



ANNUAL REPORT 1998



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## **Annual General Meeting**

The shareholders of Rautaruukki Oyj are invited to the Annual General Meeting to be held on Tuesday 23 March 1999 at 1 p.m. at the Hotel Inter-Continental Helsinki, address Mannerheimintie 46.

Shareholders who wish to attend the meeting must give notice no later than 4 p.m. on Friday 19 March, 1999 either in writing to

Rautaruukki Oyj,  
P.O. Box 860, FIN-00101 HELSINKI  
or by phone +358 9 4177 6227  
or by telefax +358 9 4177 6304  
or by e-mail jaana.syvapuro@rautaruukki.fi

Only those shareholders may attend who have been entered in the shareholders' register maintained by Suomen Arvopaperikeskus Oy no later than 18 March 1999.

## **Proposal for Dividend**

The Board of Directors of Rautaruukki Oyj will propose to the Annual General Meeting that the shareholders should be paid a dividend for 1998 of FIM 1.80 per share. The Board will propose the payment of the dividend on 7 April to those shareholders who were entered in the owners' register on the matching day 26 March 1999.

## **Interim Reports**

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

18 May 1999	Report 1 Jan - 31 Mar 1999
24 August 1999	Report 1 Jan - 30 Jun 1999
16 November 1999	Report 1 Jan - 30 Sep 1999

Interim reports may be ordered from

Tel. +358 8 849 3419 or  
Fax +358 8 849 3420  
fax (08) 849 3420

## **Corporate Communications**

Vice President Esko Lukkari

Tel. +358 9 4177 6221  
Fax +358 9 4177 6324  
fax (09) 4177 6324

## **Investor Relations**

Deputy Director Airi Sipilä

Tel. +358 9 4177 6246  
Fax +358 9 4177 6345  
fax (09) 4177 6345

## **Internet**

Information about Rautaruukki's finances and Press Releases can be read on Internet, address

<http://www.rautaruukki.com>  
<http://www.rautaruukki.fi>

## YEAR 1998 IN BRIEF

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

- *Consumption of steel products was high throughout the year*
- *Prices fell rapidly towards the end of the year as supply increased*
- *Rautaruukki's profit was poorer than in the previous year*
- *Rautaruukki Steel's investment programme increased output*
- *Rautaruukki expanded its steel service operations*

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Rautaruukki  
1998

	1998	1997	Change,%
Turnover, FIM million	<b>15 336</b>	13 650	+ 12
exports from Finland and international operations %	<b>71</b>	73	
Operating profit, FIM million	<b>1 108</b>	1 349	- 18
% of turnover	<b>7.2</b>	9.9	
Profit before extraordinary items, FIM million	<b>754</b>	1 004	- 25
% of turnover	<b>4.9</b>	7.4	
Profit before taxes and minority interest, FIM million	<b>651</b>	1 004	- 35
% of turnover	<b>4.2</b>	7.4	
Interest bearing net debt, FIM million	<b>5 599</b>	5 394	+ 4
Return on net assets, %	<b>10.4</b>	13.2	
Return on equity, %	<b>9.7</b>	16.7	
Equity ratio, %	<b>36.9</b>	36.5	
Earnings per share, FIM	<b>3.81</b>	5.82	- 35
Equity per share, FIM	<b>38.31</b>	37.75	+ 1
Personnel at year-end	<b>13 253</b>	12 705	+ 4

The 1998 financial statements have been prepared in accordance with the Accounting Act that came into force on 31 December 1997. Corresponding changes have been made to 1997 comparison figures.

Five-year Group statistics and principles governing the calculation of key figures shown on pages 37-38.

Turnover and operating profit by four month periods and key figures in euros shown on page 60.

## STATEMENT BY THE PRESIDENT

Rautaruukki achieved a satisfactory performance in 1998, despite the increasingly difficult state of the market towards the end of the year. Profit before extraordinary items was FIM 754 million, even though it suffered from certain one-time costs. Rautaruukki had a positive operational cash flow, the share of net interest costs fell to 2.4 per cent of turnover, and the financial position remained stable.

### *Rautaruukki makes profit of FIM 754 million*

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Rautaruukki 1998

The year 1998 was an exceptional one in the steel markets in Western Europe. Although economic growth in Europe was faster than in the previous year, the effects of the economic crisis in South East Asia resulted in a rapid, sharp drop in product prices towards the end of the year.

The results of most European steel companies in 1998 were significantly poorer than in the previous year. Rautaruukki's result for 1998 is one of the best for steel companies in Western Europe.

Rautaruukki's return on net assets was 10.4 per cent. During the past five years the Group has had an average return on net assets of 13 per cent. Last year the Group set itself the target of an average return on net assets of 15 per cent during the economic cycle.

The dividend paid by Rautaruukki for the past three years is on average 40 per cent of earnings, if the dividend for 1998 is paid in accordance with the Board proposal.

#### **Three main strategic strengths**

Rautaruukki has three particular strategic strengths: cost efficiency, a high degree of upgrading and high added value of products, and a strong position in domestic and nearby markets. In changing market conditions these factors take on even greater significance.



During 1998 the Group worked purposefully to boost the above mentioned strengths and to further develop the knowhow on which they are based.

The investment programme to raise Rautaruukki Steel's steel and rolling production and considerably improve productivity was largely completed during 1998. A ladle metallurgy plant

was completed at Rautaruukki Steel's Raahe works, which expands the range of steel products and improves the quality of products.

Work started in 1998 on building a new 400,000 tonne galvanizing line and on raising the capacity of the colour coating line by 50 per cent at the Hämeenlinna Works. These investments, to be completed in the year 2000, will make it possible to sell most of the extra rolling production as upgraded products.

Actions to further raise cost-efficiency were started at the main units of the Group's two largest industrial divisions, Rautaruukki Steel and Fundia, which manufactures long products. These programmes are continuing in 1999. The work of improving cost-efficiency will continue in the Group's other divisions.

The Group achieved 63 per cent of its net turnover in 1998 in the Nordic countries and the countries of Eastern Europe and Eastern Central Europe, in which the Group has a strong market position. Rautaruukki's market position in the Nordic countries remained stable and sales in the Eastern European and Eastern Central European markets grew by 38 per cent. Rautaruukki continues to develop its operations in the countries of Eastern Europe and will continue to focus on providing products and services with a high degree of upgrading.

#### Developing customer service

Rautaruukki acquired a majority holding in the Finnish steel service company Asva Oy. By merging Asva and Keskometalli, which Rautaruukki already owned, and forming a larger and more efficient company, Rautaruukki is able to improve its customer service and reinforce its position in steel service operations in Finland and else-

where in the Baltic region as well as in the CIS countries.

Rautaruukki also initiated a development project throughout the Group to further improve customer service. The goal is, by analyzing and segmenting the customer base, to develop and customize products and services, starting from customer requirements.

#### Slowdown in economic growth in 1999

Economic growth is expected to slow down throughout Western Europe during 1999. Growth should be fastest in Finland and the countries of eastern Central Europe and Eastern Europe, excluding Russia. Economic growth in the USA is expected to be slower than in the previous year and in South East Asia it is forecast to accelerate.

Consumption of steel products is expected to decline slightly in Europe in 1999, but to remain at a reasonably good level. Demand and supply of steel products have started to even out during the first quarter of 1999, since many European companies have reduced their production, and imports from countries outside Europe have fallen.

In the USA demand for steel products is expected to remain at a high level. Consumption of steel products has gradually started to grow in the countries in South Eastern Asia whose national economies have returned to path of growth.

Steel product prices are forecast to reach their lowest in Western European countries during the first quarter of the year and then to start to recover. Prices of hot rolled flat products and certain long products have already started to recover. Prices of steel products in the USA are expected to re-

main the same during the first half of 1999 as they were towards the end of 1998.

The prices of the raw materials for steel have fallen significantly in Western Europe at the beginning of 1999.

#### Rapid changes in the markets test competitiveness

As 1999 gets underway Rautaruukki is in a stable competitive position. In changing market conditions the Group's strategic strengths of cost-efficiency, a high degree of product upgrading and a strong market position take on greater significance.

Rautaruukki has already completed the most cost-intensive stages of its investments in steel and rolling production and coated sheet products that will increase its competitiveness. The benefits from these investments to raise production capacity and the degree of upgrading will be achieved as the state of the market improves.

Developments in the prices of steel products will have a major impact on Rautaruukki's performance in 1999.

I would like to thank all new and old shareholders for their confidence in Rautaruukki. I would also like to thank the personnel of the entire Group, of whom two thirds work in Finland and one third elsewhere. We are developing a steel corporation that gives added value to our customers and owners, whose strengths are based on our knowhow and which for that reason is also well placed to succeed in the years ahead.

Helsinki 8 March 1999

*Mikko Kivimäki*

## Financial goals

It is our goal that the total return on a Rautaruukki share makes it a competitive investment. This means deliberate balanced development in the areas of profitability, growth and cash flow.

- Return on net assets on average  $\geq 15\%$  over the business cycle
- Equity ratio over 40 %
- Gearing ratio down to a level of 50 %
- Return on assets and share price development better than the average of the comparison group of European steel companies

## Dividend policy

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

## Rautaruukki's objective

The company's value is being raised on a long-term basis taking into account various stakeholder groups and the principles of sustained development.

## Vision

Tomorrow's Rautaruukki is a leading company on its main market, the Nordic countries, and nearby emerging markets delivering value added steel products combined with comprehensive customer service and based mainly on its own cost-efficient steel production.

## Main principles in strategy

The starting point for the strategy is to further strengthen the company's market position in its main market areas. This will be achieved through our indepth knowledge of customer needs, which forms the basis for building advanced service that is superior to that of our competitors, and through a customer-oriented, tailored and diverse product range.

The foundations for building an permanent competitive edge are effective management and utilization of knowledge and skills.

The strategy is at the same time based on cost-effective integrated production chains, stretching from raw materials to added value products, and on flexibility in production and in the markets so that the company is better able to withstand economic fluctuations than its competitors.

## Basic values

- We help our customers to succeed
- We develop our skills through working together
- Our keys to success are profitability and quality
- We respect the environment

## SHARE INFORMATION

The paid-in share capital of Rautaruukki Oyj on 31 December 1998 was FIM 1,332,284,160 and comprised 133,228,416 Series K shares, each carrying ten votes at the Annual General Meeting. According to the Articles of Association, a maximum of 100,000,000 Series A shares can also be issued; these will have one vote each at the Annual General Meeting, and a dividend that is 5 percentage points higher than that of the Series K shares may be paid on them. The par value of the shares is FIM 10.

The company's minimum share capital is FIM 1,202,284,160 and its maximum share capital is four times this amount, within which limits the share capital may be raised or lowered without amending the Articles of Association.

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

### **Warrant bond issue 1994**

In 1994 an issue of bonds with warrants in a total amount of FIM 500,000 was targeted at twelve officers belonging to the Group's senior management.

Each FIM 500 bond certificate carries a warrant entitling its holder to subscribe 1000 Series K shares at a subscription price of FIM 56.56 per share. Share subscriptions can be exercised during 1 December 1998 – 31 January 2001.

As a consequence of the subscriptions, the share capital can increase by a maximum of FIM 10 million.

### **Convertible loan 1998**

In the spring 1998 Rautaruukki Oyj floated a FIM 20 million issue of con-

vertible bonds targeted at the Group's personnel and the Rautaruukki Employee Fund. The bonds can be exchanged for a maximum total of 400,000 Rautaruukki Series K shares at a conversion price of FIM 50 per share during the period from 1 March 2000 to 15 May 2003. As a consequence of the conversions, the share capital can be increased by a maximum of FIM 4 million.

### **Share option issue 1998**

The Annual General Meeting authorized the Supervisory Board and the Board of Directors to grant key employees of the Group a total of 2,600,000 share options on the basis of which they can subscribe a total of 2,600,000 Series K shares, whereby the share capital can be increased by a maximum of FIM 26 million. Entitlement to subscribe shares will arise in the event that Rautaruukki's return on assets and the share price trend prior to the subscription, which can take place in 2001 at the earliest, have been better on average than the corresponding figures for the steel companies in a European comparison group. By the end of January 1999, a total of 2,175,000 share options had been granted to 82 key employees of the Group.

### **State ownership**

The Finnish State's holding declined in May from 42.3 per cent to 41.8 per cent when the State issued to retail investors the bonus shares to which they were entitled under the terms of the sale of shares which the State carried out in 1997. On the basis of authorizations obtained from Parliament, the Council of State can reduce the state's holding in Rautaruukki Oyj in such a way that the holding is nevertheless at least one third of the com-

pany's shares outstanding and the voting rights they confer.

### **Pre-emption clause**

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

### **Share issue authorization**

The Board of Directors does not have a valid authorization to issue shares.

### **Proposal for dividend**

The Board of Directors will propose to the Annual General Meeting on 23 March 1999 that a dividend for 1998 of FIM 1.80 per share or 47 per cent of the earnings be paid.

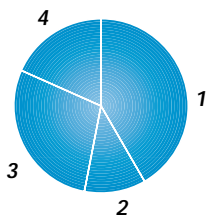
### **Share price trend**

Rautaruukki Oyj's shares have been quoted on the Helsinki Stock Exchange since 8 September 1989.

During 1998 the highest share price of Rautaruukki's share was FIM 48.50 and the lowest price was FIM 25.50. The last trade of the year was made at a price of FIM 32.90. The average price of the share trades during the year was FIM 38.66.

# SHARE INFORMATION

## Ownership of Rautaruukki as on 31.12.1998

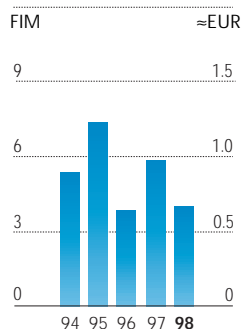


1	Finnish state	41,8 %
2	Private households	11,3 %
3	Other Finnish owners	28,5 %
4	Foreign owners	18,4 %

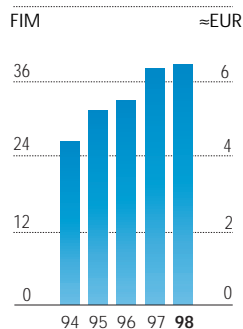
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Rautaruukki 1998

## Earnings per share



## Equity per share



## The largest shareholders of Rautaruukki Oyj according to the Share Register as on 31.12.1998

Shareholder	Number of shares	Shares, %
Republic of Finland	55 656 699	41.78
<b>Pohjola Companies</b>		
Pension Insurance Company Ilmarinen	4 904 500	3.68
Mutual Life Insurance Company Suomi	1 153 000	0.87
Life Insurance Company Pohjola Ltd	1 000 000	0.75
Insurance Company Pohjola Ltd	720 000	0.54
	7 777 500	5.84
Mutual Insurance Company Varma-Sampo	5 059 523	3.80
<b>Sampo Group</b>		
Teollisuusvakuutus Oy	1 489 370	1.12
Sampo Life Insurance Company Ltd	1 352 352	1.02
Sampo Insurance Company Ltd	600 000	0.45
Sampo Enterprise Insurance Company Ltd	400 000	0.30
	3 841 722	2.88
<b>Tapiola Companies</b>		
Tapiola Mutual Pension Insurance Company	982 500	0.73
Tapiola Mutual Insurance Company	448 000	0.34
Tapiola Mutual Life Assurance Company	265 000	0.20
Tapiola Corporate Life Assurance Company Ltd	141 000	0.11
	1 836 500	1.38
Kesko Pension Fund	1 650 952	1.24
Local Government Pensions Institution	1 358 917	1.02
Mutual Insurance Company Eläke-Fennia	802 257	0.60
<b>OKOBANK Group</b>		
Okobank Pension Foundation	378 700	0.28
Okobank Pension Fund	320 500	0.24
Okobank	93 000	0.07
	792 200	0.59
<b>Rautaruukki Pension Foundations</b>		
Workers' Pension Foundation	526 200	0.39
Officials' Pension Foundation	256 800	0.19
	783 000	0.59
Finnish households	15 006 731	11.26
Other Finnish owners	14 205 461	10.66
Administrative registrations and other foreign owners	24 456 954	18.36
<b>Total</b>	<b>133 228 416</b>	<b>100.00</b>

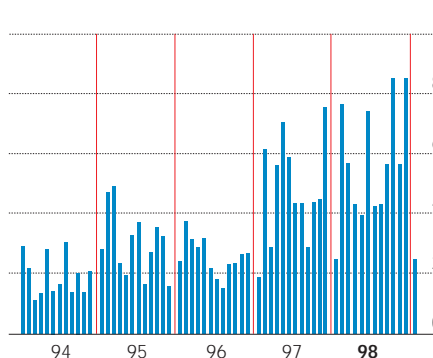
The total number of shares held by members of the Supervisory Board and the Board of Directors was 26,119, which represent 0.02 % of the voting right conferred by all the company's shares. In addition the members of the Board of Directors held 505,000 warrants of the 1994 bond issue and 640,000 share options of the 1998 share option issue which confer entitlement to subscribe at most a total of 1,145,000 K Shares, i.e. 0.86 % of the voting right.



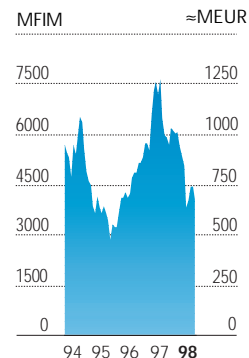
**Rautaruukki share price, monthly high–low**



**Rautaruukki share monthly trading volume, million of shares**



**Market capitalisation**



Five year key figures shown on page 37.

Key figures in euros on page 60.

**Share issues 1989–1998**

	Number of shares	Increase in share capital, FIM	Share capital, FIM
Share capital 31.12.1988	76 281 500		762 815 000
Share issue 7.6.–22.6.1989	+ 11 000 000	110 000 000	872 815 000
Share issue 18.11.–20.12.1993	+ 14 546 916	145 469 160	1 018 284 160
Share issue 26.4.–17.5.1994	+ 18 400 000	184 000 000	1 202 284 160
Share issue 6.5.1997	+ 13 000 000	130 000 000	1 332 284 160
Share capital 31.12.1998	133 228 416		1 332 284 160

**Shareholders by share ownership according to the Share Register as on 31.12.1998**

Number of shares	Shareholders		Shares	
	No.	%	thousands	%
1 – 100	2 358	10.91	146	0.11
101 – 1 000	15 918	73.68	7 481	5.62
1 001 – 10 000	3 030	14.03	8 193	6.15
10 001 – 100 000	239	1.11	6 291	4.72
100 001 –	59	0.27	111 062	83.40
	21 604	100.00	133 173	100.00

**Shareholders by sector according to the Share Register as on 31.12.1998**

Sector	Shareholders		Shares	
	No.	%	thousands	%
Companies	780	3.61	4 944	3.71
Banks and insurance companies	98	0.45	10 205	7.66
Public institutions	59	0.27	75 249	56.50
Non profit institutions	246	1.14	3 261	2.45
Private households	20 352	94.21	15 057	11.31
Administrative registrations	10	0.05	24 408	18.33
Other foreign owners	59	0.27	49	0.04
	21 604	100.00	133 173	100.00

**Board of Directors**



**Chairman:**

**Mikko Kivimäki\***, b. 1939

President and Chief Executive Officer  
business development, corporate communications,  
environmental affairs, research and development  
member since 1976, chairman since 1985



**Deputy Chairman:**

**Lauri Mannerkoski**, b. 1944

Senior Executive Vice President  
marketing, co-ordination of production and sales,  
information management  
member since 1988, deputy chairman since 1995



**Pekka Einamo**, b. 1940

Executive V.P.  
investments, purchases, logistics  
risk management, information technology  
member since 1982



**Gösta Engman**, b. 1945

Executive V.P.  
administration, human resources, Fundia  
member since 1989



**Seppo Ahonen**, b. 1942

Chairman of MVI Partners Oy  
member since 1994



**Seppo Sahlman**, b. 1948

Executive V.P.  
finance and treasury  
member since 1995

With the exception of Seppo Ahonen, the other members of the Board are permanently employed by the company. The Board has confirmed the areas of responsibility of its members on 8 February 1999. The term of office of the Board will end on 30 April 2001.

