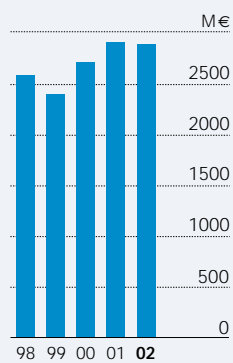


Rautaruukki is a listed company that manufactures value-added steel products and provides tailored service for its customers.

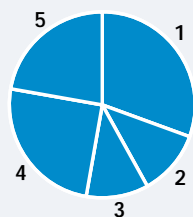
- Average prices of steel products were lower than in 2001
- Rautaruukki reported a pre-tax loss of EUR 46 million
- Earnings were burdened by high non-recurring costs
- A programme of measures was launched to improve profitability
- Prices of steel products have risen since the second quarter of 2002
- The fourth-quarter result swung to profit

	2002	2001
Turnover, M€	2,884	2,906
Operating profit, M€	6	93
% of turnover	0,2	3,2
Profit/loss before extraordinary items, M€	-46	41
% of turnover	-1.6	1.4
Profit/loss before taxes, M€	-46	41
% of turnover	-1.6	1.4
Interest bearing net debt, M€	1,092	1,087
Return on net assets, %	0.6	5.0
Return on equity, %	-4.3	3.4
Equity ratio, %	31.1	33.3
Earnings per share, €	-0.26	0.22
Equity per share, €	5.81	6.21
Personnel on average	13,325	13,678

Turnover

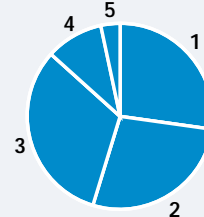


External turnover by division 2002



1 Rautaruukki Steel	30%
2 Metform	12%
3 Steel Structure Div.	11%
4 Fundia	25%
5 Steel Service	22%

Turnover by market area 2002



1 Finland	27%
2 Scandinavia	28%
3 Other EU-countries	32%
4 Other parts of Europe	10%
5 Other countries	3%

## Dear shareholders

The year 2002 was difficult for Rautaruukki and we posted a loss. The weakening in our result was due mainly to the loss-making operations of Fundia Wire and to a decline in Rautaruukki Steel's earnings. It wasn't until the last quarter of 2002 that our operating result swung clearly into the black, paving the way for a positive earnings trend in 2003.

In assessing last year's result, it must be borne in mind that non-recurring costs were exceptionally high.

Fundia Wire's result was still deep in the red. The main factors affecting the result were low prices and a low level of production, which was due to the disruptions caused by carrying out the investments for the restructuring and development programme and to start-up difficulties. Completion of the programme will improve the division's earnings this year, but it will not feed through to the full extent until 2004. The effects of the restructuring and development programmes at Fundia's other business units have already showed up last year in the form of positive earnings growth.

Last year Rautaruukki Steel fell short of its earnings objective owing to lower prices, higher costs and production problems. The 2.8 million tonne rate of steel output that was targeted for the investments was achieved in the last quarter of the year. This year the objective is an annual output of 2.8 million tonnes. Rautaruukki Steel's operational result in the last quarter of 2002 was already moderately good, and the positive trend is estimated to continue.

Of our divisions, Metform and the Steel Service Division improved their earnings last year. The Steel Structure Division maintained the previous year's earning level.

### Improving competitiveness

Rautaruukki is carrying out forceful measures aiming at improving the profitability of its flat products.

Reducing fixed costs is the objective that we can reach fastest in our drive to restore competitiveness. To-



wards the end of 2002, measures were launched at the Group's integrated flat products divisions in order to lower fixed costs by 50 million euros. The measures will be carried out during 2003 and they will kick in partially in 2003 and to the full extent in 2004.

Cutting fixed costs will be carried out mainly at Rautaruukki Steel, Metform and the Steel Service Division as well as within Group Administration.

Three-quarters of the reduction in

fixed costs will come from lower personnel costs. A provision for the costs has been entered as a charge to earnings in 2002. As a consequence of the staff downsizing, Rautaruukki's personnel strength will fall by a total of about 700 employees.

### Boosting sales revenue

During 2002 we initiated measures aiming to improve the product mix. This means increasing market shares in

core markets and boosting the proportion of good-margin products, primarily speciality products, in our deliveries. At the integrated flat products units, speciality products presently account for a quarter of the deliveries, and this proportion will be raised over the next few years to a third of total deliveries. Part of the speciality products are marketed as brands: Laser, Optim, Litec, Silver and Hiarc. Last autumn Rautaruukki set new and more sharply defined objectives for its overall brand policy.

### **Reducing production costs**

In 2002 we set in motion stepped-up measures for reducing the production costs of the integrated flat products units. A number of production lines were modernised as part of Rautaruukki Steel's investment programme that was completed a couple of years ago. As early as the second half of 2002 we achieved good results in improving the capacity utilisation rates and outputs of the lines calling for new types of skills and we succeeded in lowering error-related costs. We are pushing ahead with this work. The improvement of delivery reliability and precision will also support achievement of our objective.

We are furthermore seeking cost savings in our purchasing operations as well as by reducing specific energy consumption.

The profitability of rolling production will also be improved by the increase in Rautaruukki Steel's own steel output by more than 200,000 tonnes in 2003, bringing a corresponding decrease in the use of purchased slabs.

### **Closed steel markets**

The import tariffs which the United States imposed on steel products in March 2002 placed the world's steel markets in a new kind of situation. As a consequence of these measures, a number of countries, including the EU, imposed their own import tariffs or protective measures which sought to limit imports of steel products. In this

way, the world market for steel products shifted in part towards regulated trade.

In April of last year the European Union imposed its own protective measures, extending them in September by 2.5 years.

The partial closing up of the world steel market initially led to a sharp rise in product prices in the United States, but thereafter product prices headed into a marked decline. Concurrently, the good demand for steel products in the markets of China and South-East Asia and the strengthening in product prices have helped to restore the balance of the global steel markets.

Last autumn the United States relaxed its protective measures to some extent. There would thus seem to be some signs of a normalisation in the situation in the steel market, but it will probably take time before we return to the regime that prevailed prior to the United States' import tariff decision.

### **2003 fraught with uncertainty**

According to forecasts at the present time, economic growth in Europe in 2003 is estimated to be at the previous year's level. Factors of uncertainty relating to international politics may nevertheless lead to a worldwide slowdown in the economic trend.

