998 fell to their lowest level in real terms since the 1930s. Production cutbacks and a shortage of scrap meant that supply grew much more slowly than expected, but the market was still clearly in surplus. A further significant surplus is forecast for 1999, though the stock-consumption ratio is expected to remain low by historical standards.

Treatment and refining charges (TC/RCs) for copper concentrate also fell sharply during 1998. Average spot market terms crashed to the lowest level on record in real terms, nearly 50% below the 1997 level, while average contract terms (including price participation) fell by almost 25%. To some extent TC/RCs are correlated with copper prices, but charges are also falling because smelter capacity is growing more quickly than concentrate availability. Charges in 1999 are likely to remain extremely low. In the zinc concentrate market, average treatment charges on contract during 1998 fell by just over 20% compared with year-before levels, mainly a reflection of the low zinc price. Charges are expected to remain low over the next year.

### A varied picture in copper products

Demand for copper products varied markedly between market segment and product group. Consumption in Asia fell dramatically, but this was to some extent outweighed by reasonable demand for most products in Europe and continuing firm growth in the United States, which however, slowed somewhat towards year-end. Outokumpu's total deliveries and order intake remained at the previous year's level. Conversion prices of copper products improved marginally compared to 1997, partly reflecting the company's continuing move towards higher value-added business.

Market conditions for ACR tube during 1998 were strong in the United States and healthy in China. However, demand in Europe was little changed from the previous year and prices were under pressure. There was clear over-supply in south-east Asia, reflecting the economic downturn. 1998 was also a good year for drawn copper products in North America, though some slow-down was evident towards year-end. Special products and machined copper products performed better in Europe, though price competition increased. Demand in Asia weakened but did not collapse.

A significant fall in world vehicle production during 1998, especially in Asia, contributed to sharply lower demand for radiator strip, though the firmness of the North American market was an exception to the general trend. In flat products, prices remained stable, despite lower demand in North America, while deliveries of alloy wire fell and competition intensified in the United States. However, demand for specialty rolled products developed reasonably well outside Asia, and sales of connector strip were good in both the United States and Europe.

The year ahead will remain difficult for the copper semis business worldwide. Although demand in Europe and North America is expected to be satisfactory, competition is likely to remain fierce. The general outlook for specialty products is, however, better than for standard building and construction products.

### Poor metals prices started to impact on technology sales

The deteriorating market situation for metals inevitably started to depress sales of technology during 1998. As metals prices fell, and as the market outlook deteriorated, so companies began to cut back on investment spending in both the mining and metallurgical sectors. Some investment projects have been cancelled while a number of proposed greenfield or expansion projects have merely been delayed. Investment activity in Russia has also been affected by the uncertain economic and political situation. Short term prospects are poor, with the current low level of profitability in the metals business suggesting that worldwide investment spending in mining/metallurgy will remain low during 1999. However, the technology market will be helped to some extent by smaller investments aimed at improving efficiency and cutting costs.

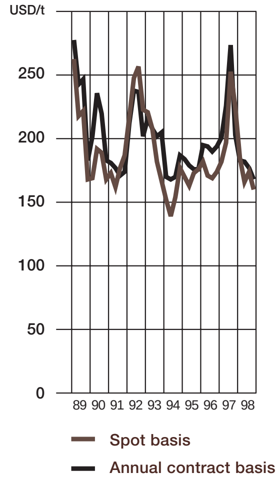
## Active management of metal price, currency and interest rate risks

### Group is highly sensitive to changes in metal prices – especially in stainless steel

Changes in metals prices, treatment charges and conversion margins have a major impact on Outokumpu's financial results. The impact of a 10% change in these variables on Outokumpu's annual operating profit and equity earnings in associated companies is shown in the adjacent table. The figures, which are indicative only, are based on average prices and margins in 1998 and on projected 1999 production. They do not take into account price changes in inventories, nor do they allow for the effect of hedging.

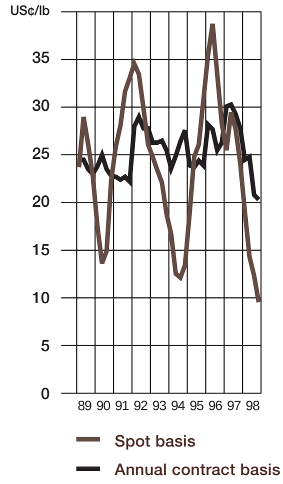
As the table shows, Outokumpu is in theory most sensitive to changes in the conversion price of wrought copper products. However, the conversion price of these products is relatively stable and rarely changes by as much as 10% in the short term. In practice the Group is therefore most sensitive to changes in the stainless steel conversion margin: this is highly volatile, with year-on-year changes of more than 40% not unknown. The Group is also sensitive to changes in the zinc, copper, nickel and ferrochrome prices, all of which are very volatile. The annual average price of nickel fell by more than 30% between 1997 and 1998, for example, while average copper and zinc prices fell by more than 20% over the same period.

### Zinc treatment charges



Source: CRU

### Copper treatment and refining charges

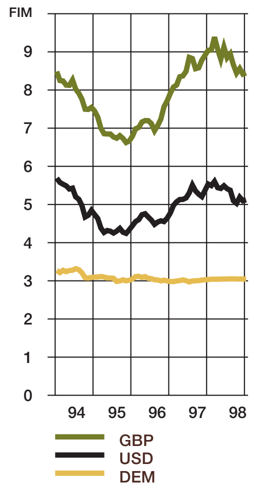


Source: CRU

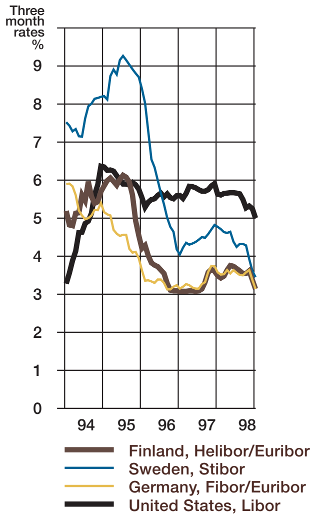
### The Group's sensitivity to metal prices

| Sustained 10% change in price | Effect on result FIM million |
|---|---|
| Conversion margin of stainless steel | 230 |
| Ferrochrome price | 70 |
| Conversion price of wrought copper products | 330 |
| Zinc price | 120 |
| Copper price | 80 |
| Nickel price | 70 |

### Exchange rates




### Market interest rates




## Derivative contracts may be used to remove price risks

The profitability of mines is directly dependent on metal prices. Prices for mine output may be secured with the help of forward sales contracts and/or option contracts (price fixing) on metal exchanges, aimed at mitigating the impact of price falls. The treatment and refining charges of smelters are also partly dependent on metal prices through price participation clauses; risks here can also be reduced by forward sales contracts and/or option contracts.

Metal production and fabrication units are also affected by risks resulting from the time difference between raw material purchase and product sale. These risks are hedged through forward contracts on the metal exchanges (offset hedging). The basic inventory permanently tied up in production of these units is not hedged.

The Group's open derivative instruments to hedge metal price risks as well as the related contract amounts, carrying values and fair values on December 31, 1998 are presented in section 19 of the Notes to the consolidated financial statements.

## Movements in the US dollar remain very important to the Group

Typically Outokumpu's business in metals and metal products is priced in currencies other than the Finnish mark. Internationally traded metals such as zinc, copper, nickel and ferrochrome are priced in US dollars, while treatment charges for both copper and zinc concentrates are also specified in US dollars.

Stainless steel and copper products are mainly priced individually in each market, and price levels may vary considerably between the European, US and Asian markets. The pricing of these products takes place in local currencies in Europe and in US dollars in the United States and Asia. Of the Group's invoicing, about 46% is in US dollars and 50% in European currencies. On the other hand, most of the Group's production is based in Finland, other European countries and United States, which implies that the bulk of production costs are in the currencies of these countries. Most of the Group's debt is in currencies other than the base currency of the company, mainly in US dollars.

Currency movements consequently have a major impact on Outokumpu as they affect both the Group's results and competitive position. In the case of the Finnish mark, a 10% movement of this currency against other currencies has had an impact of roughly FIM 500 million on the Group's annual operating profit. A 10% movement of the US dollar has correspondingly had an impact of some FIM 400 million on the Group's annual operating profit. These amounts do not take into account the effect of hedging of exchange rate risks. The Finnish mark exchange rate risk against other EMU-currencies disappeared following its fixing against the euro as from January 1, 1999. However, the US dollar will retain its dominant role as the metals pricing currency, and thus the most significant currency risk to manage for Outokumpu will be the movements between the US dollar and the euro. The impact of the change in US dollar value will continue to be of the same magnitude as before.

The Group's exchange rate 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. Foreign currency exposure is hedged mainly through forward foreign exchange contracts and options, foreign currency loans and currency swaps.

## Trend in interest rates was supportive

Short and long term interest rates both declined slightly during 1998 in the United States and through most of the euro-zone countries. This trend was mildly supportive for Outokumpu, as a one percentage point fall in the US dollar short-term interest rate is estimated to result in a reduction of about FIM 40 million in the Group's annual net interest expenses, albeit with a slight delay.

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. Interest rate swaps and forward rate agreements are also actively used. In the management of interest rate risks, the most important currencies are the US dollar, Swedish crown and Finnish mark. The Group's net interest-bearing debt including derivatives is mostly in US dollars. This net interest-bearing debt has an average interest period of less than one year.

The Group's management of financial risks is explained in more detail in section 18 of the Notes to the consolidated financial statements.

# 3 Development of business operations

- Stainless Steel is the Group's main growth area over the coming years
- Copper Products moves closer to the customer
- Investments in Base Metals have reinforced competitive position
- Technology invests in product development
- The Group's other operations support and facilitate core business activities
- Human resource development aimed at promoting competitiveness
- Our core competence of technological expertise thrives on strong R&D
- Environmental protection benefits from in-house technological expertise
- EMU and Year 2000 preparations have proceeded well

# Stainless Steel is the Group's main growth area over the coming years

## YEAR 1998

Stainless Steel's production ran well and steel deliveries increased by 10% from the previous year. Nevertheless, the exceptionally tough market situation and sharply declining prices caused net sales to fall by 4%. Operating profit was FIM 276 million, including a negative market adjustment to inventories of FIM 187 million (1997: FIM 550 million, including FIM 36 million of inventory gains).

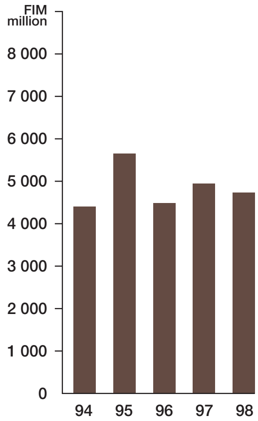
The final stage of the investment project, which raised the production capacity in Tornio of cold-rolled products to 400 000 tonnes a year, was the modernization of the first cold rolling mill, completed in early July. In December, a decision was made to switch to underground mining at the Kemi chromium mine. The investment, totaling FIM 400 million, will be spread over five years. Investigations aimed at a doubling of Outokumpu's ferrochrome and stainless steel production should be completed during 1999.

## Strong production chain provides opportunity for growth

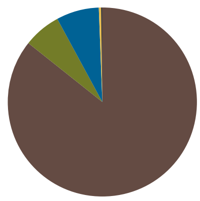
Outokumpu has a 10% share of the rolled stainless steel market in Europe and 4% of the world market. The investment program concluded in 1998 has further improved the cost efficiency of the stainless steel production chain in the Kemi-Tornio area of Northern Finland. It has also strengthened Outokumpu's competitive position as a reliable supplier of quality stainless steel products. This unique production chain also constitutes the Group's primary growth area over the coming years.

## STAINLESS STEEL

### Net sales

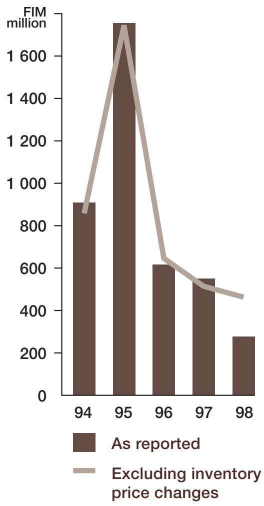



### Net sales by market area 1998



| | |
|---|---|
| Europe (Finland 9.0%) | 85.7% |
| North and South America | 6.4% |
| Asia | 7.3% |
| Australia and Oceania | 0.4% |
| Other countries | 0.2% |

### Operating profit



## Key figures

| FIM million | 1998 | 1997 |
|---|---|---|
| **Net sales** | | |
| Outokumpu Chrome | **600** | 673 |
| Outokumpu Polarit | **4 338** | 4 429 |
| Ja-Ro | **408** | 484 |
| Other business units | **246** | 216 |
| Sales within the business area | **(864)** | (855) |
| Total | **4 728** | 4 947 |
| Share of the Group's net sales (%) | **24** | 22 |
| Operating profit | **276** | 550 |
| Operating profit margin (%) | **6** | 11 |
| Operating profit excluding inventory price changes | **463** | 514 |
| Return on capital employed (%) | **7** | 14 |
| Capital employed on Dec. 31 | **4 066** | 4 383 |
| Capital expenditure | **304** | 820 |
| Depreciation and amortization | **328** | 275 |

## Production

| tonnes | 1998 | 1997 |
|---|---|---|
| Outokumpu Chrome | | |
| Ferrochrome | **231 000** | 237 000 |
| Outokumpu Polarit | | |
| Steel slabs | **575 000** | 544 000 |
| Cold rolled products | **344 000** | 303 000 |
| White hot strip | **133 000** | 127 000 |
| Ja-Ro | | |
| Tubes and tube fittings | **26 900** | 29 700 |

## Personnel

| Dec. 31 | 1998 | 1997 |
|---|---|---|
| Outokumpu Chrome | **303** | 305 |
| Outokumpu Polarit | **1 697** | 1 687 |
| Ja-Ro | **338** | 345 |
| Other units | **53** | 54 |
| Total | **2 391** | 2 391 |

## Press releases 1998

*www.outokumpu.com*

12.3. Outokumpu inaugurates a major expansion of stainless steel production in Tornio

18.12. Outokumpu's stainless steel expansion plans

The Kemi open pit will convert to underground mining. The project started in the beginning of 1999 and is estimated to last for five years. Ore mined in 1998 amounted to one million tonnes.

## New applications

Stainless steel is often referred to as a "prosperity metal", the consumption of which grows at approximately twice the rate of average Gross National Product. Consumption has risen by roughly 5% per year in the 1990s. The higher the standard of living, the more stainless steel is used. The most important applications are in the foodstuff and process industries, households, transportation and construction. The good corrosion resistance, formability and weldability of stainless steel enhances its usefulness in new applications. The demand is expected to continue growing as environmental and hygiene requirements increase.

Stainless steel is a young material and new applications are continuously being developed as its relative price competitiveness improves. In terms of its life-cycle costs alone, stainless steel offers better value for money than many alternative materials, and it has considerable potential as a substitute material for carbon steel, aluminum and plastic.

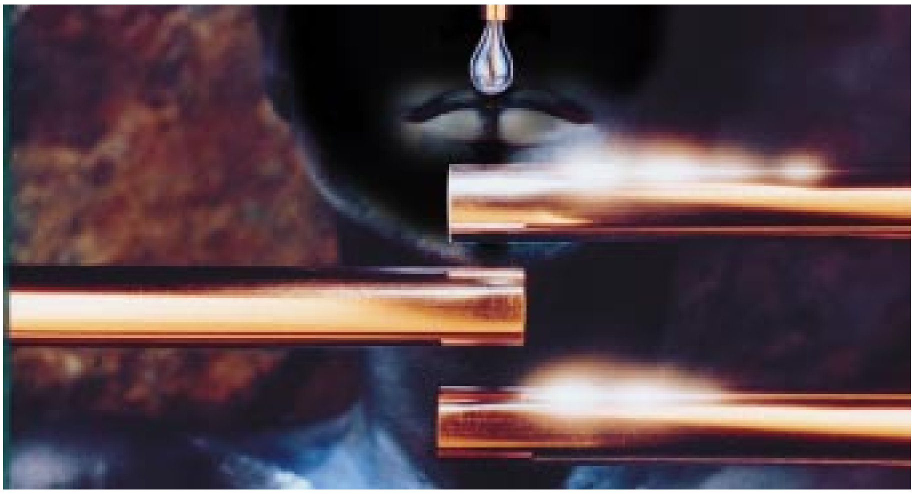
## New expansion possibilities under investigation

Outokumpu plans to capitalize on the strong competitive position of its integrated stainless steel plant by further expanding ferrochrome and stainless steel production capacity and to consequently enhance both efficiency and profitability of the operation. Plans are being developed for doubling the production capacity over the next 5-10 years. The procedures for assessing environmental impacts relating to the program were completed in 1997. Timing the investments correctly is essential to the success of the project.

The growth in stainless steel consumption has been good for a long time in both Europe and North America. On the other hand, a great deal of new production capacity was built in Asia in the mid-1990s, and the halt of growth in local consumption has led to a worldwide glut on the market. This has resulted in a significant decline in prices in all market areas.

It has, however, been predicted that the market situation will improve within 2-3 years. Outokumpu seeks to make the investment decisions in anticipation of market trends. The price and availability of energy are also crucial to the investment program, because energy accounts for half of the production costs of ferrochrome.

# Copper Products moves closer to the customer



YEAR 1998

Copper Products' deliveries remained at 1997 levels. Net sales declined 10% due to lower copper raw material prices. The conversion margins for copper products rose slightly from the previous year. Operating profit amounted to FIM 104 million, including FIM 86 million of negative market adjustment to inventories (1997: FIM 86 million, including FIM 64 million of inventory losses). The result includes unusual items with a net expence effect of FIM 9 million, due mainly to the restructuring of the European tube mills and the disposal of brass rod operations. The corresponding result for 1997 includes a write-off of FIM 177 million relating to the consolidation of electrostrip production in the United States. The new copper products mill in Malaysia was inaugurated in September. Copper Products adopted a new business organization from the beginning of 1999.

## Global customer relationships important

Outokumpu operates globally in all main market areas for fabricated copper products. Copper Products has a particularly strong competitive position in its principal markets of the United States and Europe. In recent years, production capacity has also been built up on the expanding Asian market. The Group has a 10% global market share in fabricated copper products. Proprietary technology as well as expertise in copper metal applications has turned Outokumpu into the market leader in a number of special products.

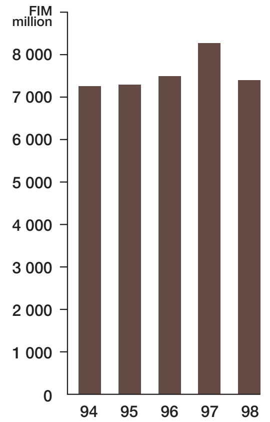
The Copper Products business comprises two different types of operations with virtually equal sales volumes: global business lines based on Outokumpu's proprietary technology; and regional operations in Europe and the United States, where the company also serves local customer groups with products made cost-efficiently by more conventional manufacturing methods.

## Optimal products and technical solutions provide added value for customers

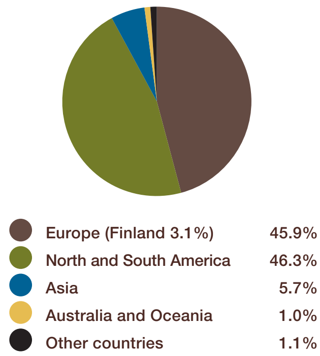
During the year, Copper Products' strategy was further developed and the operational structure was reorganized. The guiding principle is to work in close cooperation with the customer. This enables Outokumpu to exploit its expertise in copper metal applications for the benefit of the customers, offering solutions that enhance their operations and may create new business opportunities. The Copper Products business had a manufacturing orientation, then shifted to a marketing and product-led approach and will now, in keeping with the business area's new strategy, focus on offering solutions to the customer.

COPPER PRODUCTS

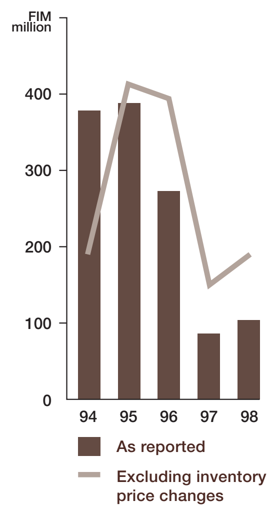
### Net sales




### Net sales by market area 1998




### Operating profit



## Key figures

| FIM million | 1998 | 1997 |
|---|---|---|
| **Net sales** | | |
| Tube products | **2 180** | 2 347 |
| Drawn products | **1 373** | 1 484 |
| Strip products | **1 465** | 1 944 |
| Rolled products | **2 613** | 2 524 |
| Other business units | **565** | 778 |
| Sales within the business area | **(795)** | (809) |
| Total | **7 401** | 8 268 |
| Share of the Group's net sales (%) | **37** | 36 |
| Operating profit | **104** | 86 |
| Operating profit margin (%) | **1** | 1 |
| Operating profit excluding inventory price changes | **190** | 150 |
| Return on capital employed (%) | **3** | 3 |
| Capital employed on Dec. 31 | **3 772** | 3 995 |
| Capital expenditure | **433** | 456 |
| Depreciation and amortization | **265** | 222 |

## Production

| tonnes | 1998 | 1997 |
|---|---|---|
| Tube products | **122 800** | 114 300 |
| Drawn products | **69 400** | 65 900 |
| Strip products | **91 300** | 104 500 |
| Rolled products | **196 100** | 184 100 |
| Other business units | **12 100** | 26 000 |
| Delivieries within the business area | **(55 400)** | (61 400) |
| Total | **436 300** | 433 400 |
| Associated companies: | | |
| Rolled products/ Laminados Oviedo-Córdoba 50%*) | **16 300** | 13 800 |

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

## Personnel

| Dec. 31 | 1998 | 1997 |
|---|---|---|
| Tube products | **1 489** | 1 457 |
| Drawn products | **990** | 928 |
| Strip products | **735** | 1 002 |
| Rolled products | **1 365** | 1 153 |
| Other units | **833** | 985 |
| Total | **5 412** | 5 525 |

## Press releases 1998

*www.outokumpu.com*

| | |
|---|---|
| 6.5. | Outokumpu to sell its Brass Rod operations in Sweden |
| 2.6. | Consolidation of Copper Tube activities in Europe |
| 24.8. | Outokumpu strengthens customer focus and enhances technology's role in the new Copper Products strategy and organization |
| 29.9. | Outokumpu's Malaysian mill inaugurated |

Copper Products' development work concentrates on researching and utilizing the excellent heat and electrical conductivity, formability and corrosion resistance of copper for enhanced customer solutions. The goal is to better integrate the products into the customer's product development, planning and manufacturing chain. By seeking new areas of application closer to the end-user, Outokumpu can find new business opportunities for its competencies and technology.

One example of development work on manufacturing processes is the mini-mill concept, which involves substantially lower investment costs than ordinary mills. A competitive operating cost level can be attained at lower production volumes than with traditional mills and production can therefore be located closer to customers. The market can also be penetrated more rapidly and the entire invested capacity come on stream at a lower risk.

Another element in the new strategy was the decision to transfer the business operations of Outokumpu Castform and Outokumpu WTT, which sell copper product technology, from Technology to Copper Products from the beginning of 1999. This means that all of Outokumpu's expertise relating to copper fabrication is managed by Copper Products.

### Growth spurred by specialist skills

Copper Products develops new business by focusing on solutions for which Outokumpu's proprietary technology is applicable. The most important customer groups at present are the manufacturers of heat exchangers for the automotive, building and construction industry, electricity transmission applications and telecommunications, and the electronics industry and connector manufacturers. The Nordic Gold alloy developed by Outokumpu is used in the new euro coins.

Outokumpu has a share of over 60% of the world market in copper radiator strips used for heat exchangers in the automotive industry. The new CuproBraze® technology developed in collaboration with customers improves the heat transfer capacity of the automotive radiators, reduces the size of the end-product and cuts manufacturing costs, whilst offering an environmentally friendly, lead-free solution.

The heat transfer capacity of welded tubes used in air-conditioning and refrigeration systems can be improved by up to 15-20% by means of enhanced, inner-grooved designs. The amount of material required is also reduced. Outokumpu is the leading and biggest manufacturer of these special tubes.

Alloys for the electronics and electrical connectors are tailored to meet customer specifications. Outokumpu puts emphasis on the development of new alloys and new production technology for connector strips.

Outokumpu is one of the most important suppliers of oxygen-free copper products to the telecommunications industry. Applications include mobile phone base station networks and submarine cables.

### Products for the regional market

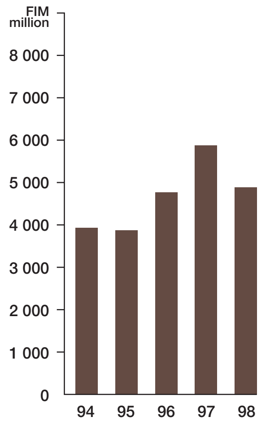
Regionally fabricated products such as plumbing tubes and copper products for the building and construction industry meet the most rigorous international quality standards. They are often supplied through regional distributors. On this intensely contested market, advantage is achieved with cost-effectiveness as well as supply quality and reliability.

Outokumpu's strategy for these products is to increase productivity, strengthen the operations of the service centers in selected market areas and to invest in information technology in order to further enhance reliability and speed of delivery.

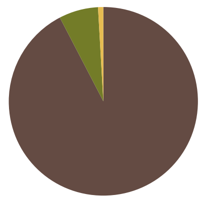
# Investments in Base Metals have reinforced competitive position

BASE METALS

## Net sales

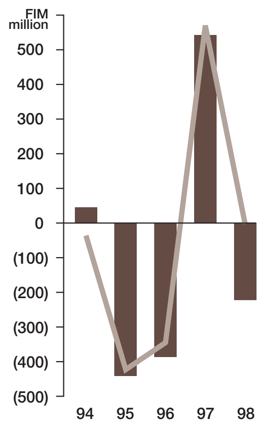



## Net sales by market area 1998



| | |
|---|---|
| Europe (Finland 17.6%) | 92.4% |
| North and South America | 6.7% |
| Asia | 0.9% |

## Operating profit




YEAR 1998

Sharply declining prices had a marked impact on Base Metals, whose net sales fell by 17% despite an increase in metal deliveries. The prolonged decline in prices meant that the real price of nickel at year-end was at an all-time low, that of copper at its lowest level for sixty years and that of zinc for thirty years. This undermined the business area's profitability considerably and operating profit fell to a loss of FIM 223 million (1997: operating profit FIM 542 million). The result includes FIM 221 million of negative market adjustment to inventories (1997: inventory loss FIM 28 million). Mining operations posted a heavy loss; however, the metallurgical operations remained profitable.

In November, Base Metals purchased the remaining 50% of the Silver Swan nickel mine in Australia. The investment in the expansion of the Kokkola zinc plant and other investments completed earlier elsewhere, together with ongoing measures to enhance operations, are leading to improved cost-efficiency in Base Metals.