**Supervisory Board**

	due to retire
Martti Korhonen*,	1999
Chairman	
Jorma Rantanen*,	2000
Deputy Chairman	
Göran J. Ehrnrooth*	1999
Tauno Heikonen	1999
Juhani Alaranta	1999
Georg Ehrnrooth	2000
Tuula Haatainen	1999
Marjut Kaarilahti	1999
Timo Ihamäki	2000
Tauno Matomäki	1999
Hannes Manninen	1999
* Supervisory board working committee	

**Employee representatives**

Kari Jokinen	1999
Pauli Kurikka	1999
Risto Kämäräinen	1999
Asser Siuvatti	1999

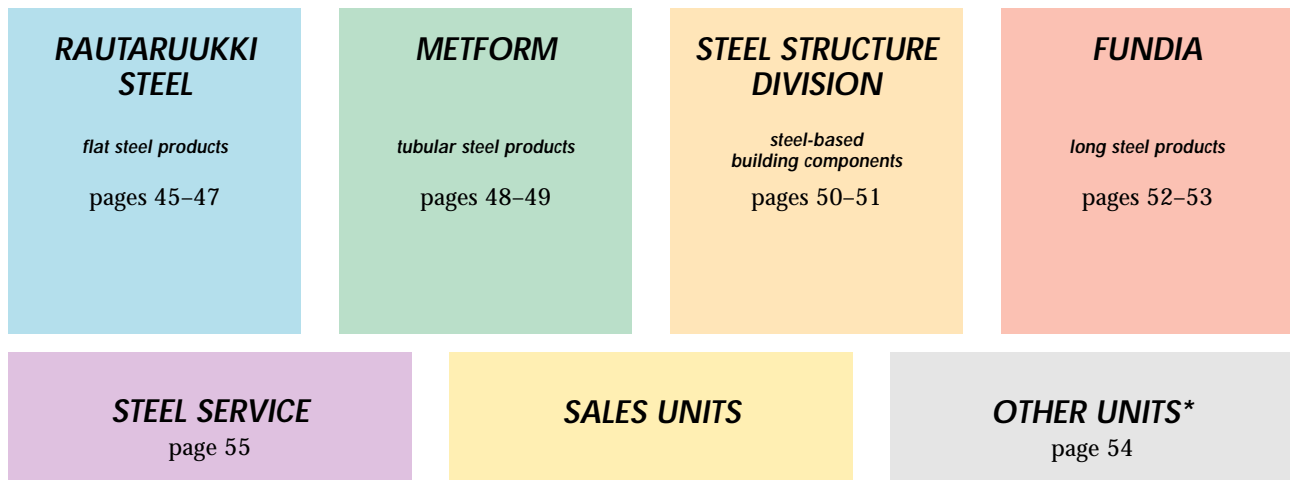
**The functions of the Supervisory Board include:**

- to ensure that the Company's affairs are managed in accordance with sound business principles
- to elect the chairman, deputy chairman and other members to the Board of Directors for a three-year term of office
- to appoint and dismiss the President and CEO, and determine the terms of remuneration for him and the members on the Board of Directors
- to decide on any considerable expansion or curtailment of the Company's operations
- to decide on any essential change to the Company's organization
- to decide on instructions to be given to the Board of Directors in matters of wide scope or fundamental importance

**Auditor**

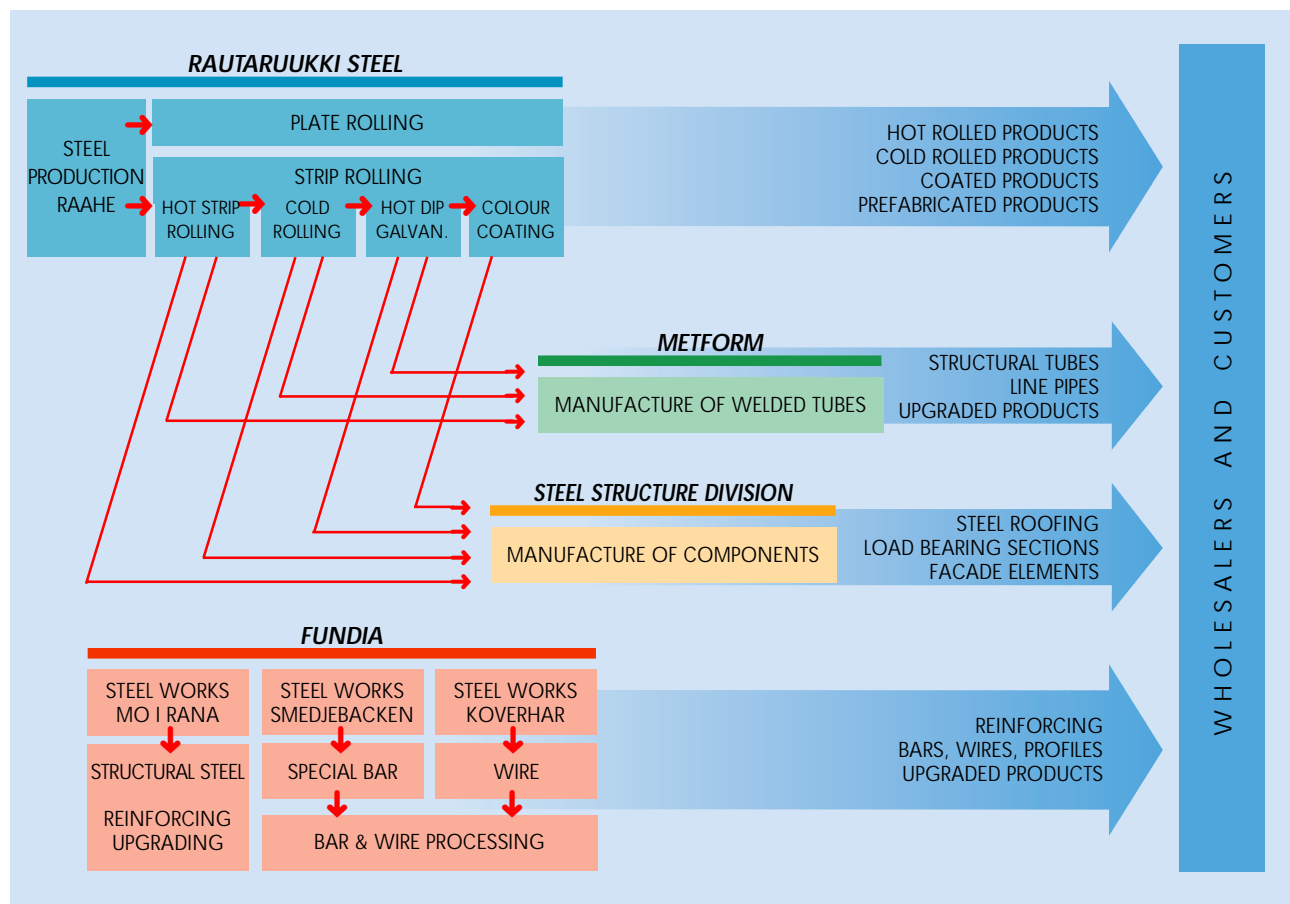
KPMG WIDERI OY AB  
Hannu Niilekselä,  
Authorized Public Accountant

# GROUP STRUCTURE 1999



\* Engineering Division until 31 Dec 1998

## Rautaruukki's steel production and upgrading



**Business environment and market**

Economic growth speeded up somewhat in Europe in 1998, although growth began to slow down in the latter part of the year due to the repercussions of the economic turmoil in Southeast Asia. In the Nordic countries and in the new market economy countries of Central and Eastern Europe, economic growth continued ahead at a fairly fast pace.

The good economic trend in the United States continued, although it was somewhat slower than in the previous year. Economic growth in the countries of Southeast Asia weakened dramatically.

The consumption of steel products continued at a good level in Europe, but during the latter part of the year demand weakened as stocks were wound down. The demand for construction products made from coated sheet remained good. The supply of steel products grew strongly in Western Europe because imports from Southeast Asia and Eastern Europe increased significantly.

In the United States, the demand for steel products continued at the good level of the previous year, but the supply of products increased significantly owing to the larger volume of imports. In Southeast Asia the demand for steel products contracted.

Prices of steel products in Europe strengthened during the first part of the year, but headed sharply downward in the second half, reaching the lowest price level of the decade in the last months of the year. The average prices of a number of products were somewhat higher than they were in 1997. In the United States, the average prices of steel products were lower than a year ago. The prices of steel products in Southeast Asia fell.

World steel output contracted by 2 per cent compared with the previous year. In the European Union, steel output grew by 1 per cent. During the last two months of the year, steel output within the European Union contracted by 17 per cent on the previous year.

**Rautaruukki in the market**

Rautaruukki's deliveries of flat and tubu-

lar products grew by 9 per cent compared with the previous year. Owing to the growth in hot rolling capacity, hot rolled coils temporarily accounted for an increased share of deliveries before the modernization of the cold rolling mill was completed. Deliveries of long steel products were up 2 per cent.

The average FIM price of Rautaruukki's deliveries of flat and tubular products was 2 per cent higher than in 1997. The average SEK price of deliveries of long steel products was 5 per cent higher than it was a year earlier.

The Rautaruukki Group's steel output was 4.3 million tonnes (4.1).

Rautaruukki maintained its market share in its main market areas. The Group strengthened its position in Eastern Europe and Eastern Central Europe by increasing sales to these countries by 38 per cent.

**Changes in the Group structure**

Two industrial divisions, Raahe Steel and Strip Products, were combined into Rautaruukki Steel as from 1 January 1998.

In August, Rautaruukki sold Transtech's Taivalkoski works to Telatek Oy. It was decided to wind up the Engineering Division as from 1 January 1999. The division's Halikko works and the plate component business of the Otanmäki Works were made a part of the Rautaruukki Steel organization. Rautaruukki Engineering and Transtech will stay in operation as separate units.

In September, Rautaruukki acquired a 31 per cent holding in Asva Oy, a company that is engaged in the steel and metal wholesale trade and service centre operations. After the deal, Rautaruukki's holding in Asva rose to 51 per cent. The remaining holding in Asva is owned by Valtameri Oyj. The Rautaruukki-owned steel service company Keskometalli Oy and Asva will be joined together in a combination merger that will be registered at the end of March. Rautaruukki will then own 75.4 per cent of the new company. The larger and more efficient company will enable Rautaruukki to strengthen its position in the steel service business in Finland and elsewhere in

the Baltic area and in the CIS countries.

In February 1999, the Rautaruukki Workers' Pension Foundation (Rautaruukin Työntekijäin Eläkesäätiö s.r.) acquired a holding of 9.5 per cent in Valtameri Oyj. The shares owned by Rautaruukki Oyj form together with the shares acquired by the pension foundation 59 per cent of the voting rights and 33.4 per cent of the share capital of Valtameri.

**Turnover and financial result**

Consolidated turnover in 1998 was FIM 15,336 million (13,650). Finland accounted for 29 per cent of turnover, the other Nordic countries for 26 per cent and the Baltic countries, Poland and Russia for a total of 8 per cent. The United States accounted for a 3 per cent share of turnover and Southeast Asia for less than 1 per cent.

The foreign currency prices of iron raw materials were 4 per cent higher than they were in 1997. The prices of energy were at the level of the previous year. The price of coking coal was 5 per cent lower. The price of scrap used by Fundia was 2 per cent higher than in 1997.

Operating profit weakened and was FIM 1108 million (1349). Other operating income and share of associated companies' profit declined to FIM 139 million (316). Depreciation grew to FIM 887 million (797). The unsatisfactory operating profit in the last four months of 1998 was due to the sharp fall in prices, reduced deliveries and an increased proportion of less value-added products in the deliveries. In the last four months of 1998, operating profit was also weakened by certain non-recurring costs, such as the costs of winding up Fundia's Smedjebacken rebar rolling mill and the elimination of the internal margins on the stocks of the steel service company Asva, and the write-down on the inventories of the steel service companies.

Profit before extraordinary items was FIM 754 million (1004). Extraordinary items include an entry of FIM 111 million to cover the accumulated pension liability, after which pension liabilities are fully covered. Earnings per share were

### Turnover by division, FIM million

	1998	1997	Change, %
Rautaruukki Steel	7 249	6 465	+ 12
Metform	2 095	2 062	+ 2
Steel Structure Division	1 600	1 327	+ 21
Fundia	4 418	4 162	+ 6
Engineering Division	561	359	+ 56
Asva, CCB and Keskometalli	1 990	1 464	+ 36
internal invoicing	- 2 577	- 2 189	+ 18
<b>Consolidated turnover</b>	<b>15 336</b>	<b>13 650</b>	<b>+ 12</b>

### Operating profit by division, FIM million

	1998	1997	Change, %
Rautaruukki Steel	1 084	1 036	+ 5
Metform	24	186	- 87
Steel Structure Division	92	113	- 19
Fundia	37	77	- 52
Engineering Division	18	- 84	
Asva, CCB and Keskometalli	16	49	- 67
Other units and internal items	- 163	- 28	
<b>Consolidated operating profit</b>	<b>1 108</b>	<b>1 349</b>	<b>- 18</b>

FIM 3.81 (5.82). Profit before taxes and minority interest was FIM 651 million (1004).

The financial statements show a net profit of FIM 404 million (749). The profit according to international accounting standards (IAS) was FIM 572 million (879).

The Group went over to use the euro in its accounting as from 1 January 1999.

#### Financing

Rautaruukki's balance sheet structure and financing position remained unchanged. The gearing ratio was 108 per cent (107) and the equity ratio 36.9 per cent (36.5). Equity per share was FIM 38.31 at the end of the year (37.75). Total assets were FIM 14,283 million (14,006).

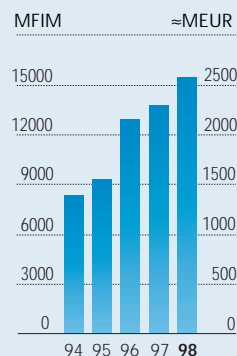
Cash flow from operations was FIM 1220 million (1054) and cash flow before financing was FIM 3 million (-129). The Group's interest-bearing net debt increased to FIM 5599 million (5394) due to the acquisition of the majority holding in Asva Oy. The short-term portion of interest-bearing loans

was FIM 781 million (824). Repayments of long-term loans totalled FIM 1484 million (2051). FIM 1479 million (876) of new long-term loans was raised.

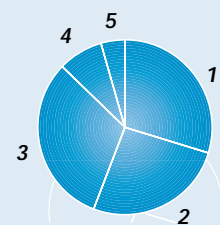
The Group's liquidity was good throughout the year. The ratio of financial assets and inventories to short-term liabilities at the end of the year was 1.9 (1.7). Liquid assets at the close of the year were FIM 269 million (419). The amount of unused committed long-term credit facilities at the end of the year was FIM 760 million and the amount of agreed but still unraised long-term loans was FIM 676 million. The Group had a total of about FIM 2.7 billion of short-term financing programmes and loan facilities, of which FIM 344 million was in use towards the end of the year.

Net interest expenses were FIM 363 million (344) and their proportion of net sales fell to 2.4 per cent (2.5). Financial expenses totalled FIM 354 million (345). Financial expenses do not include any exchange rate difference (-10). Operating profit includes a loss of FIM 1 million on foreign exchange (+50). The average interest on the Group's net debt at the

### Turnover

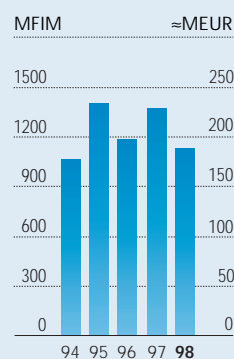


### Turnover by market area 1998

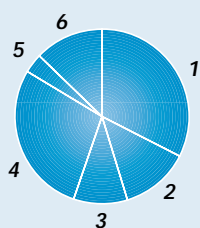


1 Finland	29 %
2 Other Nordic countries	26 %
3 Other EU countries	31 %
4 Other Europe	9 %
5 Other countries	5 %

### Operating profit

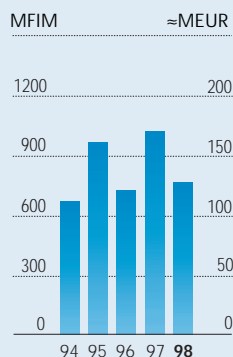


**External turnover by division 1998**

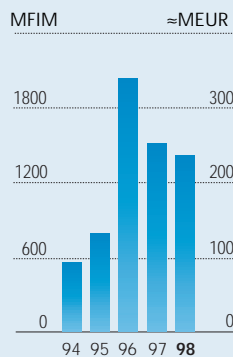


1	Rautaruukki Steel	32 %
2	Metform	13 %
3	Steel Structure Div.	10 %
4	Fundia	28 %
5	Engineering Division	4 %
6	Asva, CCB and Keskometalli	13 %

**Profit before extraordinary items**



**Gross investments,**



end of the year was 5.8 per cent (5.9).

The investment activities of Rautaruukki's pension funds are handled by the parent company. At the end of the year the pension funds had total assets of FIM 2005 million. Of this amount, 59 per cent (41) was invested in long-term bonds, 10 per cent (25) in pension re-lending by the parent company and a total of 11 per cent (13) in equities and bonds. The remainder, 20 per cent (21), was mainly invested in real-estate and in the home loans of Rautaruukki's personnel.

**Share capital, shares and shareholders**

The share capital of Rautaruukki Oyj did not change during the year. The share capital as at 31 December 1998 was FIM 1,332,284,160. The Board of Directors did not have a share issue authorization.

The warrants attached to the bonds in the 1994 issue directed at management were entered in the book-entry register on 1 December 1998. The warrants entitle their holders to subscribe a maximum total of 1,000,000 new Series K shares by the end of January 2001 at a subscription price of FIM 56.56 per share. As a consequence of the subscriptions, the share capital can increase by a maximum of FIM 10 million.

In accordance with a resolution of the 1998 Annual General Meeting, in the spring Rautaruukki Oyj floated a FIM 20 million issue of convertible bonds targeted at the Group's personnel and the Rautaruukki Employee Fund. The bonds can be exchanged for a maximum total of 400,000 Rautaruukki Series K shares at a conversion price of FIM 50 per share during the period from 1 March 2000 to 15 May 2003. As a consequence of the conversions, the share capital can be increased by a maximum of FIM 4 million.

The Annual General Meeting authorized the Supervisory Board and the Board of Directors to grant key employees of the Group a total of 2,600,000 share options on the basis of which they can subscribe a total of 2,600,000 Series K shares, whereby the share cap-

ital can be increased by a maximum of FIM 26 million. Entitlement to subscribe shares will arise in the event that Rautaruukki's return on assets and the share price trend prior to the subscription, which can take place in 2001 at the earliest, have been better on average than the corresponding figures for the steel companies in a European comparison group. By the end of January 1999, a total of 2,175,000 share options had been granted to 82 key employees of the Group.

The lowest trading price of Rautaruukki Oyj's Series K share during the year was FIM 25.50 and the highest price was FIM 48.50. The last trade of the year was done at a price of FIM 32.90. Rautaruukki Oyj's market capitalization at the end of the year was FIM 4383 million (5862).

The share turnover during the year was 68.1 million (57.2) representing a total value of FIM 2635 million (2792). The number of registered shareholders at the close of the year was 21,604 (21,298). The Finnish State's holding declined in May from 42.3 per cent to 41.8 per cent when the State issued to retail investors the bonus shares to which they were entitled under the terms of the sale of shares which the State carried out in 1997. Foreigners held 18.4 per cent (24.3) of the Company's shares outstanding. The holding of private individuals was 11.3 per cent (8.2) of the shares outstanding.

**Raw materials and energy**

The Group buys its most important raw materials mainly from Finland's nearby areas, benefiting from short haulage distances. Rautaruukki bought 4.1 million tonnes of iron ore, largely from northern Sweden and partly from northern Russia. Purchases of coking coal, mainly from Poland and the United States, amounted to 1.3 million tonnes. The Group used 1.4 million tonnes of scrap in the manufacture of steel. Of this amount, about 30 per cent was imported from outside the Nordic countries.

The Group has long-term agreements with suppliers of electrical power

*Gross capital expenditure by division, FIM million*

	1998	1997
Rautaruukki Steel	751	1 045
Metform	95	84
Steel Structure Division	149	89
Fundia	229	186
Engineering Division	10	21
Asva, CCB and Keskometalli	30	41
Other units	132	26
<b>Total</b>	<b>1 396</b>	<b>1 492</b>

in Sweden, Finland and Norway. The Group's purchases of electricity totalled 1.4 terawatt hours. The Group's own mills generated a further 0.6 terawatt hours of electricity.

**Capital expenditure**

Gross capital expenditures on fixed assets totalled FIM 1396 million (1492) and net capital expenditures were FIM 1217 million (1083). The most important investments were connected with Rautaruukki Steel's investment programme that aims to boost its steel and rolling output.

At Rautaruukki Steel's Raahe Works, in September a ladle metallurgy plant was completed that will expand the range of steel products and improve the quality level. The parts of the investment programme remaining to be completed at the Raahe Works are the modernization of two continuous casting machines and raising of the capacity of the hot stripped mill. Due to the weakening in the market situation, it was decided in the autumn to defer FIM 350 million of the investments that had been planned for 1999.

In August a modernization of the cold rolling line was completed at the Hämeenlinna works. The project raised the cold rolling capacity by 30 per cent. Also in progress at the works are the building of a new 400,000 tonne galvanizing line and a raising of the capacity of the colour coating line by 50 per cent. These investments, which will be completed in 2000, will make possible an increase in the sale of rolling mill output primarily in the form of value-added products.

The Steel Structure Division expand-

ed its business operations in Central and Eastern Europe by starting the construction of system products manufacture in Slovakia, Ukraine, Lithuania and in St Petersburg, Russia.

Fundia's most important investments were the development of the Smedjebacken bar rolling mill and raising the coil weight and capacity of the Dalsbruk wire rod line.

**Year 2000**

In February 1997, the Board of Directors launched a Year 2000 Risk Survey and Action Programme covering all the Group's information and automation systems. The survey identified some 600 information systems and 1800 control and automation systems across the Group's units. Measures to upgrade the demanding systems and equipment have moved ahead according to schedule, and in January 1999 more than 70 per cent of the systems had reached Year 2000 compliance.