The rise in the prices of steel products that got under way in Europe in the second quarter of 2002 has continued in the first quarter of 2003. How well the supply and demand of steel products are in balance is of essential importance for the price trend in the European market. It is important that European steel companies' own output does not grow faster than the demand for steel products.

The level of imports to western Europe is a factor that also affects the trend in product prices. Owing to the EU's protective measures, the supply of steel products is estimated to remain moderate despite import pressures.

Providing that the factors of economic uncertainty do not materialise, we estimate that the operating envi-

ronment for the steel industry will be somewhat better than it was last year. This, coupled with the implementation of our own measures, offers the potential for a continuance, across Rautaruukki's units, of the positive earnings trend that was reached towards the end of 2002.

### **Warm thanks for these years**

This survey of 2002 is the last which I will write as Rautaruukki's president, because I am retiring at the beginning of 2004. I have worked in different positions with Rautaruukki since 1967 and have been president since 1982. Sakari Tamminen has been elected as my successor as from the beginning of next year. I know that Rautaruukki will remain in the hands of an experienced, skilful and able leader.

The steel business is an interesting industry. My time at Rautaruukki has spanned the company's pioneer phase and the years of growth and internationalisation. The steel business is characterised by sharp fluctuations in the business cycle, and Rautaruukki too has had very good years but also difficult ones. Rautaruukki has been developed with an eye to the long term, across the ups and downs of the business cycle.

In business, change is the only thing that is certain. Major changes have taken place in the steel industry over the past years. Rautaruukki is changing too and I am convinced that the change – which will unfold in the form of growth and improved profitability – will accrue to the benefit of our shareholders and all of Rautaruukki's stakeholders.

I wish to thank our shareholders, customers and all other stakeholders for your co-operation during these years. An especially warm vote of thanks goes to all my co-workers – Rautaruukki men and women – for my years at Rautaruukki.

Helsinki, 10 March 2003  
*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  $\geq 15\%$
- 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 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 a 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

### Ethical values

- Reliability
- Openness
- Sense of responsibility
- Respect for the individual

## Forceful measures to improve competitiveness

Rautaruukki's paramount near-term objective is to achieve a substantial improvement in competitiveness. The ongoing measures began to kick in during the last quarter of 2002, and they will improve Rautaruukki's competitiveness in 2003. The measures will feed into earnings to the full extent in 2004.

Rautaruukki has implemented purposefully its strategy based on a high degree of upgrading, good customer service, a strong position in its core markets and cost-effectiveness. The Group's profitability trend in recent years has nevertheless not been in line with objectives. Accordingly, in 2002 an earnings improvement programme was launched at the integrated flat products units, i.e. Rautaruukki Steel, Metform, the Steel Structure Division and the Steel Service Division.

At Fundia, which manufactures long products, the restructuring programme initiated at the end of 2000 was also completed at Fundia Wire. The planned production level is expected to be reached early in 2003. The carrying through of the programme will improve Fundia's profitability in 2003.

The earnings-improvement programme for the integrated flat products units consists of a number of separate projects, the central objectives of

which are:

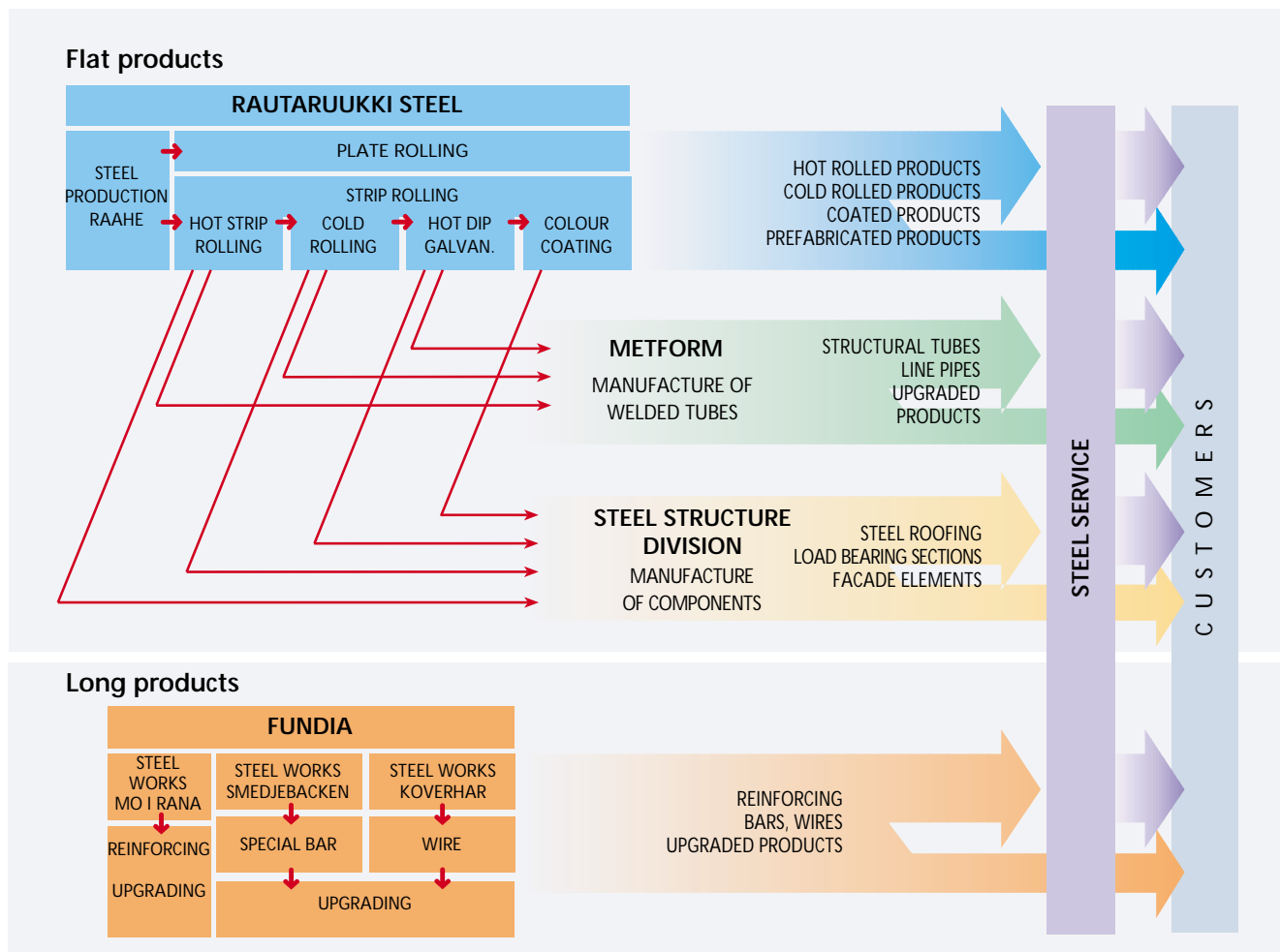
- To lower fixed costs
- To improve the margin on materials, i.e. a better costs to sales income ratio
- To reduce the amount of capital tied up in operations and to improve its yield.