### Improved cost-efficiency in metallurgical production

Outokumpu's activities in base metals are comprised of mining operations worldwide and metal production in Finland. Of the business area's sales, 32% come from zinc, 32% from copper, 23% from nickel and 13% from by-products such as gold, silver and sulfur products. About one third of the production volume is sold at world market prices to the Group's other business areas. Outokumpu accounts for 3% of global zinc production, 2% of copper and 4% of nickel. The prime use of zinc is as a corrosion preventing coating for carbon steel, in galvanizing. Copper

## Key figures

| FIM million | 1998 | 1997 |
|---|---|---|
| **Net sales** | | |
| Mining operations | **1 001** | 1 463 |
| Metal production | | |
| Zinc | **1 629** | 1 973 |
| Copper | **1 828** | 2 234 |
| Nickel | **1 246** | 1 487 |
| Other business units | **38** | 85 |
| Sales within the business area | **(854)** | (1 368) |
| Total | **4 888** | 5 874 |
| Share of the Group's net sales (%) | **24** | 26 |
| Operating profit | **(223)** | 542 |
| Operating profit margin (%) | **neg.** | 9 |
| Operating profit excluding inventory price changes | **(2)** | 570 |
| Return on capital employed (%) | **neg.** | 11 |
| Capital employed on Dec. 31 | **5 335** | 5 356 |
| Capital expenditure | **606** | 654 |
| Depreciation and amortization | **465** | 441 |

## Production

| tonnes | 1998 | 1997 |
|---|---|---|
| Mine production | | |
| Zinc in concentrates | **172 800** | 193 700 |
| Copper in concentrates | **12 200** | 17 100 |
| Nickel in concentrates | **20 700** | 16 000 |
| Lead in concentrates | **36 500** | 45 300 |
| Nickel in concentrates/ Mining Project Investors 34 % *) | **1 700** | 1 050 |
| Metal production | | |
| Zinc | **199 000** | 175 000 |
| Blister copper | **156 000** | 159 000 |
| Cathode copper | **123 000** | 116 000 |
| Nickel | **43 400** | 35 300 |
| Gold (kg) | **4 980** | 3 900 |
| Silver (kg) | **29 700** | 32 200 |
| Cathode copper/ Zaldívar 50 % *) | **65 800** | 48 100 |

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

Mine production figures as well as ore reserves and mineral resources are reported on pages 63-64.

## Personnel

| Dec. 31 | 1998 | 1997 |
|---|---|---|
| Mining operations | **1 382** | 1 459 |
| Metal production | | |
| Zinc | **762** | 793 |
| Copper | **547** | 548 |
| Nickel | **456** | 456 |
| Other units | **23** | 35 |
| Total | **3 170** | 3 291 |

Main picture: Machinist Matti Somero at work in the Kokkola zinc plant.

is used as a raw material in the copper products industry and nickel mainly as an alloying material for stainless steel.

As a result of the major investments in recent years, the focus of Base Metals' business operations has increasingly shifted toward metallurgical production. The modernization and expansion program carried out at Harjavalta between 1993 and 1996 augmented copper and nickel production capacities considerably. The expansion of the Kokkola zinc plant completed in the autumn of 1998 raised capacity from 175 000 to 225 000 tonnes a year.

The metallurgical industry cannot succeed without cost-efficiency, state-of-the-art recovery methods for metals and well-managed procurement of raw materials.

Outokumpu's aim is to rank among the top third of world metal producers for efficiency. Following the recently completed investment, the Kokkola zinc plant is one of the best in the world, according to the company's assessment. Performance and efficiency at the Harjavalta copper-nickel unit is already average and it continues on its path of constant improvement.

The merits of Outokumpu's technological expertise have been clearly demonstrated in times of sharp market price fluctuations. Advanced technology gives the Group's smelters an advantage over many competitors, enabling them to process difficult and impure raw materials more efficiently.

### Mining operations face challenges

Extremely low metal prices have considerably undermined the profitability of both Outokumpu's and its competitors' mining operations. Outokumpu's nickel mining has taken a particularly hard blow and is clearly loss making at the current price level. 1998 was a tough year also for the Tara zinc mine, due to declining prices and below-average production volumes. A significant cut in production costs and improved productivity have been set as the key objectives for the mining operations.

At the close of 1998, Outokumpu signed a preliminary agreement on the sale of its 50% stake in the Zaldívar copper mine in Chile. The deal fell through in February, 1999 when the buyer failed to arrange the necessary financing. Notwithstanding this, and in view of the anticipated closures of depleting nickel mines, the role of mining activities in Outokumpu's overall base metal operations will decline.

### Press releases 1998

*www.outokumpu.com*

| | |
|---|---|
| 8.6. | Production ceased at Outokumpu's Grong zinc-copper mine in Norway |
| 23.9. | Outokumpu Harjavalta Metals to modernize its operations by forming networks |
| 12.11. | Outokumpu has become 100 percent owner of Silver Swan nickel mine in Western Australia |
| 13.11. | Development of Kevitsa nickel-copper deposit in Northern Finland not economically viable according to Outokumpu |
| 17.11. | AGA and Outokumpu sign new agreement valued at USD 250 million on gas supplies |
| 18.11. | Inauguration of Outokumpu zinc plant expansion |
| 26.11. | Outokumpu agrees to sell its 50% share in the Zaldívar copper mine in Chile |

Surveyor Myles Ertzen completing leveling work at the tailings area of the Black Swan nickel mine (previously Silver Swan) in Western Australia. Since the beginning of November, the mine is wholly-owned by Outokumpu.

# Technology invests in product development

## YEAR 1998

Technology achieved a good result despite a decline in investment activity in the mining and metallurgical industry. Net sales fell by 13% and operating profit totaled FIM 134 million (1997: FIM 238 million). At year-end, the business area's order backlog stood at FIM 729 million (1997: FIM 730 million). The single most important order, received in December 1998 and worth about FIM 500 million, was for flash smelting and converting technology to Southern Peru Copper Corporation's copper smelter in Peru to be delivered between 1999 and 2001.

### Solid platform in Outokumpu's own experience

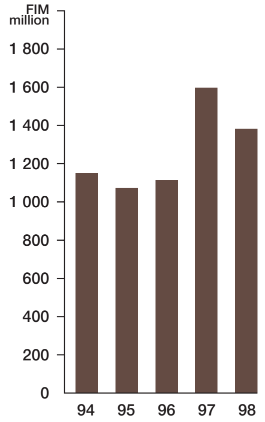
Outokumpu is one of the world's leading developers and suppliers of technology for the mining and metallurgical industry. Many of its principal products have significant shares of their global markets.

Outokumpu has over fifty years of experience in the tried and tested operability of its range of technology products. The flash smelting method developed by the company is used to make half of the world's primary copper. Innovation has often been driven by the need to improve the efficiency of the company's own production, and doing so in accordance with firmly held principles of sustainable development. Furthermore, Outokumpu is a major supplier of anode casting shops, flotation cells and ceramic filters, and a producer of feasibility studies and reports relating to the development of the metallurgical industry.

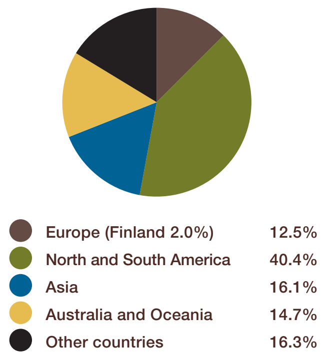
Technology's target is to develop its business operations over the next few years by focusing on product innovation and possibly acquisitions of outside products to

## TECHNOLOGY

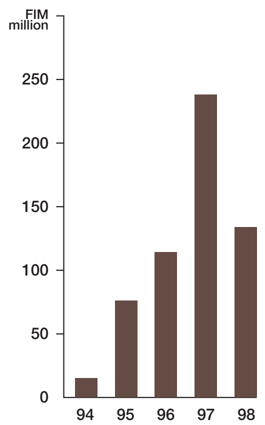
### Net sales




### Net sales by market area 1998




### Operating profit



## Key figures

| FIM million) | 1998 | 1997 |
|---|---|---|
| **Net sales** | | |
| Outokumpu Mintec | **498** | 478 |
| Outokumpu Engineering Contractors | **423** | 518 |
| Outokumpu Wenmec | **174** | 235 |
| Outokumpu Castform | **256** | 340 |
| Other business units | **165** | 162 |
| Sales within the business area | **(133)** | (135) |
| Total | **1 383** | 1 598 |
| Share of the Group's net sales (%) | **7** | 7 |
| Operating profit | **134** | 238 |
| Operating profit margin (%) | **10** | 15 |
| Return on capital employed (%) | **32** | 62 |
| Capital employed on Dec. 31 | **487** | 434 |
| Capital expenditure | **95** | 39 |
| Depreciation and amortization | **26** | 24 |

## Personnel

| Dec. 31 | 1998 | 1997 |
|---|---|---|
| Outokumpu Mintec | **362** | 311 |
| Outokumpu Engineering Contractors | **478** | 847 |
| Outokumpu Wenmec | **113** | 110 |
| Outokumpu Castform | **192** | 191 |
| Other units | **305** | 304 |
| Total | **1 450** | 1 763 |

## Press releases 1998

*www.outokumpu.com*

- 16.1. Outokumpu delivers process equipment and engineering to Congo
- 17.4. Outokumpu supplies technology to Hernic Ferrochrome, RSA
- 13.8. Outokumpu delivers new flotation plant for Impala Platinum, RSA
- 18.9. Cooperation agreement for furnace cooling technology signed between Hatch Associates and Outokumpu
- 13.10. Outokumpu's sintering technology in a new field in Brazil
- 19.11. Outokumpu Technology to acquire Carpco, USA
- 16.12. Outokumpu increases its ownership of Supaflo in Australia to 100%

complement its current range. Marketing activity will also be targeted on entirely new customer groups that could gain added value from Technology's products.

### New and upgraded products for the market

Outokumpu is virtually the only metal manufacturer to have succeeded in organizing technology sales into a separate profitable business on this scale.

The objective is to enhance the value-added element of all products and to increase the share of process automation. The life span of the products is usually decades, and consequently many Outokumpu technologies and new applications continue to sell even though the basic solutions applied were developed quite some time ago. Approximately one third of net sales are, however, derived from technology products not yet available five years ago. Many of these are however related to prior solutions. For example, the new Kennecott-Outokumpu flash converting method further strengthens the position of Outokumpu's flash smelting technology, known for its environmental-friendliness. Other new solutions include a leaching-solvent extraction-electrowinning process and belt sintering for ferro-alloys.

Energy saving is a characteristic of very many of the technologies developed by Outokumpu. Closed smelting processes are inherently environmentally sound, and therefore the easiest and most economical way of reducing the sulfur emissions associated with metal production. Greater emphasis on these needs in a number of industrial sectors has boosted the demand for Outokumpu's technology products.

### Targeting new customer groups

Technology will extend its businesses not only by means of product development but also by seeking new industrial sectors, which can effectively utilize Outokumpu technologies.

The Technology business area's potential range includes processes for the production of industrial minerals, where the raw materials processing methods employed are similar to those used with metals, or hydrometallurgical processes and equipment, where the metals are extracted from the ore using liquid solutions instead of smelting.

In many sectors of industry, Outokumpu technology can provide a distinct competitive edge to the customer's process. Outokumpu expertise is at its strongest in projects where an understanding of the customer's needs, mastery of production processes and ingenuity relating to the equipment combine to form an ideal production process. In this pursuit, Technology can draw on support from the entire Outokumpu Group and its wealth of experience.

Companhia Brasileira de Metallurgia & Mineração, the world-leading producer of ferro-niobium, chose Outokumpu's sintering technology for the expansion of its Araxan plant in Brazil.

# The Group's other operations support and facilitate core business activities

Outokumpu's other operations comprise Corporate Management, Corporate Services and the company's industrial holdings.

## Corporate Services

The metal marketing companies serving all of Outokumpu's business areas are active in more than twenty countries. Outokumpu Rossija, specialized in Russian trade, markets the Group's products and procures metal raw materials for its production plants. Outokumpu Research Oy is a research center that develops processes, equipment and products primarily for the Group's business units. The other corporate service units provide Group subsidiaries and units with assistance in the fields of real estate, training, legal affairs, patenting, financing, energy supply, information technology, occupational health and insurance.

## Industrial holdings

Princeton Gamma-Tech, Inc., in which Outokumpu is an 80% majority owner, manufactures electronic measurement and analyzing equipment in the United States. SKT-Granit Oy is engaged in rock processing operations in Finland and the associated company Okmetic Oy, in which Outokumpu holds a 49% stake, produces silicon wafers at two plants in Finland.

### Net sales by business unit

| FIM million | 1998 | 1997 |
|---|---|---|
| Corporate Management | 99 | 80 |
| Marketing companies | 323 | 412 |
| Outokumpu Rossija | 740 | 922 |
| Outokumpu Research | 67 | 59 |
| Power supply | 325 | 508 |
| Other service units | 72 | 70 |
| Princeton Gamma-Tech | 51 | 52 |
| SKT-Granit | 25 | 27 |
| Intra-group sales | (18) | (24) |
| Total | 1 684 | 2 106 |

### Personnel by business unit

| on Dec. 31 | 1998 | 1997 |
|---|---|---|
| Corporate Management | 84 | 79 |
| Marketing companies | 214 | 208 |
| Outokumpu Rossija | 38 | 37 |
| Outokumpu Research | 171 | 180 |
| Power supply | 6 | 5 |
| Other service units | 118 | 120 |
| Princeton Gamma-Tech | 85 | 95 |
| SKT-Granit | 40 | 40 |
| Total | 756 | 764 |

# Human resource development aimed at promoting competitiveness

The Group's strategic objectives determine the focus of the human resource development programs. Profitable growth and customer requirements together with business plans provide the direction for development needs. The emphasis is on programs that enhance competitiveness by improving and maintaining the skills and expertise of Outokumpu's personnel. Good workplace morale and co-operation has a key role to play in developing efficiency.

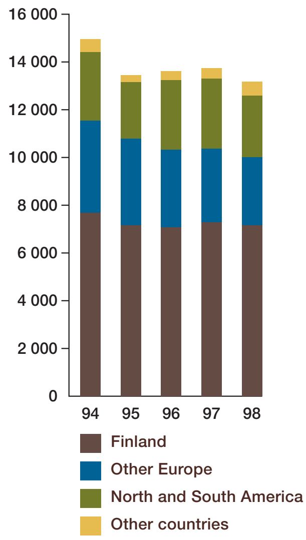
Training costs in 1998 accounted for about 3% of total personnel expenses, and training days amounted to around 4 per Outokumpu employee.

## Agreed objectives lead to superior results

The Outokumpu operating culture emphasizes diversity of skills, initiative and flexibility, which are all supported by the Outokumpu Competence Development programs, for example. Over 800 Outokumpu employees have taken part in these programs. Attention centers not only on basic skills but also on sectoral expertise as a competitive factor, entailing technological innovation and development of products and practices.

A central theme of management development has been profitable growth. This has been explored in the Outokumpu Executive Development program. Twenty-five people took part in it during 1998 and since 1994 a total of 125

### Personnel



In many Outokumpu production plants, competence development plays a crucial role even before employment starts. The future employees of the Kokkola zinc plant learn versatile basic skills during a one-year course. The success in working life is based on these skills. Pictured are the 1998 zinc course participants.

## Personnel by country

| Dec. 31 | 1998 | 1997 |
|---|---|---|
| **Europe** | | |
| Finland | **7 174** | 7 291 |
| Sweden | **724** | 905 |
| Ireland | **626** | 615 |
| The Netherlands | **490** | 489 |
| Spain | **465** | 466 |
| Austria | **148** | 138 |
| Britain | **123** | 106 |
| Germany | **83** | 84 |
| Norway | **57** | 148 |
| Russia | **56** | 54 |
| Italy | **33** | 31 |
| France | **19** | 18 |
| Other countries | **21** | 24 |
| | **10 019** | 10 369 |
| **North and South America** | | |
| United States | **1 963** | 1 946 |
| Chile | **448** | 818 |
| Canada | **148** | 151 |
| Peru | **14** | 12 |
| Other countries | **10** | 6 |
| | **2 583** | 2 933 |
| **Asia** | | |
| China | **172** | 192 |
| Malaysia | **141** | 19 |
| Singapore | **16** | 16 |
| Other countries | **13** | 14 |
| | **342** | 241 |
| **Australia** | **214** | 178 |
| **Africa** | **21** | 13 |
| Total | **13 179** | 13 734 |

managers have attended the program.

Outokumpu is strengthening its customer-oriented approach at all levels of the organisation. For example, at the Buffalo copper rolling mill close customer ties have been enhanced through visits to customers' premises by plant operators. They have thus gained valuable personal knowledge about their customers' production processes and have become better acquainted with where their products go, as well as with the customers' expectations.

Outokumpu also encourages each unit to develop its competence continuously and over the long term to meet the needs of the business. For example, the Kokkola zinc plant has a vocational training system where employees can attend an on-the-job study program with the aim of achieving an official vocational qualification. The program provides a firm foundation for continuing studies that can lead all the way to university level degrees.

Target-oriented teamwork has been developed by focusing on effective working practices. The increasing use of development discussions is reinforcing personal initiative and goal-setting. The latter is supported through bonuses awarded on the basis of performance, productivity and achieved development targets. Such bonuses accounted for about 6% of the total personnel expenses in 1998.

The European-level Outokumpu Personnel Forum, has become an established vehicle for co-operation between personnel and management. The role of environmental issues in promoting competitiveness was the special theme of the Personnel Forum held in Tornio in 1998.

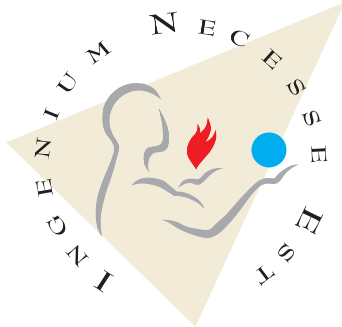
### Several development projects

Various methods of gathering information and measuring occupational safety performance are being developed to achieve commensurable reporting on the Group as a whole. The construction of a system for monitoring occupational safety progressed during the year. Training was arranged on the application of the new model for investigating accidents and near-misses. Accidents at work decreased by 10% from the previous year.

Outokumpu's quality policy was ratified in spring 1998, and related training has been started throughout the Group. The policy favours the use of quality award criteria.

Work on systems relating to the development of Group-wide human resource reporting was commenced. The tools are designed primarily to improve human resource planning.

# Our core competence of technological expertise thrives on strong R&D




**YEAR 1998**

Apart from normal continuous improvement, the most important R&D projects during the year focused on the following:

- expansion of the Kemi chromium mine, utilizing the results of the Intelligent Mine Program, which exploits the latest electronics and computer technology
- development work relating to the expansion of the stainless steel works at Tornio
- regeneration of pickling acids
- nickel manufacturing technologies
- flash smelting technologies
- electrolysis technology
- minerals technology, where we also took part in a national technology program
- further development of capillary filters
- casting and metal-working technologies for copper and copper alloys
- products and technologies relating to copper strip
- tube manufacturing technologies
- automation

A total of 427 people (1997: 438) were employed in research and development activities in the Group's business areas and service units. Of these 43 hold doctoral or licentiate degrees.

In 1998, the Group allocated FIM 229 million, or 1.3% of net sales (1997: FIM 210 million, 1.1%) to research and development.

26 new patent applications were filed (1997: 18).

Outokumpu aims to be at the forefront in its field. Focused research and development, competent personnel and top-quality research facilities are cornerstones for success. Pictured is Marko Limnell performing flotation tests.

Typical of Outokumpu's metals production throughout the entire value chain is the broad presence of its technological expertise, which the Group also cultivates through substantial investments in R&D. Outokumpu is respected world-wide as a developer of metal sector technology. For example, the flash smelting method developed and marketed by the Group is used to manufacture about half of the world's primary copper and a third of nickel. A prerequisite of metal production technology acquired from outside the Group is that it has to be state-of-the-art, too.

The company puts its technological expertise to use in two ways: as a competitive factor that generates efficiency and quality in its own production, and as a business in its own right by selling technologies and technology products to the mining, metallurgical and metal working industries.

Outokumpu has continuously directed the focus of the development of technological expertise further down the metal production value chain and closer to the end-user. In addition, technology is transferred and replicated such that basic

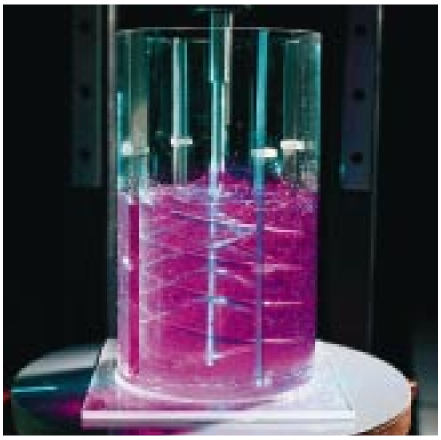
## R&D expenditure

| FIM million | 1998 | 1997 |
|---|---|---|
| Stainless Steel | **45** | 52 |
| Copper Products | **48** | 37 |
| Base Metals | **66** | 58 |
| Technology | **52** | 42 |
| Other operations | **74** | 74 |
| Intra-group items | **(56)** | (53) |
| Total | **229** | 210 |

technologies are finding increasing use in new applications. Technology is a major unifying factor for the Group.

### R&D plays a key role in the Group's business operations

1998 saw the start-up of a number of projects employing technology developed by Outokumpu. The largest of these in our own sphere were the expansion of the Kokkola zinc plant, which utilizes direct leaching technology, and the Malaysian copper products plant which applies in-house tube and profile manufacturing technology. Projects supplied to customers include the Fortaleza nickel smelter in Brazil, Indo Gulf copper smelter in India and the belt sintering plant at the Samancor ferrochrome smelter in South Africa.



The development of innovative process equipment require both mathematical and empirical understanding of fluid dynamics.

Technology plays a key role in the Outokumpu Group. Sharply focused research and development, in line with Group strategies, bolsters Outokumpu's position at the forefront of our industry.

Outokumpu has four specialized research and development units. The town of Pori is home to Outokumpu Research Oy, which focuses on process technology for the recovery of metals from ores and concentrates, and to the Copper Products' Metal Laboratory, which specializes in developing both products and casting and metal-working technologies. Based in the Swedish town of Västerås, is another unit which develops copper casting and metalworking technologies. The Tornio Metals Laboratory of Stainless Steel concentrates on the development of steel products and their manufacturing technologies. In addition, several business units engage in development related to their own products and technologies.

### Outokumpu core technologies

**Mining & Mineral Processing**
- Exploration technologies
- Selective mining
- Automated and autonomous mining processes
- Real time control
- Comminution technologies
- Flotation technology & machines
- Capillary filters
- Thickeners
- X-ray analyzers
- Particle size indicators
- Process control systems

**Smelting and Refining**

PYROMETALLURGY
- Concentrate drying
- Pelletizing & sintering
- Ferroalloy smelting
- Flash smelting
- Flash converting
- Anode casting

HYDROMETALLURGY
- Atmospheric leaching
- Pressure leaching
- Solution purification
- Solvent extraction
- Autoclave technology
- Electrowinning
- Electrolytic refining
- Tank house mechanisation
- Anode slime processing
- Evaporation
- Anode processing for aluminium industry
- Sulphuric acid technology

**Casting**
- Continuous casting
- Upcasting
- Strip casting
- Aluminium casting
- Zinc casting

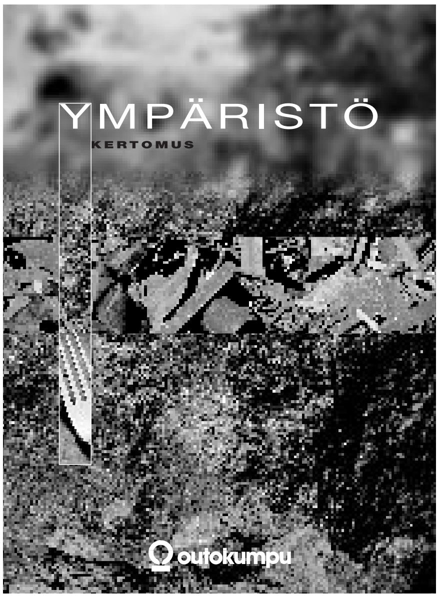
**Metalworking**
- Rolling
- Extrusion
- Drawing
- Cast&Roll
- Annealing
- Pickling
- Cutting and slitting
- Welding
- Surface treatment
- Finishing

Process control, energy saving, environmental protection, recycling, waste treatment

# Environmental protection benefits from in-house technological expertise

Outokumpu's commitment to its environmental responsibility is rooted in the competence of its personnel and its low-emission technologies, many of which have been developed inside the Group. Outokumpu is recognized worldwide for having state-of-the-art technologies that feature a combination of efficiency and environmental responsibility.

Both in its own production and in the technological solutions marketed, Outokumpu seeks out environmentally friendly, closed processes with optimal use of energy. A good example of a closed, energy-saving process is flash smelting, which allows environmentally hazardous sulfur dioxide off-gases to be carefully recovered and re-processed into raw material for other sectors of industry. Another example is the closed ferrochrome process from which the carbon monoxide gas is used as energy in stainless steel production.




In March 1999, Outokumpu is due to publish a separate report containing more detailed information on the Group's environmental approaches and guidelines as well as on the general environmental situation. The report will be available in English and Finnish.

The Group's corporate environmental policy, embedded in Outokumpu's core values and long standing responsible environmental approach, was published in May 1998.

### Expansion investments are also environmental investments

Emissions into the environment continue to decline at most of Outokumpu's production plants. The Group's sulfur dioxide emissions, totaling 3 500 tonnes a year, mainly originate at the Harjavalta smelters. However, whilst the production volumes have virtually doubled, sulfur dioxide emissions per tonne of metal produced have been halved. The excessive dust emissions at Harjavalta during the past two years, due to equipment damage, were contained during the year, and emissions will continue to diminish in 1999.

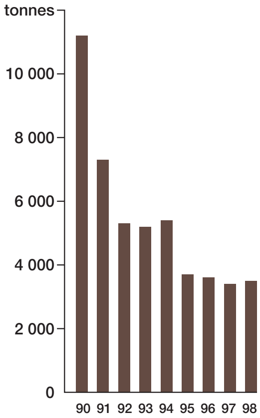
The combined 1998 carbon dioxide emissions by the Group's production plants were 530 000 tonnes. This amount, which largely originates at Tornio, accounts for under 1% of Finland's total emissions.

Research was continued into bacterial purification of waters with elevated metal content and into waste management practices and reclamation of mine tailings. The potential to further reduce water discharges and to further curb emissions to waters are being investigated.

The tailings pond, built in connection with the expansion of the Kokkola zinc plant, was taken into service during the year. Preparations for building a plastic-bentonite wall extending 5-10 meters underground around the waste storage area, also began in Kokkola. This 3 km long insulation wall is scheduled for completion in the year 2000.

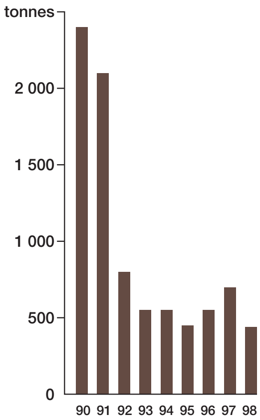
The Group's environmental investments amounted to about FIM 80 million. The largest individual sums were expended on the expansion of the Kokkola and Tornio plants and on mining operations. The 1998 operating costs for environmental protection totaled some FIM 150 million.