The objective is for the modification of systems to be completed by the summer of 1999 at the latest, except for a few individual systems that will be upgraded in October 1999. A study of the capabilities of external partners in cooperation is progressing according to plan. The cost estimate for the entire project is FIM 50 million, half of which represents work done by Rautaruukki.

**Research and development**

To enhance research and development, the major part of the centralized research organization was split up and moved to the business units, which have responsibility for developing processes, manufacturing methods and products. For long-

term research and development activities, the Group set up a Corporate R&D network organization that will carry out research projects in cooperation with external research organizations.

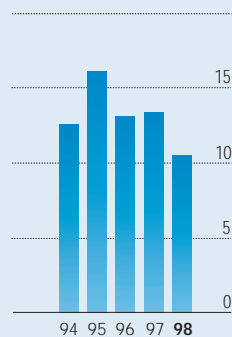
The accent in development was on the continuous improvement of operations as well as on the commissioning of modernization investments and new process equipment. The investment projects that are near completion will make it possible to improve the efficiency of production and to raise the level of quality thanks to more precise control of processes.

In order to create a new service concept, a Group-wide development project was launched with the aim of strengthening customer relationships, improving customer satisfaction, raising the added value of the product range as well as increasing the share of upgraded products. The focusing of services offered will be improved by analyzing and segmenting the customer base. Putting the concept into action will call for inputs into an application-oriented product development effort and technical service, improvements in the flow of information between Rautaruukki and customers as well as additional outlays on the service centre and other pre-processing functions. Efforts will furthermore be directed at achieving a better understanding of the customer's business.

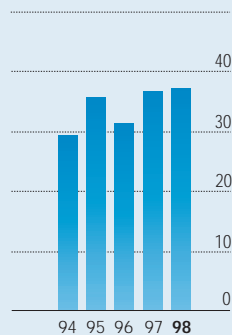
To step up the efficiency of development work on sheet steel applications, Rautaruukki teamed up with Technical Research Centre of Finland and Häme Polytechnic, a vocational education institution, to establish the Sheet Steel Competence Centre. Apart from development, the centre will seek to commercialize the technology and to transfer it to Rautaruukki's client companies. A steel construction training centre was started up in Hämeenlinna with the aim of promoting the use of steel and getting the results of development projects into use more effectively.

The Rautaruukki Group spent a total of FIM 109 million (97), or 0.7 per cent of turnover, on research and development activities.

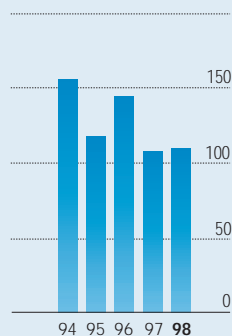
Return on net assets, %



Equity ratio, %



Gearing ratio, %



**Environmental protection**

The Group's objective is to obtain certification of all its production units by an external accreditation institution according to the ISO 14001 standard by 2000. The turnover of the units certified by the end of 1998 was 60 per cent of consolidated turnover.

Rautaruukki Steel is currently running a project that aims to apply computational methods to study the economic significance of environmental affairs and management of them. The computational techniques will make it possible to monitor reliably the result of the environmental business, the economic outlays on environmental protection as well as the expenses incurred in achieving environmental compliance. The objective is to develop environmental calculations as part of the Group's management of environmental protection.

At Fundia's Koverhar steel mill, a modernized dust extraction system was put into use at the converter plant in 1998. This marks the completion of modernization of the dust extraction equipment for steel manufacture at all four steel mills. A new air gas plant that will replace the previous oxygen plant was also built at the Koverhar mill. The noiseless air gas plant uses 25 per cent less energy per unit of product.

Oil and solids discharged into the watercourses have been reduced substantially thanks to the water treatment plants and closed white water systems that have been put into use in recent years. New water treatment plants became operational at Raahе strip mill and continuous casting plant.

**Personnel**

The Group's payroll at the close of the year was 13,253 people (12,705) and the parent company employed 6,354 people (6,501). During the year the Group employed an average of 13,409 people (12,868) and the parent company 6,709 people (6,658). The increase in personnel was due mainly to the merging of Asva into the Group and to the expansion in the Steel Structure Division's operations. The Group management functions were

moved to Helsinki during the year.

During 1998 a survey of the core expertise of the industrial divisions was started as part of strategic planning. The focus of personnel development was on increasing multiple competence and career development in accordance with individual development programmes.

The profit target of the bonus system was not reached, however, FIM 2 million (23) was paid to the Rautaruukki Personnel Fund on the basis of separate criteria owing to increased effectiveness in occupational safety.

**Outlook for 1999**

Economic growth is estimated to slow down in all the Nordic countries during 1999, but it will continue at a good level in Finland. In the other countries of the European Union, economic growth is forecast to be lower than it was in 1998. Economic growth in the new market economies of Central and Eastern Europe excluding Russia is expected to continue ahead at a faster rate than elsewhere in Europe. Economic growth in the United States is estimated to be slower than it was last year. The growth of the economies in Southeast Asia is forecast to pick up but to be markedly slower than it was in the years preceding the financial crisis.

The consumption of steel products in Europe is estimated to weaken slightly but still to remain rather good. During the first quarter of the year, the supply and demand situation for steel products is expected to reach a better balance and the prices are estimated to be at their lowest level. The prices are then forecast to begin to strengthen.

The demand for steel products in the United States is expected to hold up well. In the first half of the year, product prices are estimated to be at the level of end 1998.

The prices for steel raw materials are estimated to decline markedly.

The Group's turnover is forecast to be at the level of 1998. Rautaruukki's earnings trend will be impacted significantly by the trend in the prices of steel products.



# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FIM million	Note	1.1.-31.12.1998		1.1.-31.12.1997	
			%		%
<b>TURNOVER</b>	1)	<b>15 336</b>	<b>100.0</b>	13 650	100.0
Variation in stocks of finished goods and work in progress		-120		398	
Production for own use		49		77	
Other operating income	3)	107		213	
Share of results in associated companies		33		103	
<b>Raw materials and services</b>	4)	<b>8 520</b>		7 471	
<b>Staff expenses</b>	5)	<b>2 982</b>		2 822	
<b>Depreciation and reduction in value</b>	6)	<b>887</b>		797	
<b>Other operating charges</b>	7)	<b>1 909</b>	<b>-14 298</b>	2 002	-13 092
<b>OPERATING PROFIT</b>	2)	<b>1 108</b>	<b>7.2</b>	1 349	9.9
<b>Financial income and expenses</b>	8)				
Income from other investments held as non-current assets		15		23	
Other interest and financial income		39		10	
Interest and other financial expenses		-407	-354	-379	-345
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>		<b>754</b>	<b>4.9</b>	1 004	7.4
<b>Extraordinary items</b>	9)				
Extraordinary income		7			
Extraordinary expenses		-111	-103		
<b>PROFIT BEFORE TAXES AND MINORITY INTEREST</b>		<b>651</b>	<b>4.2</b>	1 004	7.4
<b>Income taxes</b>	10)				
Taxes for the year		-97		-123	
Taxes from previous years		-13		-12	
Change in deferred tax		-146	-256	-122	-257
<b>PROFIT BEFORE MINORITY INTEREST</b>		<b>395</b>	<b>2.6</b>	747	5.5
<b>Minority interest of profit</b>		<b>9</b>		2	
<b>GROUP PROFIT FOR THE YEAR</b>		<b>404</b>	<b>2.6</b>	749	5.5

# CONSOLIDATED BALANCE SHEET

FIM million	Note	31.12.1998	%	31.12.1997	%
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b> 11-13)					
<b>Intangible assets</b>					
Intangible rights		34		23	
Goodwill		299		287	
Other capitalised long-term expenses		116		104	
Advance payments		1	451	1	416
<b>Tangible assets</b>					
Land and waters		137		139	
Buildings		2 050		2 028	
Machinery and equipment		5 229		5 011	
Advance payments and construction in progress		575	7 991	366	7 545
<b>Investments</b>					
Associated company shares		227		281	
Other shares and similar rights of ownership		264		313	
Other long term investments		5	496	169	762
		<b>8 938</b>	<b>62.6</b>	<b>8 722</b>	<b>62.3</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b> 14)					
Raw materials and consumables		858		815	
Finished products / goods		1 860		1 698	
Other stocks		12		6	
Advance payments		11	2 742	22	2 540
<b>Debtors</b> 15)					
Long-term					
Loan receivables		19		42	
Non-interest bearing receivables		57			
Deferred tax assets	20)	102	178	0	42
Short-term					
Trade debtors		1 762		1 830	
Amounts owed by associated companies		19		143	
Loan receivables		51		9	
Other debtors		174		113	
Prepayments and accrued income		148	2 154	187	2 283
		<b>2 333</b>		<b>2 324</b>	
<b>Cash in hand and in banks</b>					
		<b>269</b>		<b>419</b>	
		<b>5 344</b>	<b>37.4</b>	<b>5 284</b>	<b>37.7</b>
		<b>14 283</b>	<b>100.0</b>	<b>14 006</b>	<b>100.0</b>

FIM million	Note	31.12.1998	%	31.12.1997	%
<b>LIABILITIES</b>					
<b>CAPITAL AND RESERVES</b> 16)					
Share capital		1 332		1 332	
Share premium account		1 186		1 186	
Revaluation reserve		140		195	
Translation adjustment		-22		-13	
Retained earnings		2 063		1 581	
Profit for the financial year		404	2 467	749	2 330
		5 103	35.7	5 030	35.9
<b>MINORITY INTEREST</b>					
		88	0.6	9	0.1
<b>OBLIGATORY PROVISIONS</b> 18)					
Provisions for pensions		21		117	
Provisions for taxation		62			
Other provisions		26	110 0.8	24	141 1.0
<b>CREDITORS</b> 19)					
<b>Non-current creditors</b>					
Interest bearing					
Bonds and debenture loans		382		407	
Convertible bonds		20		1	
Loans from credit institutions		4 409		4 011	
Pension loans		294		550	
Other creditors		53	5 158	74	5 041
Non-interest bearing					
Pension loans		103		100	
Deferred tax liability	20)	888	990	577	677
		6 148	43.0	5 718	40.8
<b>Current creditors</b>					
Interest bearing					
Loans from credit institutions		494		613	
Pension loans		24		31	
Bills of exchange payable		16			
Amounts owed to associated companies		1			
Other creditors		246	781	180	824
Non-interest bearing					
Advance payments		217		190	
Trade creditors		905		1 124	
Accruals and deferred income	21)	349		844	
Amounts owed to associated companies		12		10	
Other creditors		569	2 052	116	2 284
		2 833	19.8	3 107	22.2
		8 982	62.9	8 826	63.0
		14 283	100.0	14 006	100.0

# CONSOLIDATED FUNDS STATEMENT

FIM million	31.12.1998	31.12.1997
<b>Business operations</b>		
From operations		
Operating profit	1 108	1 349
Depreciation	887	797
Share of associated companies' profit/loss	-33	-103
Financial income and expenses	-373	-306
Extraordinary items and adjustment of sales profits/losses of fixed assets	-15	-175
Taxes	-110	-110
	<b>1 464</b>	<b>1 452</b>
<b>Change in net working capital</b>		
Change in stocks	-141	-431
Change in current receivables	128	-272
Change in non-interest bearing current creditors	-231	305
	<b>-244</b>	<b>-398</b>
<b>Cash flow from operations</b>	<b>1 220</b>	<b>1 054</b>
<b>Investments</b>		
Gross investments in fixed assets	-1 286	-1 492
Acquisition of subsidiaries	-110	
Decrease of fixed assets and sales profits	159	409
Investments by minority shareholders	20	
Unpaid investments		-100
	<b>-1 217</b>	<b>-1 183</b>
<b>Cash flow before financing</b>	<b>3</b>	<b>-129</b>
<b>Financing</b>		
Change in non-current receivables	7	-16
Change in non-current creditors	144	-182
Change in current creditors	-43	-32
Dividends paid	-266	-180
Share issue		534
Other financing items	5	5
	<b>-153</b>	<b>129</b>
<b>Change in liquid assets</b>	<b>-150</b>	<b>-1</b>

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

# RAUTARUUKKI OYJ' S PROFIT AND LOSS ACCOUNT

FIM million	Note	1.1.-31.12.1998	%	1.1.-31.12.1997	%
<b>TURNOVER</b>	1)	<b>7 658</b>		6 714	
Variation in stocks of finished goods and work in progress		-93		150	
Production for own use		36		65	
Other operating income	3)	47		63	
<b>Raw materials and services</b>	4)	<b>3 794</b>		3 423	
<b>Staff expenses</b>	5)	<b>1 520</b>		1 466	
<b>Depreciation and reduction in value</b>	6)	<b>564</b>		509	
<b>Other operating charges</b>	7)	<b>746</b>	<b>- 6 624</b>	691	- 6 089
<b>OPERATING PROFIT</b>	2)	<b>1 025</b>	<b>13.4</b>	903	13.4
<b>Financial income and expenses</b>	8)				
Income from other investments held as non-current assets		159		131	
Other interest and financial income		76		38	
Reduction in value from other investments held as non-current assets		-117		14	
Interest and other financial expenses		- 360	- 242	-368	-185
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>		<b>782</b>	<b>10.2</b>	718	10.7
<b>Extraordinary items</b>	9)				
Extraordinary income		75		75	
Extraordinary expenses		-145	- 70	-7	68
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>		<b>713</b>	<b>9.3</b>	786	11.7
<b>Appropriations</b>					
Change in depreciation reserve		- 380		- 612	
Change in untaxed reserves		0	-380	190	- 423
<b>PROFIT BEFORE TAXES</b>		<b>333</b>	<b>4.3</b>	363	5.4
<b>Income taxes</b>	10)				
Taxes for the year		- 93		-104	
Taxes from previous years		- 12	- 106	-10	-114
<b>PROFIT FOR THE YEAR</b>		<b>227</b>	<b>3.0</b>	250	3.7

# RAUTARUUKKI OYJ' S BALANCE SHEET

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Rautaruukki 1998

FIM million	Note	31.12.1998	%	31.12.1997	%
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b> 11-13)					
<b>Intangible assets</b>					
Intangible rights		14		15	
Goodwill		140		179	
Other capitalised long-term expenses		97	251	95	289
<b>Tangible assets</b>					
Land and waters		35		38	
Buildings		1 373		1 366	
Machinery and equipment		3 819		3 757	
Advance payments and construction in progress		410	5 637	250	5 410
<b>Investments</b>					
Shares in group companies		1 064		991	
Receivables from group companies		199		175	
Associated company shares		100		154	
Other shares and similar rights of ownership		215		267	
Other long term investments		0	1 578	111	1 698
			7 467 58.5		7 397 58.6
<b>CURRENT ASSETS</b>					
<b>Stocks</b> 14)					
Raw materials and consumables		400		433	
Finished products / goods		564		657	
Advance payments		0	964	4	1 094
<b>Debtors</b> 15)					
Long-term					
Trade debtors		7		36	
Amounts owed by group companies		1 933		1 946	
Loan receivables		5		12	
Other debtors		9		7	
Short-term					
Trade debtors		758		703	
Amounts owed by group companies		359		314	
Amounts owed by associated companies		18		143	
Loan receivables		1		1	
Loan receivables owed by group companies		540		306	
Other debtors		84		87	
Prepayments and accrued income		53	3 767	62	3 616
<b>Cash in hand and in banks</b>					
			576		517
			5 307 41.5		5 227 41.4
			12 774 100.0		12 624 100.0

FIM million	Note	31.12.1998	%	31.12.1997	%
<b>LIABILITIES</b>					
<b>CAPITAL AND RESERVES</b>					
	16)				
Share capital		1 332		1 332	
Share premium account		1 186		1 186	
Revaluation reserve		195		195	
Retained earnings		862		880	
Profit for the financial year		227	1 089	250	1 129
		3 802	29.8	3 843	30.4
<b>APPROPRIATIONS</b>					
	17)				
Depreciation reserve		2 216	17.3	1 836	14.5
<b>OBLIGATORY PROVISIONS</b>					
	18)				
Provisions for pensions				111	
Other obligatory provisions			0.0	7	118
				118	0.9
<b>CREDITORS</b>					
	19)				
<b>Non-current creditors</b>					
Interest bearing					
Bonds and debenture loans		382		407	
Convertible bonds		20			
Loans from credit institutions		4 329		3 950	
Pension loans		184		404	
Other creditors		0	4 916	1	4 762
Non-interest bearing					
Pension loans		18		18	
		4 934		4 780	
<b>Current creditors</b>					
Interest bearing					
Loans from credit institutions		340		550	
Pension loans		24		31	
Other creditors		244	608	166	747
Non-interest bearing					
Advance payments		195		170	
Trade creditors		387		448	
Amounts owed to group companies		176		133	
Amounts owed to associated companies		3		32	
Accruals and deferred income	21)	157		215	
Other creditors		295	1 213	301	1 300
		1 821		2 047	
		6 755	52.9	6 828	54.1
		12 774	100.0	12 624	100.0

# RAUTARUUKKI OYJ' S FUNDS STATEMENT

FIM million	31.12.1998	31.12.1997
<b>Business operations</b>		
From operations		
Operating profit	1 025	903
Depreciation	564	509
Financing income and expenses	-261	-146
Extraordinary items and adjustment of sales profits/losses of fixed assets	120	11
Taxes	-106	-80
	<b>1 342</b>	<b>1 197</b>
<b>Change in net working capital</b>		
Change in stocks	130	-199
Change in current receivables	-198	-117
Change in non-interest bearing current creditors	-90	207
	<b>-158</b>	<b>-109</b>
<b>Cash flow from operations</b>	<b>1 184</b>	<b>1 088</b>
<b>Investments</b>		
Net change in fixed assets	-810	-937
Unpaid investments		-100
	<b>-810</b>	<b>-1 037</b>
<b>Cash flow before financing</b>	<b>374</b>	<b>51</b>
<b>Financing</b>		
Change in non-current receivables	23	217
Change in non-current creditors	63	-253
Change in current creditors	-135	-93
Share issue		534
Dividends paid	-266	-180
	<b>-315</b>	<b>224</b>
<b>Change in liquid assets</b>	<b>59</b>	<b>275</b>



# NOTES TO THE ACCOUNTS

## ACCOUNTING PRINCIPLES

### Accounting principles for the financial statements

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

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

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

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

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

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

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

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

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

### Amounts in foreign currency

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

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

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

Rautaruukki has hedged US dollar-denominated purchases based on long-term delivery agreements by means of forward rate agreements. As a departure from other hedging measures, the foreign exchange and interest rate differences due to these are booked as a credit or charged to income when the hedging arrangement for the purchase transaction in question falls due.

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

The consolidation of companies situated in hyper inflatory countries, mostly in Russia, has been made according to the monetary / non-monetary formula, where translation differences are included in the profit and loss account.

### Other derivative contracts

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

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

#### Covering pension expenses and pension liabilities

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

The uncovered pension liability (FIM 111 million) from previous years in the parent company has been booked as expenses during the financial year, and is shown under extraordinary expenses.

#### Stocks

Stocks are valued at the acquisition price, or at the probable replacement price or selling price (if lower). Materials and supplies held for use in production are written down to their replacement value only if the price of the product for sale is below the actual cost determined according to the weighted average cost formula. The costs are defined on a FIFO basis.

In addition to the direct cost, an appropriate proportion of purchasing and production overheads is included in the value of stocks.

#### Fixed assets and depreciation

The values of fixed assets are based on the original acquisition cost, with the exception of the revaluation of certain land areas and buildings. Wearing assets are depreciated according to a plan based on the estimated economic useful life of the asset.

Gains and losses on the sale of fixed assets are included in the

profit and loss account, either in the operating profit or in extraordinary items, depending on the nature of the transactions.

#### Extraordinary income and expenses

Extraordinary income and expenses include exceptional business transactions and events that are of material importance. The parent company's extraordinary income and expenses also include Group contributions.

#### Taxes

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

Deferred tax resulting from appropriations, timing differences and consolidation has been taken into account in the consolidated financial statements.

#### Research and development expenses

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

#### Change in accounting principles

The financial statements have been prepared in accordance with the Accounting Act that came into force on 31 December 1997. In the balance sheet, the voluntary provisions and depreciation reserve (FIM 1840 million on 31.12.1997) have been divided into capital and reserves (1325) and deferred tax liability (515). Valuation items (FIM 139 million on 31.12.1997) have been transferred to fixed assets and other non-current investments. Part of the long-term receivables (FIM 55 million) which earlier was included in non-current fixed assets, have been transferred to long-term debtors in current assets. The contents of accruals and deferred income has been changed so that tax debt and debts for social security have been moved to other current creditors. The corresponding change has not been made to the 1997 consolidated balance sheet.