The most important earnings benefits from the programme are estimated to come from an improvement in the margin on materials. This will be accomplished by developing the product mix and lowering production costs.

### Trimming fixed costs

In autumn 2002, measures were started at Rautaruukki Steel, Metform and the Steel Service Division with the aim of cutting fixed costs. The objective is to lower fixed costs by 50 million euros,

### Rautaruukki's steel production and upgrading



three quarters of which will come from lower personnel costs. Decisions on reducing the personnel by 700 employees have already been taken.

The lowering of fixed costs will affect the Group's earnings right towards the end of 2003. The cost savings will feed into earnings to the full extent as from the beginning of 2004.

### Improving the product mix

The product mix for the Group's flat and tubular products will be improved by selling products to the most profitable markets and by boosting sales of highly upgraded and speciality products, which yield better margins. The development of the product mix will be aided significantly by the new accounting system, which allows costs to be allocated more precisely to different products and customers across the entire manufacturing chain for flat products. Businesses that do not meet the profitability targets set will be developed further or else peeled off, if feasible.

Rautaruukki's integrated flat products units have also placed in use the RADAR system (Rautaruukki Accurate Demand and Response), which improves the ability to forecast the trend in demand for steel products and to adapt sales and production to changes in the market situation. The RADAR system also improves co-operation between the divisions, enhances production and logistics functions and optimises operations across the entire upgrading chain.

With the aim of implementing the new operational model, outlays have been made on developing the skills of the sales and production staff. Sales work has been reorganised in order to increase cost-effectiveness. The sales companies for flat products and long products were combined outside Finland. Metform made its plants centrally responsible for sales functions outside Finland.

Rautaruukki's electronic trading system is up and running, and the number of customers who use it is growing gradually. Farthest along in



Rautaruukki's galvanised LITEC steels have been developed for the needs of the vehicle industry. Ultra high-strength steels are used in the side impact beams and safety beams of cars and in many other applications.

exploiting the electronic trading system is the Steel Structure Division, whose Rannet system is used to handle the daily sales functions of Rannila's own subsidiaries and resellers.

### Increasing production cost-effectiveness

Production efficiency is being stepped up by improving the capacity utilisation rates and outputs of production lines as well as by reducing error-related costs. These measures will bring about lower material, energy, and labour costs per tonne manufactured. Specialised programmes have been put in place to enhance purchasing and logistics.

Rautaruukki Steel's steel output is estimated to rise to the planned 2.8 million tonne level in 2003. This will reduce significantly the use of purchased slabs and thereby lower the manufacturing costs of rolled products. In 2002 production was down by just over 200,000 tonnes owing to interim repairs to Blast Furnace No. 1 and because of unexpected operational disturbances.

With the aim of decreasing the capital that is tied up in the Group's operations and employing capital more efficiently, the divisions carry out their own action programmes. The objective is to lower working capital as a

proportion of turnover by several percentage points from the present 26 per cent level. Over the next few years capital expenditures will be at a level that does not exceed depreciation.

### Leveraging strategic success factors

Rautaruukki's success factors, apart from cost-effectiveness, are strong customer service, a focus on our natural core markets and products with a high degree of upgrading and added value.

Customer service is centred on a knowledge of the customer, which is the starting point for developing a range of products and services tailored to customers' needs. Compared with its competitors, Rautaruukki operates flexibly and to short delivery times. The near-term objective is to improve customer service by getting the most out of the entire range of the Group's products and services.

Rautaruukki has a strong position in its natural core markets in the Nordic countries and elsewhere in the Baltic Rim. Rautaruukki is seeking business growth in the fast-growing markets of eastern central Europe and eastern Europe. At present, about 10 per cent of the Group's sales go to these markets, but the objective is to raise the share to 15 per cent. The focus of growth will be on the businesses of the

Steel Structure Division and the Steel Service Division.

Rautaruukki's production has a high degree of upgrading. More than half of the turnover comes from the sales of colour-coated strip products, tubular products, construction products, Fundia's upgraded products or prefabricated plate products. Within flat and tubular products, the proportion of speciality products and related services is growing continually. Speciality products mean grades of steel that exceed standard characteristics as well as value-added products manufactured from them or products having a very high degree of customised service for a specific customer or application.

### Speciality products to be marketed as brands

Rautaruukki is investing heavily in speciality products that are sold as brand products. The Group has revamped its brand management policy that supports sales and marketing. Rautaruukki is seeking to develop into one of the leading marketers of brand products in the steel industry.

The Group has a hierarchical brand structure. Highest up is the Group brand, Rautaruukki, whose central tenets are to provide added value for customers, to ensure a close link between customer relationships and profitability and to operate in compliance with the principles of sustainable development. The strategic strengths of the Group brand are customer