### $SO_2$ emissions



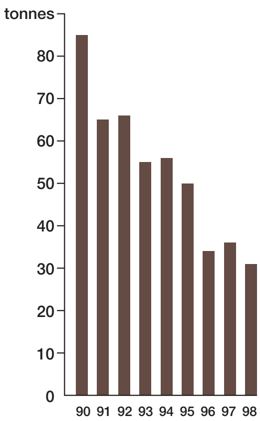

### Particle emissions to air

(excluding mines)




### Metal emissions to waters

(copper, nickel, zinc, chrome, lead, arsenic)




## Minor environmental damage and slightly exceeded permitted values reported

A minor breach of the copper slag tailings dam at Harjavalta in the spring of 1998 caused 57 000 $m^3$ of water and 1 500 $m^3$ of slag sand to spread into nearby ditches and fields. The area was cleaned during the summer and the ensuing minor damage was made good.

The joint environmental system of Outokumpu companies operating in Pori was entered in the European Union's EMAS register during the financial year. Outokumpu Copper Strip B.V. in the Netherlands was granted an ISO 14001 certificate. At most places of business, the environmental management system forms part of the quality system. A number of facilities are also upgrading their systems to comply with the ISO 14001 standard or EMAS.

Toward the end of 1998, a rise was detected of the sulfate content in a well in the vicinity of the Hitura mining area, which supplied water to about twenty households. Their water supply system was consequently connected to the town's public supply network. Investigations into the cause of the leak are underway.

The nitrogen, zinc and chrome emissions at Tornio and the nickel emission to waters at Harjavalta slightly exceeded the allowed annual limits. Minor and occasional non-compliencies of some other facilities were reported to the authorities.

There are no environmental legal proceedings pending against the company apart from the long-drawn-out process involving Princeton Gamma-Tech, which is reported in section 22 in the Notes to the consolidated financial statements.

The Group is unaware of any significant environmental risks that might have a major influence on its financial position.

## Investments in training and international co-operation

The international copper, zinc, steel and ferrochrome life-cycle projects, to which Outokumpu has contributed, were completed in 1998. A similar project relating to nickel was initiated during the year. Outokumpu also took part at a national level life-cycle assesment project conducted by the Finnish Environment Institute and supported by the Finnish Technology Development Centre (TEKES). The Group's experts have also played an active role in Finnish and international working groups involved in developing environmental programs and regulations.

During the year, environmental training was provided to personnel both in the form of separate courses and in connection with other training. The managers of Group companies attended events concerning environmental responsibilities, arranged at various places of business. An environmental database was opened in 1998 in the Group's information network in order to facilitate groupwide reporting and promote information flows.

# EMU and Year 2000 preparations have proceeded well

## Outokumpu ready for the euro

European integration took a major step forward with the launch of the third phase of the Economic and Monetary Union (EMU) on January 1, 1999. Finland was one of the first-round 11 member states to join EMU.

Outokumpu started preparations for EMU in 1997 and was ready for immediate EMU implementation and adoption of the new single currency – euro – as the Group's new corporate base currency from the outset. This schedule covers all functions except payroll administration, where transition will be postponed until January 1, 2002, when the euro banknotes and coins are planned to be issued.

Outokumpu has favored a swift and broad adoption of the euro in all commercial transactions, but is naturally prepared to accommodate its business partners' schedules for transition to the euro in adherence to the guiding principle of "neither compulsory, nor prohibited".

EMU brings a number of benefits from a financing point of view. Management of foreign currency and interest rate risks will be significantly easier, although e.g. the USD, SEK and GBP will remain major risk currencies for the Group. Cost savings will incur in risk and cash management. A bigger and liquid euromarket will facilitate funding.

Outokumpu has adopted the euro as its accounting currency in all EMU countries and as its new corporate base currency as of January 1, 1999. The new single currency will simplify accounting and reporting in all Outokumpu companies in EMU countries. Adoption of the euro can be done in accordance with present EU directives, national Finnish guidelines and in harmony with current Outokumpu Accounting Standards.

The adoption of the euro has required updates to all information technology systems which deal with money and currency translations. Emphasis has been placed on careful testing of new program versions and user training. Current status reports show that work has proceeded well and according to plan.

Changes in EU- and national legislations will solve most of the issues relating to the legal implications of EMU. Special attention has, however, been paid to the continuity of such contracts, which have been or will be made in any of the EMU currencies, which remain in force beyond December 31, 2001, and which fall under the jurisdiction other than those of EU member states.

The total cost of the Group's adoption of the euro is estimated to be some FIM 10 million, the majority of which was expensed in 1998.




The new 10, 20 and 50 eurocent coins will be made of the Nordic Gold alloy, developed by Outokumpu.

## Good progress in project to ensure Year 2000 compliance

Outokumpu's Year 2000 project encompasses all of the Group's business areas and units, which carry the responsibility for planning and implementing the project in their respective organizations. A Group level team at Corporate Management supervises the progress.

The Year 2000 project was started already in 1997 and covers all the areas where the change in the millennium may cause problems. With regard to products marketed by Outokumpu, it is only Technology's products that include any significant embedded information technology components.

Process automation and embedded systems are seen as the biggest challenge in the project. Non-compliance may have immediate impact on the Group's production processes, and may consequently carry risk of financial losses.

The management is confident that Outokumpu will achieve the Year 2000 compliance in time. If, however, interruptions in production would occur, the Company will take action in accordance with established breakdown procedures.

At present Outokumpu does not plan to take up special insurances for any Year 2000 risks.

All business units have been asked to check the Year 2000 compliance of their most important customers and suppliers.

The state of readiness by business areas and main units at the end of December 1998 is charted below. The percentages given describe the approximate amount of work done in relation to the total work planned.

| Business Area | | State of readiness (%) at the end of 1998 | Y2000 compliance expected |
|---|---|---|---|
| Stainless Steel | Ferrochrome | 70 | Jun. 99 |
| | Rolled stainless steel products | 60 | Aug. 99 |
| | Stainless steel tubes and fittings | 90 | Jun. 99 |
| Copper Products | Tube products | 90 | Apr. 99 |
| | Drawn products | 70 | Jun. 99 |
| | Strip products | 90 | Jun. 99 |
| | Rolled products Europe | 80 | May. 99 |
| | Rolled products United States | 100 | Dec. 98 |
| | Other Units | 90 | Jun. 99 |
| Base Metals | Mining operations | 65 | Jun. 99 |
| | Zinc | 80 | Sep. 99 |
| | Copper and nickel | 85 | Sep. 99 |
| Technology | Products for mining and metallurgy | 80 | Jun. 99 |
| | Technology projects | 90 | Mar. 99 |
| Others | Corporate Management | 70 | Jun. 99 |

Total costs of the Year 2000 project are estimated to be some FIM 30 million, of which somewhat over FIM 10 million has been recorded in the accounts by the end of 1998. No provisions are planned for any additional costs caused by the potential Year 2000 disturbances.

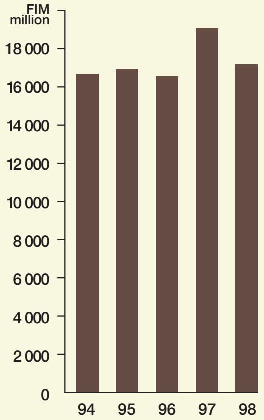
Comprehensive reports on both Outokumpu's EMU and Year 2000 compliance projects are available at the Group's Internet home page or from Corporate Communications. The Year 2000 report is updated quarterly.

# 4 Financial statements

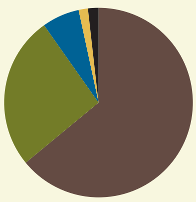
- Corporate review of the year
- Auditors' report
- Consolidated financial statements
- Parent Company financial statements
- Shares and shareholders
- Administration

# Corporate review of the year

## Net sales

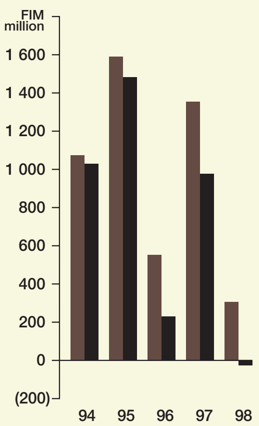



## Net sales by market area 1998



| | |
|---|---|
| Europe (Finland 8.6%) | 64.0% |
| North and South America | 26.1% |
| Asia | 6.4% |
| Australia | 1.6% |
| Other countries | 1.9% |

## Profit




Outokumpu posted a weak financial result in 1998. Metal prices declined sharply throughout the year, and the price level of several metals was exceptionally low by historical standards. This contributed to lower consolidated net sales and weakened results. The lower prices also led to a market adjustment to inventories amounting to FIM 479 million. The consolidated operating profit fell to FIM 306 million, and profit before extraordinary items and taxes turned into a loss of FIM 25 million. With the exception of Technology, all business areas made an unsatisfactory result. Base Metals showed an operating loss.

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 0.50 per share be paid for 1998.

### Exceptionally low metal prices

The economic crisis that started in Asia in 1997 spread to Japan, Russia and South America in the year under review. Repercussions were also felt in Europe and the United States, although they enjoyed a more stable economic development than the rest of the world.

The weak global economic background impacted directly upon the metal markets. The demand for metals and metal products dropped markedly in the regions hardest hit by the global crisis but remained robust in Europe and the United States. Changes in demand varied greatly by metal and metal product.

There was a slump in the prices of all the metals produced by Outokumpu. The average market price of nickel declined the most and was 33% below the previous year's level; this is the lowest-ever price level for nickel, in real terms. The price of copper and zinc fell 27% and 23%, respectively. At the end of the year, the price, in real terms, of copper had dropped to a 60-year and zinc to a 30-year low. The market price of stainless steel declined during the whole of 1998, reaching an exceptionally depressed level, on average over 10% lower than in the previous year. The price of ferrochrome declined slightly, and copper and zinc treatment and refining charges weakened substantially compared to 1997. There was a slight rise in conversion prices for copper products.

### Net sales down 10%

The deliveries of stainless steel and refined base metals grew, while those of copper products remained at the 1997 level. Neither the increase in delivery volumes, nor the strengthening of the average rate of the US dollar against the Finnish mark by 3%, were enough to offset the strong fall in metal prices. Group net sales contracted 10% from the previous year, amounting to FIM 17 176 million.

The geographical break-down of consolidated net sales shows that Europe's share grew by nearly four percentage points, reaching 64%, while the Asian share fell to 6.4%. North and South America retained a share of slightly over a quarter. The breakdown is presented in more detail in section 2 of the Notes to the consolidated financial statements.

#### Net sales by business area

| FIM million | 1998 | 1997 | Change % |
|---|---|---|---|
| Stainless Steel | 4 728 | 4 947 | (4) |
| Copper Products | 7 401 | 8 268 | (10) |
| Base Metals | 4 888 | 5 874 | (17) |
| Technology | 1 383 | 1 598 | (13) |
| Other operations | 1 684 | 2 106 | (20) |
| Intra-group sales | (2 908) | (3 738) | (22) |
| Group total | 17 176 | 19 055 | (10) |

The production of stainless steel was in full swing during the reporting period, and as a result of investments completed production volume rose markedly. The tonnage of wrought copper products remained at the previous year's level. With the expansion of the Kokkola zinc plant, zinc production increased by 14%. Nickel production at the Harjavalta smelter rose by 23%.

The most significant changes in mining operations were a reduction in the mine output of the Tara zinc operation due to the lower zinc content of the mined ore and an increase in the contained nickel output as the Australian Black Swan mine completed its first full year of operations.

For more detailed information on production, see pages 15, 17, 19 and 63.

## Result weakened considerably

Outokumpu's financial performance in 1998 was markedly weaker than in 1997. The Group's operating profit was FIM 306 million (1997: FIM 1 353 million). The result was affected by the continuing strong decrease in metal prices during the year and by the market adjustment to inventories of FIM 479 million, caused by the low metal prices at year's end. The slump in prices translated into an operating loss of FIM 113 million for the last quarter.

Owing to the exceptionally low prices of stainless steel and ferrochrome, the result of Stainless Steel lagged behind that of the previous year, although stainless steel deliveries grew by 10% as a result of completed investments.

Copper Products' performance was unsatisfactory. In addition to a negative market adjustment to inventories, the result includes a net expense of unusual items totaling FIM 9 million. The largest single charge is a FIM 60 million provision for the restructuring of European tube production, whereby the production of the Granefors tube plant in Sweden will be transferred during 1998 and 1999 to Pori, Finland and Zaratamo, Spain. This measure should boost annual profitability by about FIM 40 million in the coming years. The result also comprises a FIM 18 million capital gain on the sale of the brass rod operations, as well as other unusual income items of FIM 33 million. Included in the result of 1997 was a provision of FIM 177 million for the consolidation of electrostrip production in the United States. Excluding the effect of inventory price changes and unusual items, Copper Products' operating result weakened, falling below last year's level.

### Operating profit by business area

| FIM million | 1998 | 1997 | Change |
|---|---|---|---|
| Stainless Steel | 276 | 550 | (274) |
| Copper Products | 104 | 86 | 18 |
| Base Metals | (223) | 542 | (765) |
| Technology | 134 | 238 | (104) |
| Other operations | (9) | (50) | 41 |
| Intra-group sales | 24 | (13) | 37 |
| Group total | 306 | 1 353 | (1 047) |

### Operating profit excluding inventory price changes

| FIM million | 1998 | 1997 | Change |
|---|---|---|---|
| Stainless Steel | 463 | 514 | (51) |
| Copper Products | 190 | 150 | 40 |
| Base Metals | (2) | 570 | (572) |
| Technology | 134 | 238 | (104) |
| Other operations | (9) | (50) | 41 |
| Intra-group items | 9 | (13) | 22 |
| Group total | 785 | 1 409 | (624) |

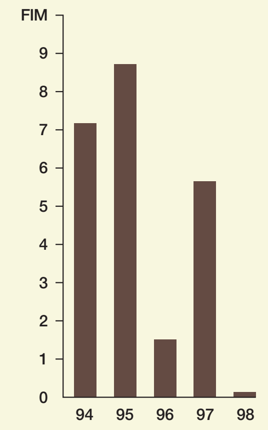
Steeply falling metal prices had a particularly strong impact on the operations of Base Metals, and its operating profit excluding the negative impact of market adjustments to inventories showed a slight loss. The cost-efficiency of the metallurgical plants has improved as a consequence of the completed investments. The mining operations were worst affected by the drop in metal prices and ran into losses. However, the Kokkola and Harjavalta plants operated at a profit despite weakened treatment and refining charges.

Despite a decline, Technology maintained a good result.

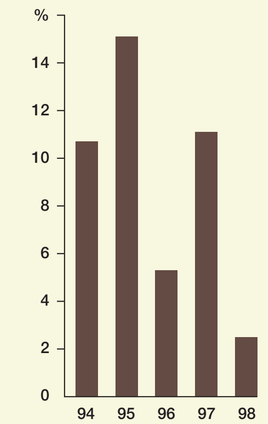
The operating profit under Other operations includes a capital gain of FIM 32 million from the sale of Merita stock. The consolidated net income of unusual items, presented in item 6 of the Notes to the consolidated financial statements, was FIM 23 million (1997: Loss of FIM 29 million).

Outokumpu's share of equity earnings in associated companies amounted to a loss of FIM 145 million (1997: loss of FIM 67 million). Despite favorable production and cost trends, the operating profit of the Zaldívar associated mine in Chile weakened because of declining copper prices and stood at FIM 150 million. Outo-

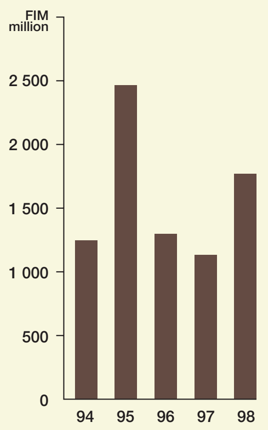
### Income per share



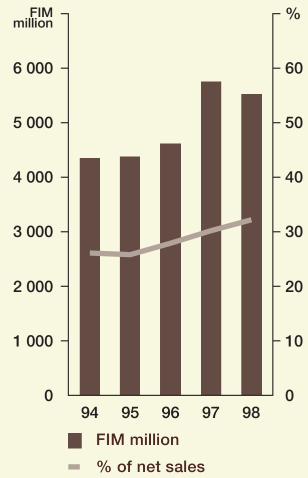

### Return on capital employed



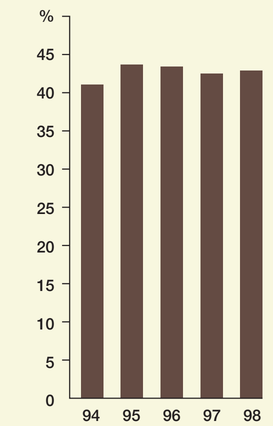

### Cash provided by operating activities



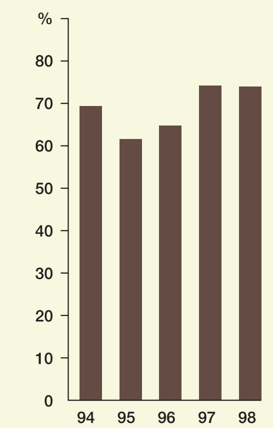
Net interest-bearing debt




Equity-to-assets ratio




Debt-to-equity ratio




kumpu's share of earnings in the company after financial items was a loss of FIM 116 million. The preliminary agreement to sell Outokumpu's 50% stake in Zaldívar to Canadian Aur Resources Inc., signed in November 1998, fell through on February 1, 1999 after Aur's financing arrangements failed. The financial development of the principal associated companies is explained in detail in section 12 of the Notes to the consolidated financial statements.

Financial expenses decreased by FIM 125 million from the previous year as a result of exchange gains resulting from currency hedging and lower interest rates.

The consolidated profit before extraordinary items and taxes showed a loss of FIM 25 million (1997: profit of FIM 975 million). Income taxes for the year under review amounted to a tax benefit of FIM 44 million owing to an increase in deferred tax assets (1997: tax cost of FIM 269 million). The Group's net income was FIM 17 million (1997: FIM 703 million).

Income per share was FIM 0.14 (1997: FIM 5.65). Return on capital employed was 2.5% and return on equity 0.3% (1997: 11.1% and 9.5%, respectively).

## Financial position remained stable

The Group's financial position remained stable during 1998, despite the weakened financial result. The equity-to-assets ratio was 42.9% on December 31, 1998, a slight improvement on the previous year.

Income financing decreased but with the freeing up of working capital, cash provided by operating activities improved considerably over the previous year.

Net interest-bearing debt contracted compared with the previous year and totaled FIM 5 524 million at year-end.

Net interest and other financial expenses decreased by FIM 14 million from the previous year. This was attributable to the decrease in net debt and market interest rates. Net financial expenses include exchange gains of FIM 33 million, largely derived from 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 totaled FIM 541 million. In addition, committed credit facilities available to the Group amounted to approximately FIM 1.9 billion.

### Key indicators to illustrate changes in the financial position

| FIM million | 1998 | 1997 |
|---|---|---|
| Net interest-bearing debt | | |
| Long-term debt | 3 985 | 3 854 |
| Current debt | 2 080 | 2 441 |
| Total debt | 6 065 | 6 295 |
| Cash and marketable securities | (541) | (544) |
| Net debt | 5 524 | 5 751 |
| Net debt in relation to net sales (%) | 32.2 | 30.2 |
| Shareholders' equity | 7 436 | 7 714 |
| Debt-to-equity ratio (%) | 74.0 | 74.2 |
| Equity-to-assets ratio (%) | 42.9 | 42.5 |
| Cash provided by operating activities | 1 771 | 1 134 |
| Net financial expenses | | |
| Net interest and other financial expenses | (219) | (233) |
| Exchange gains (losses) | 33 | (78) |
| Net financial expenses | (186) | (311) |
| Net financial expenses in relation to net sales (%) | 1.1 | 1.6 |

## Investments totaled FIM 1.5 billion

Capital expenditure fell compared to 1997 and totaled FIM 1 481 million, or 8.6% of net sales. Maintenance investments accounted for almost FIM 800 million.

The main investments completed included the expansion of Base Metals' zinc plant in Kokkola (about FIM 500 million), the Copper Products' mill in Malaysia (about FIM 260 million) and the modernization in Tornio by Stainless

### Capital expenditure by business area

| FIM million | 1998 | 1997 |
|---|---|---|
| Stainless Steel | 304 | 820 |
| Copper Products | 433 | 456 |
| Base Metals | 606 | 654 |
| Technology | 95 | 39 |
| Other operations | 43 | 76 |
| Group total | 1 481 | 2 045 |

Steel of the first cold-rolling mill installed in 1976 (about FIM 150 million).

In November, Outokumpu purchased Mining Project Investors Pty Ltd's (MPI) 50% stake in the Silver Swan nickel mine and sold its 34% holding in MPI. The purchase made Outokumpu the sole owner of the mine, thus reinforcing the company's "nickel chain" from mining to nickel refining. The name of the mine has been changed to Black Swan.

In December, Technology acquired the business operations of Carpco Inc, a US company manufacturing electrostatic separators, and the remaining 49% of its Australian subsidiary Supaflo Technologies Pty Ltd.

While no important new investments were underway at the turn of the year, investments completed earlier were given their finishing touches with continuing efforts to boost capacity.

In conjunction with the plans to eventually further expand ferrochrome and stainless steel production, a decision was made in December to launch an investment to prepare for a move to underground excavation at the Kemi chromium mine. This investment, aimed at improving cost efficiency and enabling a further doubling of mining production, will cost FIM 400 million and is scheduled for 1999-2004. Alternative methods of carrying out the broader expansion program to double the entire stainless steel production chain are still under investigation.

In the absence of major new investment decisions, it is estimated that total Group investments in 1999 will be lower than in 1998.

### Emphasis shifting from exploration to R&D

The Group's total expenditure in exploration and R&D was at the 1997 level, with the focus shifted from exploration to R&D.

Exploration expenditure totaled FIM 103 million, or 0.6% of consolidated net sales (1997: FIM 135 million and 0.7%). Total ore reserves and resources showed an increase over the previous year, and the focus of exploration shifted from nickel to zinc. The amount of mineral resources contained in the southwestern extension of the Tara zinc mine in Ireland grew from the previous year. Significant laterite resources were reported for the first time in the Honeymoon Well nickel deposit, and there was a substantial increase in the Black Swan nickel resources. In November, Outokumpu discontinued further exploration of the Kevitsa nickel-copper deposits in Sodankylä, Finland, and withdrew from the project. Studies showed that the deposit cannot be developed profitably at present or predicted future metal prices.

R&D expenditure in the reporting year was FIM 229 million, or 1.3% of consolidated net sales (1997: FIM 210 million and 1.1%). Research and development concentrated mainly on work related to the expansion of the stainless steel chain in Tornio, copper and copper alloy casting and metalworking technology, nickel refining, and flash smelting and electrolysis technology.

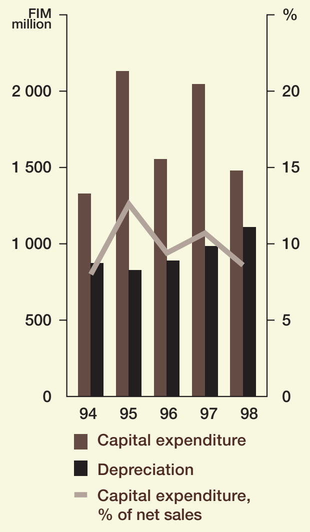
### Environmental impact curtailed

As a result of investments and continuous improvement, Outokumpu's environmental impact has been reduced markedly despite increases in production volumes. The Group's new environmental report will appear in March, providing detailed information on the achievements in environmental protection. Management is not aware of any environmental risks or liabilities that would significantly impact the Group's financial position.

### Declining headcount

The Group's year-end payroll of 13 179 was down by over 500 employees from the

### Capital expenditure




### Personnel by business area

| Dec. 31 | 1998 | 1997 |
|---|---|---|
| Stainless Steel | 2 391 | 2 391 |
| Copper Products | 5 412 | 5 525 |
| Base Metals | 3 170 | 3 291 |
| Technology | 1 450 | 1 763 |
| Other operations | 756 | 764 |
| Group total | 13 179 | 13 734 |

previous year. The largest cutback – of 341 temporary employees – occurred in Chile. Further personnel figures are given on page 23.

### New management and personnel incentive schemes

The 1998 Annual General Meeting decided to grant incentive stock options to Group and Business Area management members and to authorize the Board of Directors discretion to issue a convertible bond to the Group personnel. The Board of Directors approved the stock option plan subscriptions in June and decided on the issue of convertible bond at its meeting on February 12, 1999.

As a result of the option subscriptions, the Group's share capital may rise by a maximum of FIM 26 million (2.6 million shares) and as a result of the loan conversions by a maximum of FIM 20 million (2.0 million shares). The option arrangement and the convertible bond are part of the management and personnel incentive program.

The terms of the options and convertible bond are clarified on pages 70-72.

### Preparations for the euro and Year 2000 well underway

Adoption of the euro has proceeded smoothly at Outokumpu. The euro was adopted in the Group's accounts and financial reporting from the beginning of 1999. The company's objective is to reap the maximum benefit from the euro with a swift and as extensive an introduction as possible. The total cost of this currency change-over is estimated at some FIM 10 million, most of which was already expensed in 1998.

Year 2000 related preparations have been underway since 1997. They have progressed as planned, and management is confident that by the end of 1999 the Group's information systems and technical infrastructure will be ready to proceed smoothly into the next millennium. Total costs are anticipated to rise to about FIM 30 million, of which somewhat over FIM 10 million has already been realized by year's end 1998. No provisions have been made for expenditure contingent on Year 2000 compliance problems.

### Focus on internal measures to improve result in the difficult short-term market situation

Global economic growth is likely to remain slow and metal prices are not expected to rise significantly in the coming months. Consequently the Group result is forecast to remain weak in the early part of the year. However, in the longer term metal prices are predicted to improve above the present, exceptionally low levels, possibly well above.

The overcapacity in stainless steel should begin to ease off in two to three years' time. There are already signs that the decline in stainless steel prices is ending and in the near future prices are expected to rise slightly. In contrast, the downtrend in the price of ferrochrome has continued in early 1999.

The demand for copper products is expected to remain at a satisfactory level in Europe and North America, although competition will remain tough. Prospects for special products are better than for standard products.

It is unlikely that the demand and price trends for base metals will improve in the immediate future.

Technology's turn-of-the-year order backlog and the new orders received in the first weeks of 1999 have paved the way for a satisfactory result this year.

Despite the poor metal market situation, Outokumpu has set the target of achieving a satisfactory result as soon as possible. Efforts are supported by the investments completed in Tornio and Kokkola, which allow for expanded production volumes. However, reaching a satisfactory result further requires the full exploitation of completed investments, careful allocation of new investments, better cost-efficiency and continuous improvement of competencies to secure competitiveness and strengthen Outokumpu's competitive position.

### Board of Directors' proposal for profit distribution

In accordance with Outokumpu's approved dividend policy, the Board of Directors considers the Group's financial results as well as investment and development needs in its annual dividend proposal. The objective of the corporation is to declare dividends of not less than one third of the consolidated net income over a business cycle.

The financial statements of December 31, 1998, show that the Group's distributable funds total FIM 1 091.5 million and those of the Parent Company FIM 627.3 million.

The Board of Directors recommends to the Annual General Meeting that a dividend of FIM 0.50 per share be distributed and that the remaining distributable funds be carried forward as retained earnings.