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

#### 1. External turnover by division and by market area

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

##### Turnover by division

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Rautaruukki Steel	4966	4531	5823	5203
Metform	1962	1963	1185	1114
Steel Structure Division	1535	1272	118	111
Fundia	4351	4091		
Engineering Division	543	342	532	286
Keskometalli, Asva and CCB Stål	1977	1451		
	15336	13650	7658	6714

##### Turnover by market area

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Finland	4506	3726	3125	2668
Other EU countries	7481	7020	3387	3098
Other Europe	2605	2229	807	699
Other countries	744	676	340	249
Total external turnover of which	15336	13650	7658	6714
- Exports from Finland	4632	4232	4533	4046
- International operations	6370	5842		

## 2. Operating profit by division

MFIM	Group	
	1998	1997
Rautaruukki Steel	<b>1084</b>	1036
Metform	<b>24</b>	186
Steel Structure Division	<b>92</b>	113
Fundia	<b>37</b>	77
Engineering Division	<b>18</b>	-84
Keskometalli, Asva and CCB Stal	<b>16</b>	49
Other units and internal items	<b>-163</b>	-28
	<b>1108</b>	1349

## 3. Other operating income

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Gains on sale of fixed assets	<b>52</b>	184	<b>38</b>	54
Other	<b>54</b>	29	<b>9</b>	8
	<b>107</b>	213	<b>47</b>	63

## 4. Raw materials and services

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Materials, supplies and goods				
Purchases during the financial year	<b>7777</b>	6715	<b>3453</b>	3179
Variation in stocks	<b>-46</b>	19	<b>33</b>	-45
External services	<b>789</b>	738	<b>308</b>	289
	<b>8520</b>	7471	<b>3794</b>	3423

## 5. Staff expenses

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Wages and salaries	<b>2350</b>	2234	<b>1204</b>	1179
Pension insurance premiums and pensions	<b>253</b>	272	<b>173</b>	128
Other indirect staff expenses	<b>379</b>	316	<b>144</b>	159
Total	<b>2982</b>	2822	<b>1520</b>	1466

## Salaries and emoluments of directors

of the members of the Supervisory Board	<b>0.3</b>	0.3	<b>0.3</b>	0.3
of the members of the Board and Managing Directors*	<b>34</b>	33	<b>6</b>	6
*including results-based bonuses to Management	<b>0.9</b>	1	<b>0.5</b>	0.3

## Average number of employees by division

	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Rautaruukki Steel	<b>5057</b>	4955	<b>4825</b>	4756
Metform	<b>1594</b>	1656	<b>606</b>	605
Steel Structure Division	<b>1307</b>	1004	<b>86</b>	83
Engineering Division	<b>866</b>	945	<b>856</b>	874
Fundia	<b>3617</b>	3546		
Other units	<b>968</b>	762	<b>336</b>	340
Total	<b>13409</b>	12868	<b>6709</b>	6658

## The pension commitments of the Members of the Board and Managing Directors and loans to insiders.

The statutory retirement age of the Managing Director of the parent company is 65 years. One of the members of the Board of Directors has the right, if he so elects, to retire at the age of 60. The Group has not made loans to persons closely associated with it.

## 6. Depreciation and reduction in value

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

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

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

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

## Planned depreciation by the balance sheet line

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Goodwill	<b>68</b>	67	<b>39</b>	39
Other intangible assets	<b>30</b>	22	<b>25</b>	17
Buildings	<b>101</b>	99	<b>58</b>	55
Machinery and equipment	<b>682</b>	610	<b>442</b>	398
Total	<b>882</b>	797	<b>564</b>	509
Reduction in value	<b>5</b>			
Depreciation and reduction in value, total	<b>887</b>	797	<b>564</b>	509

NOTES TO THE ACCOUNTS

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Rautaruukki 1998

**7. Other operating charges**

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Sales freights	1000	970	495	461
Rents	247	214	26	16
Losses on sale of fixed assets	1	2		
Other	661	817	225	214
	1909	2002	746	691

**8. Financial income and expenses**

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Income from other investments held as non-current assets</b>				
Dividend income from group companies			1	1
Dividend income from associated companies			33	12
Dividend income from other companies	23	23	23	19
Interest income from group companies			111	110
Interest income from other companies	-8		-9	-11
	15	23	159	131
<b>Other interest and financial income</b>				
Interest income from group companies			53	28
Interest income from other companies	19	9	8	10
Exchange gains	19		15	
Other financing income	1	2		
	39	10	76	38
<b>Reductions in value from other investments held as non-current assets</b>				
Reductions in value from value of group's companies			-100	14
Other reductions in value from non-current assets			-17	
			-117	14
<b>Interest and other financial expenses</b>				
Interest expenses to group companies			-6	-6
Interest expenses to other companies	-374	-352	-346	-333
Exchange losses	-19	-10		-18
Other financial expenses to group companies			1	
Other financial expenses to other companies	-14	-16	-9	-11
	-407	-379	-360	-368
Total financial income and expenses	-354	-345	-242	-185

**9. Extraordinary items**

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Extraordinary income</b>				
Group contributions			75	75
Previous years' share of the change in deferred tax liability	7			
	7		75	75
<b>Extraordinary expenses</b>				
Group contributions			-34	-7
Covering the pension liability from previous years	-111		-111	
	-111		-145	-7
Extraordinary items, total	-103		-70	68

**10. Income taxes**

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Taxes for the year	97	123	93	104
Taxes from previous years	13	12	12	10
Change in deferred tax	146	122		
	256	257	106	114

**11. Intangible assets**

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Intangible rights</b>				
Acquisition cost 1.1.	57	56	38	41
Translation adjustment	1			
Increases 1.1.-31.12.	14	6	1	1
Decreases and adjustment 1.1.-31.12.		6	0	5
<b>Acquisition cost 31.12.</b>	<b>72</b>	<b>57</b>	<b>39</b>	<b>38</b>
Accumulated planned depreciation 1.1.	34	35	23	26
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.		4		4
Planned depreciation 1.1.-31.12.	4	3	1	2
<b>Book value 31.12.</b>	<b>34</b>	<b>23</b>	<b>14</b>	<b>15</b>
<b>Goodwill</b>				
Book value 1.1.	287	353	179	217
Increases 1.1.-31.12.	80			
Decreases and adjustment 1.1.-31.12.		-1		
Planned depreciation 1.1.-31.12.	68	67	39	39
<b>Book value 31.12.</b>	<b>299</b>	<b>287</b>	<b>140</b>	<b>179</b>
<b>Other capitalised long-term expenses</b>				
Acquisition cost 1.1.	265	199	243	180
Increases 1.1.-31.12.	36	66	25	64
<b>Acquisition cost 31.12.</b>	<b>301</b>	<b>265</b>	<b>268</b>	<b>243</b>
Accumulated planned depreciation 1.1.	161	143	149	133
Planned depreciation 1.1.-31.12.	24	18	23	15
<b>Book value 31.12.</b>	<b>116</b>	<b>104</b>	<b>97</b>	<b>95</b>

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Advance payments</b>				
Book value 1.1.	1	1		
Changes 1.1. - 31.12.				
<b>Book value 31.12.</b>	<b>1</b>	<b>1</b>		
<b>Intangible assets, total 31.12.</b>	<b>451</b>	<b>416</b>	<b>251</b>	<b>289</b>

## 12. Tangible assets

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Land and waters				
Book value 1.1.	139	140	38	37
Increases 1.1.-31.12.	2	7	0	1
Decreases and adjustment 1.1.-31.12.	4	8	2	
<b>Book value 31.12.</b>	<b>137</b>	<b>139</b>	<b>35</b>	<b>38</b>

### Revaluations included in the acquisition cost of land areas

Revaluations 1.1.	14	14	14	14
<b>Book value 31.12.</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>

### Buildings

Acquisition cost 1.1.	3144	2956	2237	2112
Increases 1.1.-31.12.	134	208	68	127
Decreases and adjustment 1.1.-31.12.	11	20	5	2
<b>Acquisition cost 31.12.</b>	<b>3267</b>	<b>3144</b>	<b>2300</b>	<b>2237</b>
Accumulated planned depreciation 1.1.	1116	1017	871	812
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.		0	4	-3
Planned depreciation	101	99	58	55
<b>Book value 31.12.</b>	<b>2050</b>	<b>2028</b>	<b>1373</b>	<b>1366</b>

### Revaluations included in the acquisition cost of buildings

Revaluations 1.1. (based on replacement value)	181	181	181	181
<b>Revaluations 31.12.</b>	<b>181</b>	<b>181</b>	<b>181</b>	<b>181</b>

### Machinery and equipment

Acquisition cost 1.1.	9819	8681	7701	6737
Translation adjustment	-127			
Increases 1.1.-31.12.	1061	1335	510	1061
Decreases and adjustment 1.1.-31.12.	74	215	25	115
Transfer from valuation items		18		18
<b>Acquisition cost 31.12.</b>	<b>10679</b>	<b>9819</b>	<b>8186</b>	<b>7701</b>
Accumulated planned depreciation 1.1.	4807	4307	3944	3632
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	39	112	19	86
Planned depreciation 1.1.-31.12.	682	612	442	398
<b>Book value 31.12.</b>	<b>5229</b>	<b>5011</b>	<b>3819</b>	<b>3757</b>
Book value of machinery 31.12.			3777	3708

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Advance payments and construction in progress</b>				
Acquisition cost 1.1.	366	505	250	443
Changes 1.1. - 31.12.	209	-139	160	-193
<b>Book value 31.12.</b>	<b>575</b>	<b>366</b>	<b>410</b>	<b>250</b>
<b>Tangible assets, total 31.12.</b>	<b>7991</b>	<b>7545</b>	<b>5638</b>	<b>5410</b>

## 13. Investments

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Shares in Group companies</b>				
Book value 1.1.			991	946
Increases 1.1.-31.12.			172	79
Decreases 1.1.-31.12.			-100	-34
<b>Book value 31.12.</b>			<b>1064</b>	<b>991</b>

### Receivables from Group companies

Book value 1.1.			175	188
Changes 1.1. - 31.12.			24	-13
<b>Book value 31.12.</b>			<b>199</b>	<b>175</b>

### Associated company shares

Book value 1.1.	281	563	154	453
Increases 1.1.-31.12.		16		4
Decreases 1.1.-31.12.		-139		-64
Transfer between balance sheet rows	-54	-239	-54	-239
Share of the profit for the year and other adjustments		77		
Translation adjustment		2		
<b>Book value 31.12.</b>	<b>227</b>	<b>281</b>	<b>100</b>	<b>154</b>
Book value includes goodwill	2	23		

### Other shares and similar rights of ownership

Book value 1.1.	313	82	267	31
Increases 1.1.-31.12.	11	231	9	1
Decreases 1.1.-31.12.	60		60	-4
Transfer between balance sheet rows				239
<b>Book value 31.12.</b>	<b>264</b>	<b>313</b>	<b>215</b>	<b>267</b>

## NOTES TO THE ACCOUNTS

### Other long-term investments

Pension liabilities that have previously been stated as valuation items, have been transferred to other long-term investments:

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Pension funds' uncovered				
pension liability 1.1.		123	111	111
Change during the accounting period			-111	
Pension funds' uncovered				
pension liability 31.12.		123		111
Liability for pensions paid directly by the company 1.1.		31		
Change in uncovered pension liability/ transfer to other long-term investments		-24		
Liability for pensions paid directly by the company 31.12.				
		7		0
Total pension liabilities		130		111
Other investments, book value 31.12.	5	39		
<b>Total investments 31.12.</b>	<b>496</b>	<b>762</b>	<b>1578</b>	<b>1698</b>

At the time of preparing the financial statements, on 12 February 1999, the book value of the publicly quoted shares owned by Rautaruukki Oyj was FIM 14 million lower than their market value for the shares of associated companies and FIM 49 million higher for other shares.

### Stocks and shares 31.12.1998

MFIM	Country	Domicile	Number of shares	Group share of		Nominal value currency thousands	Book values 1000 FIM	
				share capital	voting rights		held by Rautaruukki Oyj	held by other group companies
Subsidiaries of Rautaruukki Oyj:								
August Lindberg Oy	FI	Raahe	5	100.0	100.0	FIM 250	3662	
Asva Oy	FI	Helsinki	1964	51.0	51.0	FIM 19640	158342	
Asva Stal Serwis Sp.zo.o	PL	Zyrardow	125000	75.5	75.5	PLN 2500	5711	5 738
Carl Christensen og Brødre AS	NO	Oslo	66	100.0	100.0	NOK 2310	122922	
DCA-instruments Oy	FI	Turku	990	97.2	71.0	FIM 990	990	
Etnarör Ab	FI	Oulu	100	100.0	100.0	FIM 1	50	
Kyrön Konepaja Oy	FI	Karinainen	10000	100.0	100.0	FIM 100	3893	
Oy JIT-Trans Ltd	FI	Raahe	150	100.0	100.0	FIM 1500	5500	
Keskometalli Oy	FI	Helsinki	6000	100.0	100.0	FIM 60000	242316	
Kiinteistö Oy Dental-talo	FI	Turku	26	65.0	65.0	FIM 13	0	
Kiinteistö Oy Myllynummentie 17	FI	Kerava	100	100.0	100.0	FIM 15	81	
Kiinteistö Oy VM-Hallit	FI	Kaarina	1580	100.0	100.0	FIM 158	1356	
Polarplan Oy	FI	Kokemäki	100	100.0	100.0	FIM 200	1105	
Luvian Teollisuuskiinteistöt Oy	FI	Luvia	3100	100.0	100.0	FIM 3100	7852	
Presteel Oy	FI	Raahe	2365	55.0	55.0	FIM 2365	12653	
Rannila Kosice s.r.o.	SK	Kosice	273786	51.0	51.0	SKK 139630	21768	
Rannila Steel Oy	FI	Vimpeli	1500	100.0	100.0	FIM 15000	100000	
Rautaruukki Holding AB	SE	Stockholm	570000	100.0	100.0	SEK 57000	188371	
Rautaruukki Holding B.V.	NL	Amsterdam		100.0	100.0	NLG 40	85	
Rautaruukki Holding Danmark A/S	DK	Vallensbæk Strand	1000	100.0	100.0	DKK 4000	21725	
Rautaruukki Holding GmbH	DE	Düsseldorf	1	100.0	100.0	DEM 4050	128618	
Rautaruukki (Norge) A/S	NO	Oslo	200	100.0	100.0	NOK 200	260	
Rautaruukki Polska Sp.zo.o.	PL	Zyrardow	23173	100.0	100.0	PLN 2317	5661	
Rautaruukki (S.E.A.) Pte Ltd	SG	Singapore	100000	100.0	100.0	SGD 100	383	
Rautaruukki (UK) Ltd.	GB	London	10000	100.0	100.0	GBP 10	81	
Rautaruukki USA Inc.	US	Northbrook	200	100.0	100.0	USD 0.2	5919	
SKJ-yhtiöt Oy	FI	Raahe	1000	100.0	100.0	FIM 500	836	49
Star Tubes (UK) Ltd.	GB	Birmingham	2800000	100.0	100.0	GBP 2800	19555	169
Steel Building Systems Oy	FI	Turku	1520	76.0	76.0	FIM 91	91	
							1 059 787	5 956
Subsidiaries not eliminated from consolidated accounts:								
Housing and real estate corporations, 12 companies							3 335	
Other subsidiaries of Rautaruukki group (non trading) 7 companies							108	17
Non-eliminated subsidiaries, total							3 443	17
							1 063 230	5 973

MFIM	Country Domicile	Number of shares	Group share of		Nominal value currency thousands	Book values 1000 FIM	
			share capital	voting rights		held by Rautaruukki Oyj	held by other group companies
<b>Subsidiaries of Asva Oy:</b>							
Asva Terasekeskus AS	EE Tallinn	6750	51.0	51.0	EEK	675	293
Asva Riga SIA	LV Riika	20	51.0	51.0	LVL	2	18
Mittalevy Oy	FI Helsinki	150	51.0	51.0	FIM	15	40
							351
<b>Subsidiary of A/S Carl Christensen og Brødre:</b>							
CCB Stål AS	NO Oslo	600	100.0	100.0	NOK	600	8 464
<b>Subsidiary of DCA-Instruments Oy:</b>							
Nordic Instruments Inc.	US Massachusets	10000	100.0	100.0	USD	10	41
<b>Subsidiaries of Keskometalli Oy:</b>							
Rautaruukki Eesti OÜ	EE Tallinn	1	100.0	100.0	EEK	270	238
Rautaruukki Metalcentrs SIA	LV Riga	35	100.0	100.0	LVL	35	312
Rautaruukki Metalu Centras	LT Vilnius	1	100.0	100.0	LTL	50	64
ZAO Rautaruukki Stalservice	RU Moscow	1	100.0	100.0	RUR	120	110
							724
<b>Subsidiaries of Rannila Steel Oy:</b>							
Alamentti Oy	FI Alajärvi	100	100.0	100.0	FIM	100	468
ZAO Peter Steel	RU St. Petersburg	2300	100.0	100.0	RUR	2300	2 090
ZAO Rannila Steel Rossija	RU St. Petersburg	48100	100.0	100.0	RUR	48	144
ZAO Rannila Taldom	RU Taldom	27360	95.0	95.0	RUR	2736	3 893
AS Rannila Profiil	EE Pärnu	1500	100.0	100.0	EEK	4395	2 015
Rannila Steel Export Oy	FI Vimpeli	5	100.0	100.0	FIM	50	50
Rannila Steel Latvia S.I.A	LV Riga	110	100.0	100.0	LVL	11	110
Rannila Steel Vilnius U.A.B	LT Vilnius	30	100.0	100.0	LTL	30	35
Rannila Velvary s.r.o.	CZ Velvary		65.0	65.0	CZK	6500	1 019
ZAT Rannila Kiev	UA Kiev	5481	100.0	100.0	UAH	2356	3 204
ZAO Rannila Minsk	BY Minsk	520	100.0	100.0	BYR	520000	106
ZAO Rannila Marketing	RU Moscow	50	100.0	100.0	RUR	50	44
							13 179
<b>Subsidiary of Rautaruukki Holding B.V.:</b>							
Rautaruukki Finance B.V.	NL Amsterdam	40	100.0	100.0	NLG	40	108
<b>Subsidiaries of Rautaruukki Holding Danmark A/S:</b>							
Nordisk Simplex A/S	DK Vallensbæk Strand	2	100.0	100.0	DKK	20000	42 855
Stelform A/S	DK Fredericia	3	100.0	100.0	DKK	25000	16 858
							59 713
<b>Subsidiaries of Rautaruukki Holding GmbH:</b>							
Carl Froh GmbH	DE Sundern	1	100.0	100.0	DEM	6800	156 679
Rannila Stahlhandel GmbH	DE Sundern	1	100.0	100.0	DEM	200	675
Ragal Feinblech GmbH	DE Bremen	1	100.0	100.0	DEM	300	912
Rautaruukki (Deutschland) GmbH	DE Düsseldorf	1	100.0	100.0	DEM	100	912
Rautaruukki Stahlservice GmbH	DE Duisburg	1	100.0	100.0	DEM	50	22 770
Schmacke Rohr GmbH	DE Sundern	1	100.0	100.0	DEM	3360	21 067
						280	203 014
<b>Subsidiary of Rautaruukki (USA) Inc.:</b>							
Finnsteel Inc.	US Northbrook	3000	100.0	100.0	USD	30	153
<b>Subsidiaries of SKJ-yhtiöt Oy:</b>							
ZAO Peterski	RU St. Petersburg	80	100.0	100.0	RUR	105	24
SKJ Svenska AB	SE Smedjebacken	100	100.0	100.0	SEK	100	62
							86
<b>Subsidiaries of Rautaruukki Holding AB:</b>							
Fundia AB	SE Stockholm	3500000	100.0	100.0	SEK	350000	827 244
Gasell Profil AB	SE Trelleborg	162000	100.0	100.0	SEK	16200	32 461
Rautaruukki Sverige AB	SE Stockholm	9000	100.0	100.0	SEK	900	596
Wirsbo Stålrör AB	SE Surahammar	50000	100.0	100.0	SEK	5000	12 534
							872 835