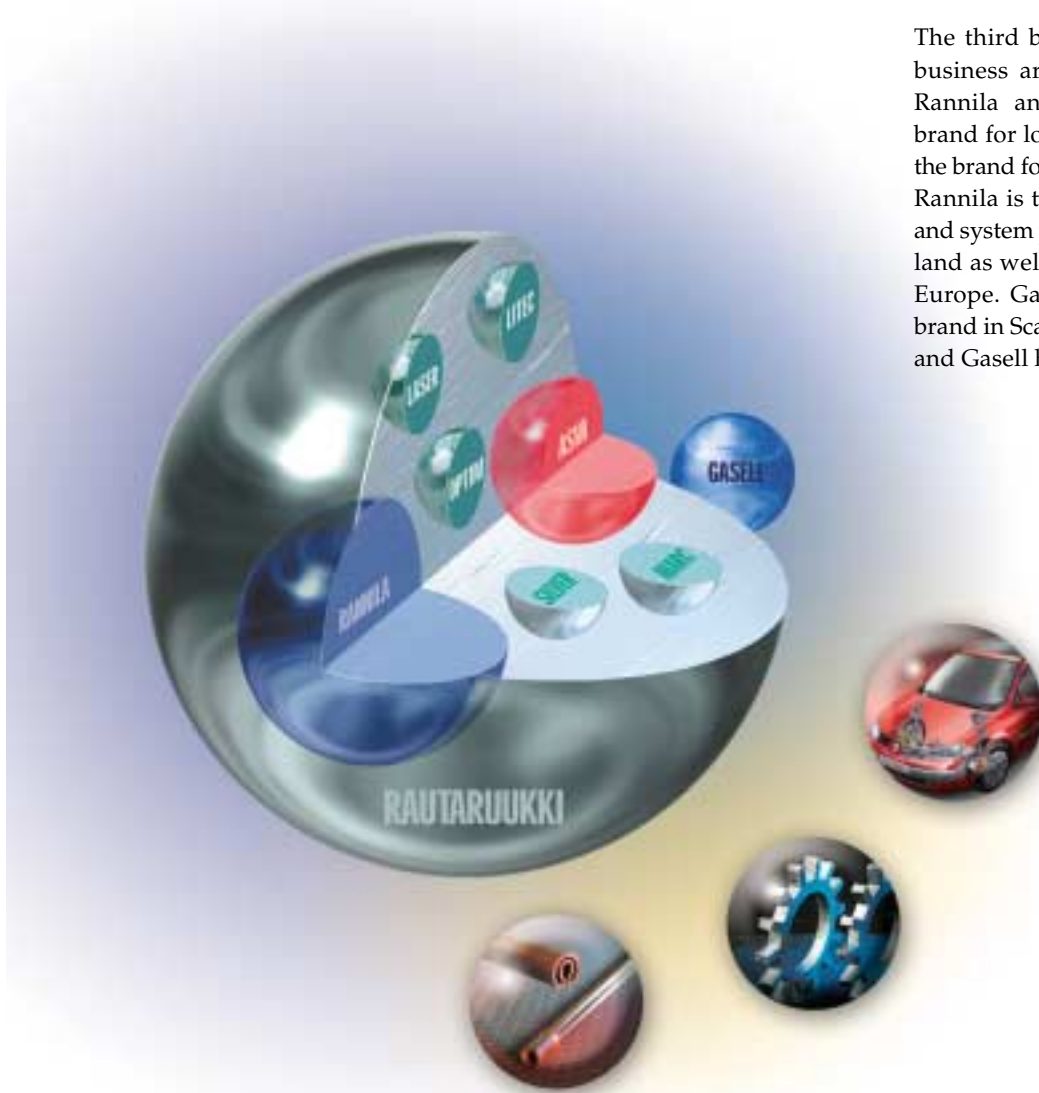
know-how, a commitment to co-operation with our customers and the policy of acting as a valued partner in co-operation.

On the second level are offering brands, which are often extensive integrated packages of products and services.

The offering brands are:

- LASER for laser cutting
- strong and easily formable OPTIM for the engineering industry
- LITEC, which makes possible lightweight and strong structures for the needs of the automotive industry
- SILVER tubular steel products that are well suited to bending and forming, and
- colour-coated HIARC, which has been developed for facade solutions

The third brand level comprises the business area brands Fundia, Asva, Rannila and Gasell. Fundia is the brand for long steel products. Asva is the brand for the steel service business. Rannila is the brand for construction and system products, especially in Finland as well as in eastern and central Europe. Gasell is the corresponding brand in Scandinavia. Fundia, Rannila and Gasell have their own brands.



## FIVE-YEAR STATISTICS

		2002	2001	2000	1999	1998
Turnover	M€	2,884	2,906	2,708	2,388	2,579
Personnel on average		13,325	13,678	13,176	13,219	13,409
FINANCE						
Operating profit	M€	6	93	156	57	186
% of turnover	%	0.2	3.2	5.8	2.4	7.2
Profit/loss before extraordinary items	M€	-46	41	106	-6	127
% of turnover	%	-1.6	1.4	3.9	-0.2	4.9
Profit/Loss before taxes	M€	-46	41	81	-6	109
% of turnover	%	-1.6	1.4	3.0	-0.2	4.2
Return on net assets	%	0.6	5.0	8.7	3.3	10.4
Return on equity	%	-4.3	3.4	8.2	-2.0	9.7
Equity ratio	%	31.1	33.3	34.1	34.6	36.9
Gearing ratio	%	138	129	118	121	109
Gross investments	M€	142	162	176	197	235
% of turnover	%	4.9	5.6	6.5	8.2	9.1
Research and development	M€	17	19	20	20	18
% of turnover	%	0.6	0.7	0.7	0.8	0.7
Net interest expenses	M€	50	49	50	50	61
% of turnover	%	1.7	1.7	1.8	2.1	2.4
Interest-bearing net debt	M€	1,092	1,087	1,017	1,014	954
Total assets	M€	2,561	2,559	2,523	2,432	2,402
SHARE BASED KEY FIGURES						
Earnings per share, EPS	€	-0.26	0.22	0.51	-0.13	0.64
- diluted	€	-0.26	0.21	0.49	-0.13	0.63
Equity per share	€	5.81	6.21	6.23	6.02	6.44
Dividend per share	€	0.00*	0.20	0.25	0.20	0.30
Dividend per earnings	%	0.0*	91.9	49.4	-154.6	47.3
Price per earnings, P/E		-13.2	18.8	7.6	-53.7	8.6
Share trading	thousands	33,902	39,038	34,318	41,116	68,150
Stock turnover	%	25	29	25	30	51
Share trading	M€	145	162	166	254	443
Average price of share	€	4.26	4.16	4.83	6.18	6.50
Lowest price of share	€	3.36	3.59	3.45	5.10	4.29
Highest price of share	€	5.30	4.85	7.20	7.30	8.16
Average adjusted number of shares	thousands	135,616	136,132	138,462	135,109	133,228
- diluted	thousands	136,016	138,947	142,183	138,699	134,939
Adjusted number of shares at year end	thousands	138,886	138,886	138,886	138,886	133,228
Number of shares at year end	thousands	138,886	138,886	138,886	138,886	133,228
- not counting own shares	thousands	135,616	135,616	137,540	138,886	133,228
- diluted	thousands	136,016	138,431	141,355	142,476	135,779
Share price at year end	€	3.44	4.10	3.82	6.95	5.53
Market capitalisation at year end	M€	478	569	531	965	737
Effective dividend yield	%	0.0*	4.9	6.5	2.9	5.5

\* Board proposal



## A swing to profit in the fourth quarter – full year in the red

### Business environment and market

Demand for steel products in Europe was slightly lower than in 2001, while demand in the United States remained at the same level. Demand for steel products grew in China, Southeast Asia and Eastern Europe.