Espoo, February 12, 1999

Gerhard Wendt

Matti Puhakka　　Ahti Hirvonen

Mauri Kainu　　Harri Pynnä

Ilkka Suominen　　Pekka Tuomisto

Jyrki Juusela
President

## 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 1998. 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 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 Board of Directors and 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 15, 1999

SVH Pricewaterhouse Coopers Oy
Authorized Public Accountants
Pekka Nikula, APA

# Consolidated income statement

| FIM million | | 1998 | 1997 | EUR MILLION 1998 | EUR MILLION 1997 |
|---|---|---|---|---|---|
| **Net sales** | [2, 3] | **17 176** | 19 055 | **2 889** | 3 205 |
| Cost of sales | [4] | **(15 350)** | (16 090) | **(2 582)** | (2 706) |
| **Gross margin** | | **1 826** | 2 965 | **307** | 499 |
| Selling and marketing expenses | | **(514)** | (491) | **(86)** | (83) |
| Administrative expenses | | **(725)** | (760) | **(122)** | (128) |
| Exploration, research and development expenses | | **(315)** | (320) | **(53)** | (54) |
| Unusual items | [6] | **23** | (29) | **4** | (5) |
| Other operating income and expenses | [7] | **15** | 21 | **2** | 4 |
| Amortization of goodwill on consolidation | | **(4)** | (33) | **(1)** | (5) |
| **Operating profit** | [3-8, 11] | **306** | 1 353 | **51** | 228 |
| Equity earnings in associated companies | [12] | **(145)** | (67) | **(24)** | (11) |
| Financial income and expenses | [9] | | | | |
| Net interests and other financial expenses | | **(219)** | (233) | **(37)** | (40) |
| Exchange gains (losses) | | **33** | (78) | **6** | (13) |
| | | **(186)** | (311) | **(31)** | (53) |
| **Profit before extraordinary items and taxes** | | **(25)** | 975 | **(4)** | 164 |
| Extraordinary income and expenses | | **–** | – | **–** | – |
| **Profit before taxes** | | **(25)** | 975 | **(4)** | 164 |
| Income taxes | [10] | | | | |
| Current taxes | | **(95)** | (119) | **(16)** | (20) |
| Deferred taxes | | **139** | (150) | **23** | (26) |
| | | **44** | (269) | **7** | (46) |
| Minority interest in earnings | | **(2)** | (3) | **(0)** | (0) |
| **Net income** | | **17** | 703 | **3** | 118 |
| **Income per share** (excluding extraordinary items) | FIM/EUR | **0.14** | 5.65 | **0.02** | 0.95 |
| **Net income per share** | FIM/EUR | **0.14** | 5.65 | **0.02** | 0.95 |
| **Average number of shares** | | **124 529 660** | 124 529 660 | | |

Figures in square brackets refer to Notes to the consolidated financial statements on pages 48-64.
The euro figures presented are not part of the official consolidated financial statements. The euro figures are converted from FIM by using the fixed euro conversion rate, EUR 1 = FIM 5.94573.

# Consolidated statement of cash flows

| FIM million | 1998 | 1997 | EUR MILLION 1998 | EUR MILLION 1997 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Income financing | | | | |
| Net income | **17** | 703 | **3** | 118 |
| Depreciation and amortization | **1 107** | 985 | **186** | 166 |
| Write-downs on fixed assets and other long-term investments | **32** | 196 | **5** | 33 |
| Undistributed earnings in associated companies | **145** | 67 | **24** | 11 |
| Deferred taxes | **(140)** | 150 | **(23)** | 25 |
| Other items [1] | **121** | (374) | **21** | (62) |
| | **1 282** | 1 727 | **216** | 291 |
| Change in working capital | | | | |
| Decrease in inventories | **211** | 66 | **36** | 11 |
| Decrease (increase) in receivables | **698** | (485) | **117** | (81) |
| Decrease in current non-interest-bearing liabilities | **(450)** | (182) | **(76)** | (31) |
| | **459** | (601) | **77** | (101) |
| Other adjustments to cash [2] | **30** | 8 | **5** | 1 |
| **Cash provided by operating activities** | **1 771** | 1 134 | **298** | 191 |
| **Investing activities** | | | | |
| Capital expenditures for purchase of fixed assets | **(1 481)** | (2 045) | **(249)** | (344) |
| Investments in associated companies and other equity investments | **(211)** | (168) | **(35)** | (28) |
| Proceeds from sales of business operations and fixed assets [3] | **264** | 106 | **44** | 18 |
| Decrease (increase) in other long-term financial assets | **38** | (4) | **6** | (1) |
| (Increase) decrease in working capital related to fixed assets | **(74)** | 34 | **(12)** | 6 |
| **Cash used in investing activities** | **(1 464)** | (2 077) | **(246)** | (349) |
| **Cash flow before financing activities** | **307** | (943) | **52** | (158) |
| **Financing activities** | | | | |
| Borrowings of long-term debt | **1 094** | 1 684 | **184** | 283 |
| Repayments of long-term debt | **(1 340)** | (1 349) | **(225)** | (227) |
| Increase in current debt | **242** | 621 | **41** | 104 |
| Dividends paid | **(249)** | (125) | **(42)** | (21) |
| Other financial items | **(14)** | 9 | **(3)** | 2 |
| **Cash used in financing activities** | **(267)** | 840 | **(45)** | 141 |
| **Increase (decrease) in cash and marketable securities** | **40** | (103) | **7** | (17) |
| Adjustments [4] | **(42)** | 46 | **(7)** | 7 |
| **Decrease in cash and marketable securities in the consolidated balance sheet** | **(2)** | (57) | **(0)** | (10) |

[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.

# Consolidated balance sheet

| FIM million | | 1998 | 1997 | EUR MILLION 1998 | EUR MILLION 1997 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| **Fixed assets and other long-term investments** | [11] | | | | |
| Intangible assets | | | | | |
| Intangible rights | | **30** | 27 | **5** | 4 |
| Goodwill | | **21** | 5 | **4** | 1 |
| Goodwill on consolidation | | **30** | 7 | **5** | 1 |
| Other long-term expenses | | **189** | 213 | **32** | 36 |
| | | **270** | 252 | **46** | 42 |
| Property, plant and equipment | | | | | |
| Land | | **200** | 203 | **34** | 34 |
| Mine properties | | **324** | 292 | **54** | 49 |
| Buildings | | **1 963** | 1 941 | **330** | 327 |
| Machinery and equipment | | **6 521** | 6 414 | **1 097** | 1 079 |
| Construction in progress | | **242** | 382 | **41** | 64 |
| Advances paid for fixed assets | | **43** | 76 | **7** | 13 |
| Other fixed assets | | **155** | 152 | **26** | 25 |
| | | **9 448** | 9 460 | **1 589** | 1 591 |
| Long-term financial assets | | | | | |
| Investments in associated companies | [12] | **134** | 282 | **23** | 47 |
| Other equity investments | | **119** | 152 | **20** | 26 |
| Long-term loans receivable | | **1 459** | 1 327 | **245** | 223 |
| Deferred exchange losses | | **61** | – | **10** | – |
| Deferred tax asset | [10] | **108** | 105 | **18** | 18 |
| Other financial assets | | **28** | 29 | **5** | 5 |
| | | **1 909** | 1 895 | **321** | 319 |
| **Total fixed assets and other long-term investments** | | **11 627** | 11 607 | **1 956** | 1 952 |
| **Current assets** | | | | | |
| Inventories | [13] | | | | |
| Raw materials | | **578** | 594 | **97** | 100 |
| Fuels and supplies | | **250** | 243 | **42** | 41 |
| Work in process | | **940** | 1 159 | **158** | 195 |
| Finished goods and merchandise | | **921** | 934 | **155** | 157 |
| Advances paid for inventories | | **9** | 6 | **2** | 1 |
| | | **2 698** | 2 936 | **454** | 494 |
| Receivables | [14] | | | | |
| Accounts receivable | | **1 929** | 2 487 | **324** | 418 |
| Loans receivable | | **5** | 1 | **1** | 0 |
| Prepaid expenses and accrued income | | **362** | 565 | **61** | 95 |
| Deferred tax asset | [10] | **140** | 83 | **23** | 14 |
| Other receivables | | **214** | 176 | **36** | 30 |
| | | **2 650** | 3 312 | **445** | 557 |
| Cash and marketable securities | | | | | |
| Deposits and debt securities | | **53** | 11 | **9** | 1 |
| Cash and cash equivalents | | **489** | 533 | **82** | 90 |
| | | **542** | 544 | **91** | 91 |
| **Total current assets** | | **5 890** | 6 792 | **990** | 1 142 |
| TOTAL ASSETS | | **17 517** | 18 399 | **2 946** | 3 094 |

| FIM million | | 1998 | 1997 | EUR MILLION 1998 | EUR MILLION 1997 |
|---|---|---|---|---|---|
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | | | |
| **Shareholders' equity** | [15] | | | | |
| Share capital | | **1 245** | 1 245 | **209** | 209 |
| Premium fund | | **2 435** | 2 435 | **410** | 410 |
| Other funds | | **59** | 70 | **10** | 12 |
| Retained earnings | | **3 680** | 3 261 | **619** | 548 |
| Net income for the year | | **17** | 703 | **3** | 118 |
| | | **7 436** | 7 714 | **1 251** | 1 297 |
| **Minority interest** | | **26** | 36 | **4** | 6 |
| **Long-term liabilities** | | | | | |
| Long-term debt | [16] | | | | |
| Bonds and debentures | | **100** | 350 | **17** | 59 |
| Loans from financial institutions | | **3 473** | 3 049 | **584** | 513 |
| Pension loans | | **382** | 406 | **64** | 68 |
| Other long-term loans | | **30** | 49 | **5** | 8 |
| | | **3 985** | 3 854 | **670** | 648 |
| Other long-term liabilities | | | | | |
| Accounts payable | | **1** | 3 | **1** | 1 |
| Deferred exchange gains | | **–** | 90 | **–** | 15 |
| Deferred tax liability | [10] | **1 138** | 1 196 | **191** | 201 |
| Other long-term liabilities | | **303** | 277 | **51** | 47 |
| | | **1 442** | 1 566 | **243** | 264 |
| **Current liabilities** | | | | | |
| Current debt | | | | | |
| Bonds and debentures | [16] | **0** | 38 | **0** | 6 |
| Loans from financial institutions | | **916** | 1 316 | **154** | 221 |
| Pension loans | | **27** | 28 | **5** | 5 |
| Bills payable | | **0** | 12 | **0** | 2 |
| Other current loans | | **1 137** | 1 047 | **191** | 176 |
| | | **2 080** | 2 441 | **350** | 410 |
| Other current liabilities | | | | | |
| Advances received | | **122** | 165 | **21** | 28 |
| Accounts payable | | **983** | 1 251 | **165** | 210 |
| Accrued expenses and prepaid income | [17] | **1 178** | 1 188 | **198** | 200 |
| Deferred exchange gains | | **80** | 2 | **13** | 0 |
| Deferred tax liability | [10] | **3** | 19 | **0** | 3 |
| Other current liabilities | | **182** | 163 | **31** | 28 |
| | | **2 548** | 2 788 | **428** | 469 |
| **Total liabilities** | | **10 055** | 10 649 | **1 691** | 1 791 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | **17 517** | 18 399 | **2 946** | 3 094 |

# Key financial indicators

## Key financial indicators of the Group

| | | 1994 | 1995 | 1996 | 1997 | **1998** |
|---|---|---|---|---|---|---|
| SCOPE OF ACTIVITY | | | | | | |
| Net sales | FIM million | 16 683 | 16 952 | 16 549 | 19 055 | **17 176** |
| – change in net sales | % | 0.7 | 1.6 | (2.4) | 15.1 | **(9.9)** |
| – exports from and sales outside Finland, of total net sales | % | 91.4 | 89.4 | 91.3 | 91.7 | **91.4** |
| Capital employed on Dec. 31 | FIM million | 11 719 | 12 184 | 12 354 | 14 045 | **13 528** |
| Capital expenditure | FIM million | 1 329 | 2 131 | 1 553 | 2 045 | **1 481** |
| – in relation to net sales | % | 8.0 | 12.6 | 9.4 | 10.7 | **8.6** |
| Depreciation and amortization | FIM million | 872 | 826 | 889 | 985 | **1 107** |
| Exploration costs | FIM million | 193 | 165 | 182 | 135 | **103** |
| Research and development costs [1] | FIM million | 193 | 156 | 155 | 210 | **229** |
| – in relation to net sales | % | 1.2 | 0.9 | 0.9 | 1.1 | **1.3** |
| Personnel on Dec. 31 | | 14 959 | 13 458 | 13 622 | 13 734 | **13 179** |
| – average for the year | | 15 920 | 14 253 | 13 808 | 14 016 | **14 027** |
| PROFITABILITY | | | | | | |
| Operating profit [2] | FIM million | 1 073 | 1 589 | 552 | 1 353 | **306** |
| – in relation to net sales | % | 6.4 | 9.4 | 3.3 | 7.1 | **1.8** |
| Operating profit excluding inventory price changes | FIM million | 753 | 1 622 | 744 | 1 409 | **785** |
| Equity earnings in associated companies [2] | FIM million | (22) | (41) | (124) | (67) | **(145)** |
| Profit before extraordinary items and taxes | FIM million | 1 028 | 1 481 | 229 | 975 | **(25)** |
| – in relation to net sales | % | 6.2 | 8.7 | 1.4 | 5.1 | **(0.2)** |
| Profit before taxes | FIM million | 1 022 | 1 431 | 229 | 975 | **(25)** |
| – in relation to net sales | % | 6.1 | 8.4 | 1.4 | 5.1 | **(0.2)** |
| Net income | FIM million | 831 | 1 037 | 188 | 703 | **17** |
| – in relation to net sales | % | 5.0 | 6.1 | 1.1 | 3.7 | **0.1** |
| Return on shareholders' equity | % | 15.8 | 16.3 | 2.6 | 9.5 | **0.3** |
| Return on capital employed | % | 10.7 | 15.1 | 5.3 | 11.1 | **2.5** |
| FINANCING AND FINANCIAL POSITION | | | | | | |
| Liabilities | FIM million | 9 195 | 9 376 | 9 548 | 10 649 | **10 055** |
| Net interest-bearing debt | FIM million | 4 352 | 4 380 | 4 621 | 5 751 | **5 524** |
| – in relation to net sales | % | 26.1 | 25.8 | 27.9 | 30.2 | **32.2** |
| Net financial expenses | FIM million | 23 | 67 | 199 | 311 | **186** |
| – in relation to net sales | % | 0.1 | 0.4 | 1.2 | 1.6 | **1.1** |
| Net interest expenses | FIM million | 281 | 131 | 150 | 218 | **213** |
| – in relation to net sales | % | 1.7 | 0.8 | 0.9 | 1.1 | **1.2** |
| Interest cover | | 4.7 | 12.3 | 2.5 | 5.5 | **0.9** |
| Share capital | FIM million | 1 245 | 1 245 | 1 245 | 1 245 | **1 245** |
| Other shareholders' equity and minority interest | FIM million | 5 026 | 5 867 | 5 887 | 6 505 | **6 217** |
| Equity-to-assets ratio | % | 41.1 | 43.7 | 43.4 | 42.5 | **42.9** |
| Debt-to-equity ratio | % | 69.4 | 61.6 | 64.8 | 74.2 | **74.0** |
| Cash provided by operating activities | FIM million | 1 246 | 2 465 | 1 299 | 1 134 | **1 771** |
| Equity issues | FIM million | 1 180 | 0 | 0 | – | **–** |
| Dividends | FIM million | 124.5 | 224.2 | 124.5 | 249.1 | **62.3** [3] |

[1] The figures for 1994-95 also include development costs capitalized on investments.

[2] As of 1996, equity earnings in associated companies are reported after "Operating profit". Previously they were reported within "Operating profit". The comparative figures for 1994-95 have been restated to reflect this reclassification.

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

## KEY FINANCIAL INDICATORS OF THE GROUP IN EUROS [1)]

| | | 1994 | 1995 | 1996 | 1997 | **1998** |
|---|---|---|---|---|---|---|
| SCOPE OF ACTIVITY | | | | | | |
| Net sales | EUR million | 2 806 | 2 851 | 2 783 | 3 205 | **2 889** |
| – change in net sales | % | 0.7 | 1.6 | (2.4) | 15.1 | **(9.9)** |
| – exports from and sales outside Finland, of total net sales | % | 91.4 | 89.4 | 91.3 | 91.7 | **91.4** |
| Capital employed on Dec. 31 | EUR million | 1 971 | 2 049 | 2 078 | 2 362 | **2 275** |
| Capital expenditure | EUR million | 224 | 358 | 261 | 344 | **249** |
| – in relation to net sales | % | 8.0 | 12.6 | 9.4 | 10.7 | **8.6** |
| Depreciation and amortization | EUR million | 147 | 139 | 150 | 166 | **186** |
| Exploration costs | EUR million | 32 | 28 | 31 | 23 | **17** |
| Research and development costs [1)] | EUR million | 32 | 26 | 26 | 35 | **39** |
| – in relation to net sales | % | 1.2 | 0.9 | 0.9 | 1.1 | **1.3** |
| Personnel on Dec. 31 | | 14 959 | 13 458 | 13 622 | 13 734 | **13 179** |
| – average for the year | | 15 920 | 14 253 | 13 808 | 14 016 | **14 027** |
| PROFITABILITY | | | | | | |
| Operating profit [2)] | EUR million | 180 | 267 | 93 | 228 | **51** |
| – in relation to net sales | % | 6.4 | 9.4 | 3.3 | 7.1 | **1.8** |
| Operating profit excluding inventory price changes | EUR million | 127 | 273 | 125 | 237 | **132** |
| Equity earnings in associated companies [2)] | EUR million | (4) | (7) | (21) | (11) | **(24)** |
| Profit before extraordinary items and taxes | EUR million | 173 | 249 | 39 | 164 | **(4)** |
| – in relation to net sales | % | 6.2 | 8.7 | 1.4 | 5.1 | **(0.2)** |
| Profit before taxes | EUR million | 172 | 241 | 39 | 164 | **(4)** |
| – in relation to net sales | % | 6.1 | 8.4 | 1.4 | 5.1 | **(0.2)** |
| Net income | EUR million | 140 | 174 | 32 | 118 | **3** |
| – in relation to net sales | % | 5.0 | 6.1 | 1.1 | 3.7 | **0.1** |
| Return on shareholders' equity | % | 15.8 | 16.3 | 2.6 | 9.5 | **0.3** |
| Return on capital employed | % | 10.7 | 15.1 | 5.3 | 11.1 | **2.5** |
| FINANCING AND FINANCIAL POSITION | | | | | | |
| Liabilities | EUR million | 1 546 | 1 577 | 1 606 | 1 791 | **1 691** |
| Net interest-bearing debt | EUR million | 732 | 737 | 777 | 967 | **929** |
| – in relation to net sales | % | 26.1 | 25.8 | 27.9 | 30.2 | **32.2** |
| Net financial expenses | EUR million | 4 | 11 | 33 | 52 | **31** |
| – in relation to net sales | % | 0.1 | 0.4 | 1.2 | 1.6 | **1.1** |
| Net interest expenses | EUR million | 47 | 22 | 25 | 37 | **36** |
| – in relation to net sales | % | 1.7 | 0.8 | 0.9 | 1.1 | **1.2** |
| Interest cover | | 4.7 | 12.3 | 2.5 | 5.5 | **0.9** |
| Share capital | EUR million | 209 | 209 | 209 | 209 | **209** |
| Other shareholders' equity and minority interest | EUR million | 845 | 987 | 990 | 1 094 | **1 046** |
| Equity-to-assets ratio | % | 41.1 | 43.7 | 43.4 | 42.5 | **42.9** |
| Debt-to-equity ratio | % | 69.4 | 61.6 | 64.8 | 74.2 | **74.0** |
| Cash provided by operating activities | EUR million | 210 | 415 | 218 | 191 | **298** |
| Equity issues | EUR million | 198 | 0 | 0 | – | **–** |
| Dividends | EUR million | 20.9 | 37.7 | 20.9 | 41.9 | **10.5** [4)] |

1) The figures for 1994-98 are converted to euros by using the fixed conversion rate, EUR 1 = FIM 5.94573.
2) The figures for 1994-95 also include development costs capitalized on investments.
3 As of 1996, equity earnings in associated companies are reported after “Operating profit”. Previously they were reported within “Operating profit”. The comparative figures for 1994-95 have been restated to reflect this reclassification.
4) Board of Directors' proposal to the Annual General Meeting.

## Key financial indicators by business area

| | | 1994 | 1995 | 1996 | 1997 | **1998** |
|---|---|---|---|---|---|---|
| STAINLESS STEEL | | | | | | |
| Net sales | FIM million | 4 398 | 5 655 | 4 486 | 4 947 | **4 728** |
| Share of the Group's net sales | % | 23 | 29 | 23 | 22 | **24** |
| Operating profit | FIM million | 909 | 1 756 | 616 | 550 | **276** |
| Operating profit margin | % | 21 | 31 | 14 | 11 | **6** |
| Operating profit excluding inventory price changes | FIM million | 858 | 1 745 | 646 | 514 | **463** |
| Return on capital employed | % | 29 | 52 | 17 | 14 | **7** |
| Capital employed Dec. 31 | FIM million | 3 126 | 3 837 | 3 735 | 4 383 | **4 066** |
| Capital expenditure | FIM million | 235 | 545 | 643 | 820 | **304** |
| Depreciation | FIM million | 214 | 221 | 241 | 275 | **328** |
| Personnel Dec. 31 | | 2 283 | 2 346 | 2 355 | 2 391 | **2 391** |
| COPPER PRODUCTS | | | | | | |
| Net sales | FIM million | 7 257 | 7 291 | 7 495 | 8 268 | **7 401** |
| Share of the Group's net sales | % | 39 | 38 | 39 | 36 | **37** |
| Operating profit | FIM million | 378 | 388 | 273 | 86 | **104** |
| Operating profit margin | % | 5 | 5 | 4 | 1 | **1** |
| Operating profit excluding inventory price changes | FIM million | 190 | 413 | 394 | 150 | **190** |
| Return on capital employed | % | 12 | 12 | 9 | 3 | **3** |
| Capital employed Dec. 31 | FIM million | 3 327 | 3 509 | 3 498 | 3 995 | **3 772** |
| Capital expenditure | FIM million | 219 | 387 | 383 | 456 | **433** |
| Depreciation | FIM million | 201 | 174 | 195 | 222 | **265** |
| Personnel Dec. 31 | | 5 268 | 5 368 | 5 485 | 5 525 | **5 412** |
| BASE METALS | | | | | | |
| Net sales | FIM million | 3 935 | 3 869 | 4 766 | 5 874 | **4 888** |
| Share of the Group's net sales | % | 21 | 20 | 25 | 26 | **24** |
| Operating profit | FIM million | 45 | (442) | (386) | 542 | **(223)** |
| Operating profit margin | % | 1 | neg. | neg. | 9 | **neg.** |
| Operating profit excluding inventory price changes | FIM million | (36) | (423) | (345) | 570 | **(2)** |
| Return on capital employed | % | 4 | neg. | neg. | 11 | **neg.** |
| Capital employed Dec. 31 | FIM million | 4 249 | 5 115 | 5 148 | 5 356 | **5 335** |
| Capital expenditure | FIM million | 780 | 1 121 | 445 | 654 | **606** |
| Depreciation | FIM million | 362 | 375 | 416 | 441 | **465** |
| Personnel Dec. 31 | | 4 082 | 3 879 | 3 427 | 3 291 | **3 170** |
| TECHNOLOGY | | | | | | |
| Net sales | FIM million | 1 149 | 1 074 | 1 113 | 1 598 | **1 383** |
| Share of the Group's net sales | % | 6 | 6 | 6 | 7 | **7** |
| Operating profit | FIM million | 15 | 76 | 114 | 238 | **134** |
| Operating profit margin | % | 1 | 7 | 10 | 15 | **10** |
| Return on capital employed | % | 9 | 30 | 39 | 62 | **32** |
| Capital employed Dec. 31 | FIM million | 339 | 281 | 370 | 434 | **487** |
| Capital expenditure | FIM million | 25 | 58 | 28 | 39 | **95** |
| Depreciation | FIM million | 28 | 21 | 22 | 24 | **26** |
| Personnel Dec. 31 | | 1 670 | 1 171 | 1 651 | 1 763 | **1 450** |

## Exchange rates

| | Closing rates | | | | | Average rates | |
|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | **1998** | 1997 | **1998** |
| USD | 4.743 | 4.359 | 4.644 | 5.421 | **5.096** | 5.194 | **5.342** |
| GBP | 7.409 | 6.741 | 7.869 | 8.992 | **8.428** | 8.506 | **8.847** |
| IEP | 7.325 | 6.956 | 7.788 | 7.759 | **7.550** | 7.871 | **7.609** |
| SEK | 0.636 | 0.655 | 0.675 | 0.686 | **0.627** | 0.680 | **0.672** |
| DEM | 3.062 | 3.044 | 2.988 | 3.028 | **3.040** | 2.994 | **3.038** |
| ESP | 0.036 | 0.036 | 0.035 | 0.036 | **0.036** | 0.036 | **0.036** |
| AUD | 3.680 | 3.247 | 3.698 | 3.549 | **3.130** | 3.859 | **3.363** |
| ECU | 5.815 | 5.597 | 5.770 | 5.989 | **5.950** | 5.864 | **5.994** |

The Bank of Finland's exchange rates

KEY FINANCIAL INDICATORS BY BUSINESS AREAS IN EUROS

| | | 1994 | 1995 | 1996 | 1997 | **1998** |
|---|---|---|---|---|---|---|
| STAINLESS STEEL | | | | | | |
| Net sales | EUR million | 740 | 951 | 754 | 832 | **795** |
| Share of the Group's net sales | % | 23 | 29 | 23 | 22 | **24** |
| Operating profit | EUR million | 153 | 295 | 104 | 93 | **46** |
| Operating profit margin | % | 21 | 31 | 14 | 11 | **6** |
| Operating profit excluding inventory price changes | EUR million | 144 | 293 | 109 | 86 | **78** |
| Return on capital employed | % | 29 | 52 | 17 | 14 | **7** |
| Capital employed Dec. 31 | EUR million | 526 | 645 | 628 | 737 | **684** |
| Capital expenditure | EUR million | 40 | 92 | 108 | 138 | **51** |
| Depreciation | EUR million | 36 | 37 | 41 | 46 | **55** |
| Personnel Dec. 31 | | 2 283 | 2 346 | 2 355 | 2 391 | **2 391** |
| COPPER PRODUCTS | | | | | | |
| Net sales | EUR million | 1 221 | 1 226 | 1 261 | 1 391 | **1 245** |
| Share of the Group's net sales | % | 39 | 38 | 39 | 36 | **37** |
| Operating profit | EUR million | 64 | 65 | 46 | 14 | **17** |
| Operating profit margin | % | 5 | 5 | 4 | 1 | **1** |
| Operating profit excluding inventory price changes | EUR million | 32 | 69 | 66 | 25 | **32** |
| Return on capital employed | % | 12 | 12 | 9 | 3 | **3** |
| Capital employed Dec. 31 | EUR million | 560 | 590 | 588 | 672 | **634** |
| Capital expenditure | EUR million | 37 | 65 | 64 | 77 | **73** |
| Depreciation | EUR million | 34 | 29 | 33 | 37 | **45** |
| Personnel Dec. 31 | | 5 268 | 5 368 | 5 485 | 5 525 | **5 412** |
| BASE METALS | | | | | | |
| Net sales | EUR million | 662 | 651 | 802 | 988 | **822** |
| Share of the Group's net sales | % | 21 | 20 | 25 | 26 | **24** |
| Operating profit | EUR million | 8 | (74) | (65) | 91 | **(38)** |
| Operating profit margin | % | 1 | neg. | neg. | 9 | **neg.** |
| Operating profit excluding inventory price changes | EUR million | (6) | (71) | (58) | 96 | **(0)** |
| Return on capital employed | % | 4 | neg. | neg. | 11 | **neg.** |
| Capital employed Dec. 31 | EUR million | 715 | 860 | 866 | 901 | **897** |
| Capital expenditure | EUR million | 131 | 189 | 75 | 110 | **102** |
| Depreciation | EUR million | 61 | 63 | 70 | 74 | **78** |
| Personnel Dec. 31 | | 4 082 | 3 879 | 3 427 | 3 291 | **3 170** |
| TECHNOLOGY | | | | | | |
| Net sales | EUR million | 193 | 181 | 187 | 269 | **233** |
| Share of the Group's net sales | % | 6 | 6 | 6 | 7 | **7** |
| Operating profit | EUR million | 3 | 13 | 19 | 40 | **23** |
| Operating profit margin | % | 1 | 7 | 10 | 15 | **10** |
| Return on capital employed | % | 9 | 30 | 39 | 62 | **32** |
| Capital employed Dec. 31 | EUR million | 57 | 47 | 62 | 73 | **82** |
| Capital expenditure | EUR million | 4 | 10 | 5 | 7 | **16** |
| Depreciation | EUR million | 5 | 4 | 4 | 4 | **4** |
| Personnel Dec. 31 | | 1 670 | 1 171 | 1 651 | 1 763 | **1 450** |