NOTES TO THE ACCOUNTS

MFIM	Country Domicile	Number of shares	Group share of		Nominal value	Book values 1000 FIM	
			share capital	voting rights	currency thousands	held by Rautaruukki Oyj	held by other group companies
<b>Subsidiaries of Gasell Profil AB:</b>							
Gasell Profil A/S	DK Herlev	500	100.0	100.0	DKK 500		929
Gasell Profil AS	NO Oslo	500	100.0	100.0	NOK 50		35
Gasell Profil Polska Sp.zo.o.	PL Warsaw	32	80.0	80.0	PLN 3		7
Gasell Profiles Ltd.	GB St. Albans Hertfordshire	900	90.0	90.0	GBP 1		6
U.A.B. Gasell Profil	LT Kaunas	10	100.0	100.0	LTL 10		13
ZAO Gasell Profil Moscow	RU Moskova	770	100.0	100.0	RUR 770		139
							<hr/> 1 128
<b>Subsidiaries of Fundia AB:</b>							
Fundia Bar & Wire Processing AB	SE Gävle	400000	100.0	100.0	SEK 40000		55 776
Fundia Bygg AS	NO Oslo	230000	100.0	100.0	NOK 230000		268 854
Fundia GmbH	DE Mülheim	1	100.0	100.0	DEM 9000		42 404
Fundia Ltd.	GB Solihull	1000	100.0	100.0	GBP 1		459
Fundia Profiler AS	NO Mo i Rana	70000	100.0	100.0	NOK 70000		94 005
Fundia Special Bar AB	SE Smedjebacken	106000	100.0	100.0	SEK 10600		250 680
Fundia Acier SARL	FR Paris	100	100.0	100.0	FRF 1000		67
Fundia Wire Oy Ab	FI Dragsfjärd	200	100.0	100.0	FIM 20000		169 836
							<hr/> 882 082
<b>Subsidiaries of Fundia Bar &amp; Wire Processing AB:</b>							
Fundia Cromax AB	SE Smedjebacken	1000	100.0	100.0	SEK 100		63
Fundia Dalwire Oy Ab	FI Dragsfjärd	120000	100.0	100.0	FIM 12000		5 991
Fundia Hjulstro AB	SE Linköping	80000	100.0	100.0	SEK 8000		12 534
Fundia Mandal Stål AS	NO Mandal	10000	100.0	100.0	NOK 16358		12 929
Fundia Steelservice AB	SE Gävle	60000	100.0	100.0	SEK 6000		11 907
Fundia SWL AB	SE Smedjebacken	8000	100.0	100.0	SEK 800		627
							<hr/> 44 050
<b>Subsidiaries of Fundia Bygg AB:</b>							
Fundia Welbond BV	NL Raamdonksveer	499	100.0	100.0	NLG 500		1 406
Fundia Welbond Ltd.	GB Essex	249999	100.0	100.0	GBP 250		3 056
Fundia Welbond SA	FR Coueron	20249	100.0	100.0	FRF 2500		2 060
Fundia Ølstykke A/S	DK Ølstykke	38	100.0	100.0	DKK 1000		3 995
Hjulstro AB	SE Linköping	7500	100.0	100.0	SEK 750		2 319
							<hr/> 12 835
<b>Subsidiaries of Fundia Bygg AS:</b>							
Fundia Betoniteräkset Oy	FI Helsinki	1570	100.0	100.0	FIM 15700		15 030
Fundia Bygg AB	SE Halmstad	600000	100.0	100.0	SEK 60000		49 014
Fundia Maidenhead Ltd	GB Solihull	998	99.8	99.8	GBP 1		7
Norsk Jernverk BRD GmbH	DE Mülheim	50	100.0	100.0	DEM 50		100
Robocon International AS	NO Oslo	500	100.0	100.0	NOK 50		1 039
SNJ Gesellschaft für Walzhandel GmbH	DE Mülheim	500	100.0	100.0	DEM 50		92
							<hr/> 65 282
<b>Subsidiary of Fundia GmbH:</b>							
Groth Eisenhandel GmbH & Co KG	DE Monheim	1	100.0	100.0	DEM 750		3 061
<b>Subsidiary of Robocon International AS:</b>							
Robocon Latino America SA	CL Santiago	20249	99.0	99.0	USD 20		235
<b>Subsidiaries of Fundia Cromax AB:</b>							
Fundia Bright Bar AB	SE Hallstahammar	50000	100.0	100.0	SEK 5000		3 134
Fundia Mora AB	SE Mora	38500	100.0	100.0	SEK 8010		5 020
Fundia Redon S.A.	FR Redon	25050	100.0	100.0	FRF 2505		5 022
Fundia Twente B.V.	NL Almelo	5000	100.0	100.0	NLG 5000		1
							<hr/> 13 176
<b>Subsidiary of Fundia Profiler AS:</b>							
Fundia PreStål AS	NO Mo i Rana	3500	100.0	100.0	NOK		2 346
<b>Subsidiaries of Fundia Special Bar AB:</b>							
Flatenbergs Hyttelag AB	SE Smedjebacken	500	100.0	100.0	SEK 100		0
Fundia Steel B.V.	NL Den Haag	28	80.0	80.0	NLG 1000		45
Fundia Tankoteräs Oy	FI Helsinki	150	100.0	100.0	FIM 100		15
Scansider AB	SE Smedjebacken	10000	100.0	100.0	SEK 100		1
							<hr/> 60



MFIM	Country	Domicile	Number of shares	Group share of		Nominal value currency thousands	Book values 1000 FIM		
				share capital	voting rights		held by Rautaruukki Oyj	held by other group companies	
Subsidiaries of Fundia Wire Oy Ab:									
Asunto Oy Lappohjan Kerrostalot	FI	Hanko	34556	100.0	100.0	FIM 3456		3 511	
Bostads Ab Sångars	FI	Hanko	15263	100.0	100.0	FIM 4579		4 940	
Fastighets Ab Järnstängen	FI	Hanko	10100	100.0	100.0	FIM 101		3	
Fastighets Ab Lapphyddan	FI	Hanko	810	81.0	81.0	FIM 81		81	
Fundia Träd AB	SE	Borlänge	500	100.0	100.0	SEK 50		5 580	
								14 114	
Stocks and shares in subsidiaries, total								1 063 510	2 203 011
Associated companies, share of voting rights 20-50 %									
A+R Profilstahl GmbH	DE	Neckarsulm	1	33.3	33.3	DEM 1000		9 120	
ACH Aluminium AB	SE	Halmstadt	12	20.0	20.0	SEK 600			
ZAO Stal Ross	RU	St. Petersburg	48	24.0	24.0	USD 9		55	
Bet-Ker Oy	FI	Ylivieska	120	44.4	44.4	FIM 1200		1 200	
Ekometall AOTZ	UA	Jenakievo	1000	50.0	50.0	USD 25		127	
Helens Rör AB	SE	Halmstad	4500	25.0	25.0	SEK 4500	39 800		
Kiinteistö Oy Teknocent	FI	Oulu	1916	47.9	47.9	FIM 1916	1 916		
Kings Lynn Steel (Holdings) Ltd.	GB	Peterborough	5000	50.0	50.0	GBP 500		2 872	
Mofjellet Berghaller AS	NO	Mo	600	40.0	40.0	NOK 1000		955	
Norsk Jern Eiendom AS	NO	Mo	3600	30.0	30.0	NOK 22500		54 887	
Osuuskunta Teollisuuden Romu	FI	Helsinki	2	33.3	33.3	FIM 20	10	10	
PPTH Teräs Oy	FI	Peräseinäjoki	20000	40.0	40.0	FIM 20000	20 002		
Raahen Kauppaklubin Kannatus Oy	FI	Raaha	15	33.3	33.3	FIM 150	151		
Rannila-Centrostal Bydgoszcz Sp.zo.o.	PL	Torun	13202	49.0	49.0	PLN 660		1 687	
Valtameri Oyj	FI	Helsinki	405540	24.6	21.7	FIM 4055	38 335		
							100 213	70 913	
							171 126		
Associated companies' profits and goodwill								56 093	
Associated companies' value in balance sheet								227 219	
Other stocks and shares, share of voting rights less than 20 %:									
Ancofer Stahlhandel GmbH	DE	Mülheim	1	10.0	10.0	DEM 2800		19 140	
Broderne Sundt Verktøymaskinfabrik A/S	NO	Oslo	2939	15.4	15.4	NOK 73		133	
Oy Datacity Center Ab	FI	Turku	1000	7.0	7.0	FIM 100	100		
Ekokem Oy Ab	FI	Riihimäki	230	1.3	1.3	FIM 460	460		
Europäisches Entwicklungszentrum für Kokereitechnik GmbH	DE	Essen	1	1.0	1.0	DEM 25	59		
Franzefoss Gjennvinning AS	NO	Bärums	150	17.7	17.7	NOK 7500		10 685	
Hangöudds Utvecklingsbolag Ab	FI	Hanko	800	10.0	10.0	FIM 800		813	
Hex Oy	FI	Helsinki	24400	0.6	0.6	FIM 100	150		
AB Järnbruksförnödenheter	SE	Stockholm	623			SEK 100		64	
Metalplast-Oborniki Sp.zo.o	PL	Obornik	149903	16.9	16.9	PLN 141	5 408		
Odda Recycling AS	NO	Odda	166	16.6	16.6	NOK 1000		114	
Posion Kehitysyhtiö Oy	FI	Posio	20	3.4	3.4	FIM 200	200		
Raahen Liikuntahalli Oy	FI	Raaha	17	8.5	8.5	FIM 17	1 055		
Raahen Tietotekniikka Oy	FI	Raaha	10	2.3	2.3	FIM 10	50		
Raahetech Oy	FI	Raaha	2	2.6	2.6	FIM 100	100		
Savonlinnan Oopperajuhlat Oy	FI	Savonlinna	1000	0.5	0.5	FIM 25	30		
Skandinavisk Link Finska Oy	FI	Helsinki	100	7.7	7.7	FIM 15	100		
Suomen Osakekeskusrekisteri Osuuskunta	FI	Helsinki	10	2.2	2.2	FIM 700	300		
Technopolis Oulu Oyj (former Oulun Teknologiaakylä Oyj)	FI	Oulu	10000	0.3	0.3	FIM 100	100		
Tammet Oy	FI	Tammisaari	900	15.0	15.0	FIM 324		4 439	
Tornator Oy	FI	Helsinki	28371	2.1	2.1	FIM 2837	8 245		
YIT-yhtymä Oyj	FI	Helsinki	3012000	10.3	10.3	FIM 30120	178 821		
Shares in housing and real estate companies								15 322	7 293
Other stocks and shares								4 316	2 810
Other stocks and shares, total								214 816	45 491

## NOTES TO THE ACCOUNTS

### 14. Stocks

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

### 15. Debtors

Long-term receivables include receivables due for repayment in one year or later. Current assets in foreign currency have been valued in the manner described in the accounting principles.

### Essential items in prepayments and accrued income

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Interest receivables	19	18	18	17
Other accruals	129	169	35	45
<b>Total accruals</b>	<b>148</b>	<b>187</b>	<b>53</b>	<b>62</b>

### 16. Capital and reserves

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Restricted equity</b>				
Share capital 1.1.	1332	1202	1332	1202
Share issue		130		130
<b>Share capital 31.12.</b>	<b>1332</b>	<b>1332</b>	<b>1332</b>	<b>1332</b>
Share premium account 1.1.	1186	782	1186	782
Issue premium		404		404
<b>Share premium account 31.12.</b>	<b>1186</b>	<b>1186</b>	<b>1186</b>	<b>1186</b>
Revaluation fund 1.1.	195	195	195	195
Deferred tax liability	-55			
<b>Revaluation fund 31.12.</b>	<b>140</b>	<b>195</b>	<b>195</b>	<b>195</b>
Profit from previous years 1.1.	2331	1762	1129	1060
Donations	-1		-1	
Dividend	-266	-180	-266	-180
<b>Profit from previous years 31.12.</b>	<b>2063</b>	<b>1582</b>	<b>862</b>	<b>880</b>
<b>Profit for the year</b>	<b>404</b>	<b>749</b>	<b>227</b>	<b>250</b>
<b>Translation adjustment 31.12.</b>	<b>-22</b>	<b>-14</b>		
<b>Capital and reserves 31.12.</b>	<b>5103</b>	<b>5030</b>	<b>3802</b>	<b>3843</b>

### Distributable capital and reserves

Profit from previous years 1.1.	2063
+ Profit for the financial year	404
- Translation adjustment	-22
- Depreciation reserve shown under capital	-1614
<b>= Distributable capital and reserves</b>	<b>831</b>

### The shareholders of Rautaruukki Oyj according to the share register as on 31.12.1998

Shareholder	Number of shares	Shares %	Shares MFIM
<b>Republic of Finland</b>	<b>55 656 699</b>	<b>41.78</b>	<b>556.6</b>
<b>Pohjola Companies</b>	<b>7 777 500</b>	<b>5.84</b>	<b>77.8</b>
Pension Insurance Company Ilmarinen	4 904 500		49.0
Mutual Life Insurance Company Suomi	1 153 000		11.5
Life Insurance Company Pohjola Ltd	1 000 000		10.0
Insurance Company Pohjola Ltd	720 000		7.2
<b>Mutual Pension Insurance Company Varma-Sampo</b>	<b>5 059 523</b>	<b>3.80</b>	<b>50.6</b>
<b>Sampo Group</b>	<b>3 841 722</b>	<b>2.88</b>	<b>38.4</b>
Teollisuusvakuutus Oy	1 489 370		14.9
Sampo Life Insurance Company Ltd	1 352 352		13.5
Sampo Enterprise Insurance Company Ltd	400 000		4.0
Sampo Insurance Company Ltd	600 000		6.0
<b>Tapiola Companies</b>	<b>1 836 500</b>	<b>1.38</b>	<b>18.4</b>
Tapiola Mutual Pension Insurance Company	982 500		9.8
Tapiola Mutual Insurance Company	448 000		4.5
Tapiola Mutual Life Assurance Company	265 000		2.6
Tapiola Corporate Life Insurance Company Ltd	141 000		1.4
<b>Kesko Pension Fund</b>	<b>1 650 952</b>	<b>1.24</b>	<b>16.5</b>
<b>Local Government Pensions Institution</b>	<b>1 358 917</b>	<b>1.02</b>	<b>13.6</b>
<b>Mutual Insurance Company Eläke-Fennia</b>	<b>802 257</b>	<b>0.60</b>	<b>8.0</b>
<b>OKOBANK Group</b>	<b>792 200</b>	<b>0.59</b>	<b>7.9</b>
Okobank Pension Foundation	378 700		3.8
Okobank Pension Fund	320 500		3.2
Okobank	93 000		0.9
<b>Rautaruukki Pension Foundations</b>	<b>783 000</b>	<b>0.59</b>	<b>7.8</b>
Workers' Pension Foundation	526 200		5.3
Officials' Pension Foundation	256 800		2.6
<b>Administrative registrations and other foreign owners</b>	<b>24 456 954</b>	<b>18.36</b>	<b>244.6</b>
<b>Finnish households</b>	<b>15 006 731</b>	<b>11.26</b>	<b>150.1</b>
<b>Other Finnish owners</b>	<b>14 205 461</b>	<b>10.66</b>	<b>142.1</b>
<b>Total</b>	<b>133 228 416</b>	<b>100.0</b>	<b>1332.3</b>

Share capital of Rautaruukki Oyj by share series:

	1998 number	1998 FIM	1997 number	1997 FIM
Series K	133,228,416	1,332,284,160	133,228,416	1,332,284,160

(10 votes/share)

### 17. Appropriations

In the consolidated annual accounts, the depreciation reserve has been transferred in part to capital and reserves and in part to the deferred tax liability. For the parent company Rautaruukki Oyj, the deferred tax liability, which would have been FIM 620 million, has not been separated out from appropriations.

MFIM	Rautaruukki Oyj	
	1998	1997
Depreciation reserve 1.1.	1836	1224
Change in profit and loss account	380	612
<b>Depreciation reserve 31.12.</b>	<b>2216</b>	<b>1836</b>
Transition reserve 1.1.		190
Change in profit and loss account		-190
Transition reserve 31.12.		0
<b>Appropriations, total 31.12.</b>	<b>2216</b>	<b>1836</b>

## 18. Obligatory provisions

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

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Provisions for pensions 1.1.	117	141	111	111
Change in profit and loss account's staff expenses	15	-24		
Change in profit and loss account's extraordinary expenses	-111		-111	
	21	117		111
Provisions for taxation	62			
Other obligatory provisions 1.1.	24	14	7	1
Change	2	10	-7	6
	26	24		7
Obligatory provisions, total	110	141		118

## 19. Creditors

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

### The currency mix of the non-current debt as of 31.12.1998

Currency	Group, MFIM	% of total debt	
FIM	2228	41%	
DEM	1352	25%	
SEK	1416	26%	
USD	397	7%	
Other	3	0%	
	5396	100%	

### Repayment schedule of interest bearing non-current debt as of 31.12.1998

Including currency swaps used for hedging non-current loans.

Annual repayments	Group, MFIM
1999	238
2000	850
2001	1238
2002	1309
2003	980
2004-	781
Total	5396

## Bonds and debenture loans

Group	interest rate	Currency	millions	1998	1997
				MFIM	MFIM
1994-2001	floating	USD	75	382	407
Bonds issued with warrants					
1994-1999	6.0 %	FIM	1	1	1
			383	408	

## Convertible loans

1998- 2003	5.0 %	FIM	20	20
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On the basis of options, 400 000 Series K shares at the aggregate par value of FIM 4 000 000 can be subscribed.

## 20. Deferred tax assets and liabilities

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Deferred tax assets				
From consolidation measurements	39			
From timing differences	63			
	102			
Deferred tax liabilities				
From appropriations	699	577		
From consolidation	65			
From timing differences	124			
	888	577		

## 21. Accruals and deferred income

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Tax liability		47		
Interest debts	108	126	107	125
Staff expenses	12	325		
Currency hedgings	8	5	6	
Other accruals	221	341	44	90
Total accruals	349	844	157	215

## 22. Contingent liabilities

### Given securities

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
Debts, for which has been given mortgages				
Pension loans	208	435	208	435
Loans from credit institutions	79	111	45	90
	287	546	253	525

### Given securities in value

Mortgaged real estates	602	620	565	599
------------------------	-----	-----	-----	-----

### Securities for Group companies

Given guarantees			253	296
Debit balance of Group bank accounts			385	395
			638	691

### Securities for associated companies

Given guarantees	23	31	21	30
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### Securities for others

Given pledges	6			
Given guarantees		64		57
	6	64		57

## NOTES TO THE ACCOUNTS

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Rautaruukki 1998

MFIM	Group		Rautaruukki Oyj	
	1998	1997	1998	1997
<b>Contingent and other liabilities</b>				
Leasing liabilities				
Due next year	160	163	2	4
Due later	309	382		2
	469	545	2	6

### Other liabilities

Mortgages on company assets 52

### Other financial liabilities

Repurchase liabilities 132 129 125 125

### Letter of Comfort -liabilities\*

for Group companies 107 52

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

### 23. Fair values of derivative contracts as at 31.12.1998

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

MFIM	Nominal value	Carrying amount	Fair value
<b>Foreign currency contracts</b>			
Forward foreign exchange contracts	6 664	-6	-1
Currency swaps	680	24	7
<b>Interest rate contracts</b>			
Forward rate agreements	1 059	0	-1
Interest rate swaps	3 885	-79	-166

The fair value of *forward foreign exchange contracts* is calculated based on the market rates on the balance sheet date.

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

the hedging of both the loan portfolio and the cash flow.

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

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

### 24. Profit and equity in accordance with IAS

#### The differences between international and Finnish accounting practice

The accounting principles adopted by Rautaruukki Group differ from IAS (International Accounting Standards) in a few items. Differences have arisen in handling revaluations and some other fixed asset items, sale and lease back agreements and the book- ing of pension liabilities.

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

The deferred tax liability portion of the depreciation reserve has been taken into account also by adjusting the figures for the previous year.