In March the United States imposed 8–30 per cent import tariffs on imported steel products. Since then the United States has exempted some steel products from the import tariffs, but the tariffs still apply to the bulk of steel products imported into the United States.

At the end of March the European Union imposed protective measures that were in force for six months against the import of steel products into the EU countries. According to these measures, imports can exceed by a maximum of 10 per cent the average volume of imports during 1999–2001, the amount in excess of this being subject to a 15–26 per cent tariff. At the end of September the EU decided to continue the protective measures for another 2.5 years. Excluded from the protective measures so far are, among other products, bar steels and heavy plates, for which any protective measures will be decided by the end of February 2003.

Due to the protective measures, imports of steel products into the EU were lower than in 2001. The export and import of steel products were balanced in the EU area. Stocks of steel products in Europe were at normal levels at the end of the year.

Turnover by division, EUR million		
	2002	2001
Rautaruukki Steel	1308	1316
Metform	367	351
Steel Structure Division	321	311
Fundia	731	724
Steel Service	646	702
Other units	171	150
less internal invoicing	– 660	– 648
Consolidated turnover	2884	2906
Operating profit/loss by division, EUR million		
	2002	2001
Rautaruukki Steel	9	83
Metform	17	12
Steel Structure Division	12	10
Fundia	– 17	– 4
Steel Service	23	9
Other units and internal items	– 36	– 16
Consolidated operating profit	6	93

In Europe prices of steel products were very low at the beginning of the year but they began to strengthen as supply and demand reached a balance from the second quarter onwards. Average prices for the year were, however, lower than the previous year.

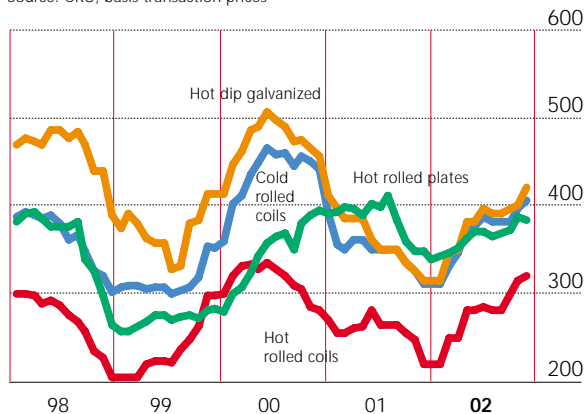
In the United States the prices of steel products, which rose sharply at the beginning of the year due the contraction of the supply, declined significantly as supply increased in the sec-

ond half of the year. Average prices for the year were, however, higher than the previous year. In the countries of Southeast Asia the prices of steel products strengthened.

World steel output grew by 6 per cent compared with 2001, of which a significant contribution came from increased production in China. Steel output in European Union countries was at the previous year's level, and in the rest of Europe it grew by 3 per cent.

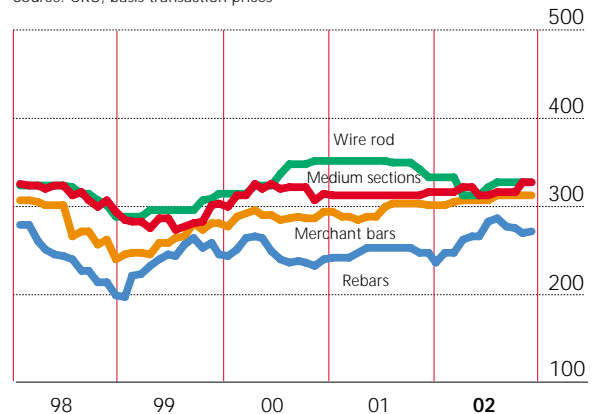
### Flat steel products, prices in Germany, €/t

Source: CRU, basis transaction prices



### Long steel products, prices in Germany, €/t

Source: CRU, basis transaction prices



**Rautaruukki in the market**

Rautaruukki Steel's output was 2,562,000 tonnes (2,565,000). Because of operating disturbances and interim repairs made to Rautaruukki Steel's Blast Furnace No.1 in July, steel production fell more than 200,000 tonnes short of the target level. Since the interim repair of the blast furnace, steel production has been at the target level of 2.8 million tonnes per year.

Fundia's steel output was 1,688,000 tonnes (1,604,000). Interim repairs to the Fundia Koverhar blast furnace were carried out in August.

The Group's deliveries of flat and tubular products were 3 per cent greater than in 2001. The average price of deliveries was 3 per cent lower than the previous year. In the final quarter of the year, the average price of deliveries was 1 per cent higher than in the previous quarter.

Deliveries of long steel products fell by 2 per cent. Deliveries of rebar steels and bar products grew. Deliveries of wire products and hot-rolled profiles declined. The average price of long steel products was 1 per cent higher than in 2001. In the final quarter of the year, the average price of deliveries was 1 per cent lower than in the previous quarter.

The average price of deliveries is influenced by product mix and market area changes as well as by the general trend in prices.

**Turnover and financial result**

Consolidated turnover was EUR 2,884 million (2,906).

Prices of iron raw materials were on average 6 per cent lower and the price of coking coal was 1 per cent higher than in 2001. The price of electricity was 9 per cent higher and the price of scrap used by Fundia was 8 per cent higher than in 2001.

Operating profit was EUR 6 million (93). The lower prices of Rautaruukki Steel's deliveries and the loss on operations at Fundia Wire contributed to the weakening of the operating profit. Fundia Wire's financial performance was influenced by production problems and higher costs resulting from the implementation of the restructuring and development programme as well as the low prices for wire rods.

Non-recurring costs totalled EUR 27 million, of which the most significant was a provision of EUR 20 million arising from agreed reductions in personnel numbers at Rautaruukki Steel and Metform. Another EUR 7 million in non-recurring costs resulted from write-downs on Fundia's fixed assets and provisions made for certain restructuring measures.