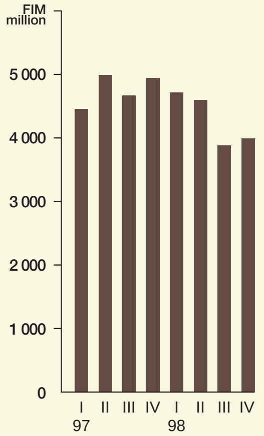
## Fixed conversion rates to euro

| | | | |
|---|---|---|---|
| ATS | 13.7603 | IEP | 0.787564 |
| BEF | 40.3399 | ITL | 1936.27 |
| DEM | 1.95583 | LUF | 40.3399 |
| ESP | 166.386 | NLG | 2.20371 |
| FIM | 5.94573 | PTE | 200.482 |
| FRF | 6.55957 | | |

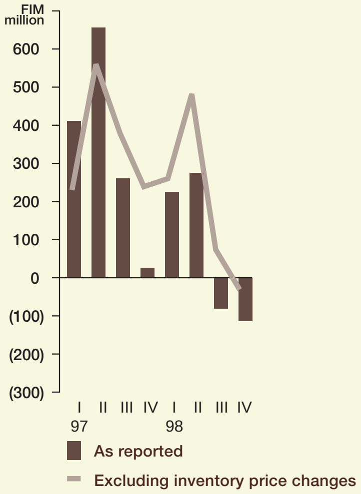
## Financial development by quarter

| FIM million | I/97 | II/97 | III/97 | IV/97 | I/98 | II/98 | III/98 | IV/98 |
|---|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | | |
| Stainless Steel | 1 238 | 1 325 | 1 181 | 1 203 | 1 369 | 1 352 | 1 048 | 959 |
| Copper Products | 1 976 | 2 156 | 2 061 | 2 075 | 2 056 | 1 958 | 1 711 | 1 676 |
| Base Metals | 1 436 | 1 646 | 1 343 | 1 449 | 1 351 | 1 288 | 1 134 | 1 115 |
| Technology | 226 | 396 | 385 | 591 | 279 | 343 | 282 | 479 |
| Other operations | 523 | 470 | 546 | 567 | 543 | 399 | 349 | 393 |
| Intra-group sales | (943) | (1 006) | (847) | (942) | (884) | (745) | (643) | (636) |
| The Group | 4 456 | 4 987 | 4 669 | 4 943 | 4 714 | 4 595 | 3 881 | 3 986 |
| **Operating profit** | | | | | | | | |
| Stainless Steel | 100 | 156 | 124 | 170 | 132 | 134 | (8) | 18 |
| Copper Products | 156 | 164 | (5) | (229) | 87 | 39 | 34 | (56) |
| Base Metals | 165 | 291 | 76 | 10 | (28) | 55 | (109) | (141) |
| Technology | (7) | 58 | 58 | 129 | 16 | 28 | 16 | 74 |
| Other operations | (1) | (5) | 2 | (46) | 14 | 7 | (19) | (11) |
| Intra-group items | (2) | (8) | 5 | (8) | 4 | 12 | 5 | 3 |
| The Group | 411 | 656 | 260 | 26 | 225 | 275 | (81) | (113) |
| **Equity earnings in associated companies** | 16 | (10) | (31) | (42) | (32) | (37) | (45) | (31) |
| **Net interest and other financial expenses** | (69) | (53) | (62) | (49) | (61) | (52) | (45) | (61) |
| **Exchange gains (losses)** | (49) | 8 | (41) | 4 | (42) | 40 | 54 | (19) |
| **Profit before extraordinary items and taxes** | 309 | 601 | 126 | (61) | 90 | 226 | (117) | (224) |
| **Net income per share**, FIM | 1.81 | 3.39 | 0.70 | (0.25) | 0.46 | 1.30 | (0.76) | (0.86) |
| **Capital employed** at end of quarter | 13 186 | 13 834 | 13 971 | 14 045 | 14 380 | 13 981 | 13 427 | 13 528 |
| **Net interest-bearing debt** at end of quarter | 5 349 | 5 568 | 5 588 | 5 751 | 5 874 | 5 888 | 5 466 | 5 524 |
| **Equity-to-assets ratio** at end of quarter, % | 41.7 | 41.7 | 42.4 | 42.5 | 41.7 | 42.3 | 43.9 | 42.9 |
| **Debt-to-equity ratio** at end of quarter, % | 72.9 | 72.3 | 71.7 | 74.2 | 75.1 | 76.3 | 72.2 | 74.0 |
| **Operating profit excluding inventory price changes and unusual items** | | | | | | | | |
| Stainless Steel | 58 | 147 | 147 | 186 | 148 | 218 | 54 | 43 |
| Copper Products | 74 | 111 | 62 | 80 | 92 | 115 | 11 | (19) |
| Base Metals | 108 | 221 | 47 | 67 | (14) | 153 | (24) | (117) |
| Technology | (7) | 58 | 58 | 129 | 16 | 28 | 16 | 74 |
| Other operations | (8) | (9) | 0 | (78) | 12 | (26) | (19) | (8) |
| Intra-group items | (2) | (8) | 5 | (8) | 4 | 1 | 2 | 2 |
| The Group | 223 | 520 | 319 | 376 | 258 | 489 | 40 | (25) |

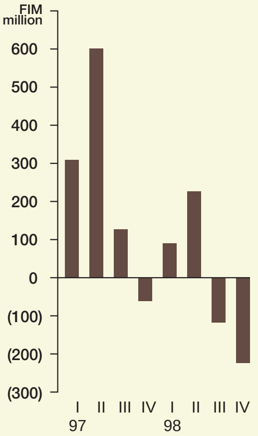
### Net sales




### Operating profit




### Profit before extraordinary items and taxes



FINANCIAL DEVELOPMENT BY QUARTER IN EUROS

| EUR million | I/97 | II/97 | III/97 | IV/97 | I/98 | II/98 | III/98 | IV/98 |
|---|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | | |
| Stainless Steel | 208 | 223 | 199 | 202 | 230 | 227 | 176 | 162 |
| Copper Products | 332 | 363 | 347 | 349 | 346 | 329 | 288 | 282 |
| Base Metals | 242 | 277 | 226 | 244 | 227 | 217 | 191 | 187 |
| Technology | 38 | 67 | 65 | 99 | 47 | 58 | 47 | 81 |
| Other operations | 88 | 79 | 92 | 95 | 91 | 67 | 59 | 66 |
| Intra-group sales | (159) | (170) | (143) | (158) | (148) | (125) | (108) | (108) |
| The Group | 749 | 839 | 786 | 831 | 793 | 773 | 653 | 670 |
| **Operating profit** | | | | | | | | |
| Stainless Steel | 17 | 26 | 21 | 29 | 22 | 23 | (1) | 3 |
| Copper Products | 26 | 28 | (1) | (39) | 15 | 7 | 6 | (9) |
| Base Metals | 28 | 49 | 13 | 2 | (5) | 9 | (18) | (24) |
| Technology | (1) | 10 | 10 | 22 | 3 | 5 | 3 | 12 |
| Other operations | (0) | (1) | 0 | (8) | 2 | 1 | (3) | (2) |
| Intra-group items | (1) | (2) | 1 | (1) | 1 | 1 | (1) | 1 |
| The Group | 69 | 110 | 44 | 5 | 38 | 46 | (14) | (19) |
| **Equity earnings in associated companies** | 3 | (2) | (5) | (7) | (5) | (6) | (8) | (5) |
| **Net interest and other financial expenses** | (12) | (9) | (10) | (8) | (10) | (9) | (8) | (10) |
| **Exchange gains (losses)** | (8) | 1 | (7) | 0 | (8) | 7 | 10 | (3) |
| **Profit before extraordinary items and taxes** | 52 | 100 | 22 | (10) | 15 | 38 | (20) | (37) |
| **Net income per share,** EUR | 0.30 | 0.57 | 0.12 | (0.04) | 0.08 | 0.22 | (0.13) | (0.15) |
| **Capital employed** at end of quarter | 2 218 | 2 327 | 2 350 | 2 362 | 2 419 | 2 351 | 2 258 | 2 275 |
| **Net interest-bearing debt** at end of quarter | 900 | 936 | 940 | 967 | 988 | 990 | 919 | 929 |
| **Equity-to-assets ratio** at end of quarter, % | 41.7 | 41.7 | 42.4 | 42.5 | 41.7 | 42.3 | 43.9 | 42.9 |
| **Debt-to-equity ratio** at end of quarter, % | 72.9 | 72.3 | 71.7 | 74.2 | 75.1 | 76.3 | 72.2 | 74.0 |
| **Operating profit excluding inventory price changes and unusual items** | | | | | | | | |
| Stainless Steel | 10 | 25 | 25 | 31 | 25 | 37 | 9 | 7 |
| Copper Products | 12 | 19 | 10 | 13 | 15 | 19 | 2 | (3) |
| Base Metals | 18 | 37 | 8 | 11 | (2) | 26 | (4) | (20) |
| Technology | (1) | 10 | 10 | 22 | 3 | 5 | 3 | 12 |
| Other operations | (1) | (2) | 0 | (13) | 2 | (4) | (3) | (1) |
| Intra-group items | (0) | (2) | 1 | (1) | 0 | (1) | 0 | 1 |
| The Group | 38 | 87 | 54 | 63 | 43 | 82 | 7 | (4) |

# Notes to the consolidated financial statements

## 1. Principles applied in the financial statements

All Group companies apply uniform accounting standards based on the new Finnish accounting legislation (December 31, 1997). 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.

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover Parent Company Outokumpu Oyj and its subsidiaries, i.e. companies in which Outokumpu Oyj directly or indirectly holds more than 50% of the voting rights or over which it otherwise exerts significant influence.

The financial results of subsidiaries acquired or divested during the year are included in the consolidated statements from their acquisition up to their divestiture date. The figures for companies in which controlling interest is relinquished through stock alienation or other transfers during the accounting period are included in the consolidated statements until the date they lose subsidiary status.

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

Inter-company transactions and balances, inter-company profits, as well as 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 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 in earnings in such companies, less amortization of the goodwill recorded on acquisition, is presented in the consolidated income statement, and dividends received from associated companies are eliminated. In the consolidated balance sheet, the investment in associated companies and the Group's equity have been adjusted with the Group's share in associated companies' increased net worth after their 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.

A share proportionate to Outokumpu's shareholding of the income statement and balance sheet figures of jointly-owned, non-incorporated mining enterprises managed by Outokumpu together with the other co-owners are included in the consolidated financial statements line by line.

### FOREIGN CURRENCY ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivative financial instruments used as hedges 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 posted under financial income and expenses. Exchange gains and losses on loans and on derivative financial instruments used as hedges for 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 and fixed conversion rates for the euro used in the consolidation of subsidiaries' financial statements are presented on pages 44-45.

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.

The fixed conversion rates between the national currencies in the euro-area ratified by the EU Council realized the foreign exchange gains and losses between the EMU currencies on December 31, 1998. The exchange gains and losses due to the euro conversion were entered in the income statement on December 31, 1998. If such exchange gains and losses relate to currency loans or to derivative contracts designated as hedges for off-balance-sheet items, exchange gains and losses, however, are deferred until the cash flow hedged is recognized in income. The receivables and liabilities between the national currencies in the euro-area are translated to accounting currency in the financial statements on December 31, 1998 applying fixed conversion rates. Balance sheets of foreign subsidiaries denominated in the national currencies of the EMU countries have also been translated to accounting currency using fixed conversion rates.

### 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 purchased assets coupled with an interest-bearing liability. Assets held under operating leases are not recorded on the balance sheet, and the lease rentals 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 varying useful lives of assets depending on the nature of the subsidiary's operations. Estimated useful lives for various fixed asset classes are:

| | |
|---|---|
| – intangible rights | 5-10 years |
| – goodwill and goodwill on consolidation | 5 years |
| – other long-term expenses | 5-10 years |

| | |
|---|---|
| – buildings and structures | 25-40 years |
| – machinery and equipment | 5-20 years |
| – other fixed assets | 4-40 years |

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

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

INVENTORIES

As of 1998 the Group applies LIFO-method in valuation of purchased metals and metal raw materials. The change in accounting principle is explained in more detail in section 13.

Purchased metals and metal raw materials are valued according to the LIFO (last in, first out) principle at the lower of cost or market. Other inventories are valued using the FIFO (first in, first out) method at the lower of cost or market. The cost of inventories include a proportionate share of overhead arising from the purchase and production of goods.

CASH AND MARKETABLE SECURITIES

Cash and cash equivalents include cash, funds held on call accounts and on deposit up to three months, as well as other funds equivalent to cash.

Marketable securities include equity securities, deposits with a maturity exceeding three months and debt securities intended for resale in under a year's time. 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 indirect 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

Gains and losses on derivative financial instruments hedging againts price risks are recognized simultaneously with the underlying transaction and reported as adjustment to the underlying sales and raw material purchases.

EXPLORATION AND MINING ACTIVITIES

Exploration and evaluation costs are charged against income when incurred. The acquisition costs of exploration projects are capitalized whereas all exploration costs following the acquisition are charged against income when incurred. If the economic value of the acquired exploration project turns out to be less than the original acquisition cost, the carrying value of the exploration project is written down to its impairment test value.

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.

YEAR 2000

The costs relating to Year 2000 are mainly expensed when incurred. However, costs relating to new computer software and equipment are capitalized according to the Group's normal accounting policy.

UNUSUAL ITEMS

Non-recurring unusual items include material and exceptional transactions not relating to the normal business activities, such as the non-recurring income, expenses and provisions for sale, restructuring or discontinuation of business operations.

OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses include income and expenses generated in other than normal business activities, such as capital gains and losses on fixed assets, scrapping and rental income.

EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses include highly exceptional and significant transactions outside the scope of the Group's core business activities.

The extraordinary items of associated company financial statements also include group contributions paid or received.

CONTINGENT LOSSES

Provision is made for contingent losses which are almost certain to materialize in the future and the amount of which can be reasonably estimated. Depending on their nature, provisions are presented under long- or short-term 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 of Finland and 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, are reversed on consolidation and deferred tax is provided for. In the income statement, changes occurring in untaxed reserves during the fiscal year have correspondingly been divided into the accounting period result and imputed tax liability change.

The Finnish Companies Act stipulates that untaxed reserves included under the consolidated equity cannot be distributed as dividends to the shareholders.

INCOME TAXES

Income taxes presented in the income statement consist of current and deferred taxes.

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 tax rates effective for future periods. Deferred tax liabilities are recognized in the balance sheet in full, and deferred tax assets at their estimated realizable amounts.

## 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** | = | $\dfrac{\text{Profit before extraordinary items and taxes – income taxes}}{\text{Shareholders' equity + minority interest (average for period)}} \times 100$ |
| **Return on capital employed** | = | $\dfrac{\text{Profit before extraordinary items and taxes + interest expenses + other financial expenses +/– exchange losses/gains}}{\text{Capital employed (average for period)}} \times 100$ |
| **Net interest-bearing debt** | = | Total debt – cash and marketable securities |
| **Interest cover** | = | $\dfrac{\text{Profit before extraordinary items and taxes + net interest expenses}}{\text{Net interest expenses}}$ |
| **Equity-to-assets ratio** | = | $\dfrac{\text{Shareholders' equity + minority interest}}{\text{Total assets – advances received}} \times 100$ |
| **Debt-to-equity ratio** | = | $\dfrac{\text{Net interest-bearing debt}}{\text{Shareholders' equity + minority interest}} \times 100$ |
| **Income per share** (excluding extraordinary items) | = | $\dfrac{\text{Profit before extraordinary items and taxes – income taxes – minority interest in earnings}}{\text{Adjusted average number of shares during the period}}$ |
| **Net income per share** | = | $\dfrac{\text{Net income}}{\text{Adjusted average number of shares during the period}}$ |
| **Cash flow per share** | = | $\dfrac{\text{Cash provided by operating activities}}{\text{Adjusted average number of shares during the period}}$ |
| **Shareholders' equity per share** | = | $\dfrac{\text{Shareholders' equity}}{\text{Adjusted number of shares at end of period}}$ |
| **Dividend per share** | = | $\dfrac{\text{Dividend for the financial period}}{\text{Adjusted number of shares at end of period}}$ |
| **Dividend/earnings ratio** | = | $\dfrac{\text{Dividend for the financial period}}{\text{Profit before extraordinary items and taxes – income taxes – minority interest in earnings}} \times 100$ |
| **Dividend yield** | = | $\dfrac{\text{Dividend per share}}{\text{Adjusted trading price at end of period}} \times 100$ |
| **Price/earnings ratio** | = | $\dfrac{\text{Adjusted trading price at end of period}}{\text{Income per share (excluding extraordinary items)}}$ |
| **Average trading price** | = | $\dfrac{\text{FIM amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$ |
| **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 |

## 2. Geographic information

Net sales, operating profit, total assets by geographic areas [1)]

| FIM million | Finland | Other Europe | North America | Asia | Australia | Other countries | Inter-area | Group total |
|---|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | | |
| **1998** | **11 157** | **6 043** | **3 095** | **175** | **281** | **273** | **(3 848)** | **17 176** |
| 1997 | 11 929 | 7 181 | 3 385 | 165 | 383 | 313 | (4 301) | 19 055 |
| Operating profit | | | | | | | | |
| **1998** [2)] | **486** | **(16)** | **103** | **(51)** | **(183)** | **(33)** | **–** | **306** |
| 1997 [3)] | 1 205 | 286 | (117) | (37) | (46) | 62 | – | 1 353 |
| Total assets | | | | | | | | |
| **1998** | **10 773** | **2 547** | **1 915** | **465** | **490** | **1 327** | **–** | **17 517** |
| 1997 | 11 243 | 3 219 | 1 972 | 343 | 433 | 1 189 | – | 18 399 |

| FIM million | 1998 | % | 1997 | % |
|---|---|---|---|---|
| Net sales by country [4)] | | | | |
| EUROPE | | | | |
| Germany | **1 864** | **10.8** | 2 033 | 10.7 |
| Finland | **1 471** | **8.6** | 1 575 | 8.3 |
| Italy | **1 422** | **8.3** | 1 165 | 6.1 |
| Britain | **1 369** | **8.0** | 1 560 | 8.2 |
| Sweden | **1 007** | **5.9** | 1 129 | 5.9 |
| France | **746** | **4.3** | 785 | 4.1 |
| Spain | **739** | **4.3** | 736 | 3.9 |
| The Netherlands | **536** | **3.1** | 549 | 2.9 |
| Belgium | **423** | **2.5** | 495 | 2.6 |
| Denmark | **288** | **1.7** | 276 | 1.4 |
| Norway | **210** | **1.2** | 220 | 1.2 |
| Switzerland | **179** | **1.0** | 195 | 1.0 |
| Russia | **142** | **0.8** | 224 | 1.2 |
| Poland | **120** | **0.7** | 111 | 0.6 |
| Austria | **118** | **0.7** | 108 | 0.6 |
| Other Europe | **364** | **2.1** | 331 | 1.7 |
| | **10 998** | **64.0** | 11 492 | 60.4 |
| NORTH AND SOUTH AMERICA | | | | |
| United States | **3 545** | **20.7** | 3 948 | 20.7 |
| Canada | **310** | **1.8** | 395 | 2.1 |
| Chile | **246** | **1.4** | 429 | 2.2 |
| Mexico | **140** | **0.8** | 152 | 0.8 |
| Other America | **243** | **1.4** | 240 | 1.3 |
| | **4 484** | **26.1** | 5 164 | 27.1 |
| ASIA | | | | |
| Turkey | **187** | **1.1** | 152 | 0.8 |
| Japan | **143** | **0.8** | 221 | 1.2 |
| China | **113** | **0.7** | 187 | 1.0 |
| India | **92** | **0.5** | 212 | 1.1 |
| Taiwan | **84** | **0.5** | 177 | 0.9 |
| Thailand | **72** | **0.4** | 147 | 0.8 |
| Rep. of Korea | **63** | **0.4** | 331 | 1.7 |
| Malaysia | **49** | **0.3** | 91 | 0.5 |
| Hong Kong | **36** | **0.2** | 98 | 0.5 |
| Other Asia | **267** | **1.5** | 273 | 1.4 |
| | **1 106** | **6.4** | 1 889 | 9.9 |
| Australia | **270** | **1.6** | 310 | 1.6 |
| South-Africa | **161** | **1.0** | 102 | 0.5 |
| Other countries | **157** | **0.9** | 98 | 0.5 |
| Group total | **17 176** | **100.0** | 19 055 | 100.0 |

[1)] Net sales, operating proft and total assets are presented by the locations of the Group or associated companies.
[2)] Other Europe includes restructuring expenses of tube operations of FIM 60 million.
[3)] North America includes one-time restructuring expenses of FIM 177 million. Other countries includes gain from sale of exploration rights of FIM 64 million.
[4)] Net sales are presented by destination.

## 3. Percentage of completion method

Net sales include FIM 289 million (1997: FIM 477 million) of revenue recognized on the percentage of completion method for long-term construction contracts in the Technology business area.

## 4. Cost of sales

| FIM million | 1998 | 1997 |
|---|---|---|
| Raw materials and merchandise | **(7 537)** | (8 604) |
| Fuels and supplies | **(1 493)** | (1 436) |
| Wages and salaries | **(2 102)** | (2 038) |
| Other personnel expenses | **(568)** | (542) |
| Rents and leases | **(63)** | (60) |
| Energy expenses | **(881)** | (986) |
| Depreciation and amortization | **(1 024)** | (872) |
| Other cost of sales | **(1 694)** | (1 572) |
| Production for own use | **179** | 171 |
| Change in inventories | **(167)** | (151) |
| | **(15 350)** | (16 090) |

## 5. Personnel expenses

| FIM million | 1998 | 1997 |
|---|---|---|
| Supervisory Board's, Boards of Directors' and Managing Directors' fees and salaries *) | **65** | 53 |
| Other wages and salaries | **2 640** | 2 585 |
| Pension contributions | **282** | 254 |
| Other personnel expenses **) | **456** | 467 |
| Personnel expenses in the income statement | **3 443** | 3 359 |
| Taxable value of fringe benefits | **14** | 14 |

*) Includes bonuses of FIM 7.4 million (1996: FIM 4.3 million).
**) Includes FIM 3 million (1997: FIM 18 million) of profit-sharing bonuses based on the Finnish Personnel Funds Act.

| Personnel | | |
|---|---|---|
| Average number of personnel | **14 027** | 14 016 |
| Personnel on Dec. 31 | **13 179** | 13 734 |

## 6. Unusual items

| | | |
|---|---|---|
| Electricity cogeneration settlement in Copper Products United States | **33** | – |
| Gain on sale of shares in Merita Oyj | **32** | – |
| Gain on sale of Outokumpu Copper Brass Rod AB | **18** | – |
| Restructuring costs of Copper Products' tube operations | **(60)** | – |
| Gain on sale of exploration rights of Santa Catalina | **–** | 64 |
| Harjavalta's insurance refund | **–** | 45 |
| Refund of actuarial surplus | **–** | 37 |
| Gains on sales of shares | **–** | 25 |
| Write-backs and write-downs on shares | **–** | 7 |
| Restructuring costs of stainless steel tube plant in the Netherlands | **–** | (29) |
| Restructuring costs of the US electrostrip operations | **–** | (177) |
| Other items | **–** | (1) |
| | **23** | (29) |

## 7. Other operating income and expenses

| | | |
|---|---|---|
| Other operating income | | |
| Gains on sales of fixed assets | **58** | 20 |
| Other income items | **46** | 46 |
| | **104** | 66 |
| Other operating expenses | | |
| Losses on dispositions of fixed assets | **(37)** | (20) |
| Other expense items | **(52)** | (25) |
| | **(89)** | (45) |
| Other operating income and expenses, total | **15** | 21 |

## 8. Provisions for restructuring measures

| FIM million | 1998 | 1997 |
|---|---|---|
| Provisions on Jan. 1 | **117** | 67 |
| Translation differences | **(7)** | 7 |
| Restructuring costs charged against provisions | **(16)** | (32) |
| New provisions recorded | **39** | 75 |
| Provisions on Dec. 31 | **133** | 117 |

The new provisions in 1998 refer mainly to the restructuring of Copper Products' tube operations in Sweden and Spain.

## 9. Financial income and expenses

| | | |
|---|---|---|
| Dividends received | **3** | 2 |
| Interest income on long-term financial assets | **103** | 81 |
| Other interest income | **68** | 88 |
| Other financial income | **4** | 4 |
| Interest expenses | **(384)** | (387) |
| Other financial expenses | **(13)** | (21) |
| Exchange gains (losses) | **33** | (78) |
| | **(186)** | (311) |

Interest capitalized on investment projects during the year was FIM 19 million (1997: FIM 37 million). Total interest capitalized on investment projects on Dec. 31, 1998 was FIM 140 million (Dec 31, 1997: FIM 144 million).

Interest component of derivative financial instruments consists of FIM 27 million (1997: FIM 35 million) in other interest income, and of FIM 53 million (1997: FIM 65 million) in interest expenses.

| | | |
|---|---|---|
| Exchange gains (losses) on derivative financial instruments | | |
| Realized | **137** | (228) |
| Unrealized | **(27)** | 38 |
| | **110** | (190) |
| Other exchange gains (losses) | | |
| Realized | **61** | 35 |
| Unrealized | **(138)** | 77 |
| | **(77)** | 112 |
| Total exchange gains (losses) | **33** | (78) |

At the balance sheet date, FIM 18 million of net exchange gains on financial instruments were deferred (1997: FIM 92 million).

Euro's effect on exchange gains and losses:
According to the Group's accounting principles, realized exchange gains and losses as well as unrealized exchange gains and losses on receivables and liabilities are recognized in income. Exchange gains and losses on derivative financial instruments and foreign currency loans hedging off-balance sheet foreign currency cash flows are, however, deferred until the underlying cash flow is recognized in income. Thus, the adoption of euro has not caused any abnormal exchange gains or losses for the Group.