MFIM	1998	1997
Profit for the year in the consolidated accounts	404	749
Goodwill depreciation allocated to reserves	38	38
Depreciation of revaluations	-5	-5
Adjustment to other depreciation	16	18
Pension expenses	110	0
Associated companies	3	5
Sale & lease back and other agreements	6	21
Deferred tax liability of untaxed reserves		53
Profit for the year in the IAS accounts	572	879
Capital and reserves in the consolidated accounts	5 103	5 030
Pension liabilities entered to expenses		-110
Goodwill depreciation allocated to reserves	-42	-80
Sale & lease back and other agreements	-35	-41
Depreciation of intangible assets		-16
Depreciation of revaluations	-122	-117
Associated companies		-3
Capital and reserves in the IAS accounts	4 904	4 663

### EXCHANGE RATES

	Average rates					Year-end rates				
	1998	1997	1996	1995	1994	1998	1997	1996	1995	1994
USD	5.3415	5.1944	4.5905	4.3658	5.2184	5.0960	5.4207	4.6439	4.3586	4.7432
DEM	3.0381	2.9939	3.0530	3.0471	3.2169	3.0400	3.0275	2.9880	3.0435	3.0615
SEK	0.6721	0.6799	0.6847	0.6123	0.6758	0.6267	0.6863	0.6748	0.6546	0.6358
DKK	0.7977	0.7859	0.7921	0.779	0.8207	0.7982	0.7948	0.7809	0.7862	0.7794
NOK	0.7078	0.7339	0.7111	0.6889	0.7393	0.6702	0.7394	0.7209	0.6899	0.7014
GBP	8.847	8.506	7.164	6.891	7.982	8.428	8.992	7.869	6.741	7.409
FRF	0.9062	0.8894	0.8978	0.8746	0.9406	0.9064	0.9046	0.8862	0.8906	0.8873
ITL	0.00308	0.00305	0.00298	0.00268	0.00324	0.00307	0.00308	0.00304	0.00275	0.00292
ECU	5.994	5.864	5.751	5.644	6.175	5.94573	5.989	5.770	5.597	5.815

## 25. Financial and share based key figures

		1998	1997	1996	1995	1994
Turnover	MFIM	15 336	13 650	12 834	9 213	8 255
Personnel at year-end		13 253	12 705	12 410	8 730	9 068
Personnel on average		13 409	12 868	12 812	9 318	9 444
<b>FINANCE</b>						
Operating profit	MFIM	1 108	1 349	1 171	1 385	1 050
% of turnover	%	7.2	9.9	9.1	15.0	12.7
Profit before extraordinary items	MFIM	754	1 004	715	954	658
% of turnover	%	4.9	7.4	5.6	10.4	8.0
Profit before taxes	MFIM	651	1 004	715	810	440
% of turnover	%	4.2	7.4	5.6	8.8	5.3
Return on net assets	%	10.4	13.2	13.0	16.0	12.4
Return on equity	%	9.7	16.7	11.9	25.7	23.7
Equity ratio	%	36.9	36.5	31.2	35.3	29.0
Gearing ratio	%	108	107	143	116	155
Gross investments	MFIM	1 396	1 492	2 021	778	544
% of turnover	%	9.1	10.9	15.7	8.4	6.6
Research and development	MFIM	109	97	96	80	66
% of turnover	%	0.7	0.7	0.7	0.9	0.8
Net interest expenses	MFIM	363	344	443	387	424
% of turnover	%	2.4	2.5	3.4	4.2	5.1
Interest bearing net debt	MFIM	5 599	5 394	5 588	4 346	4 849
<b>SHARE BASED KEY FIGURES</b>						
Earnings per share, EPS	FIM	3.81	5.82	3.77	7.32	5.35
Diluted earnings per share		3.76	5.82	3.77	7.32	5.35
Equity per share	FIM	38.31	37.75	32.58	31.02	26.00
Dividend per share	FIM	1.80*	2.00	1.50	1.70	1.00
Dividend per earnings	%	47.3*	34.4	39.8	23.2	18.7
Price per earnings, P/E		8.6	7.6	11.3	3.6	7.1
Share trading	thousands	68 150	57 215	30 651	36 313	23 184
Share trading	MFIM	2 635	2 792	1 090	1 033	1 136
Average price of share	FIM	38.66	48.80	35.57	28.44	49.00
Average adjusted number of shares		133 228 416	128 764 131	120 228 416	120 228 416	113 935 813
Number of shares used in calculating diluted figures		134 938 757	128 765 131	120 229 416	120 229 416	113 936 813
Average number of shares at year-end		133 228 416	133 228 416	120 228 416	120 228 416	120 228 416
Number of shares at year-end		133 228 416	133 228 416	120 228 416	120 228 416	120 228 416
Diluted number of shares at year-end		135 779 416	133 229 416	120 229 416	120 229 416	120 229 416
Share price at year-end	FIM	32.90	44.00	42.50	26.50	38.00
Market capitalisation at year-end	MFIM	4 383	5 862	5 110	3 186	4 569

\* Board proposal

## NOTES TO THE ACCOUNTS

### Principles governing the calculation of key figures

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

Return on equity =  $\frac{\text{profit before extraordinary items} - \text{taxes}}{[\text{capital and reserves} + \text{minority interest}] \text{ (average of the beginning and end of the year)}}$

Equity ratio =  $\frac{\text{capital and reserves} + \text{minority interest}}{\text{balance sheet total} - \text{current advanced payments received}}$

Gearing ratio =  $\frac{\text{interest bearing net debt}}{\text{capital and reserves} + \text{minority interest}}$

Interest bearing net debt = interest bearing debt - interest bearing receivables - cash and other liquid current assets

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

Equity per share =  $\frac{\text{capital and reserves}}{\text{adjusted number of shares at year-end}}$

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

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

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

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

Market capitalization = number of shares x share price at year-end

## BOARD PROPOSAL FOR THE USE OF PROFIT

At the closing of the accounts for 1998 the consolidated distributable capital and reserves of the Group was FIM 831 million, of which the profit for the year was FIM 404 million. The nonrestricted equity capital of the parent company was made up as follows:

Net profit for the year	FIM	227 144 801.47
Retained earnings from previous years	FIM	861 867 487.62
Total	FIM	1 089 012 289.09

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

on the share capital of	FIM	1 332 284 160.00
a dividend of 18 per cent be paid	FIM	239 811 148.80
and that the remainder of the profit be posted to the retained earnings account, bringing it to a total of	FIM	849 201 140.29

Helsinki 15 February 1999

BOARD OF DIRECTORS

Mikko Kivimäki

Lauri Mannerkoski      Pekka Einamo      Gösta Engman

Seppo Ahonen      Seppo Sahlman

# AUDITORS' REPORT

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Rautaruukki 1998

## *To the shareholders of Rautaruukki Oyj*

We have audited the accounting records and the financial statements, as well as the administration by the Supervisory Board, the Board of Directors and the Managing Director of Rautaruukki Oyj for the year ended 31 December 1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose

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

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

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

Helsinki 16 February 1999

KPMG WIDERI OY AB

Hannu Niilekselä

*Authorized Public Accountant*

## STATEMENT BY THE SUPERVISORY BOARD

Having today considered the company's financial statements and consolidated financial statements for 1998, as well as the Auditors' Report, the Supervisory Board of Rautaruukki Oyj proposes to the 1999 Annual General Meeting of shareholders that the profit and loss accounts and the balance sheets of the company and the Group be approved. The Supervisory Board concurs with the Board of Directors' proposal

concerning the disposal of profit.

The following members of the Supervisory Board are due to retire at the 1999 Annual General Meeting of the shareholders: Chairman Martti Korhonen and members Göran J. Ehrnrooth, Tauno Heikonen, Juhani Alaranta, Tuula Haatainen, Marjut Kaarilahti, Tauno Matomäki and Hannes Manninen.

Helsinki 4 March 1999

### SUPERVISORY BOARD

Martti Korhonen

Jorma Rantanen

Göran J. Ehrnrooth

Tauno Heikonen

Juhani Alaranta

Georg Ehrnrooth

Tuula Haatainen

Marjut Kaarilahti

Timo Ihamäki

Tauno Matomäki

Hannes Manninen



## Principles underlying financing and financial risk management

The Group's financing and financial risk management are handled centrally by the parent company. A centralized approach makes possible integrated risk management and monitoring at the Group level. Centralization lowers financial costs by enabling the Group to derive benefits from volume operations on the financial market and by minimizing the amount of external transactions. The industrial divisions are responsible for their own financial result and their own financing operations. The industrial divisions implement their financing operations mainly through intra-Group transactions.

The Group's Board of Directors decides on the principles underlying financing and financial risk management, risk levels and, when approving the Group's strategies and action plans, it defines the most important objectives of Group financing. The Financing committee of the Board of Directors meets regularly and prepares matters for the Group Board of Directors. The working group also deals with the main operational financing matters.

Rautaruukki's objective is the strong balance sheet structure and stable financial position that are required in the steel industry. The objective is to raise the Group's equity ratio to above 40 per cent and to lower the gearing ratio to the level of 50 per cent.

Treasury risks are divided into market risks – including foreign exchange and interest rate risks – and liquidity and credit risks. Rautaruukki takes into account the price risk due to cyclical fluctuations in the steel industry, and in managing treasury risks the Group has set the objective of minimizing an unfavourable effect of financial risks on the Group's earnings both during the current financial year and also over the longer term. This serves to create stable conditions for an appreciation in the company's share value and for a good dividend-paying ability.

Derivative contracts are used to hedge financial risks: forward foreign exchange contracts and currency options, currency and interest rate swaps, forward rate agreements and interest rate options. Contracts are not taken out for speculative purposes. The nominal values, carrying values and fair values of derivative contracts as at 31 December 1998 are given in the Notes to the accounts 23 on page 36.

The Group constantly evaluates the market and credit risks of receivables and liabilities and derivative contracts as well as their effect on earnings.

Rautaruukki does not have major long-term delivery or other receivables, but instead the receivables are ordinary short-term accounts receivable. The Group does not have large individual customer credit risks. The aggregate share of Group's ten largest customers was 13 per cent of the total turnover in 1998. The industrial divisions are responsible for the credit risks of their accounts receivable and other receivables. Particular attention has been paid to the management of credit risk and the Group's credit insurances cover the major part of accounts receivable that do not have securities. The Group's credit losses in 1998 totalled FIM 14 million, or 0.09 per cent of turnover.

The market risks of financing are estimated by comparing existing positions with market prices and by estimating the price sensitivity to changes in market prices. In order to minimize the credit risk of financing agreements, such agreements are made only with the leading Scandinavian and international banks and financial institutions. Liquid assets are invested only in creditworthy counterparties within the limits decided by the Board of Directors. Defaults by the other party are not expected.

The Group is aware of the possibility of operational risk in treasury operations, i.e. the risk due to shortcomings in the financial systems and internal control. Internal reporting, also to

Group management, is integrated and continuous and it is carried out on a daily basis for the most important and fast changing exposures. Counterparties are required to report regularly on open derivative trades. The authorizations of personnel entitled to engage in dealing are limited.

## Foreign exchange risk

Rautaruukki operates globally. Exports from Finland and overseas operations account for 71 per cent of turnover. The major part of the Group's steel production and thereby the bulk of its costs is generated in Finland. The subsidiary Fundia also has substantial steel production in Sweden and Norway. Apart from the Nordic countries, the Group has upgrading operations in continental Europe as well as in the new market economy countries of Eastern Europe.

Europe accounted for more than 95 per cent of turnover in 1998. World market prices of the main raw materials are set in United States dollars. Changes in foreign exchange rates have a significant impact on the Group's earnings and competitiveness.

The Group's total foreign exchange risk is managed by means of three positions: the cash flow position, the balance sheet position and, in respect of translation risk, the equity position of overseas units.

The cash flow position comprises the estimated foreign currency-denominated sales and purchases for the twelve months of the current financial year. The breakdown of cash flow risk currency by currency is shown in table 1, page 42.

During 1998 the Group did not on average hedge the forecast cash flow against the future EMU currencies. On the other hand, the considerable surplus in pounds sterling was hedged, and the hedging period was about 6 months. The deficit dollar position was also partially hedged during the financial year.

The new market economies of Eastern Europe accounted for about 8

per cent of turnover in 1998 (FIM 1,200 million). Slightly less than half of the turnover was mainly USD- and euro-denominated exports from Finland. Foreign exchange risk against the eastern currencies arises mainly from the raw materials purchases from Finland of subsidiaries operating in these countries. The subsidiaries are engaged in steel upgrading or wholesaling and sales are made in the local currencies. Owing to the undeveloped state of the financial markets or to cost considerations, the management of foreign exchange risk is handled mainly through internal means, i.e. by minimizing the amount of working capital as well as the payment period between the purchase and sales transaction.

Foreign exchange risk is managed by separately hedging the balance sheet position, which includes not only foreign currency-denominated balance sheet items but also the derivative instruments used to hedge them, such as long and short-term loans and swaps, accounts receivable and accounts payable, loans, cash assets and forward foreign exchange contracts. The size of the balance sheet position at the end of the year is shown in Table 2. During 1998 the balance sheet position, except for the net amount of accounts receivable, was on average completely hedged against the currencies of account. EMU currencies were nevertheless not hedged.

In accordance with the foreign exchange policy approved by the Board of Directors, the currency risk connected with consolidation of the equity of foreign subsidiaries and associated companies is hedged in accordance with a decision that is taken separately by the Board of Directors. The costs of hedging are appraised in taking the decision. The instruments used for hedging purposes are loans in foreign currency and forward contracts. The magnitude of this translation position at the end of 1998 was FIM 534 million, of which a total of 49 per cent was hedged against changes in foreign exchange rates (graph page 43). The

**Table 1. Estimated annual net cash flow risk of the Group against euro**

	Countervalue, Meuro	Effect of an average of 10% exchange rate change on the Group's operating profit, Meuro
USD	- 146	-/+ 14.6
GBP	+ 153	+/- 15.3
SEK	+ 4	+/- 0.4
NOK	- 5	-/+ 0.5
DKK	+ 72	+/- 7.2
Other currencies	+ 52	+/- 5.2
Total	+ 130	+/- 13.0

**Table 2. Balance sheet risk of the Group's Finnish companies against Finnish Markka as of 31.12.1998:**

	Balance sheet risk	Effect of an average of 10% exchange rate change on the Group's net profit, MFIM
USD	- 20	-/+ 2
EUR currencies (excl. FIM)	+ 970	+/- 97
SEK	+ 160	+/- 16
NOK	+ 100	+/- 10
DKK	- 150	-/+ 15
GBP	- 400	-/+ 40
Other currencies	- 70	-/+ 7
Total	+ 390	+/- 39

**Table 3. Interest rate linkage of the Group's net debt of FIM 5,599 million as of 31.12.1998:**

	Share	% fixed rate (interest period >12months)	Average maturity of fixed rate position
EUR (incl.FIM)	54 %	36 %	1.8 years
SEK	21 %	24 %	1.4 years
GBP	11 %	0 %	
Other currencies	14 %	13 %	1.5 years
Total	100 %	26 %	1.7 years

Group's shareholders' equity amounts in the subsidiaries and associated companies located in the new market economy countries of Central and Eastern Europe are small.

Changes in foreign exchange rates affect the supply of steel in different currency zones and thereby have a major impact on the price formation of steel. For example, an appreciation of the US dollar against the euro increases exports of European steel products and reduces imports. On the other hand, the mutual competitive position of European companies depends significantly on the interrelationship of the national foreign exchange rates.

As a consequence of the start of stage three of EMU, the foreign ex-

change risk arising from the above-discussed economic position has been smaller from the beginning of 1999. The foreign currency breakdowns of Rautaruukki and its main European competitors have converged. Some of the most important competitors did, however, opt out of EMU for the time being: Sweden and Great Britain.

#### Interest rate risk

Management of the Group's overall interest rate risk is centralized within the parent company's Treasury Department, which is also responsible for obtaining debt financing and for the treasury management of liquid funds. The industrial divisions and subsidiaries obtain debt financing and hedge

their own interest rate risk via intra-Group operations.

The total amount of the Group's interest-bearing liabilities was FIM 5,939 million as at 31 December 1998 and interest-bearing receivables and liquid assets totalled FIM 340 million. The breakdown by currency and the repayment programme of long-term loans is given on page 39, Note 19.

The Group's average interest-bearing net debt in 1998 amounted to FIM 5,824 million and net interest expenses were FIM 363 million, or on average 6.2 per cent. At the end of the year the interest-bearing net debt totalled FIM 5,599 million and the average interest rate was 5.8 per cent per annum (Table 3).

The Group's interest rate sensitivity, or the estimate concerning the effect of an interest rate change moving the interest rate curve one percentage point in any direction on net interest rate costs in 1999, at the present exposure is about FIM 30 million.

The interest rate risk which is due to the imbalance between the interest rate periods of interest bearing liabilities and receivables is managed by means of the net debt position that is formed currency by currency. This also involves the interest rate risk of foreign currency derivatives which are included in the balance sheet position and the cash flow position. The objective is to hedge against changes caused by a sharp rise in the level of interest rates during the current financial year and over the next few years. The factors appraised in taking hedging decisions are the levels of interest rates, the form of the yield curve and volatilities.

Borrowings and short-term investments are spread between fixed and variable interest rate instruments. Interest rate risks are mainly hedged by derivative contracts (Note 23 to the accounts).

The amount of open interest rate swaps was FIM 3,885 million as at 31 December 1998. The breakdown by currency was as follows:

DEM	49%
FIM	39%
SEK	7%
NOK	3%
DKK	2%

The average maturity of the contracts was 1.7 years and Rautaruukki pays on them a fixed average interest rate of 5.45 per cent against the variable interest rate.

The total amount of open forward rate agreements at the turn of the year was FIM 1,059 million and they were used for hedging both loans and investments in the following currencies:

SEK	53%
NOK	32%
DKK	15%

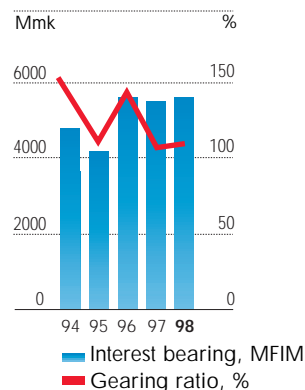
#### Liquidity risk

Because the Group is a net debtor, liquid funds are kept at an optimal level from the standpoint of costs. In order to ensure a sufficient liquidity position, long-term revolving credit facilities have been arranged with banks. The unused amount of these facilities at the end of the year was FIM 760 million. In addition, there was a further FIM 676 million of unraised agreed long-term loans. The Group had a total of more than FIM 2.3 billion of unused short-term commercial paper programmes and bank credit lines. Cash and bank receivables as well as negotiable investment instruments totalled FIM 269 million as at 31 December 1998.

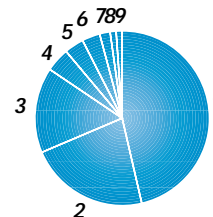
The Group uses a system of continuous reporting on the forecast change in net debt in order to manage liquidity risk. The management of liquidity is centralized within Group Treasury. Efficient payment transfers and use of cash funds is carried out by means of country-specific cashpool structures, all of which are managed on a centralized basis.

The Group has begun to use the euro in internal and external invoicing right from the beginning of 1999 and it is estimated that this will lead to a further increase in the efficiency of cash management.

#### Interest bearing net debt and gearing ratio



#### Translation position by currency Shareholders' interests of Group and associated companies



1	SEK	248 MFIM
2	DEM	118 MFIM
3	NOK	85 MFIM
4	GBP	24 MFIM
5	SKK	19 MFIM
6	EEK	18 MFIM
7	DKK	10 MFIM
8	PLN	6 MFIM
9	LTL, RUB and LVL	6 MFIM

The changes required by the Year 2000 have the greatest impact on Rautaruukki's sales and customer service, production control and financial administration systems, process control and automation systems as well as the entire technical IT infrastructure, or datacommunications networks, equipment and software. They are the most salient risk areas for business operations.

## *Y2000 Project launched in 1997*

Rautaruukki launched in February 1997 a Group-wide Y2000 Project. The project is headed and coordinated by the Group's Information Management. Each industrial division and unit has its own sub-project and project supervisor. Group management and the heads of the industrial divisions actively monitor the progress of the project.

The project makes use of a solutions bank in which information is maintained on the Y2000 solutions and capability of different systems, equipment, components and suppliers. The project handles on a centralized basis the Group's IT infrastructure and problem areas that different units share in common. Implementation of the modifications required for different divisions and units is handled in the sub-projects of the industrial divisions and units.

The project survey involved going through some 600 information systems and 1,800 process control or automation systems with their ancillary equipment. The modifications required for systems and equipment were defined and set in motion in 1997. In addition to inspecting the Y2000 compliance of individual systems and equipment, integration tests are carried out to make sure that the chain formed by several systems works the way it should.

### *Degree of Y2000 preparedness by industrial division at 28 February 1999*

Rautaruukki Steel	80%
Metform	85%
Steel Structure Division	90%
Fundia	70%
Group management	70%
Other units	75%

### **Preparedness during the summer**

At the end of February 1999, Y2000 compliance had been achieved for 69 per cent of the Group's information systems, 86 per cent of the process control and automation systems and 91 per cent of the IT infrastructure. The objective is that Y2000 compliance for the Group's information and automation systems will be reached for the most part in the summer 1999, except for a few production control systems, which will be updated in October at the latest.

The systems are classified from the standpoint of the continuity of operations in terms of how critical they are. It is estimated that as of February 1999, a total of 19 person work years of tasks remained to be completed on mission-critical and essential information and automation systems.

Of the 55 units being monitored, 27 units had reached Y2000 preparedness for systems that are critical for the

continuity of business operations as of February 1999.

For the millennium transition period, backup plans are being prepared unit by unit to cover the eventuality that any of the risks will materialize despite all the precautionary measures that have been taken. The backup plans will be completed by May 1999 at the latest.

### **External suppliers and partners in cooperation**

The project also involves an assessment of the Y2000 compliance of the external EDP services, products and suppliers used by the Group. In the event that sufficient assurances of the Y2000 compliance of a product or service are not obtained, it is replaced with a corresponding product or service that is Y2000-compliant.

Evaluation of the Y2000 preparedness of other external partners in cooperation is carried out by each industrial division or unit concerned. The most important parties that must be checked out are suppliers of raw materials, other materials and supplies as well as the different participants in the logistics chain.

### **Costs**

The total costs of the Group's Y2000 Project are FIM 50 million, of which work performed by the personnel accounts for about half. Replacement of software will cost FIM 15 million and the remainder of the expenses is mainly due to the need to replace and upgrade equipment.

The timetable for the Y2000 Project has been drawn up such that the necessary actions are carried out in good time before the turn of the year. The project has gone according to plans, and timetables and resources have been mapped out for the remaining works, too.

Rautaruukki Steel manufactures and markets high-quality plate and strip products as well as related services. The division's competitiveness is based on cost-effective manufacturing coupled with fast and reliable deliveries. The division is increasing the share of coated sheet products in its operations.

## Investment programme boosts production

Demand for the steel products manufactured by Rautaruukki Steel held up well in Europe. A larger volume of imports of steel products, particularly from Southeast Asia, and the winding down of stocks led to an oversupply of steel products in the second half of the year. Prices of hot and cold rolled products headed sharply downward beginning in the second third of the year. The supply of coated strip products grew less and their prices went into decline towards the end of the year. The average prices of Rautaruukki Steel's deliveries were nevertheless higher than in 1997, with the exception of hot rolled strip products.

### Operating profit improves

Rautaruukki Steel's total deliveries amounted to 2,611,000 tonnes (2,372,000), of which deliveries to the Group's other units represented 35 per cent (35). The division had turnover of FIM 7,249 million (6,465).

Operating profit was FIM 1,084 million (1,036). Production ran smoothly despite the modernizations that were in progress.