Contributions to the Rautaruukki Pension Fund were EUR 12 million higher than last year, mainly as a result of the slide in share prices.

Operating profit for the final quarter of 2002 was EUR 17 million

(-12), which includes non-recurring costs of EUR 20 million and capital gains amounting to EUR 7 million.

The Group's other operating income was EUR 15 million (17). The loss before extraordinary items and taxes was EUR 46 million (+41). Return on net assets was 0.6 per cent (5.0).

The loss before taxes and minority interest was EUR 46 million (+41). The loss for the financial year was EUR 35 million (+30).

**Financing**

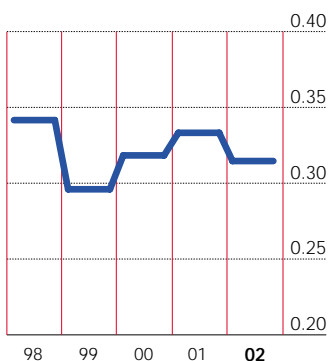
Rautaruukki's gearing ratio was 138 per cent (129) and equity ratio was 31.1 per cent (33.3). Equity per share at the end of the year was EUR 5.81 (6.21). Total assets were EUR 2,561 million (2,559).

Working capital declined by EUR 3 million. Cash flow from operations was EUR 152 million (141) and cash flow before financing EUR 23 million (-9). The Group's interest-bearing net debt stood at EUR 1,092 million (1,087). The short-term position of interest-bearing loans was EUR 205 million (216) and the long-term position EUR 943 million (912).

On 25 September 2002 Rautaruukki issued two callable subordinated notes with a total nominal value of EUR 104 million.

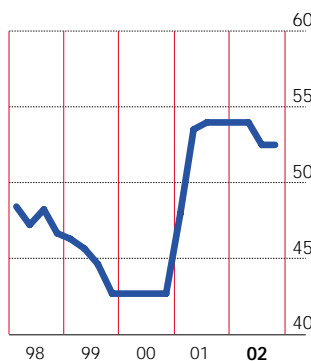
The Group's liquidity was good throughout the year. The ratio of financial assets and inventories to short-

Iron ore, USD/t/Fe %



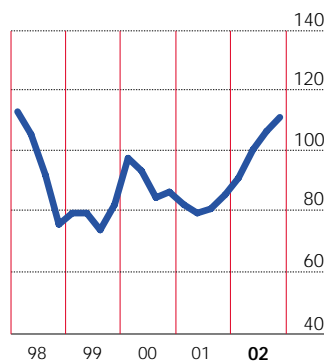
Source: Metal Bulletin, LKAB Kiruna B fines

Coking coal, USD/t



Source: Coal Week International, US Hampton Roads

Iron scrap, €/t



Source: Metal Bulletin, HMS1 fob Rotterdam

term liabilities at the end of the year was 1.9 (1.8). At the end of 2002 the Group had uncommitted revolving credit facilities with banks totalling EUR 284 million.

Net interest expenses were EUR 50 million (49) and their proportion of net sales was 1.7 per cent (1.7). Financial expenses totalled EUR 52 million (52). Financial expenses include a gain on foreign exchange of EUR 1 million (-1). The operating result includes a loss on foreign exchange of EUR 12 million (+6). The average interest on the Group's net debt at the end of the year was 4.9 per cent (4.6).

### Capital expenditure

Gross expenditure on fixed assets totalled EUR 142 million (162) and net capital expenditure EUR 129 million (150).

### Outlook for 2003

In the EU countries demand for steel products is forecast to grow slightly.

The prices of strip products and certain long steel products have strengthened in the first quarter of 2003. During the latter part of the year, the price development of steel products will be influenced substantially by the level of the EU countries' own production and the level of imports into the EU.

In the United States demand for steel products is expected to grow slightly. Prices of steel products may weaken due to growth in the United States' own production and higher exports. In the countries of Southeast Asia, demand for steel products is expected to increase.

Prices of raw materials for steel production will be agreed at the beginning of 2003. Prices of raw materials in euros are not expected to change substantially. The price of electricity, however, is expected to be higher than in 2002.

Rautaruukki's financial performance will be improved by an increase in its own steel output and by meas-

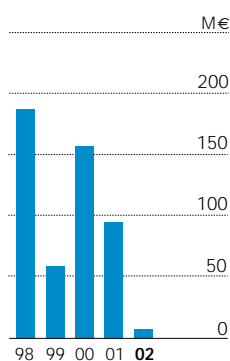
ures already implemented and under way to improve profitability.

Rautaruukki Steel's output is expected to rise to the target level of 2.8 million tonnes. As a result, the use of purchased slabs will decline, which will in turn reduce the manufacturing costs of rolled products. Profitability will be improved by the completed Fundia Wire restructuring programme and by the action programme under way in integrated flat product operations.

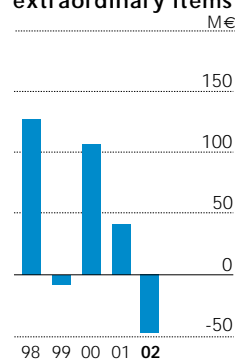
To improve cash flow, the level of capital expenditure will be kept below the level of depreciation and measures to accelerate capital turnover will be enhanced.

Consolidated turnover is forecast to be around EUR 3 billion in 2003. The development of steel product prices will have a substantial impact on financial performance. The operating environment for the steel industry in Europe is expected to be slightly more favourable.

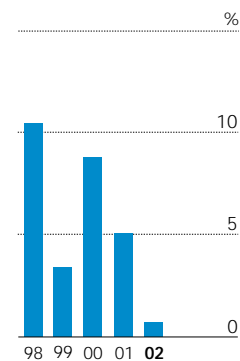
### Operating profit



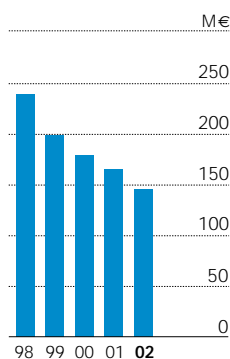
### Profit / loss before extraordinary items



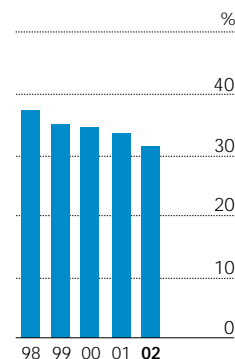
### Return on net assets



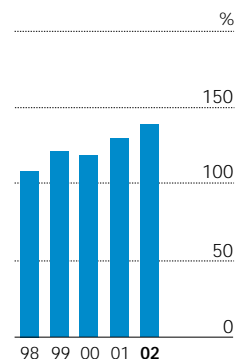
### Gross investments



### Equity ratio



### Gearing ratio



# Earnings begin to improve in the last quarter of the year

Rautaruukki Steel manufactures and markets steel plate and strip products as well as related services. The division's competitiveness is based on customer-oriented operations and fast and reliable deliveries coupled with cost-effective manufacturing.