## 10. Income taxes

| FIM million | 1998 | 1997 |
|---|---|---|
| Current taxes | | |
| Accrued taxes for the year | | |
| Finnish Group companies | **(75)** | (39) |
| Group companies outside Finland | **(24)** | (85) |
| Tax adjustments for past years | | |
| Finnish Group companies | **(7)** | 0 |
| Group companies outside Finland | **11** | 5 |
| | **(95)** | (119) |
| Deferred taxes | | |
| Deferred taxes in Group companies | | |
| Finnish Group companies | **127** | 61 |
| Group companies outside Finland | **24** | (21) |
| Deferred taxes on untaxed reserves | | |
| Finnish Group companies | **(27)** | (215) |
| Group companies outside Finland | **12** | 14 |
| Deferred taxes on consolidation | | |
| Finnish Group companies | **(11)** | 4 |
| Group companies outside Finland | **14** | 7 |
| | **139** | (150) |
| Total income taxes | **44** | (269) |

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 | **7** | (273) |
| Effect of different tax rates outside Finland | **35** | 34 |
| Non-deductible expenses and tax exempt income | **3** | 1 |
| Losses incurred at Group companies outside Finland for which no deferred tax benefit is recognized | **(104)** | (110) |
| Taxable items with no effect on the Group's result | **6** | 10 |
| Write-downs on subsidiary shares | **77** | 41 |
| Changes in carrying amounts of deferred tax assets on Jan. 1 | **16** | 2 |
| Expected change in tax rate | **6** | 23 |
| Other items | **(2)** | 3 |
| Income taxes in the consolidated income statement | **44** | (269) |

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:

| FIM million | 1998 | 1997 |
|---|---|---|
| Deferred tax assets | | |
| Tax losses carried forward | **342** | 192 |
| Provisions for future expenses | **115** | 131 |
| Effect of consolidation | **43** | 53 |
| Other items | **60** | 62 |
| | **560** | 438 |
| Deferred tax liabilities | | |
| Depreciation and amortization of fixed assets | **(1 217)** | (1 201) |
| Effect of consolidation | **(57)** | (70) |
| Valuation of inventories | **(47)** | (41) |
| Untaxed reserves | **(36)** | (44) |
| Capitalized interest | **(35)** | (36) |
| Other items | **(61)** | (73) |
| | **(1 453)** | (1 465) |
| Net deferred tax liability | **(893)** | (1 027) |
| Deferred taxes in the balance sheet: | | |
| Long-term assets | **108** | 105 |
| Current assets | **140** | 83 |
| Long-term liabilities | **(1 138)** | (1 196) |
| Current liabilities | **(3)** | (19) |
| | **(893)** | (1 027) |

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

Valuation allowance on deferred tax assets amounts to FIM 820 million (1997: FIM 828 million).

## 11. Fixed assets

| FIM million | Historical cost on Jan. 1, 1998 | Translation difference | Additions | Dispositions | Accumulated depreciation Dec 31, 1998 | Carrying value on Dec 31, 1998 |
|---|---|---|---|---|---|---|
| Intangible assets | | | | | | |
| Intangible rights | 62 | (1) | 8 | (1) | (38) | 30 |
| Goodwill | 33 | (2) | 12 | – | (22) | 21 |
| Goodwill on consolidation | 379 | (6) | 34 | (0) | (377) | 30 |
| Other long-term expenses | 422 | (17) | 26 | (31) | (211) | 189 |
| | 896 | (26) | 80 | (32) | (648) | 270 |
| Property, plant and equipment | | | | | | |
| Land | 203 | (5) | 5 | (3) | – | 200 |
| Mine properties | 1 046 | (62) | 150 | (5) | (805) | 324 |
| Buildings | 2 989 | (39) | 164 | (70) | (1 081) | 1 963 |
| Machinery and equipment | 12 022 | (251) | 1 115 | (378) | (5 987) | 6 521 |
| Construction in progress | 382 | (6) | 270 | (404) | – | 242 |
| Advances paid for fixed assets | 76 | (1) | 12 | (44) | – | 43 |
| Other fixed assets | 216 | (2) | 14 | (12) | (61) | 155 |
| | 16 934 | (366) | 1 730 | (916) | (7 934) | 9 448 |
| Long-term financial assets | | | | | | |
| Investments in associated companies *) | 282 | (16) | 35 | (167) | – | 134 |
| Other long-term equity investments | 152 | (0) | 12 | (45) | – | 119 |
| Long-term loans receivable | 1 327 | (63) | 263 | (68) | – | 1 459 |
| Deferred exchange losses | – | – | 61 | – | – | 61 |
| Deferred tax asset | 105 | (8) | 26 | (15) | – | 108 |
| Other financial assets | 29 | (2) | 3 | (2) | – | 28 |
| | 1 895 | (89) | 400 | (297) | – | 1 909 |
| Total fixed assets | 19 725 | (481) | 2 210 | (1 245) | (8 582) | 11 627 |

*) Associated companies on December 31, 1998, are listed on page 62.

## Depreciation

| FIM million | Accumulated depreciation Jan 1, 1998 | Translation difference | Accumulated depreciation of dispositions | Depreciation during period | Accumulated depreciation Dec 31, 1998 |
|---|---|---|---|---|---|
| Intangible assets | | | | | |
| Intangible rights | (35) | 1 | 2 | (6) | (38) |
| Goodwill | (28) | 2 | 6 | (2) | (22) |
| Goodwill on consolidation | (372) | 5 | (6) | (4) | (377) |
| Other long-term expenses | (209) | 5 | 21 | (28) | (211) |
| | (644) | 13 | 23 | (40) | (648) |
| Property, plant and equipment | | | | | |
| Land | – | – | – | – | – |
| Mine properties | (754) | 45 | (15) | (81) | (805) |
| Buildings | (1 048) | 26 | 68 | (127) | (1 081) |
| Machinery and equipment | (5 609) | 169 | 303 | (850) | (5 987) |
| Construction in progress | – | – | – | – | – |
| Advances paid for fixed assets | – | – | – | – | – |
| Other fixed assets | (64) | 1 | 11 | (9) | (61) |
| | (7 475) | 241 | 367 | (1 067) | (7 934) |
| Long-term financial assets | – | – | – | – | – |
| Total fixed assets | (8 119) | 254 | 390 | (1 107) | (8 582) |

| FIM million | 1998 | 1997 |
|---|---|---|
| Depreciation and amortization by group of expenses: | | |
| Cost of sales | **1 024** | 872 |
| Selling and marketing expenses | **13** | 12 |
| Administrative expenses | **50** | 53 |
| Exploration, research and development expenses | **16** | 15 |
| Amortization of goodwill on consolidation | **4** | 33 |
| | **1 107** | 985 |

## 12. Associated companies

| FIM million | 1998 | 1997 |
|---|---|---|
| **Investments in associated companies at cost** | | |
| Historical cost on Jan. 1 | **572** | 549 |
| Translation difference | **(2)** | 2 |
| Additions | **43** | 30 |
| Dispositions | **(27)** | (9) |
| Historical cost on Dec. 31 | **586** | 572 |
| **Equity adjustment to investments in associated companies** | | |
| Jan. 1 | **(290)** | (206) |
| Change in translation difference | **(13)** | (12) |
| Dividends received during the year | **–** | (0) |
| Dispositions and other changes | **(4)** | (5) |
| Equity earnings in associated companies | **(145)** | (67) |
| Dec. 31 | **(452)** | (290) |
| Carrying value of investments in associated companies | **134** | 282 |
| **Receivables from and payables to associated companies** | | |
| Long-term | | |
| Long-term loans receivable | **1 275** | 1 109 |
| Short-term | | |
| Loans receivable | **4** | – |
| Accounts receivable | **1** | 3 |
| Prepaid expenses and accrued income | **7** | 11 |
| Other receivables | **2** | 7 |
| Accounts payable | **0** | 0 |

The Group's result includes interest income of FIM 98 million (1997: FIM 78 million) on loans receivable.

Significant associated companies

| FIM million | 1998 | 1997 |
|---|---|---|
| **Laminados Oviedo-Córdoba S.A.** | | |
| Net sales | **437** | 397 |
| Operating profit | **(16)** | 17 |
| Profit before extraordinary items and taxes | **(32)** | 0 |
| Net income | **(32)** | 1 |
| Outokumpu's share of net income (50%) | **(16)** | 0 |
| **Compañía Minera Zaldívar** | | |
| Net sales | **1 205** | 1 087 |
| Operating profit | **150** | 213 |
| Profit before extraordinary items and taxes | **(223)** | (131) |
| Net income | **(223)** | (131) |
| Outokumpu's share of net income (50%) | **(121)** | (78) |
| Effects of hedging | **5** | 17 |
| Presented in the consolidated income statement | **(116)** | (61) |
| **Mining Project Investors Pty. Ltd. [1)]** | | |
| Net sales | **112** | 108 |
| Operating profit | **(19)** | (27) |
| Profit before extraordinary items and taxes | **(10)** | (2) |
| Net income | **(6)** | (3) |
| Outokumpu's share of net income (34%) | **(2)** | (1) |
| **Okmetic Oy** | | |
| Net sales | **206** | 180 |
| Operating profit | **(17)** | 17 |
| Profit before extraordinary items and taxes | **(30)** | 11 |
| Net income | **(18)** | (2) |
| Outokumpu's share of net income (49%) | **(9)** | 0 |

[1)] Outokumpu sold the shares in Mining Project Investors Pty. Ltd. on October 31, 1998. Outokumpu's share of net income is consolidated up to the disposal date. All figures in 1998 are presented up to October 31, 1998.

## 13. Inventories

As of 1998 Outokumpu has applied a new method for inventory valuation so that purchased metals and metal raw materials are valued at the lower of LIFO (last in, first out) cost or market. Other inventories are valued as previously at the lower of FIFO (first in, first out) cost or market. The new inventory valuation method gives a better view of the Group's operations by eliminating inventory gains and losses. This change in accounting principle is made in accordance with the US GAAP. Since no cumulative effect on the change is determinable, the closing FIFO inventory on December 31, 1997 is used as the opening LIFO inventory on January 1, 1998. The figures for 1997 have therefore not been restated.

| | December 31, 1998 | |
|---|---|---|
| Inventories, FIM million | Balance sheet value | FIFO replacement cost |
| Raw materials | 578 | 568 |
| Fuels and supplies | 250 | 250 |
| Work in process | 940 | 960 |
| Finished goods and merchandise | 921 | 936 |
| Advances paid for inventories | 9 | 9 |
| | 2 698 | 2 723 |

Inventory costs have been determined using the LIFO method for approximately 51 % of the inventories, amounting to FIM 1 365 million. The FIFO replacement cost (without possible market value reserve) exceeded the balance sheet value of the inventories based upon LIFO method on December 31, 1998 by FIM 25 million.

In 1998, net income decreased by approximately FIM 1 million (FIM 0.01 per share) as a result of using the LIFO method as compared to using the FIFO method.

## 14. Receivables

| FIM million | 1998 | 1997 |
|---|---|---|

The Group companies had on Dec. 31, 1998 FIM 0 million short-term loans to the parent company's or subsidiaries' management (1997: –). Receivables include non-current receivables of FIM 0 million in 1998 (1997: FIM 0 million).

| FIM million | 1998 | 1997 |
|---|---|---|
| Prepaid expenses and accrued income | | |
| Value added taxes receivable | **146** | 139 |
| Accrued income related to long-term contracts | **46** | 44 |
| Prepaid interest expenses and accrued interest income | **25** | 80 |
| Accrued exchange gains | **4** | 113 |
| Other items | **141** | 189 |
| | **362** | 565 |

## 15. Shareholders' equity

| FIM million | 1998 | 1997 |
|---|---|---|
| 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 |
| Other funds | | |
| Reserve fund on Jan. 1 | **69.4** | 73.1 |
| Transfers (to) from retained earnings | **(7.8)** | 2.0 |
| Other changes | **(2.9)** | (5.7) |
| Reserve fund on Dec. 31 | **58.7** | 69.4 |
| Retained earnings Jan. 1 | **3 261.0** | 3 158.2 |
| Prior year's net income | **703.1** | 187.9 |
| Dividends paid | **(249.1)** | (124.5) |
| Transfers from (to) reserve fund | **7.8** | (2.0) |
| Change in translation difference | **(37.9)** | 43.8 |
| Other changes | **(4.8)** | (2.4) |
| Retained earnings Dec. 31 | **3 680.1** | 3 261.0 |
| Net income for the year | **17.4** | 703.1 |
| Total shareholders' equity on Dec. 31 | **7 436.4** | 7 713.7 |

| FIM million | 1998 | 1997 |
|---|---|---|
| Distributable funds | | |
| Retained earnings | **3 680.1** | 3 261.0 |
| Net income for the year | **17.4** | 703.1 |
| Less untaxed reserves in shareholders' equity | **(2 604.3)** | (2 513.2) |
| Less amounts to be transferred according to local regulations to non-distributable equity of subsidiaries | **(1.7)** | (1.9) |
| Distributable funds on Dec. 31 | **1 091.5** | 1 449.0 |
| Untaxed reserves on Dec. 31 | | |
| Accumulated depreciation difference | **3 560.9** | 3 461.4 |
| Other untaxed reserves | **60.6** | 47.3 |
| | **3 621.5** | 3 508.7 |
| Deferred tax liability on untaxed reserves | **(1 017.2)** | (995.5) |
| Untaxed reserves in equity on Dec. 31 | **2 604.3** | 2 513.2 |

## 16. Long-term debt

Repayment schedule of long-term debt on Dec. 31, 1998:

| FIM million | Repayments 1999 | 2000 | 2001 | 2002 | 2003 | 2004- | Total |
|---|---|---|---|---|---|---|---|
| Bonds and debentures | 0 | – | 100 | – | – | – | 100 |
| Loans from financial institutions | 111 | 250 | 482 | 848 | 588 | 1 305 | 3 584 |
| Pension loans | 27 | 27 | 27 | 27 | 27 | 274 | 409 |
| Other long-term loans | 11 | 10 | 6 | 3 | 2 | 9 | 41 |
| | 149 | 287 | 615 | 878 | 617 | 1 588 | 4 134 |

Bonds and debentures

| FIM million | Interest rate % | 1998 | 1997 |
|---|---|---|---|
| Bonds with warrants | | | |
| 1994-99 | 6.00 [1] | **0** | 0 |
| Other bonds | | | |
| 1991-01 | 11.75 | **100** | 100 |
| 1993-98 | [2] | **–** | 38 |
| 1993-00 | [2] | **–** | 250 |
| | | **100** | 388 |

Breakdown of long-term debt by currency:

| FIM million | 1998 | % | 1997 | % |
|---|---|---|---|---|
| USD | **2 912** | **70.5** | 2 921 | 63.7 |
| FIM | **671** | **16.2** | 1 103 | 24.1 |
| DEM | **329** | **8.0** | 120 | 2.6 |
| SEK | **200** | **4.8** | 253 | 5.5 |
| Other | **22** | **0.5** | 187 | 4.1 |
| | **4 134** | **100.0** | 4 584 | 100.0 |

All bonds are denominated in FIM and issued by the Parent Company.

[1] Conditions for bond with warrants are presented on page 71.

[2] Floating rate, based on Helibor.

| FIM million | 1998 | 1997 |
|---|---|---|

## 17. Accrued expenses and prepaid income

| | | |
|---|---|---|
| Accrued expenses and prepaid income | | |
| Accrued employee related expenses | **547** | 574 |
| Income taxes payable | **172** | 185 |
| Accrued interest expenses and prepaid interest income | **74** | 114 |
| Other items | **385** | 315 |
| | **1 178** | 1 188 |

## 18. Management of financial risks

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

The business areas are responsible for the definition of their financial risks, which are mainly hedged through intra-group hedging transactions. Outokumpu Group's Finance function manages the net financial risk position aiming to hedge significant part of the risks. External financial transactions and co-ordination of the Group's financial risk management are mostly centralized in the Group's Finance function, which operates also as an internal bank. The Group's Finance function reports frequently to Corporate Management.

### EXCHANGE RATE RISKS

The Group's foreign currency exposure primarily consists of receivables, loans and other contractual commercial items (transaction exposure), added with anticipated currency cash flows (economic exposure), so that, as a rule, the foreign currency exposure covers the cash flows for 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. In addition, the Group hedges some of the main tender risks as well as some equity exposures of its foreign subsidiaries and associated companies.

A major part of the Group's revenue is generated from US dollar based sales. A significant part of the expenses arise in EMU-currencies, US dollars, Swedish crowns and Australian dollars.

The foreign currency exposure is hedged mainly with forward foreign exchange contracts and options, foreign currency loans and currency swaps.

The total non-EMU denominated shareholders' equity of the Group's foreign subsidiaries and associated companies was FIM 1 430 million on December 31, 1998 (1997: FIM 1 489 million). Of this equity exposure, 41 % was hedged (1997: 42 %). The loans and derivative contracts used to hedge the shareholders' equity produced FIM 47 million of exchange gains in 1998 (1997: FIM 111 million of exchange losses). In the consolidated financial statements, the exchange gains and losses on the hedging are recorded in retained earnings 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. In 1998, net interest expenses of FIM 26 million were recognised in income (1997: FIM 30 million). The negative interest rate differential of the currency loans in US dollars against the interest rates in the EMU countries was in 1998 approximately FIM 50 million (1997: FIM 60 million).

### 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, Swedish crown and Finnish mark/euro. The Group's net interest-bearing debt including derivatives is mostly in US dollars. This net interest-bearing debt has an average interest period of 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 1998.

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 liquidity and refinancing risks with a balanced maturity profile of loans, sufficiently long loan tenures and sufficient financial reserves. Anticipated financing needs are frequently analyzed together with cash flow forecasts.

### DERIVATIVE CONTRACTS

Outokumpu uses derivative contracts only for hedging activities 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, 1998 are presented in the following table. The contract amounts illustrate the scope of the Group's hedging activities and not necessarily the amounts exchanged between the parties.

FINANCIAL INSTRUMENTS

| FIM million | Maturity months | Contract amount (Dec 31, 1998) | Carrying value (Dec 31, 1998) | Fair value (Dec 31, 1998) | Contract amount (Dec 31, 1997) | Carrying value (Dec 31, 1997) | Fair value (Dec 31, 1997) |
|---|---|---|---|---|---|---|---|
| Investments and receivables | | | | | | | |
| Other long-term equity investments | | | **119** | **207** | | 152 | 245 |
| Long-term loans receivable | | | **1 459** | **1 431** | | 1 327 | 1 299 |
| Current loans receivable | | | **5** | **5** | | 1 | 1 |
| Cash and marketable securities | | | **542** | **542** | | 544 | 544 |
| Debt | | | | | | | |
| Long-term debt | | | **3 985** | **4 018** | | 3 854 | 3 879 |
| Current debt | | | **2 080** | **2 081** | | 2 441 | 2 441 |
| Derivative financial instruments *) | | | | | | | |
| Forward foreign exchange contracts | **1-9** | **6 400** | **(30)** | **(28)** | 8 900 | 100 | 103 |
| Currency swaps | **9-75** | **930** | **(70)** | **(66)** | 810 | 26 | 33 |
| Currency options | | | | | | | |
| Purchased | **1-5** | **860** | **2** | **2** | 930 | 1 | 1 |
| Written | **1-5** | **860** | **(1)** | **(1)** | 700 | (3) | (3) |
| Interest rate swaps | **4-28** | **480** | **(4)** | **(13)** | 720 | 6 | 4 |
| Forward rate agreements | **3-12** | **590** | **–** | **1** | 1 300 | – | 0 |

*) In the column of carrying values of derivative instruments the positive figures refer to assets and the negative figures to liabilities.

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.

## 19. Management of metal price risks

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 base inventory permanently tied up in the production of these units is not hedged.

The Board of Directors 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 loss of FIM 1 million was recognized from these transactions in 1998 (1997: a gain of FIM 2 million).

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

The business areas are responsible for the determination of their metal price risks. Metal price risk management is centralized in Outokumpu Oyj's Finance function and Copper Products' raw materials company in London.

The Group's open derivative instruments to hedge metal price risks as well as the related contract amounts, carrying values and fair values were as follows on December 31, 1998:

| FIM million | Maturity months | Contract amount | Carrying value | Fair value | Contract amount | Carrying value | Fair value |
|---|---|---|---|---|---|---|---|
| | | Dec. 31, 1998 | | | Dec. 31, 1997 | | |
| Price fixing of mine production | | | | | | | |
| No open copper forward sale contracts on Dec. 31, 1998 (1997: 6 300 t) | **–** | **–** | **–** | **–** | 80 | – | 9 |
| Gold forward sale contracts | **3** | **13** | **–** | **3** | 22 | – | 3 |
| Forward metal sales and purchases relating to offset hedging of metal production and fabrication | **1-13** | **1 090** | **0** | **(42)** | 2 530 | – | (120) |
| Strategic derivative contracts | | | | | | | |
| Forward nickel sale contracts | **1** | **2** | **0** | **0** | – | – | – |
| Bought zinc call option contracts | **–** | **–** | **–** | **–** | 110 | 0 | 0 |

The contract amounts presented in the above table illustrate the scope of the Group's hedging activities and not necessarily the amounts exchanged between the parties. The fair values of forward metal contracts and metal options are based on quoted metal priced on the balance sheet date.

## 20. Management of energy risks

Changes in energy prices cause the Group's production plants an energy risk. The Group's energy costs in 1998 amounted to FIM 881 million (1997: FIM 986 million). The Finnish production plants' energy costs were 66% (1997: 66%) of the Group's total energy costs.

Purchasing the electricity and all actions thereon for the Finnish production plants are carried out by the Power Supplies Services unit, which reports directly to Corporate Management. Energy purchases and management of foreign subsidiaries are carried out locally.

On December 31, 1998 open electricity derivatives' contract amounts totaled FIM 18 million. The carrying value of the open electricity derivatives on December 31, 1998 was FIM – million (1997: –) and the market value FIM 2 million negative (1997: –).

| FIM million | **1998** | 1997 |
|---|---|---|

## 21. Commitments and contingent liabilities

| | | |
|---|---|---|
| Pledges on Dec. 31 | | |
| Mortgages to secure own borrowings | **316** | 594 |
| Other pledges to secure borrowings of an associated company | **254** | 270 |
| | **570** | 864 |
| Guarantees on Dec. 31 | | |
| On behalf of associated companies for financing | **67** | 69 |
| On behalf of other parties | | |
| For financing | **0** | 0 |
| For other commitments | **36** | 48 |
| | **103** | 117 |

The mortgages are given to secure loans of FIM 219 million, mostly being pension loans.

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.

| FIM million | **1998** | 1997 |
|---|---|---|
| Minimum future lease payments on operating leases on Dec. 31 | | |
| In 1999 | **48** | 45 |
| Thereafter | **114** | 82 |
| | **162** | 127 |

PENSION LIABILITIES

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, 1998 were FIM 522 million (1997: FIM 561 million). When the assets of the pension trusts are assessed at current market values, the value of these assets exceeds the existing pension liability. Also, the pension liabilities of foreign subsidiaries are sufficiently funded.

## 22. Disputes and litigations

Outokumpu Oyj and its Irish subsidiary Tara Mines Limited ("Tara") have been involved in Irish litigation relating to an adjoining zinc-lead ore deposit. In 1986 Bula Limited (in receivership) ("Bula") and a number of its shareholders issued proceedings against Tara, Outokumpu Oyj, the Irish Minister of Energy and certain individuals. The allegations by Bula initially included trespass and theft of ore, civil conspiracy and breach of the conditions of Tara's State mining lease. The alleged purpose of these actions was to prevent Bula from independently developing its part of the orebody and to pressurize Bula to sell its orebody to Tara at a price below the market value.

By the decision of the Irish Supreme Court, rendered on January 15, 1999 all allegations of wrongdoing against Outokumpu, Tara and other defendants were dismissed including all claims for damages amounting to IEP 139-327 million. The Supreme Court thereby affirmed the previous decision of the Irish High Court in the matter. Moreover, The Supreme Court awarded to Outokumpu and Tara and other defendants their costs of the proceedings. The decision of the Supreme Court is final and conclusive.

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Princeton Gamma-Tech, Inc. ("PGT"), a U.S. subsidiary acquired in 1985, has been designated, 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 cause of the contamination relates to a 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 may allocate a portion of the costs of clean-up to PGT rather than the insurance carriers based upon recent developments in New Jersey insurance law. 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.

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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.