### Modernization programme boosts competitiveness

Rautaruukki Steel pushed ahead with its investment programme aiming to raise steel and rolling production and improve cost-competitiveness. The modernization of the cold rolling mill at the Hämeenlinna Works in order to increase its capacity to 1.2 million tonnes was completed in August. A ladle metallurgy plant that will expand the range of steel products and improve their quality level was completed at the Raahе Steel Works in September. Because of the rapid weakening in the market situation, it was decided to defer the steel plant and strip rolling mill investments that were planned for completion in Raahе in 1999.



**Rautaruukki Steel**  
Heikki Rusila  
President

### PRIMARY PRODUCTS

Raahе Steel Works  
Sintering plant  
Coking plant  
Blast furnaces  
Steel plant

### PLATE PRODUCTS

Raahе Steel Works  
Plate rolling mill  
Prefabricated products line  
Presteel Oy  
Halikko Works  
Otanmäki Works

### STRIP PRODUCTS

Raahе Steel Works  
Hot strip rolling mill  
Hämeenlinna Works  
Cold rolling mill  
Hot dip galvanizing line  
Colour coating line  
Kankaanpää Works  
Colour coating line  
Ragal GmbH  
Rautaruukki Stahlservice GmbH

### OTHER UNITS

Oy JIT-Trans Ltd  
August Lindberg Oy  
SKJ Companies

\*Two former industrial divisions Raahе Steel and Strip Products were merged into Rautaruukki Steel as from 1 January 1998.

#### Key figures

	1998	1997	Change
Turnover, MFIM	7 249	6 465	+ 12 %
Operating profit, MFIM	1 084	1 036	+ 5 %
Return on net assets, %	15.7	16.5	
Steel production, 1000 t	2 499	2 349	+ 6 %
Personnel at year-end	4 837	4 764	+ 2 %

At the Hämeenlinna Works, construction of a new 400,000 tonne galvanizing line and raising the capacity of the colour coating line by 50 per cent to 150,000 tonnes got started. These investments will be completed in the spring 2000 and will enable Rautaruukki Steel to sell the increased rolling mill output primarily in the form of upgraded products.

### New products brought to market

Rautaruukki Steel is seeking to increase the share of special products in its deliveries and to market them as branded products. Development work on the new RAEX OPTIM product family was seen to completion during the year. The characteristics of high-strength, micro-alloyed and thermo-mechanically hot rolled Optim steel products clearly surpass the requirements of present standards and the steels are well suited to automated manufacturing. Typical applications of these products are equipment that must be lightweight and at the same time have excellent structural durability.

The modern vacuum treatment equipment that was put into use at the Raahel Steel Works makes it possible to manufacture high-purity steel products for demanding applications such as off shore structures, high-strength gas pipelines and sheet applications calling for precision deep drawing.

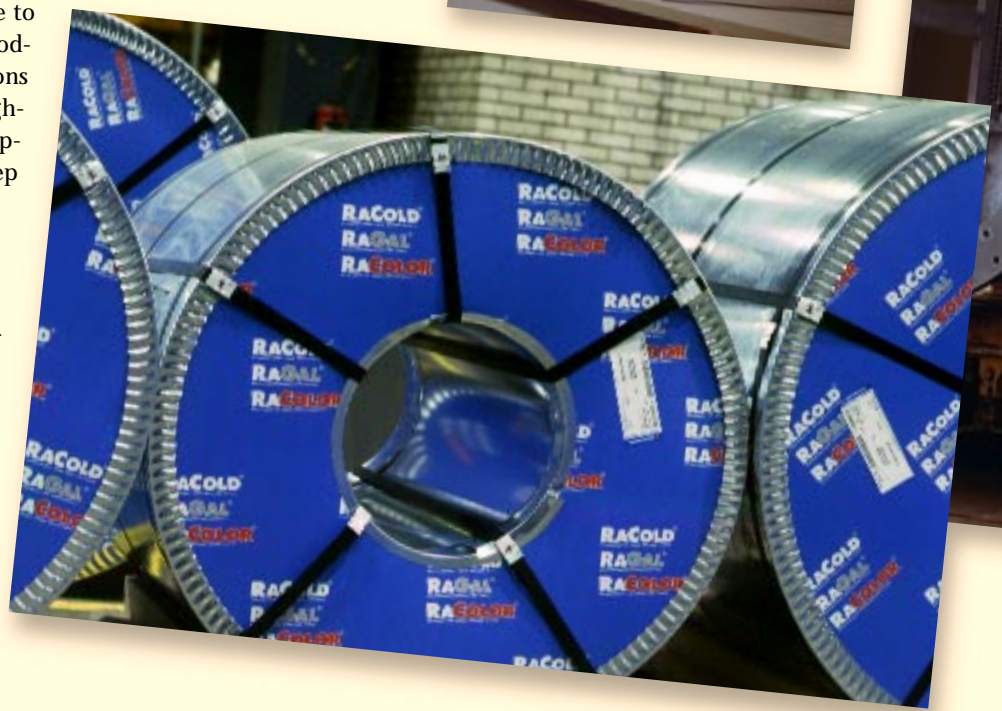
*RACOLD, RAGAL and RACOLOR are the brand names for Rautaruukki's strip products*

### Outlook for 1999

The consumption of steel products is expected to remain good in Rautaruukki Steel's main markets. Prices of hot and cold rolled products are estimated to be at their low point during the first quarter of the year and supply and demand are expected to reach a better balance. Thereafter, prices of steel products are expected to strengthen.

Total deliveries by Rautaruukki Steel are expected to be at the level of 1998. Deliveries of hot rolled coils will diminish and correspondingly those of cold rolled products will increase thanks to the new cold rolling capacity.

*Well-known computer manufacturers rely on Rautaruukki's galvanized sheet.*





Rautaruukki Steel's high-strength, formable HSF steel is a very suitable material for the frames of trucks.

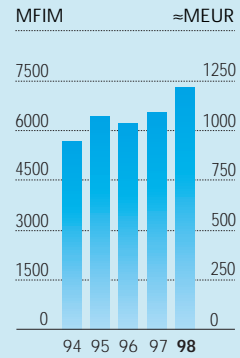


Cold-rolled and galvanized sheet is formed in different ways for particular uses.

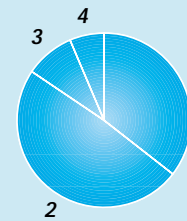


Rautaruukki's plate components have a high market share in the manufacturing of wind-powered generators in Northern Europe.

### Turnover



### External sales by region 1998



- 1 Finland 36 %
- 2 Other EU countries 49 %
- 3 Other Europe 9 %
- 4 Other countries 6 %

Metform develops, manufactures and markets welded steel tubes and pipes and related value-added products. Metform's objective is to strengthen the division's position as the leading manufacturer of welded steel tubes in the Baltic area. This will be achieved through customer-oriented, long-term and high-quality operations.

## Delivery volumes high

Demand for structural tubes remained good throughout the year. Prices rose in the early part of the year but declined in the second half owing to new capacity that came on to the market and to the fall in the price of steel raw material.

Demand for line pipe projects in Finland's nearby areas and in continental Europe was slacker than it has been in previous years. The economic difficulties in the Far East and Eastern Europe exerted a drag on the implementation of international projects. Prices of line pipes were stable in the early part of the year but went into decline towards the end of the year.

Demand for value added tubular products within the automotive and household appliance industries was good, but keen competition led to an unsatisfactory price level.

### Turnover grows

Metform had turnover of FIM 2,095 million (2,062). Structural tubing accounted for 59 per cent of turnover, line pipes for 22 per cent and value

added products for 19 per cent. A total of 560,000 tonnes (562,000) of tubular products was delivered.

The division's operating profit was FIM 24 million (186). The average price of deliveries was 2 per cent higher than in 1997 but raw material costs rose by nearly 12 per cent. Earnings in 1998 were burdened by the loss incurred by the German subsidiary Carl Froh GmbH, a substantial portion of which was due to non-recurring downsizing measures. The 1997 profit included a capital gain on the sale of the small-diameter tube business.

### Competitiveness through development programmes

By improving its production efficiency and developing customer service, the division succeeded in strengthening

its positions in the face of tougher competition. New markets were sought for line pipes in particular.

At Hämeenlinna Tube Works and Nordisk Simplex production capacity was raised. Capital expenditures on line pipes went primarily for expanding the range of products and dimensions. In accordance with its development programme, Wirsbo Stålrör continued ahead with its investments aiming to increase the efficiency of production and to raise the degree of upgrading.

At Carl Froh, which manufactures upgraded tubular products, the downsizing programme aiming at boosting efficiency was continued. The emphasis within product development was on speciality products for the automotive industry.

Metform's core expertise consists of cold forming technology, welding technology and the use of high-strength steels as the material of tubes. Product development was geared towards special products tailored to customers' needs. The new COMBI generation of hollow sections and structural tubes

*Bicycles, bridge structures, lighting  
– Metform's tubular products are  
part of everyday life.*

### Key figures

	1998	1997	Change
Turnover, MFIM	2 095	2 062	+ 2 %
Operating profit, MFIM	24	186	- 87 %
Return on net assets, %	2.9	20.3	
Personnel at year-end	1 512	1 629	- 7 %





that exceed the 10219 Euro norm was brought out on the market.

Towards the end of the year the Pulkila Works received the ISO 14001 certificate for its environmental system. Metform's other plants continued the development of their environmental systems with the objective of obtaining ISO 14001 certification by the end of 1999.

#### Outlook for 1999

Demand for steel tubes in 1999 is expected to be on a par with the previous year. The order book in the first part of the year is satisfactory. The price level is expected to stabilize

during the first half of the year and to turn upward in the second half. Metform's profitability is estimated to improve because the price of the steel that is used as a raw material has fallen and, furthermore, the measures carried out at Carl Froh will kick in.

In line with the Group's strategy, Metform is developing a new customer service concept in which product development and customer service are tailored to the needs of different customer sectors. Metform's organisation will be modified to correspond to the new concept. The objective is to improve productivity, efficiency and the division's profit-making ability.



**Metform**  
Lauri Rautala  
Senior Vice President

#### Division's units

#### STRUCTURAL TUBING

Hämeenlinna Tube Works  
Lappohja Works  
Pulkila Works  
Nordisk Simplex A/S

#### LINE PIPES

Oulainen Works  
Wirso Stålrör AB

#### UPGRADED PRODUCTS

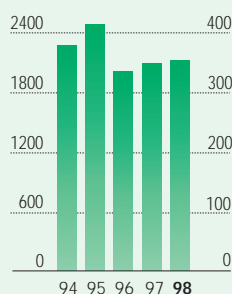
Carl Froh GmbH

#### SALES COMPANY

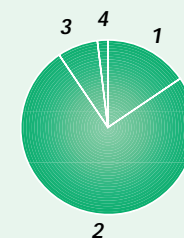
Star Tubes (UK) Ltd

#### Turnover

MFIM                      ≈MEUR



#### External sales by region 1998



1	Finland	16 %
2	Other EU countries	75 %
3	Other Europe	7 %
4	Other countries	2 %

*Metform's steel tubes are part of modern construction and are used in the fittings of luxury liners and in public buildings in cities.*



*A main water pipe supplied by Metform being laid in Norway.*

The Steel Structure Division manufactures and markets steel products for construction, such as roofing, walls and light frame structures as well as systems based on them. Rannila and Gasell are the division's brands within the construction system products business. The main market areas are the Nordic countries as well as the new market economy countries of Eastern and Central Europe. The division has production units in ten countries.

## Strong growth continues

The high-quality steel products of Rautaruukki is the foundation of the Steel Structure Division's products. The key principle of operations is to produce total product packages for customers and to deliver the highest quality service on the market.

### Turnover continues to grow

Demand for the products of the Steel Structure Division continued to enjoy good growth. The rapid fall in the price of steel towards the end of the year lowered prices of construction products in the West-European market. In other markets, prices held steady. The economic crisis in Russia temporarily cut into sales in Russia and its neighbouring countries in the autumn, but in the latter part of the year sales returned to nearly the previous level.

The Steel Structure Division reported growth in turnover of 21 per cent, to FIM 1,600 million (1,327). Operating profit was FIM 92 million (113). Operating profit was weakened by the costs of starting up new companies.

### Four new plants

During the year Rannila's production was started up in Slovakia, Ukraine, Lithuania and St Petersburg, Russia. Operations got under way as planned and the new companies are expected to reach a good degree of capacity utilization quickly. At the units in the Nordic countries, investments were carried out to develop basic business functions in order to improve productivity.

The main units of the Steel Structure Division have received ISO 9001 certification for their quality systems and ISO 14001 certification for their environmental systems. The same accreditations will be sought for the systems of the division's new units.

A new focus of development inputs was the elaboration and manufacture of products intended for the engineering industry, adhering to the principle of a high degree of service. To step up the efficiency of operations, the units that manufacture these products –

Rautaruukki Toijala Works, Stelform and Gasell Profil's light engineering operations – were organized into the new Gasell Industri unit.

### Training centre opened

Rannila Steel opened a training and development centre in Alajärvi. The objective of the training is to increase



Deliveries by the Steel Structure Division to Eastern Central Europe and Eastern Europe are growing fast, for both industrial and residential buildings.

### Key figures

	1998	1997	Change
Turnover, MFIM	1 600	1 327	+ 21 %
Operating profit, MFIM	92	113	- 19 %
Return on net assets, %	16.4	26.7	
Personnel at year-end	1 345	1 045	+ 29 %

and amplify the professional skills of customers, distributors, design engineers and the company's own personnel. The personnel of the new units abroad will also be trained at the centre.

Product development will seek to diversify construction systems and to improve the scope of their applications. New country-specific applications for different market areas were

developed for roofing systems, facade elements and light frame solutions.

**Outlook for 1999**

Demand for the division's products is expected to continue at the previous year's level in the Nordic countries. In the new market areas the demand for products targeted at consumers is expected to grow further. The prolongation of Russia's economic difficulties may have a weakening effect on project export deliveries.



*Steel is used in many different ways in modern construction: hollow sections for structures and colour coated steel sheet for external cladding and internal surfaces. Rannila's cassette panels give walls an impressive appearance.*



*Gasell Industri's operations include cold-formed sections for mechanical engineering companies.*

*They are also used as roadside railings.*



**Steel Structure Division**  
Markku Koljonen  
Senior Vice President

**Division's units**

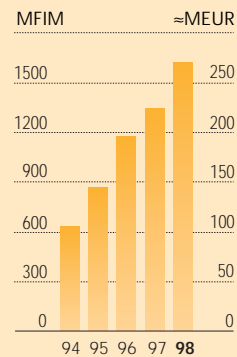
**RANNILA**

- Rannila Steel Oy
- AS Rannila Profiil
- Rannila Taldom A/O
- Rannila Velvary s.r.o.
- Rannila Kosice s.r.o.
- Rautaruukki Polska Sp. z o.o
- ZAO Rannila Steel
- ZAT Rannila Kiev
- Uab Rannila Steel Vilnius

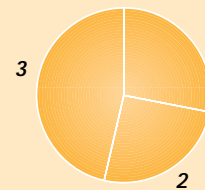
**GASELL**

- Gasell Profil AB
- Gasell Industri
- Rautaruukki Toijala Works
- Stelform A/S

**Turnover**



**External sales by region 1998**



- 1 Finland 28 %
- 2 Other EU countries 26 %
- 3 Other Europe 46 %

Fundia is the leading Nordic manufacturer of long steel products. The most important products are bar and wire for the engineering industry, profiles for the shipbuilding and offshore industries and reinforcing for the building industry. More than half of Fundia's deliveries are low-alloyed special steels and different kind of further processed products.

## Operations become more effective

The market situation for long steel products was good during the first half of 1998 in Europe. During the second half the situation deteriorated with regard to most products. Imports to Europe increased due to the crisis in South East Asia which combined with the rundown of stocks by wholesalers and customers caused a considerable excess supply and falling demand.

Fundia's deliveries increased by 2 per cent to 1,942,000 tonnes (1,908,000). Deliveries of low-alloyed special steels and further processed products were up by 9 per cent which is in line with Fundia's long-term policy of upgrading the product mix. The average price in Swedish kronor of Fundia's deliveries rose by 5 per cent compared with the level of 1997. However in the last four months of the year the average price fell by 6 per cent compared with the May-August period.

### Turnover grows

Fundia's turnover rose to FIM 4418 million (4162). Operating profit was

FIM 37 million (77). Operating profit was weakened by FIM 19 million of non-recurring expenses caused mainly by winding up of the rebar production at Smedjebacken. The price of the main raw material, scrap fell in the spring but was on the average, however, 2 per cent higher than in 1997.

### Development projects in progress

The decision was taken to concentrate the manufacture of reinforcing steel at Mo i Rana, Norway, and wind up the rebar production in Smedjebacken, Sweden, during spring 1999. A reorganisation of the Reinforcing Division has been carried out with a view to gaining maximum benefit from this decision.

In the Special Bar Division a project to improve the Division's competitiveness was started. In addition a customer service and quality project is in progress, the main aim of which is to better satisfy the growing requirements of the customers. Measures

were also initiated in other divisions to lower expenses and improve efficiency.

A capital rationalization project has begun with the view to substantially reducing the amount of tied-up capital in Fundia.

The major capital expenditures related to developing the bar mill at Smedjebacken, capacity-improving systems at Dalsbruk wire-rod rolling mill and building a new welding wire line at Dalsbruk following the fire in December 1997. These investments will facilitate a continued drive in the area of special products and further processing.

*Fundia supplies bars and hard-chrome-plated bars to leading manufacturers of various off-road vehicles.*

Key figures	1998	1997	Change
Turnover, MFIM	4 418	4 162	+ 6 %
Operating profit, MFIM	37	77	- 52 %
Return on net assets, %	2.0	3.5	
Steel production, 1000 t	1 774	1 734	+ 2 %
Personnel at year-end	3 509	3 552	- 1 %



**Outlook for 1999**

The poor market situation is expected to continue in the early part of 1999 and the prices are expected to bottom out during the first quarter. Thereafter the market situation is expected to improve and demand and supply is expected to stabilize.

Reorganisation, cost-cutting measures and continued growth in special products and further processing are expected to lead to an improvement in Fundia's profitability.



**Fundia**  
Juha Järvelä  
President and CEO

**Fundia's production units**

**REINFORCING**

Mo i Rana, Halmstad  
Oslo, Ølstykke

**SPECIAL BAR**

Smedjebacken, Boxholm

**WIRE**

Koverhar, Dalsbruk

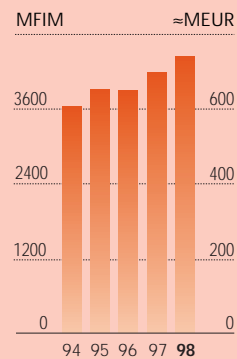
**STRUCTURAL STEELS**

Mo i Rana

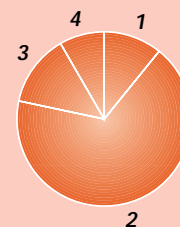
**BAR & WIRE PROCESSING**

Dalsbruk, Mandal  
Twente, Redon  
Hjulsbro, Forsbacka  
Mora, Hallstahammar

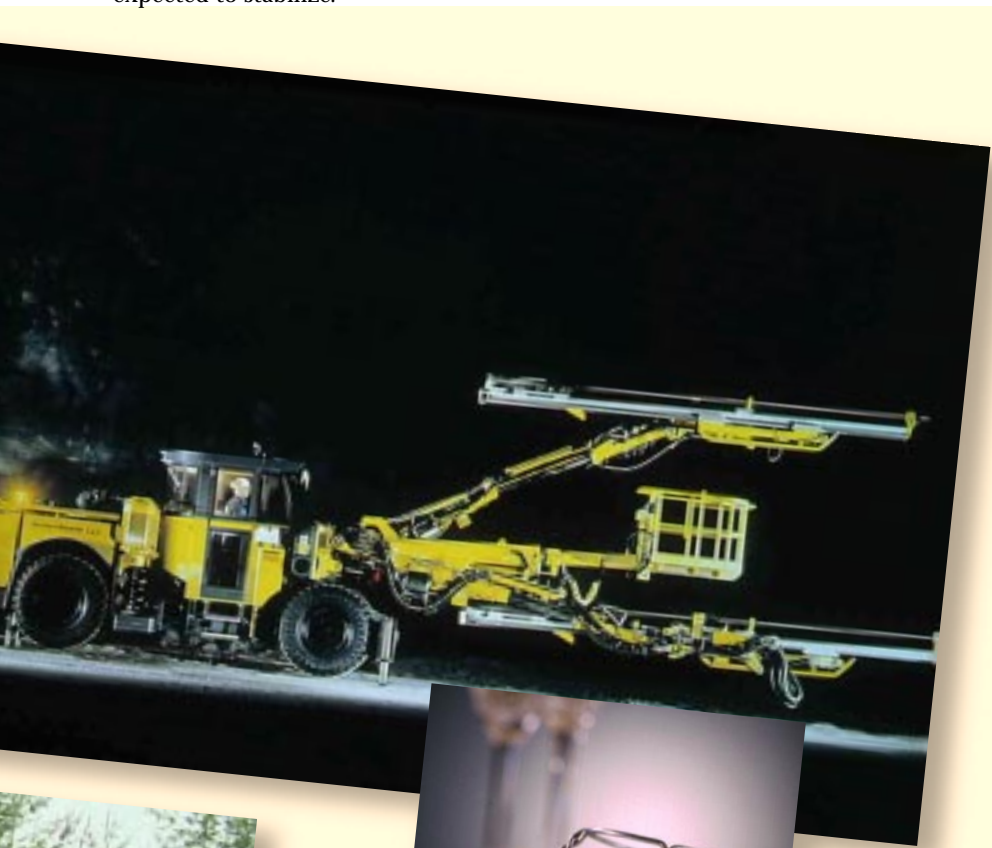
**Turnover**



**External sales by region 1998**



1	Finland	11 %
2	Other EU countries	68 %
3	Other Europe	13 %
4	Other countries	8 %



*Fundia's wire rod is needed for leisure activities and for special celebrations.*

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

## *Transtech improves its operating profit*

The Engineering Division's deliveries grew substantially thanks to the larger volume of Transtech's wagon deliveries. The division's turnover was FIM 561 million (359). The improvement in profitability was also affected by the divestment of Transtech's Taivalkoski works and by the rationalization measures that were carried out at the Otanmäki Works. The division's operating profit was FIM 18 million (a loss of FIM 84 million in 1997).