Key figures	2002	2001
Turnover, M€	1308	1316
Operating profit, M€	9	83
Return on net assets, %	1.0	7.3
Steel production, 1000 t	2562	2565
Personnel at year end	5178	5185

Demand for strip products recovered in the second quarter of the year and remained satisfactory for the rest of the year. Demand for heavy plates was satisfactory throughout the year. Prices of strip products began to pick up in the second quarter and continued to rise for the remainder of 2002. The price level of heavy plates remained stable. Average prices for the year were lower than in 2001.

Deliveries of Rautaruukki Steel products totalled 2,790,000 tonnes (2,683,000). Deliveries of hot-rolled and colour-coated strip products increased.

Rautaruukki Steel's sales operation was organised into six business areas at the beginning of the year.

In the Automotive business area, deliveries of galvanized and ultra-strength products increased, despite a fall in automotive industry production.

In the Building business area, deliveries of colour-coated products increased in the Nordic countries and Russia.

In the Construction business area, deliveries declined in Finland due to a reduction in capital expenditure. Demand for steel used in the construction of towers for wind energy plants continued strongly in the main market area, Denmark.

In the Electro business area, deliveries of hot-rolled products fell in Finland due to a weaker order book in the electricity and electronics industry.

A contraction of output in the engineering industry in Finland cut deliveries of hot-rolled products in the Engineering business area.

In the Marine business area, deliveries of heavy plates were boosted by high demand from the off-shore industry and the Finnish shipbuilding in-

dustry. Demand weakened in Finland, however, at the end of the year.

### Weaker result

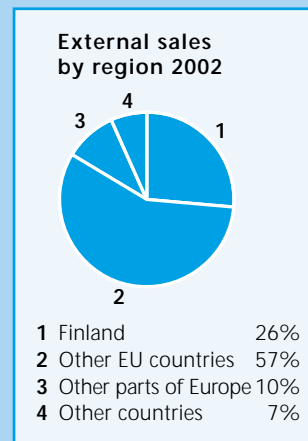
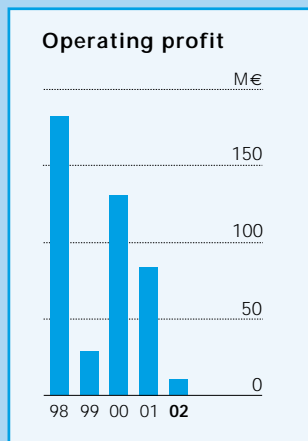
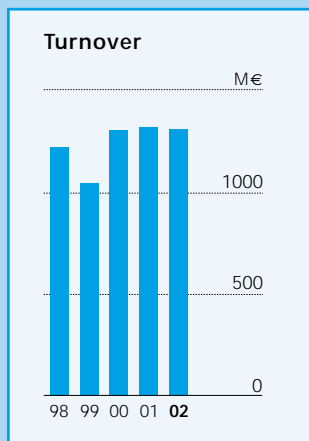
The division's turnover was EUR 1,308 million (1,316) and operating profit was EUR 9 million (83). Turnover was weakened by the low price of deliveries and the steel production lost due to the interim repair of Blast Furnace No. 1 and to production disruptions. The operating result includes a non-recurring provision of EUR 18 million, arising from the decision at the beginning of 2003 to cut personnel numbers, as well as a contribution to the Rautaruukki Pension Fund which was EUR 11 million higher than last year.

Rautaruukki Steel's result improved in the last quarter of the year and operating profit excluding non-recurring expenses was EUR 31 million.

Steel output was 2,562,000 tonnes (2,565,000). Output was lower than the target level owing to the interim repair of the blast furnace and to a number of production disruptions. Since the final quarter of the year, steel output has been at the target level of 2.8 million tonnes per year.

### Profitability improves

At Rautaruukki Steel an action programme was initiated to improve the material margin and to lower fixed costs. To improve the material margin, the structure of sales will be enhanced and material, energy and transport costs will be lowered. Fixed costs will be lowered by EUR 40 million. In accordance with the codetermination ne-



gotiations, Rautaruukki Steel's workforce will be reduced by around 600 employees.

#### Investing in special products

Rautaruukki Steel expanded its range of speciality products marketed as brand products and enhanced their marketing. Deliveries increased, particularly in Laser products, developed for laser cutting, Optim products, intended for engineering use, and Litec products, developed for automotive industry safety components. During the year, the division launched its Hiarc product, which is intended for building facades.

#### Outlook for 2003

Demand for strip products is forecast to grow slightly. Prices of strip products have continued to rise in the first quarter of the year. Demand and prices for plates in the first quarter of year have remained at the levels prevailing at the end of 2002. Steel output is expected to rise to 2.8 million tonnes, which will lower the production costs of rolled products. The intended reductions in personnel numbers will reduce fixed costs partly in 2003, but to the full extent from the beginning of 2004.

Manufacturers of truck cranes have adopted OPTIM steels whole-heartedly.



The side impact beams of the Volkswagen Polo are made of ultra-strength formable galvanized LITEC RAGAL steel.



Colour-coated HIARC sheet steel that changes colour depending on the angle of viewing is well suited to modern facades.



# Profitability improves substantially

Rautaruukki Metform develops, manufactures and markets welded steel tubes and value-added tubular products. The division's competitiveness is based on customer-oriented operations and service as well as cost-effective production.

Key figures	2002	2001
Turnover, M€	367	351
Operating profit, M€	17	12
Return on net assets, %	11.9	8.3
Personnel at year end	1403	1415

Demand for steel tubes and pipes was better than the previous year and prices strengthened.

In the Automotive business area, deliveries increased, despite a fall in automotive industry production. This was helped by the launch of new products and higher demand for makes of car important to Metform.