## 23. Subsidiaries by business area on December 31, 1998

### Stainless Steel

| Company | | Country | Nature of activity | Group holding % |
|---|---|---|---|---|
| **Outokumpu Steel Oy** | *) | Finland | ■ | 100 |
| Outokumpu Holding GmbH | *) | Germany | ■ | 100 |
| Outokumpu Chrome Oy | | Finland | ✕▲ | 100 |
| Outokumpu Polarit Oy | | Finland | ▲ | 100 |
| Outokumpu Service Center GmbH | | Germany | ▲ | 100 |
| Outokumpu Steel Processing B.V. | | The Netherlands | ▲ | 100 |
| Oy JA-RO Ab | | Finland | ▲ | 100 |
| Kandelinin Seuraajat Oy | | Finland | ◗ | 100 |
| Outokumpu Grundstücks GmbH & Co KG | | Germany | ◗ | 100 |

### Copper Products

| Company | | Country | Nature of activity | Group holding % |
|---|---|---|---|---|
| **Outokumpu Copper Products Oy** | *) | Finland | ■ | 100 |
| Outokumpu Copper AB | | Sweden | ■ | 100 |
| Outokumpu Copper B.V. | | The Netherlands | ■ | 100 |
| Outokumpu Copper Limited | | UK | ■ | 100 |
| Outokumpu Copper, Inc. | | United States | ■ | 100 |
| Holton Machinery Limited | | UK | ▲ | 100 |
| Neumayer GmbH | | Austria | ▲ | 50 |
| Nippert-Dawson Ltd. | | UK | ▲ | 51 |
| Outokumpu American Brass, Inc. | | United States | ▲ | 100 |
| Outokumpu Centro Servizi S.p.A. | | Italy | ▲ | 100 |
| Outokumpu Copper Franklin, Inc. | | United States | ▲ | 100 |
| Outokumpu Copper Kenosha, Inc. | | United States | ▲ | 100 |
| Outokumpu Copper Strip AB | | Sweden | ▲ | 100 |
| Outokumpu Copper Strip B.V. | | The Netherlands | ▲ | 100 |
| Outokumpu Copper Tube (Malaysia) Sdn. Bhd. | | Malaysia | ▲ | 100 |
| Outokumpu Copper Tube (Zhongshan) Ltd. | | China P.R. | ▲ | 85 |
| Outokumpu Copper Tubes AB | | Sweden | ▲ | 100 |
| Outokumpu Copper Tubes, S.A. | | Spain | ▲ | 100 |
| Outokumpu Plating Oy | | Finland | ▲ | 100 |
| Outokumpu Poricopper Oy | | Finland | ▲ | 100 |
| Outokumpu Superconductors Oy | | Finland | ▲ | 100 |
| The Nippert Company | | United States | ▲ | 100 |
| Valleycast Inc. | | United States | ▲ | 100 |
| Neumayer Corporation | | United States | ● | 50 |
| Thatcher Alloys Limited | | UK | ● | 100 |
| Outokumpu Copper Partner AB | | Sweden | ◗ | 100 |
| Outokumpu Rawmet (UK) Limited | | UK | ◗ | 100 |
| Outokumpu Rawmet, S.A. | | Spain | ◗ | 100 |

### Base Metals

| Company | | Country | Nature of activity | Group holding % |
|---|---|---|---|---|
| **Outokumpu Base Metals Oy** | *) | Finland | ■ | 100 |
| Nikkel og Olivin A/S | | Norway | ✕ | 70 |
| Norsulfid A/S | | Norway | ✕ | 100 |
| Outokumpu Exploration Ventures Pty. Ltd. | | Australia | ✕ | 100 |
| Outokumpu Mining Australia Pty. Ltd. | | Australia | ✕ | 100 |
| Outokumpu Mining Oy | | Finland | ✕ | 100 |
| Tara Mines Limited | | Ireland | ✕ | 100 |
| Viscaria AB | | Sweden | ✕ | 100 |
| Outokumpu Harjavalta Metals Oy | | Finland | ▲ | 100 |
| Outokumpu Zinc Oy | | Finland | ▲ | 100 |
| Minera Outokumpu Chile S.A. | | Chile | ◆ | 100 |
| Minera Relincho S.A. | | Chile | ◆ | 100 |
| Minera Santa Catalina S.A. | | Chile | ◆ | 100 |
| OAO Kivijärvi | | Russia | ◆ | 85 |
| OAO Kola-Mining | | Russia | ◆ | 96 |
| Outokumpu Exploraciones S.A. | | Chile | ◆ | 100 |
| Outokumpu Minera Española S.A. | | Spain | ◆ | 100 |
| Outokumpu Mines, Inc. | 3) | Canada | ◆ | 100 |
| Outokumpu Zinc Australia Pty. Ltd. | | Australia | ◆ | 100 |
| Polar Mining Oy | 1) | Finland | ◆ | 100 |
| Outokumpu Copper Resources B.V. | | The Netherlands | ● | 100 |
| Outokumpu Zinc Commercial B.V. | | The Netherlands | ● | 100 |
| Black Swan Nickel Pty. Ltd. | 4) | Australia | ◗ | 100 |
| Tara Prospecting Limited | | Ireland | ✱ | 100 |

### Technology

| Company | | Country | Nature of activity | Group holding % |
|---|---|---|---|---|
| **Outokumpu Technology Oy** | *) | Finland | ■ | 100 |
| Outokumpu Indepro S.A. | 1) | Chile | ■ | 100 |
| AISCO Systems Inc. | | Canada | ▲ | 100 |
| Outokumpu Castform Oy | | Finland | ▲ | 100 |
| Outokumpu Engineering Contractors Oy | | Finland | ▲ | 100 |
| Outokumpu Indepro Ingeniería Limitada | 1) | Chile | ▲ | 100 |
| Outokumpu Mintec Oy | | Finland | ▲ | 100 |
| Outokumpu Turula Oy | | Finland | ▲ | 100 |
| Outokumpu Wenmec AB | | Sweden | ▲ | 100 |
| Outokumpu Wenmec Oy | | Finland | ▲ | 100 |
| Outokumpu WTT AB | | Sweden | ▲ | 100 |
| Supaflo Technologies Pty Ltd. | 2) | Australia | ▲ | 100 |
| Aisco Systems Inc. Chile y Compañia Limitada | 3) | Chile | ◆ | 100 |
| Carpco SMS Ltd. | 4) | UK | ● | 100 |
| Outokumpu Mexicana, S.A. de C.V. | | Mexico | ● | 100 |
| Outokumpu Mintec Australia Pty. Ltd. | | Australia | ● | 100 |
| Outokumpu Mintec South Africa (Pty) Ltd. | | South Africa | ● | 100 |
| Outokumpu Mintec U.S.A. Inc. | | United States | ● | 100 |
| Outokumpu Processos, Engenharia é Comercio Ltda | | Brazil | ● | 100 |
| Outokumpu Técnica-Chile Ltda. | | Chile | ● | 100 |
| Outokumpu Técnica Perú S.A. | | Peru | ● | 100 |
| Outokumpu Wenmec, Inc. | | United States | ● | 100 |
| MPE Service Oy | | Finland | ◗ | 96 |
| Outokumpu Engineering Services Oy | | Finland | ◗ | 100 |
| ZAO Mineral Processing Engineers | | Russia | ◗ | 60 |
| International Project Services Ltd. Oy | | Finland | ✱ | 100 |
| Kumpu Engineering, Inc. | | United States | ✱ | 100 |

## Other operations

| | | Country | Nature of activity | Group holding % |
|---|---|---|---|---|
| **Corporate services** | | | | |
| Granefors Bruk AB | *) | Sweden | ■ | 100 |
| Outokumpu Research Oy | *) | Finland | ◆ | 100 |
| Outokumpu Benelux B.V. | *) | The Netherlands | ● | 100 |
| Outokumpu China Oy | *) | Finland | ● | 100 |
| Outokumpu Portugal Ltda. | ***) | Portugal | ● | 100 |
| Outokumpu Copper (U.S.A.), Inc. | | United States | ● | 100 |
| Outokumpu Danmark A/S | *) | Denmark | ● | 100 |
| Outokumpu Deutschland GmbH | | Germany | ● | 100 |
| Outokumpu España, S.A. | *) | Spain | ● | 100 |
| Outokumpu France S.A. | *) | France | ● | 100 |
| Outokumpu Istanbul Dis Ticaret Limited Sirketi | *) | Turkey | ● | 98 |
| Outokumpu Italia S.r.l. | *) | Italy | ● | 100 |
| Outokumpu Japan K.K. | *) | Japan | ● | 100 |
| Outokumpu Metall GmbH | *) | Austria | ● | 100 |
| Outokumpu Metals (U.S.A.), Inc. | | United States | ● | 100 |
| Outokumpu Norge A/S | *) | Norway | ● | 100 |
| Outokumpu Poland Sp. z o.o. | *) | Poland | ● | 100 |
| Outokumpu Rawmet (Switzerland) Ltd. | | Switzerland | ● | 100 |
| Outokumpu Stål & Metall AB | *) | Sweden | ● | 100 |
| Outokumpu (S.E.A.) Pte Ltd | *) | Singapore | ● | 100 |
| Outokumpu (U.K.) Limited | *) | UK | ● | 100 |
| Finero B.V. | *) | The Netherlands | ◗ | 100 |
| Kopparlunden AB | *) | Sweden | ◗ | 100 |
| Orijärvi Oy | *) | Finland | ◗ | 100 |
| Outokumpu Alueverkko Oy | *) | Finland | ◗ | 100 |
| Outokumpu Finance B.V. | | The Netherlands | ◗ | 100 |
| Outokumpu Metals Treasury | **) | Ireland | ◗ | 100 |
| Outokumpu Rossija Oy | *) | Finland | ◗ | 100 |
| Outokumpu Työterveyspalvelut Oy | *) | Finland | ◗ | 100 |
| Pancarelian Ltd. | *) | Bermuda | ◗ | 100 |
| ZAO Outokumpu Moskva | | Russia | ◗ | 100 |
| ZAO Outokumpu St. Petersburg | | Russia | ◗ | 100 |
| Finenco Limited | | UK | ✷ | 100 |
| Nokian Tuotek Oy | *) | Finland | ✷ | 100 |
| Outokumpu Commercial A/S | *) | Denmark | ✷ | 100 |
| Outokumpu Engineering Enterprises, Inc. | *) | United States | ✷ | 100 |
| Outokumpu Invest (U.K.) Ltd. | *) | UK | ✷ | 100 |
| Outokumpu Smelters B.V. | *) | The Netherlands | ✷ | 100 |
| Roll On Rock Oy | *) | Finland | ✷ | 100 |
| **Industrial holdings** | | | | |
| Princeton Gamma-Tech, Inc. | | United States | ▲ | 80 |
| SKT-Granit Oy | *) | Finland | ▲ | 100 |
| Princeton Gamma-Tech U.K. Ltd. | | UK | ● | 79 |

## Foreign branches on December 31, 1998

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

## 24. Associated companies and other shares and stock

| | | Country | Nature of activity | Group holding % |
|---|---|---|---|---|
| **Shares and stock in associated companies on December 31, 1998** | | | | |
| Compañía Minera Zaldívar | | Chile | ✕ | 50 |
| Constructora Indepro Cosapi Ltda | | Chile | ▲ | 50 |
| DIARC-Technology Oy | *) | Finland | ▲ | 25 |
| Folldal Industrielektro A/S | | Norway | ▲ | 40 |
| Laminados Oviedo-Córdoba S.A. | | Spain | ▲ | 50 |
| Okmetic Oy | *) | Finland | ▲ | 49 |
| Okphil Inc. | | The Philippines | ▲ | 30 |
| Placer Outokumpu Exploration Ltd. | | UK | ◆ | 50 |
| Oretec Resources Plc. | | Ireland | ◆ | 34 |
| Tepa-Mestarit Oy | | Finland | ◆ | 50 |
| ZAO Arctic Nickel | | Russia | ◆ | 40 |
| Outokumpu (Thailand) Co., Ltd. | | Thailand | ● | 49 |
| Kopparlunden Development AB | | Sweden | ◗ | 50 |

**Other shares and stock on December 31, 1998**

The market value of the shares in publicly listed companies included in other shares and stock exceeds the balance sheet value of FIM 51 million by FIM 88 million.

## Legend

■ Management or Holding
✕ Mining
▲ Production
● Marketing
◆ Exploration or Research
◗ Service
✷ Dormant

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

*) Shares and stock held by the Parent Company
**) Parent Company's ownership 4%
***) Parent Company's ownership 65%

This list does not include dormant companies or all holding companies. However, all companies owned by the Parent Company are included. The Group holding corresponds to the Group's share of voting rights.

## 25. Changes in Group structure in 1998

**Companies merged and dissolved**

| | |
|---|---|
| Copper Products | Outokumpu Drawn Products, Inc. |
| Base Metals | Outokumpu Transport Oy |
| Technology | Indepro S.A. |
| | Outokumpu Ingeniería Limitada |
| | Outokumpu Mines Ltd. |
| Other operations | Laattapörssi Oy *) |
| | Outokumpu Financial Services AB |

*) Shares and stock held by the Parent Company

**Companies sold**

| | |
|---|---|
| Copper Products | Outokumpu Copper Brass Rod AB |
| Base Metals | Mining Project Investors Pty. Ltd. |
| | MPI Gold (United States) Ltd. |

Effect of sales of business operations on the consolidated net sales

| FIM million | **1998** | 1997 |
|---|---|---|
| Outokumpu Copper Brass Rod AB (sold May 6, 1998) | **82** | 212 |

## Mine production

| tonnes | **1998** | 1997 |
|---|---|---|
| **Ore excavated (mill. tonnes)** | | |
| Forrestania | **0.4** | 0.4 |
| Black Swan (50% until Oct. 31, 1998) | **0.08** | 0.04 |
| Hitura | **0.3** | 0.6 |
| Kemi | **1.0** | 1.0 |
| Mullikkoräme | **0.2** | 0.3 |
| Orivesi | **0.2** | 0.2 |
| Pyhäsalmi | **1.3** | 1.2 |
| Tara | **2.1** | 2.2 |
| Grong | **0.2** | 0.4 |
| Nikkel og Olivin 70% | **0.7** | 0.6 |
| Viscaria | **–** | 0.1 |
| Total | **6.5** | 7.1 |
| **Chromite concentrates** | | |
| Kemi | **498 100** | 588 900 |
| **Zinc in concentrates** | | |
| Pyhäsalmi | **30 700** | 31 200 |
| Tara | **141 100** | 160 100 |
| Grong | **1 000** | 2 400 |
| Total | **172 800** | 193 700 |
| **Copper in concentrates** | | |
| Pyhäsalmi | **9 500** | 8 500 |
| Grong | **2 700** | 6 700 |
| Viscaria | **–** | 1 900 |
| Total | **12 200** | 17 100 |
| **Nickel in concentrates** | | |
| Forrestania | **9 200** | 7 900 |
| Black Swan (50% until Oct. 31, 1998) | **7 300** | 3 100 |
| Hitura | **1 200** | 2 500 |
| Nikkel og Olivin 70% | **3 000** | 2 500 |
| Total | **20 700** | 16 000 |

| tonnes | **1998** | 1997 |
|---|---|---|
| **Lead in concentrates** | | |
| Pyhäsalmi | **1 800** | 2 200 |
| Tara | **34 700** | 43 100 |
| Total | **36 500** | 45 300 |
| **Gold in concentrates (kg)** | | |
| Orivesi | **1 500** | 1 550 |
| Pampalo | **520** | – |
| Pyhäsalmi | **350** | 350 |
| Viscaria | **–** | 10 |
| Total | **2 370** | 1 910 |
| **Pyrite concentrate** | | |
| Pyhäsalmi | **770 000** | 740 000 |

ASSOCIATED COMPANIES

| | **1998** | 1997 |
|---|---|---|
| **Zaldívar 50%** | | |
| Ore excavated (million tonnes) | **6.8** | 7.1 |
| Copper in concentrates | **1 900** | – |
| Cathode copper | **65 800** | 48 100 |
| **Mining Project Investors 34% (Silver Swan, until Oct. 31, 1998)** | | |
| Ore excavated (million tonnes) | **0.03** | 0.01 |
| Nickel in concentrates | **1 700** | 1 050 |

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

## Ore reserves and mineral resources December 31, 1998

| | ORE RESERVES | | MINERAL RESOURCES | | |
|---|---|---|---|---|---|
| | Proved | Probable | Measured | Indicated | Inferred |
| **MINES** | | | | | |
| **Australia** | | | | | |
| Forrestania | 0.2 Mt | 0.1 Mt | | 2.7 Mt | 2.1 Mt |
| | 2.5 Ni | 2.1% Ni | | 2.1% Ni | 1.4% Ni |
| Black Swan | | | | | |
| Silver & White Swan | 0.1 Mt | 0.3 Mt | | | 0.1 Mt |
| | 9.4% Ni | 9.4% Ni | | | 10.6% Ni |
| Cygnet | | 1.1 Mt | | 2.4 Mt | |
| | | 2.1% Ni | | 1.0% Ni | |
| Black Swan | | | | | 30 Mt |
| | | | | | 0.8% Ni |
| **Chile** | | | | | |
| Zaldívar 50% | 252 Mt [1,2] | | 34 Mt [1,3] | 188 Mt [1,3] | 137 Mt [1,3] |
| | 0.9% Cu | | 0.5% Cu | 0.5% Cu | 0.6% Cu |
| **Finland** | | | | | |
| Hitura [4] | | | 1.8 Mt | 1.0 Mt | 3.3 Mt |
| | | | 0.8% Ni | 0.8% Ni | 0.7% Ni |
| Kemi | 47 Mt | 20 Mt | 34 Mt | | 99 Mt |
| | 25% $Cr_2O_3$ | 26% $Cr_2O_3$ | 26% $Cr_2O_3$ | | 28% $Cr_2O_3$ |
| Mullikkoräme | 0.1 Mt | | 0.1 Mt | | 0.1 Mt |
| | 3.8% Zn | | 8.7% Zn | | 5.4% Zn |
| | 0.3% Cu | | 0.3% Cu | | 0.7% Cu |
| | 26% S | | 26% S | | 18% S |
| | 0.4 g/t Au | | 0.9 g/t Au | | 0.4 g/t Au |
| Orivesi | 0.3 Mt | 0.2 Mt | | | 0.2 Mt |
| | 9.2 g/t Au | 7.5 g/t Au | | | 7.6 g/t Au |
| Pyhäsalmi | 3.0 Mt | 14 Mt | | 2.7 Mt | 5.8 Mt |
| | 0.9% Cu | 1.1% Cu | | 1.3% Cu | 0.4% Cu |
| | 1.6% Zn | 2.1% Zn | | 2.8% Zn | |
| | 38% S | 38% S | | 41% S | 49% S |
| | 0.4 g/t Au | 0.4 g/t Au | | 0.4 g/t Au | |
| **Ireland** | | | | | |
| Tara | 5.6 Mt | 9.5 Mt | 1.6 Mt | 6.4 Mt | 12 Mt |
| | 9.4% Zn | 8.7% Zn | 5.7% Zn | 5.3% Zn | 6.8% Zn |
| | 2.4% Pb | 2.4% Pb | 2.0% Pb | 2.4% Pb | 1.9% Pb |
| **Norway** | | | | | |
| Nikkel og Olivin 70% | 1.1 Mt | | 0.1 Mt | 0.2 Mt | 0.2 Mt |
| | 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 | | |
| Sulphide resource | 118 Mt [5] | 10 Mt [5] |
| | 0.8% Ni | 0.7% Ni |
| Laterite resource | | 250 Mt [6] |
| | | 0.9% Ni |
| | | 0.06% Co |
| Panorama 64% | | |
| Copper resource | 2.4 Mt [1] | 0.1 Mt [1] |
| | 4.1% Cu | 3.5% Cu |
| | 1.1% Zn | 0.5% Zn |
| Zinc resource | 3.4 Mt [1] | 1.7 Mt [1] |
| | 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** | | |
| Pampalo | 0.3 Mt | 0.3 Mt |
| | 10.1 g/t Au | 5.9 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.

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).

Zn = zinc, Cu = copper, Ni = nickel, Pb = lead, Mo = molybdenum, Co = cobalt, Au = gold, Ag = silver, $Cr_20_3$ = chromium oxide and S = sulphur.

1) Reported by the operator
2) Comprises proved and probable ore reserves
3) Does not include the primary sulphide mineralization
4) Mine in care and maintenance
5) Cut-off 0.5% Ni
6) Cut-off 0.7% Ni

# Parent Company financial statements

## Income statement

| FIM million | | 1998 | 1997 |
|---|---|---|---|
| **Net sales** | | **450** | 615 |
| Cost of sales | | **(418)** | (641) |
| **Gross margin** | | **32** | (26) |
| Administrative expenses | | **(128)** | (108) |
| Research and development expenses | | **(19)** | (17) |
| Unusual items | [3] | **(17)** | 29 |
| Other operating income and expenses | [4] | **33** | 10 |
| **Operating profit** | [1, 2] | **(99)** | (112) |
| Financial income and expenses | [5] | **310** | 350 |
| **Profit before extraordinary items and taxes** | | **211** | 238 |
| Extraordinary income and expenses | [6] | **164** | (81) |
| **Profit before appropriations and taxes** | | **375** | 157 |
| Decrease (increase) in untaxed reserves | | | |
| Depreciation difference | | **6** | (33) |
| Other untaxed reserves | | **–** | 31 |
| Income taxes | [7] | **(86)** | (28) |
| **Profit for the year** | | **295** | 126 |

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 square brackets refer to the Notes to the Parent Company financial statements on pages 67-68.

## Statement of cash flows

| FIM million | 1998 | 1997 |
|---|---|---|
| **Operating activities** | | |
| Income financing | | |
| Profit for the year | **295** | 126 |
| Depreciation and amortization | **22** | 13 |
| (Decrease) increase in depreciation difference | **(6)** | 2 |
| | **311** | 141 |
| Change in working capital | | |
| Decrease in receivables | **321** | 291 |
| Decrease in current non-interest bearing liabilities | **(19)** | (381) |
| | **302** | (90) |
| Other adjustments to cash *) | **298** | 544 |
| **Cash provided by operating activities** | **911** | 595 |
| **Investing activities** | | |
| Capital expenditures for purchase of fixed assets | **(15)** | (67) |
| Investments in associated companies and other equity investments | **(276)** | (132) |
| Proceeds from sales of fixed assets | **69** | 14 |
| Increase in long-term financial assets | **(335)** | (1 386) |
| **Cash used in investing activities** | **(557)** | (1 571) |
| **Cash flow before financing activities** | **354** | (976) |
| **Financing activities** | | |
| Increase in long-term debt | **1 077** | 954 |
| Repayments of long-term debt | **(1 188)** | (811) |
| Increase in current debt | **135** | 127 |
| Dividends paid | **(249)** | (125) |
| Other financial items | **(50)** | 759 |
| **Cash used in financing activities** | **(275)** | 904 |
| Other adjustments to cash | **1** | 7 |
| **Increase (decrease) in cash and marketable securities in the balance sheet** | **80** | (65) |

*) **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 | | 1998 | 1997 |
|---|---|---|---|
| ASSETS | | | |
| **Fixed assets and other long-term investments** | [8] | | |
| Intangible assets | | | |
| Other long-term expenses | | **5** | 1 |
| Property and equipment | | | |
| Land | | **96** | 95 |
| Buildings | | **199** | 205 |
| Machinery and equipment | | **27** | 28 |
| Other fixed assets | | **14** | 15 |
| | | **336** | 343 |
| Long-term financial assets | | | |
| Investments in subsidiaries | | **3 993** | 3 770 |
| Other long-term equity investments | | **76** | 109 |
| Long-term loans receivable | [10] | **6 234** | 5 960 |
| Deferred exchange losses | | **61** | – |
| | | **10 364** | 9 839 |
| **Total fixed assets and other long-term investments** | | **10 705** | 10 183 |
| **Current assets** | | | |
| Receivables | [10] | | |
| Accounts receivable | | **50** | 49 |
| Loans receivable | | **690** | 752 |
| Prepaid expenses and accrued income | | **130** | 327 |
| Other receivables | | **166** | 197 |
| | | **1 036** | 1 325 |
| Cash and marketable securities | | | |
| Deposits and debt securities | | **51** | – |
| Cash and cash equivalents | | **261** | 232 |
| | | **312** | 232 |
| **Total current assets** | | **1 348** | 1 557 |
| TOTAL ASSETS | | **12 053** | 11 740 |

| FIM million | | 1998 | 1997 |
|---|---|---|---|
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| **Shareholders' equity** | [9] | | |
| Share capital | | **1 245** | 1 245 |
| Premium fund | | **2 435** | 2 435 |
| Retained earnings | | **332** | 455 |
| Profit for the year | | **295** | 126 |
| | | **4 307** | 4 261 |
| **Untaxed reserves** | | | |
| Accumulated depreciation difference | | **36** | 37 |
| **Long-term liabilities** | | | |
| Long-term debt | [10] | | |
| Bonds and debentures | | **100** | 350 |
| Loans from financial institutions | | **2 886** | 2 390 |
| Pension loans | | **144** | 68 |
| Other long-term loans | | **1** | 0 |
| | | **3 131** | 2 808 |
| Other long-term liabilities | | | |
| Deferred exchange gains | | **–** | 90 |
| Other long term liabilities | | **1** | – |
| | | **1** | 90 |
| **Current liabilities** | | | |
| Current debt | [10] | | |
| Bonds and debentures | | **0** | 37 |
| Loans from financial institutions | | **668** | 1 130 |
| Pension loans | | **5** | 9 |
| Other current loans | | **1 833** | 1 774 |
| | | **2 506** | 2 950 |
| Other current liabilities | [10] | | |
| Accounts payable | | **55** | 74 |
| Accrued expenses and prepaid income | | **267** | 148 |
| Deferred exchange gains | | **51** | 75 |
| Other current liabilities | | **1 699** | 1 297 |
| | | **2 072** | 1 594 |
| **Total liabilities** | | **7 710** | 7 442 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | **12 053** | 11 740 |

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## Notes to the Parent Company financial statements

| FIM million | 1998 | 1997 |
|---|---|---|
| **1. Personnel expenses** | | |
| Supervisory Board's, Board of Directors' and Managing Director's and his deputy's fees and salaries *) | **3** | 4 |
| Other salaries | **45** | 38 |
| Pension contributions | **6** | 5 |
| Other personnel expenses | **5** | 6 |
| Personnel expenses in the income statement | **59** | 53 |
| Taxable value of fringe benefits | **2** | 3 |

*) Includes paid bonuses of FIM 0.2 million in 1998 (1997: -).

| FIM million | 1998 | 1997 |
|---|---|---|
| Personnel | | |
| Average number of personnel | **199** | 180 |
| Personnel on Dec. 31 | **197** | 191 |

### 2. Depreciation and amortization

| FIM million | 1998 | 1997 |
|---|---|---|
| Depreciation and amortization by group of assets | | |
| Other long-term expenses | **0** | 1 |
| Buildings | **14** | 7 |
| Machinery and equipment | **7** | 5 |
| Other fixed assets | **1** | 0 |
| | **22** | 13 |
| Depreciation and amortization by group of expenses | | |
| Cost of sales | **1** | 0 |
| Administrative expenses | **21** | 13 |
| | **22** | 13 |

### 3. Unusual items

| FIM million | 1998 | 1997 |
|---|---|---|
| Refund of actuarial surplus | **–** | 32 |
| Write-backs on shares | **–** | 9 |
| Gains on sales of shares (1998: Merita Oyj) | **32** | 4 |
| Write-downs of shares (1998: Outokumpu Finance B.V.) | **(49)** | (16) |
| | **(17)** | 29 |

### 4. Other operating income and expenses

| FIM million | 1998 | 1997 |
|---|---|---|
| Other operating income | | |
| Rental income | **20** | 21 |
| Gains on sales of fixed assets | **1** | 1 |
| Other income items | **17** | 13 |
| | **38** | 35 |
| Other operating expenses | | |
| Merger losses | **–** | (24) |
| Losses on sales of shares | **(1)** | (1) |
| Other expense items | **(4)** | (0) |
| | **(5)** | (25) |
| Other operating income and expenses, total | **33** | 10 |

### 5. Financial income and expenses

| FIM million | 1998 | 1997 |
|---|---|---|
| Dividends received | **98** | 110 |
| Interest income on | | |
| Long-term financial assets | **369** | 365 |
| Current assets | **128** | 164 |
| Other financial income | **15** | 24 |
| Interest expenses | **(364)** | (402) |
| Other financial expenses | **(4)** | (11) |
| Exchange gains | **68** | 100 |
| | **310** | 350 |
| Financial income from and expenses to subsidiaries | | |
| Dividends received | **95** | 108 |
| Interest income on | | |
| Long-term financial assets | **365** | 359 |
| Current assets | **85** | 111 |
| Other financial income | **15** | 24 |
| Interest expenses | **(44)** | (60) |
| Other financial expenses | **–** | (0) |

### 6. Extraordinary income and expenses

| FIM million | 1998 | 1997 |
|---|---|---|
| Group contributions | **164** | (81) |

### 7. Income taxes

| FIM million | 1998 | 1997 |
|---|---|---|
| Income taxes | | |
| Accrued taxes for the year | **(79)** | (29) |
| Tax adjustments for prior years | **(7)** | 1 |
| Total | **(86)** | (28) |
| Hypothetical deferred taxes in the balance sheet on December 31, 1998 | | |
| Deferred tax liabilities | **(13)** | (10) |
| Deferred tax assets | **21** | 21 |
| Net deferred tax asset | **8** | 11 |