Operations of the Engineering Division have been cut back strongly in recent years. In 1998 the division sold off Transtech's Taivalkoski Works and furthermore transferred the Halikko Works and the plate component business of the Otanmäki Works to the Rautaruukki Steel organization. The Engineering Division was wound up at the end of the year. Of the division's units, Transtech, Engineering and DCA-Instruments will remain operating as separate units of the Group.

At the end of 1998 Transtech received from VR Corporation (formerly the Finnish State Railways) an additional order to deliver 50 double-decker Intercity passenger wagons, and an order from Sweden and Norway for a



*Deliveries of double-decker Intercity passenger wagons continued. Transtech received an order for a further 50 wagons.*

total of 45 car transport wagons. Transtech's order book at the end of the year was about FIM 900 million and it extends up to the summer 2002. At the beginning of 1999 Rautaruukki Engineering landed a major order for

the automation of a coking plant in India. It is estimated that Transtech's operating result for 1999 will be in the black.

### Key figures

	1998	1997	Change
Turnover, MFIM	561	359	+ 56 %
Operating profit, MFIM	18	- 84	
Return on net assets, %	30.9	neg.	
Personnel at year-end	779	949	- 18 %



**Engineering Division**

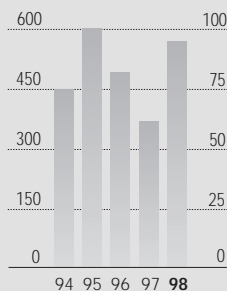
Jorma Lukkari\*  
Senior Vice President

**Division's units**

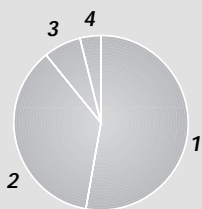
Transtech  
Rautaruukki Engineering  
DCA-Instruments Oy

**Turnover**

MFIM                      =MEUR



**External sales by region 1998**



- 1 Finland 53 %
- 2 Other EU countries 36 %
- 3 Other Europe 7 %
- 4 Other countries 4 %

\* Jorma Lukkari is also Senior V.P. for the business sector New Market Economy Countries

Rautaruukki expanded its steel service business significantly when it acquired a majority holding in the Finnish steel service company Asva in September 1998. The efficiency will increase further in 1999 when Keskometalli, which is already a part of the Group, and Asva are combined into a new company named Asva.

Asva's business operations have concentrated mainly on the Finnish and Polish market. The company is Finland's largest steel service company and it also has a strong position in Poland's steel market, where it has operated a steel service company named Asva Stal Serwis together with Rautaruukki since 1995.



Rautaruukki is developing a new service concept tailored to different customer segments.

Keskometalli, which has belonged to Rautaruukki since 1996, is Finland's second largest steel service company. Keskometalli's operations cover Finland and are also geared to the Baltic countries. In addition to Rautaruukki Eesti OÜ, the pan-Baltic steel service centre in Pärnu, Estonia, Keskometalli has sales companies in all the Baltic countries and business operations in Sweden and Russia as well.

In Norway, Rautaruukki operates the country's second largest steel service company, CCB Stål AS, which has service centres and sales warehouses in nine localities.

Deliveries by Rautaruukki's steel service centres grew in all the market areas, but the fall in the prices of steel which set in during the latter half of the year weakened earnings. About half of the sales by Asva and Keskometalli consists of products that are not manufactured by the Group, primarily stainless steel and aluminium, which suffered from low prices throughout the year.

Turnover of the Group's steel service companies, Asva, CCB and Keskometalli, totalled FIM 1,990 million (1,464) and operating profit was FIM 16 million (49). Asva was merged with the Rautaruukki Group on 23 September 1998. A major factor influencing the weakening in profits was the writedowns on stocks due to lower prices.

The different industrial divisions also have their own steel service centres: Rautaruukki Stahlservice GmbH and Fundia GmbH in Germany as well as Star Tubes (UK) Ltd in Great Britain. Rautaruukki also has minority interests in steel service companies in Sweden and Germany.

## ENVIRONMENTAL PROTECTION

Rautaruukki informs all its stakeholders about its environmental affairs in an active and open manner. Rautaruukki's management is committed to promoting environmental work and each Rautaruukki employee must recognize his or her responsibility for the environment in their own work. One of the Group's core values is "We respect the environment".

### Chief environmental issues

In the steel industry the operations that place the greatest load on the environment are at the front end of the manufacturing chain. This is why the emphasis in environmental work at Rautaruukki is on its four steel mills. Their most important environmental impacts are carbon dioxide and dust emissions into the atmosphere as well as oil and solids discharges into watercourses.

To keep dust emissions in check, dust extraction equipment is used, and loads exerted on the watercourses are

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Rautaruukki 1998

**On the road to continuous development**  
In its environmental policy, Rautaruukki is firmly committed to the principles of sustainable development. Environmental impacts are taken into account in all matters connected with production and products. Environmental protection is a task of line management and it is overseen by a member of the Group's Board of Directors who is responsible for environmental affairs.

The Group's objective is to obtain certification for all its production units according to the ISO 14 001 environmental standard by the year 2000. Of the Group's steel mills, the Mo i Rana mill in Norway and the Raahe Steel Works in Finland have an environmental system that has been approved according to the ISO 14 001 standard. The Raahe Steel Works has also obtained EMAS registration. In addition, a number of upgrading units have received ISO 14 001 approval for their systems. Measured in terms of net sales, more than 60 per cent of the Group's locations have obtained environmental certification.

A central principle of the environmental system is continuous improvement through environmental objectives and programmes as well as the environmental audits that monitor implementation of them. Each location carries

out its own environmental programme which comprises numerical target values for the gradual reduction of emissions as well as investment and development plans for achieving the targets.





reduced by means of water treatment plants and closed white water systems. Carbon dioxide emissions are being reduced by increasing the efficiency of energy use. The Raahe steel mill has undertaken commitments to lower the use of energy per tonne of steel produced by 10 per cent from the 1990 level by 2005.

#### Major environmental improvements

Fundia's Koverhar steel mill put into use at its converter plant a secondary dust extraction system that prevents dust emissions into the environment during charging and discharging. Dust

emissions will be reduced to half of the previous level.

At the Raahe Steel Works, a new water treatment plant as well as a new white water treatment plant and cooling towers for the continuous casting plant were put into use. The mill's objective of reducing oil discharges to half the level of 1995 has now been reached.

At Fundia's Dalsbruk rolling mill, the water treatment plant was modernized. The water used by the rolling mill can be circulated at a level of 98 per

cent and noise abatement at the treatment plant will improve.

New flue gas scrubbers became operational at both the pickling acid recovery plant and the pickling line at the cold rolling mill in Hämeenlinna. In connection with the modernization of the pickling line, technical improvements were made that will reduce the hydrochloric acid and particulate emissions at the Hämeenlinna Works.

At the mills and works of the Rautaruukki Group no accidents or anomalous situations occurred during 1998 which would have led to environmental damage or personal injury.

#### Additional information

Rautaruukki's Environmental Report tells in more detail about the environmental impacts and objectives of steel manufacture and upgrading as well as about actions that are being taken to achieve these objectives at the Group's different locations. The environmental report will be published in the summer 1999. Certain of the mills prepare their own environmental reports.

Each year the Raahe Steel Works publishes its Environmental Report, i.e. the EMAS report, which is a description of the mill's emissions, environmental loads and their impacts as well as the results of environmental audits. The Environmental Report is part of the steel mill's environmental system that is approved and certified by an external evaluator.



*Rautaruukki Steel's Raahe Steel Works has significantly reduced its emissions.*

*Raahe Steel Works was the first integrated steel works to obtain both ISO 14001 certification and EMAS approval for its environmental system back in 1997.*

Rautaruukki's research and development was enhanced by revamping the organization thoroughly. The dual objective is to strengthen research that supports the Group's long-term business objectives and to give the short-term product development of the industrial divisions a sharper market focus.

The main part of the centralized research organization was split up and moved to the business units, which have responsibility for the development of processes, manufacturing methods and products. The business units will be better able to direct the thrust of development projects and to put the results obtained into use quickly. Close cooperation with sales and marketing will ensure that product development acts sensitively to changes in customer needs. At the same time, the monitoring and management system for development projects was systematized.

To ensure research and development activities over the longer term, a Group-wide Corporate R&D network organization was formed. It will carry out long-term research projects in the key technology areas of the business units in cooperation with the research community outside the company.

### Developing the service concept

To improve customer service and turn service ability into a prime competition advantage, the development of a Group-wide service concept was launched. The objective is to strengthen customer relationships and improve customer satisfaction whilst boosting the added value of the product range. By segmenting the customer base more accurately, tailored products and services will better meet the customers' demands. Implementing the concept will also call for outlays on steel service operations and on the follow-up processing of products.

### New products

One of the major development projects run by Rautaruukki Steel was the

development of laser-welded and laser-cut steel grades for the needs of the shipbuilding industry. RAEX OPTIM hot rolled strip steel for demanding engineering applications was brought out on the market.

Thanks to the coming on stream of the vacuum processing plant of the ladle furnace at the Raahe Steel Works, it was possible to develop new cold rolled and galvanized deep drawing steels. New items were added to the RACOLD product family of high-strength, formable cold rolled steels and the RAGAL product family of galvanized steel sheets. New steels with characteristics that make them better suited to manufacturing processes were developed for colour coating.

Metform rounded out its FORM product range with new tubes that are in a higher strength class. FORM precision tubes are very formable and have high dimensional accuracy. They can also be used to replace cold-drawn tubes. The COMBI range of hollow section products was also rounded out.

The Steel Structure Division developed new country-specific applications of roofing systems, facade elements and light-frame solutions for different market areas. A steel construction training centre was started up in Hämeenlinna with the aim of promoting the use of steel and getting the results of development projects into use more effectively.

At Fundia, product development was oriented towards speciality steels and value-added products. The Structural Steel Division brought out on the market special-strength tubular products and sections for ships. The Wire Division concentrated on developing steels made by the cold-upset heading process.



*The new ladle metallurgy plant at the Raahe Steel Works opens the way to developing new steel grades.*

The objective of Rautaruukki's personnel policy is motivated staff that have an excellent level of knowledge and skills and are prepared to undertake continuous development of their competence. The staff are also committed to the Group's business objectives and act in accordance with the basic values of Rautaruukki.

**Development of personal competence**

During the year a survey of the core competences of the industrial divisions was started as part of strategic planning. The aim of this effort is to identify Rautaruukki employees' strong areas of competence and those that require further development. By strengthening core competence the company will be able to produce more added value for customers in coming years.

The accent in the development of Rautaruukki's personnel was on increasing multiple competence. Particular emphases were training in information technology skills and electronic communications. All Group units are covered by the electronic Steelnet network. Training connected with the implementation of the investment programme was continued at Rautaruukki Steel.

In the Group's international Steel Seminar programme 200 people have taken part to date. Two programmes aiming at developing leadership abilities and improving competitiveness were launched. In addition, management resource development was continued according to individualized training programmes.

The cooperation bodies of management and the personnel, the national Group Meeting covering the units in Finland and the international Rautaruukki Forum, each met once during 1998.

**Incentive pay systems in wide use**

The majority of the Group's personnel are covered by a bonus system. A de-

cision was taken to extend the profit bonus system that is in use chiefly in Rautaruukki Oyj to cover the whole Group. During the year the personnel and the Rautaruukki Personnel Fund were offered a FIM 20 million issue of convertible bonds.

**Developing the work environment and working ability**

At the units in Finland, the number of sick days due to employment accidents fell by nearly 10 per cent. Accident frequency and studied "close shaves" were special bases of a bonus according to

the profit bonus system. The Mikko Kivimäki Award which the Group grants for accomplishments in the area of occupational safety went to the Oulainen Works in recognition of the good trend in the unit's accident frequency.

Workplace vigour and management skills were enhanced by means of TYKY projects and other projects at the units, which were launched during the year. The personnel's enthusiasm for sports, exercise and maintaining their job fitness were supported in a number of ways. The units in Finland carried out two physical fitness campaigns in which more than 40 per cent of the personnel participated. Rautaruukki staff were active in making use of both the guided and voluntary fitness activities which are offered at the Vuokatti Physical Fitness Centre.

*Personnel at year-end*

		1998	1997
<i>by division</i>	Rautaruukki Steel	4 837	4 764
	Metform	1 512	1 629
	Steel Structure Division	1 345	1 045
	Fundia	3 509	3 552
	Engineering Division	779	949
	Asva, CCB and Keskometalli	869	385
	Other units	402	381
	<b>Total</b>	<b>13 253</b>	<b>12 705</b>
<i>by country</i>	Finland	8 401	7 994
	Sweden	1 940	1 856
	Norway	1 170	1 163
	Germany	769	860
	Denmark	252	260
	Estonia	123	111
	Russia	101	53
	Poland	96	85
	Britain	81	83
	Lithuania	75	48
	Latvia	59	29
	Slovakia	50	
	Ukraine	50	
Other countries	86	163	
<b>Total</b>	<b>13 253</b>	<b>12 705</b>	

# STATISTICS

<i>TURNOVER BY FOUR MONTH PERIODS (MFIM)</i>	1-4/97	5-8/97	9-12/97	1-4/98	5-8/98	9-12/98
Rautaruukki Steel	2 108	2 030	2 328	2 582	2 536	2 131
Metform	675	630	757	805	656	634
Steel Structure Division	305	496	526	398	657	545
Fundia	1 348	1 325	1 488	1 596	1 423	1 399
Engineering Division	77	117	165	152	166	243
Asva, Keskkometalli and CCB Stål	477	465	522	568	532	890
less internal invoicing	- 646	- 681	- 862	- 917	- 869	- 791
<b>Consolidated turnover</b>	<b>4 344</b>	<b>4 382</b>	<b>4 925</b>	<b>5 184</b>	<b>5 102</b>	<b>5 050</b>

<i>OPERATING PROFIT BY FOUR MONTH PERIODS (MFIM)</i>	1-4/97	5-8/97	9-12/97	1-4/98	5-8/98	9-12/98
Rautaruukki Steel	304	225	507	487	374	223
Metform	50	74	62	46	1	- 23
Steel Structure Division	2	53	58	3	67	22
Fundia	15	- 1	63	71	34	- 68
Engineering Division	- 33	- 22	- 29	- 6	8	16
Asva, Keskkometalli and CCB Stål	18	14	17	17	15	- 16
Other units and internal items	41	- 19	- 50	- 57	- 79	- 27
<b>Consolidated operating profit</b>	<b>397</b>	<b>324</b>	<b>628</b>	<b>561</b>	<b>420</b>	<b>127</b>

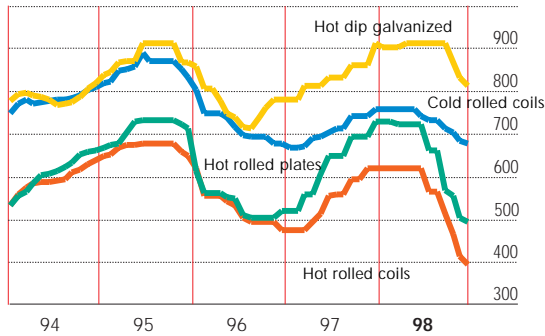
<i>KEY FIGURES IN EUROS (EUR = FIM 5.94573)</i>		1998	1997	1996	1995	1994
Turnover	MEUR	2 579	2 296	2 159	1 549	1 388
Operating profit	MEUR	186	227	197	233	177
% of turnover	%	7.2	9.9	9.1	15.0	12.7
Profit before extraordinary items	MEUR	127	169	120	160	111
% of turnover	%	4.9	7.4	5.6	10.4	8.0
Profit before taxes	MEUR	109	169	120	136	74
% of turnover	%	4.2	7.4	5.6	8.8	5.3
Return on net assets	%	10.4	13.2	13.0	16.0	12.4
Return on equity	%	9.7	16.7	11.9	25.7	23.7
Equity ratio	%	36.9	36.5	31.2	35.3	29.0
Gearing ratio	%	108	107	143	116	155
Gross investments	MEUR	235	251	340	131	91
% of turnover	%	9.1	10.9	15.7	8.4	6.6
Research and development	MEUR	18	16	16	13	11
% of turnover	%	0.7	0.7	0.7	0.9	0.8
Net interest expenses	MEUR	61	58	74	65	71
% of turnover	%	2.4	2.5	3.4	4.2	5.1
Interest bearing net debt	MEUR	942	907	940	731	816
Earnings per share, EPS	EUR	0.64	0.98	0.63	1.23	0.90
Equity per share	EUR	6.44	6.35	5.48	5.22	4.37
Dividend per share	EUR	0.30*	0.34	0.25	0.29	0.17
Dividend per earnings	EUR	47.3*	34.4	39.8	23.2	18.7
Price per earnings, P/E		8.6	7.6	11.3	3.6	7.1
Share trading	thousands	68 150	57 215	30 651	36 314	23 184
Share trading	MEUR	443	470	183	174	191
Average price of share	EUR	6.50	8.21	5.98	4.78	8.24
Share price at year-end	EUR	5.53	7.40	7.15	4.46	6.39
Market capitalisation at year-end	MEUR	737	986	859	536	768

\* Board proposal

Key figures in markka on page 37.

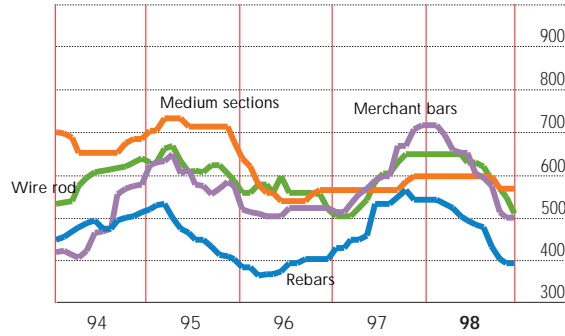
# PRICE DEVELOPMENT OF STEEL AND RAW MATERIALS

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



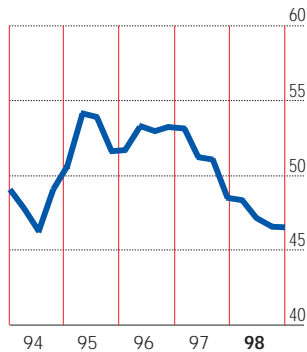
Source: MEPS, European Steel Review

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



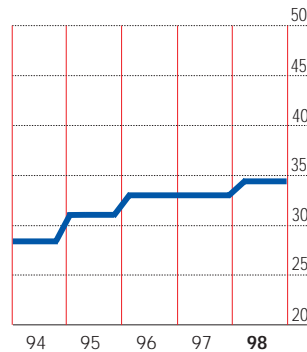
Source: MEPS, European Steel Review

**Coking coal, USD/t**



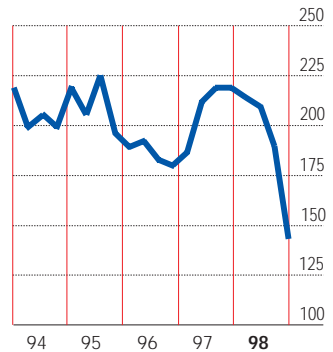
Source: Coal Week International  
US Hampton Roads

**Iron ore, UScents/t/%Fe**



Source: Metal Bulletin  
LKAB Kiruna B fines

**Iron scrap, DEM/t**



Source: Bundesverband der  
Deutschen Schrottwirtschaft,  
Ruhr No.2, >3mm

**GROUP STEEL PRODUCTION AND  
EXTERNAL DELIVERIES OF STEEL PRODUCTS**

		1998	1997	1996	1995	1994
Steel production	1 000 t	4 273	4 083	3 586	2 007	2 267
<b>EXTERNAL DELIVERIES*</b>						
Hot rolled coils, sheets and plates	1 000 t	1 209	948	1 016	944	991
Cold rolled coils and sheets	1 000 t	258	295	308	271	244
Coated coils and sheets	1 000 t	407	442	464	433	387
Tubular products	1 000 t	559	560	476	532	508
Profiled sheets and sections	1 000 t	225	199	160	152	141
Long steel products	1 000 t	1 942	1 908	1 860	1 520**	1 570**

\* Including deliveries to the Group's own steel wholesalers

\*\* Fundia is a Group company since 1996

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- Production unit
- Sales and service unit
- ▲ Group management