## 8. Fixed assets

| FIM million | Historical cost on Jan. 1, 1998 | Additions | Dispositions | Accumulated depreciation Jan. 1, 1998 | Accumulated depreciation of dispositions | Depreciation during period | Accumulated depreciation Dec. 31, 1998 | Carrying value on Dec. 31, 1998 |
|---|---|---|---|---|---|---|---|---|
| Intangible assets | 26 | 4 | (16) | (25) | 17 | 0 | (9) | 5 |
| Property, plant and equipment | | | | | | | | |
| Land | 96 | 0 | (0) | – | – | – | – | 96 |
| Buildings | 236 | 4 | (1) | (26) | 0 | (14) | (40) | 199 |
| Machinery and equipment | 48 | 8 | (7) | (21) | 6 | (7) | (22) | 27 |
| Other fixed assets | 17 | 0 | – | (2) | – | (1) | (3) | 14 |
| | 397 | 12 | (8) | (49) | 6 | (22) | (65) | 336 |
| Long-term financial assets | | | | | | | | |
| Shareholdings in subsidiaries | 3 770 | 273 | (50) | – | – | – | – | 3 993 |
| Other long-term equity investments | 109 | 3 | (36) | – | – | – | – | 76 |
| Long-term loans receivable | 5 960 | 383 | (48) | – | – | – | – | 6 295 |
| | 9 839 | 659 | (134) | – | – | – | – | 10 364 |
| Total fixed assets | 10 262 | 675 | (158) | (74) | 23 | (22) | (74) | 10 705 |

## 9. Shareholders' equity

| FIM million | 1998 | 1997 |
|---|---|---|
| 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 |
| Retained earnings | | |
| Jan. 1 | **455.0** | 686.7 |
| Profit (loss) for the prior year | **125.9** | (107.2) |
| Dividends paid | **(249.1)** | (124.5) |
| | **331.8** | 455.0 |
| Profit for the year | **295.5** | 125.9 |
| Total shareholders' equity on Dec. 31 | **4 307.5** | 4 261.1 |
| Distributable funds Dec. 31 | | |
| Retained earnings Dec. 31 | **331.8** | 455.0 |
| Profit for the year | **295.5** | 125.9 |
| | **627.3** | 580.9 |

## 10. Receivables and payables

| FIM million | 1998 | 1997 |
|---|---|---|
| Receivables from and payables to subsidiaries | | |
| Long-term | | |
| Long-term loans receivable | **6 191** | 5 889 |
| Short-term | | |
| Current loans receivable | **686** | 753 |
| Accounts receivable | **44** | 41 |
| Prepaid expenses and accrued income | **99** | 118 |
| Other receivables | **95** | 156 |
| Long-term | | |
| Long-term loans | **0** | 0 |
| Short-term | | |
| Current loans | **838** | 846 |
| Accounts payable | **5** | 21 |
| Accrued expenses and prepaid income | **39** | 33 |
| Other current liabilities | **1 676** | 1 273 |
| Receivables from associated companies | | |
| Long-term loans receivable | **19** | 23 |
| Short-term | | |
| Loans receivable | **4** | – |
| Accrued expenses and prepaid income | **0** | 0 |
| Other receivables | **1** | – |

| FIM million | 1998 | 1997 |
|---|---|---|
| Prepaid expenses and accrued income | | |
| Prepaid interest expenses and accrued interest income | **96** | 126 |
| Accrued exchange gains | **14** | 150 |
| Prepaid income taxes and income tax refunds receivable | **0** | 15 |
| Other items | **20** | 36 |
| Total | **130** | 327 |
| Accrued expenses and prepaid income | | |
| Accrued interest expenses and prepaid interest income | **75** | 98 |
| Income taxes payable | **54** | 8 |
| Accrued employee related expenses | **9** | 8 |
| Other items | **129** | 34 |
| Total | **267** | 148 |

## 11. Commitments and contingent liabilities

| FIM million | 1998 | 1997 |
|---|---|---|
| Pledges on Dec. 31 | | |
| Mortgages to secure own borrowings | **120** | 216 |
| Guarantees on Dec. 31 | | |
| On behalf of subsidiaries | | |
| For financing | **1 102** | 1 007 |
| For other commitments | **326** | 425 |
| On behalf of an associated company | | |
| For financing | **24** | 26 |
| On behalf of other parties | | |
| For financing | **0** | 0 |
| | **1 452** | 1 458 |

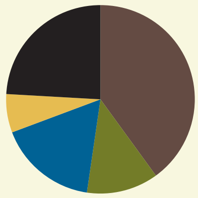
Mortgages are given mostly to secure pension loans.

| FIM million | 1998 | 1997 |
|---|---|---|
| Minimum future lease payments on off-balance sheet leases on Dec. 31 | | |
| Next year | **–** | 4 |
| Thereafter | **–** | – |
| | **–** | 4 |

The Parent Company's share of the total pension liabilities of Outokumpu Oyj's pension trusts on December 31, 1998 was FIM 441 million (1997: FIM 478 million). When the assets of the pension trusts are assessed at current market values, the value of these assets exceeds the existing pension liability.

# Outokumpu Oyj's shares and shareholders

### Shareholders by group December 31, 1998



| | |
|---|---|
| The Finnish State | 40.0% |
| The Finnish Social Insurance Institution | 12.3% |
| Other Finnish organizations | 17.0% |
| Private Finnish investors | 6.6% |
| International shareholders | 24.1% |

## Shares and share capital

Outokumpu Oyj has issued a total of 124 529 660 A-shares. Under the Articles of Association, the Company may also issue C-shares. All shares have a nominal value of FIM 10. In voting at the Annual General Meeting, A-shares carry ten votes and C-shares one vote each.

Under the 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 Articles of Association. The Company's fully paid share capital registered with the Finnish Trade Register on December 31, 1998 was FIM 1 245 296 600.

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

## Listing of shares

Outokumpu Oyj's A-share is listed on the Helsinki Exchanges.

## State ownership

The Finnish State holds 40.0% of the Company's shares and voting rights. In accordance with a resolution by the 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 decision by Parliament.

## Purchase obligation

The 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, shall, upon demand by the other shareholders, acquire their shares at a price calculated in the manner specified in the Articles of Association. This does not apply to a shareholder whose ownership interest or voting rights had reached or exceeded the said threshold limits before this order 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.

## Principal shareholders on December 31, 1998

| 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 | 3 407 000 | 2.7 |
| Varma-Sampo Mutual Pension Insurance Company | 2 287 967 | 1.8 |
| The Local Government Pensions' Institution | 1 478 648 | 1.2 |
| Outokumpu Oyj's Employees' Pension Foundation | 1 097 352 | 0.9 |
| Pohjola Life Assurance Company Ltd. | 1 022 000 | 0.8 |
| Outokumpu Oyj's Office Personnel Pension Foundation | 866 404 | 0.7 |
| Fennia Mutual Pension Insurance Company | 744 925 | 0.6 |
| Suomi Mutual Life Assurance Company | 630 000 | 0.5 |
| Nominee accounts held by custodian banks | 30 026 751 | 24.1 |
| Other shareholders | 17 898 177 | 14.4 |
| Total | 124 529 660 | 100.0 |

## Shareholders by group on December 31, 1998

| Shareholder group | A-shares | % |
|---|---|---|
| Privately held companies | 1 341 276 | 1.1 |
| Publicly held companies | 612 | 0.0 |
| Financial and insurance institutions | | |
| The public sector and public organizations | 6 607 246 | 5.3 |
| The Finnish State | 49 774 981 | 40.0 |
| The Finnish Social Insurance Institution | 15 295 455 | 12.3 |
| Occupational pension schemes | 12 221 433 | 9.8 |
| Other | 115 600 | 0.1 |
| Non-profit organizations | 843 372 | 0.7 |
| Households/private persons | 8 250 953 | 6.6 |
| International shareholders | 30 061 727 | 24.1 |
| Shares not transferred to book-entry securities system | 17 005 | 0.0 |
| Total | 124 529 660 | 100.0 |

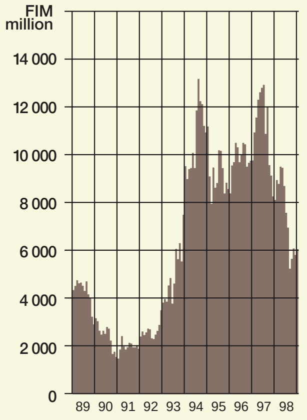
## Distribution of shareholdings on December 31, 1998

| Number of shares | Number of shareholders | % of shareholders | Total shares | % of share capital | Average shareholding |
|---|---|---|---|---|---|
| 1 – 100 | 1 741 | 18.4 | 98 578 | 0.1 | 57 |
| 101 – 500 | 3 651 | 38.6 | 960 021 | 0.8 | 263 |
| 501 – 1 000 | 1 524 | 16.1 | 1 223 617 | 1.0 | 803 |
| 1 001 – 10 000 | 2 391 | 25.3 | 6 513 175 | 5.2 | 2 724 |
| 10 001 – 100 000 | 114 | 1.2 | 3 638 303 | 2.9 | 31 915 |
| 100 001 – 1 000 000 | 26 | 0.3 | 7 688 807 | 6.2 | 295 723 |
| over 1 000 000 | 7 | 0.1 | 74 363 403 | 59.7 | 10 623 343 |
| | 9 454 | 100.0 | 94 485 904 | 75.9 | 9 994 |
| Nominee accounts held by custodian banks | | | 30 026 751 | 24.1 | |
| Shares not transferred to book-entry securities system | | | 17 005 | 0.0 | |
| Total | | | 124 529 660 | 100.0 | |

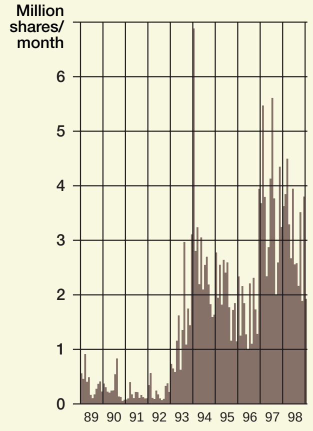
## Increase in share capital 1994-1998

| | | Number of A-shares | Share capital FIM |
|---|---|---|---|
| Share capital Jan. 1, 1994 | | 109 829 055 | 1 098 290 550 |
| Rights 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, 1998 | | 124 529 660 | 1 245 296 600 |

### Market capitalization




### Trading volume of A-shares

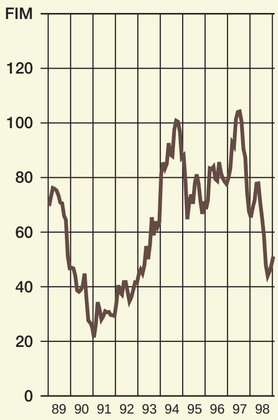



## Authorizations and decisions relating to increasing of share capital by the Board of Directors

On March 31, 1998, the Annual General Meeting of Outokumpu Oyj authorized the Board of Directors to decide on issuing convertible bonds to Group personnel in one or several tranches, as an exception to the shareholders' pre-emptive rights, for one year. An exception may be made to the pre-emptive rights for subscription on the grounds that the authorization forms part of an incentive scheme for the personnel of Outokumpu Oyj and its subsidiaries.

The convertible bonds will be issued on condition that the subscriber is entitled in accordance with a decision of the Board of Directors to convert all or part of the bonds to A-shares. Under the authorization, the Board of Directors was entitled to decide on the terms and conditions of the bonds, their conversion and/or subscription, as well as on who is entitled to subscribe.

Price of A-shares




The maximum number of A-shares into which the bonds may be converted is 2 000 000, i.e., the aggregate nominal value of such shares is 20 000 000 Finnish marks.

On the grounds of the authorization, the Company's Board of Directors decided at its meeting held on February 12, 1999, to issue convertible bonds.

The subscription period is March 17-31, 1999, and the issuance will take place on April 7, 1999. The maturity is 5 years and conversion period begins on April 9, 2001. The convertible bond will primarily be offered to the personnel of Outokumpu Oyj and its subsidiaries in Finland. Authorized to subscribe are personnel who were permanently employed on December 31, 1998, and continued to be so employed at the end of the subscription period. Secondarily, the bond will be offered to the Personnel Fund of the Outokumpu Group in Finland. The Board of Directors will decide on March 12, 1999, on the coupon of the convertible bond and the conversion rate of bonds into shares.

### 1994 debt with warrants for members of management

The term of the debt with warrants worth FIM 340 000 which the members of Outokumpu Oyj's Group Executive Board and presidents of the four business areas subscribed for in 1994 is five years and the annual interest rate is 6%. The warrants relating to the debt 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. The shares subscribed on the basis of the warrants will account for a maximum total of 0.3% of the Company's shares and votes. None of the Company's shares had been subscribed for on the basis of the debt as of December 31, 1998.

### 1998 management option program

The Annual General Meeting of March 31, 1998 decided to offer option warrants for subscription by employees in management positions in Outokumpu Oyj and its subsidiaries. This constitutes an exception to the shareholders' pre-emptive rights. The option warrants are to form part of a management incentive scheme.

A total of 2 600 option warrants were issued free-of-charge, entitling holders to subscribe for a maximum aggregate number of 2 600 000 A-shares in Outokumpu Oyj. In June, the Company's Board of Directors approved the option subscriptions of 84 members of the management. The subscription period will be May 2, 2001-March 31, 2004. As a consequence of the subscriptions, the Company's share capital may increase by a maximum of 26 000 000 Finnish marks. The shares subscribed on the basis of the warrants will account for a maximum total of 2.0% of the Company's shares and votes.

The subscription price for the shares will be the average price weighted by the volume of trading in Outokumpu Oyj's A-shares at the Helsinki Exchanges between October 1, 2000 and March 31, 2001. The subscription price will be reduced by twice the percentage by which the comparison index reflecting the average price of the A-share exceeds the comparison index reflecting the corresponding increase in the share prices of a comparison group of international metal companies between the comparison period of October 1, 1997 and March 31, 1998 and the period in which the share subscription price is defined, October 1, 2000 and March 31, 2001. The amount of cash dividends paid by the Company per share after October 1, 2000 will also be deducted from the subscription price. However, the subscription price may not be less than the average price quoted for the A- share at the Helsinki Exchanges between March 16 and 27, 1998 weighted by the volume of trading in the same shares, minus the amount of cash dividends paid by the Company after March 27, 1998.

The right to subscribe for shares will nevertheless only be established if the average change in the price of the A-share equals or exceeds the average change of the share prices of the comparison group of international metal companies. The price will be examined by comparing an index reflecting the average change in the price for Outokumpu Oyj's A-share between October 1, 1997, and March 31, 1998, to a comparison index, calculated in the same manner, reflecting the average change in price between October 1, 2000, and March 31, 2001, in which case the comparison index reflecting the average change in the price of Outokumpu Oyj's share must equal or exceed that in the comparison group of international metal companies. An additional condition for share subscription is that the development of earnings per share must equal or exceed the average for the comparison group. The development of the earnings per share will be examined by comparing the average earnings per share between 1995 and 1997 with the average calculated in the same manner for 1998-2000, in which case the earnings per share in Outokumpu Oyj must equal or exceed that in the comparison group.

### Management shareholding

At the end of the year, the members of Outokumpu Oyj's Board of Directors, the Company President and the Deputy President held a total of 12 750 shares, corresponding to 0.01% of the Company's share capital and voting rights. In addition, the President and Deputy President hold FIM 160 000 worth of the debt with warrants offered to management in 1994 and 260 of the option warrants offered to management in 1998. The bonds entitle the holders to subscribe for 160 000 new A-shares, and the option warrants to subscribe for 260 000. If the subscription rights were to be exercised in full, their holding in the Company's share capital and voting rights would increase on the basis of the debt with warrants by 0.1% and of the option warrants by 0.2%.

Management shareholding is presented in greater detail on pages 76-78.

### Price development and trading volume of shares

The trading price of Outokumpu's A-share fell by 30% during 1998.

The development of the price and trading volume together with the key figures per share for the past five years are presented on the facing page.

## Share-related data [1]

| | | 1994 | 1995 | 1996 | 1997 | **1998** |
|---|---|---|---|---|---|---|
| Income per share (excluding extraordinary items) | FIM | 7.17 | 8.72 | 1.51 | 5.65 | **0.14** |
| Net income per share | FIM | 7.12 | 8.33 | 1.51 | 5.65 | **0.14** |
| Cash flow per share | FIM | 10.68 | 19.79 | 10.43 | 9.11 | **14.22** |
| Shareholders' equity per share | FIM | 50.16 | 56.83 | 57.01 | 61.94 | **59.72** |
| Dividend per share | FIM | 1.00 | 1.80 | 1.00 | 2.00 | **0.50** [2] |
| Dividend/earnings ratio | % | 14.9 | 20.6 | 66.2 | 35.4 | **357.4** |
| Dividend yield | % | 1.1 | 2.6 | 1.3 | 3.0 | **1.1** |
| Price/earnings ratio | | 12.3 | 7.9 | 52.0 | 11.8 | **334.3** |
| Development of share price | | | | | | |
| Average trading price | FIM | 88.80 | 74.47 | 78.77 | 89.95 | **62.68** |
| Lowest trading price | FIM | 69.00 | 59.50 | 62.50 | 62.00 | **37.30** |
| Highest trading price | FIM | 108.00 | 92.70 | 90.00 | 108.00 | **85.00** |
| Trading price at end of period | FIM | 88.00 | 69.00 | 78.50 | 66.50 | **46.80** |
| Market capitalization at end of period | FIM million | 10 959 | 8 593 | 9 776 | 8 281 | **5 828** |
| Development in trading volume [3] | | | | | | |
| Trading volume | 1 000 shares | 32 832 | 24 433 | 22 502 | 43 942 | **38 456** |
| In relation to weighted average number of shares | % | 28.1 | 19.6 | 18.1 | 35.3 | **30.9** |
| Average number of shares | | 116 710 246 | 124 529 548 | 124 529 605 | 124 529 660 | **124 529 660** [4] |
| Number of shares at end of period | | 124 529 543 | 124 529 554 | 124 529 660 | 124 529 660 | **124 529 660** |
| Warrants [5] | | | | | | |
| 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 1994-98 were Group's A-shares.
2) Board of Directors' proposal to the Annual General Meeting.
3) Trading volume on the Helsinki stock exchange.
4) The average number of shares for 1998, diluted with the warrants held by the Group's management, was 124 529 660. The outstanding options have no dilutive effect on income per share for 1998.
5) 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.

Definitions of key financial indicators and share-related data are presented on page 50.

# Outokumpu Oyj's administration

## Finnish guidelines on corporate governance

Helsinki Exchanges recommends that the companies listed on the stock exchange comply with the corporate governance guidelines prepared jointly by the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry and Employers in 1997. 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: Stainless Steel, Copper Products, Base Metals 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, namely 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 at all times acts 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 other 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 following their proposal. Also the President is a Director.

The Board supports a practice that the majority of the Directors is 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.

### 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 the 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.

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 which currently is composed of five members.

The Group Executive Board meets some 20 times a year.

### Remuneration of Directors, President and the members of the Group Executive Board

The fees, salaries and employee benefits paid to the Directors and members of the Group Executive Board in 1998 were as follows:

| FIM | Salaries and fees with employee benefits | Performance-related bonuses | Total |
|---|---|---|---|
| Directors [1)] | 693 000 | – | 693 000 |
| President and Deputy President | 2 885 417 | 159 074 | 3 044 491 |
| Other Group Executive Board members | 3 184 522 | 140 902 | 3 325 424 |

[1)] excluding President's salary and bonuses

The performance-related bonus paid to the President and members of the Group Executive Board in addition to their salary and employee benefits depends on the return on capital employed and on solidity. The maximum bonus is 30% of the annual salary. They do not receive separate remuneration for acting as members of the Group Executive Board or as Directors of the parent companies of the business areas.

## Share ownership and options

The number of shares in the Company held by the Directors and members of the Group Executive Board on December 31, 1998 and the number of new shares for which they may subscribe on the basis of their option warrants are shown in the following table.

| | Number of shares | Option warrants based on 1994 debt with warrants | 1998 option program |
|---|---|---|---|
| Directors [1)] | 2 750 | – | – |
| President and Deputy President | 10 000 | 160 000 | 260 000 |
| Other Group Executive Board members | 1 200 | 75 000 | 240 000 |

[1)] exclusive of President's share ownership

The terms and conditions of management's 1994 debt with warrants and of 1998 option program are described in greater detail on pages 71-72.

The share ownership and options of each Director and member of the Group Executive Board on December 31, 1998 are shown with the personal information on pages 77-78.

## 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.

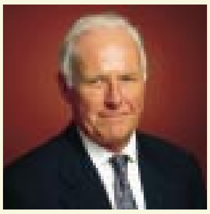
The President, the members of the Group Executive Board and the executives responsible for the Corporate staff functions (Executive Staff) are responsible for ensuring that the day-to-day operations of the Group are carried out in compliance with law, the operating principles of the Company and the decisions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

PricewaterhouseCoopers is responsible for the audit of the Group companies worldwide. Outokumpu Oyj is audited by SVH Pricewaterhouse Coopers 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.

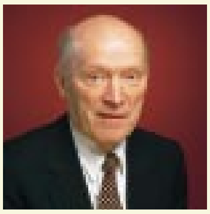
Each year the auditor in charge and the Company's management prepare jointly an auditing program for the Company. The Company does not operate a separate internal audit function of its own, and that is reflected in the scope and content of the audit.

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


Gerhard Wendt


Matti Puhakka


Ahti Hirvonen


Jyrki Juusela


Mauri Kainu


Harri Pynnä


Ilkka Suominen


Pekka Tuomisto

## 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, Algol Oy
Member of the Board of Directors: A. Ahlstrom Corporation, Assa Abloy AB (publ), Fortum Corporation, Kone Corporation, Kyro Corporation, Vaisala Corporation, Wärtsilä NSD Corporation
Owns no Outokumpu shares

## 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
Owns no Outokumpu shares

## 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
Owns 800 Outokumpu shares

**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
Owns no Outokumpu shares

**Harri Pynnä**, b. 1956, LL.M.
Executive Vice President 1998- : Fortum Corporation
Industrial Councillor 1994-98: 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
Vice Member of the Board of Directors: Leonia plc
Owns no Outokumpu shares

**Ilkka Suominen**, b. 1939, Minister h.c., M.Pol.Sc.
President and CEO 1999- : Altia Group Ltd
President and CEO 1994-1999: 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 Plc
Owns 1 950 Outokumpu shares

**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: Fortum Corporation, Merita Bank Plc
Owns no Outokumpu shares

# Group Executive Board

**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
Vice Chairman 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
Chairman of the Supervisory Board: Sampo Insurance Company plc
Member of the Supervisory Board: Varma-Sampo Mutual Pension Insurance Company, Merita Bank Plc
Owns 10 000 Outokumpu shares, entitled to subscribe 90 000 shares on the basis of the 1994 debt with warrants and 160 000 shares on the basis of the 1998 option program

**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 and economic affairs, information management, economic research, corporate communications and investor relations, legal affairs
Member of the Executive Board 1983-97, in the employ of the Outokumpu Group since 1967
Chairman of the Supervisory Board: Sampo Life Insurance Company Limited
Vice Chairman of the Board of Directors: Helsinki Telephone Corporation
Member of the Board of Directors: Leonia plc
Owns no Outokumpu shares, entitled to subscribe 70 000 shares on the basis of the 1994 debt with warrants and 100 000 shares on the basis of the 1998 option program

**Risto Virrankoski**,
b.1946, B.Sc. (Econ.)
Member of the Group Executive Board 1997-
Functional responsibilities: Business development, commercial affairs, industrial investments, pension foundations, real estate
Member of the Executive Board 1986-97, in the employ of the Outokumpu Group since 1969
Member of the Board: International Copper Association
Vice Chairman of the Board of Directors: Partek Oyj Abp
Member of the Board of Directors: VR Ltd (Finnish Railways)
Owns no Outokumpu shares, entitled to subscribe 45 000 shares on the basis of the 1994 debt with warrants and 80 000 shares on the basis of the 1998 option program

**Juho Mäkinen**, b. 1945, D.Tech.
Member of the Group Executive Board 1997-
Functional responsibilities: Technology, research & development, quality management, environment, health and safety, insurance
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
Member of the Board of Directors: Espoo Chamber of Commerce
Owns 1 200 Outokumpu shares, entitled to subscribe 80 000 shares on the basis of the 1998 option program

**Antti Närhi**, b. 1944, M.Sc. (Eng.)
Member of the Group Executive Board 1998-, in the employ of the Outokumpu Group since 1971
Functional responsibilities: Administrative affairs and labor relations, human resources, energy affairs
Owns no Outokumpu shares, entitled to subscribe 30 000 shares on the basis of the 1994 debt with warrants and 80 000 shares on the basis of the 1998 option program


Jyrki Juusela


Ossi Virolainen


Risto Virrankoski


Juho Mäkinen


Antti Närhi

## 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

# Business area management

Matti Rantamaula

Seppo Kreula

Asko Ojanen

Kalevi Nikkilä

## Outokumpu Steel Oy

**Matti Rantamaula**, President
**Vesa Hopia**, Vice President – Finance
**Jorma Kemppainen**, Vice President – Research and Development

**Pekka Erkkilä**, President, Outokumpu Chrome Oy
**Niilo Suutala**, President, Outokumpu Polarit Oy
**Christer Asp**, President, Oy JA-RO Ab

## Outokumpu Copper Products Oy

**Seppo Kreula**, President
**Ari Ingman**, Deputy President – Metals & Raw Materials
**Geoffrey Palmer**, Deputy President – Global Business Lines
**Warren E. Bartel**, Senior Vice President – Regional Products, Americas
**Martin Degerth**, Senior Vice President – Regional Products, Europe
**Erkki Ström**, Senior Vice President – Technology and Manufacturing
**Jyrki Vesaluoma**, Senior Vice President – Business Control & Finance
**Gustav Ohlsson**, Vice President – Human Resources & Communications

## 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
**Asko Parviainen**, President, Outokumpu Harjavalta Metals Oy
**Ville Sipilä**, President, Outokumpu Zinc Oy

## Outokumpu Technology Oy

**Kalevi Nikkilä**, President
**Markku Kytö**, Vice President – Technology
**Outi Lampela**, Vice President – Finance and Administration
**Seppo Rantakari**, Vice President – Business Development
**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
**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 two or three members of the business area management. CEO Jyrki Juusela acts as Chairman of the Board of all four business area parent companies. The Vice Chairmen are Antti Närhi for Outokumpu Steel Oy, Risto Virrankoski for Outokumpu Copper Products Oy, Ossi Virolainen for Outokumpu Base Metals 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, Espoo, Finland at 2 p.m. on Tuesday, March 16, 1999.

In order to attend 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 11, 1999. Shareholders who have placed their shares in trust must temporarily re-register the shares in their own name to allow them to attend the Meeting. Such re-registration must be made no later than March 11, 1999.

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 2813) or by letter addressed to Outokumpu Oyj, Share Register, P.O.Box 140, Riihitontuntie 7, FIN-02201 Espoo, Finland by no later than March 12, 1999. The letter must be received by the company on or before March 12, 1999.

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 12, 1999.

### Dividend

The Board of Directors proposes a dividend of FIM 0.50 per share. The dividend will be paid to the shareholders that are registered as owners by the Finnish Central Securities Depository Ltd. on March 19, 1999. It is proposed that the dividend will be paid on March 26, 1999.

## Annual report and interim reports

This Annual Report is also available in Finnish.

The Outokumpu Group will publish three interim reports during 1999, as follows:

| | |
|---|---|
| January–March | April 29, 1999 |
| January–June | July 27, 1999 |
| January–September | October 26, 1999 |

The reports are published 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 all major press releases are also published on the Group's Internet home page www.outokumpu.com.

KREAB / Libris 1999

# Contact information

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COPPER PRODUCTS

**Outokumpu Copper Products Oy**

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Fax +358 9 421 2205

TECHNOLOGY

**Outokumpu Technology Oy**

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Finland
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Fax +358 9 421 3891

OTHER ADDRESSES

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

Outokumpu Oyj
Domicile: Espoo, Finland
Trade register number: 70.759

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