Deliveries also grew in the Building business area. Delivery volumes of foundation engineering products in particular grew due to a pick-up in renovation work. In addition, replenishment of customers' inventories boosted delivery volumes.

In the Household business area, deliveries were at the previous year's level. Since late 2002, demand has been weakened by low demand for furniture industry products in the Nordic countries.

Deliveries in the Industry business area remained at the previous year's level, despite a weakening in engineering industry demand.

In the Pipelines business area, demand for large-diameter gas pipes was good. Market situation for small-diameter pipes, however, was weak.

Metform's deliveries totalled 580,000 tonnes (552,000). The division's turnover was EUR 367 million (351) and operating profit was EUR 17 million (12). Higher delivery volumes, growth in the proportion of special products and improved work productivity had a positive impact on operating profit.

### Increased production capacity for special products

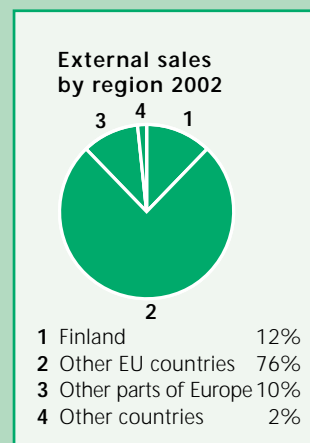
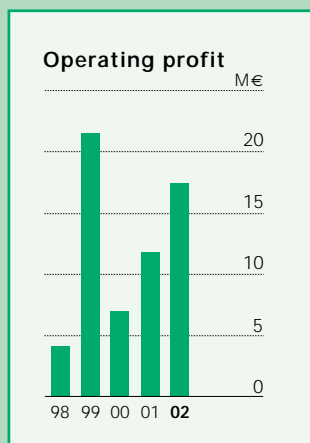
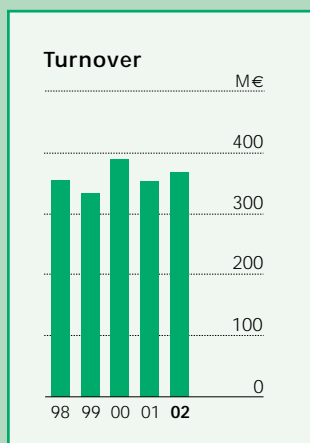
Carl Froh GmbH increased its production capacity of airbag components by

opening a new automatic production line. The Oulainen plant's second gas pipe production line was modernised and the investment programme at the Hämeenlinna tube works was extended to improve efficiency. The investments increased Metform's production capacity for speciality products.

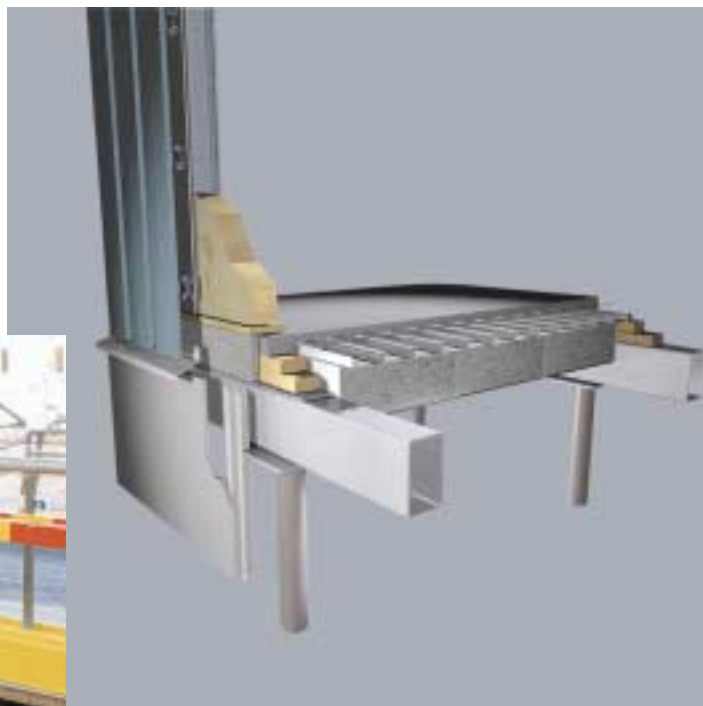
A new foundation system for residential buildings, based on pile pipes and hollow sections, was launched at the beginning of the year, as were RST 4003 tubes made of ferrite stainless steel. The dimensional range of ultra-strength Optim hollow sections was extended. Sales operations were enhanced by rearranging areas of responsibility and by strengthening sales efforts in central and eastern Europe.

### Outlook for 2003

Demand for steel tubes is expected to remain at the level reached at the end of 2002. The proportion of deliveries accounted for by speciality products is expected to increase further. Prices of tubular products have for the most part risen during the first quarter of the year. Costs will be increased by a likely rise in the price of steel used as raw material and by adjustments to internal pricing principles. It has been decided to cut the workforce by 50 employees in order to reduce fixed costs.



Rautaruukki delivered heat-insulated line pipes for a district cooling project in the centre of Helsinki.



Rautaruukki's new RR Steel Foundation System brings cost-effectiveness to construction because it can be laid down in all seasons of the year.

### **OPTIM**

Rautaruukki supplies high-strength steel tubes for the rear axle stabilisers of the new Renault Mégane.

### **SILVER**



## Operations continue to expand

The Steel Structure Division manufactures and markets steel products for construction as well as systems based on them. The division's brands are Rannila and Gasell. Gasell Industry also develops and manufactures light engineering products.

Key figures	2002	2001
Turnover, M€	321	311
Operating profit, M€	12	10
Return on net assets, %	10.5	9.6
Personnel at year end	1798	1709

Demand for the Steel Structure Division's products was satisfactory in the most important market areas. The division increased its sales in Finland, the Baltic states and Russia. In the Nordic countries, sales stayed at the previous year's level. In central Europe, the division's sales fell short of the 2001 figures due to intensified competition. The division's installation service operations were expanded in Finland and the neighbouring region.

The Steel Structure Division's turnover totalled EUR 321 million (311) and operating profit was EUR 12 million (10). To improve the division's profitability, cost control was enhanced and sales were directed more towards professional building. The improve-

ment in profitability was slowed by the strengthening of the euro against the US dollar.

### New products launched

The Steel Structure Division opened new plants in Kazakhstan and in central Russia. Both plants manufacture roofing system products. Customer product training was enhanced by opening the Maxi Akademia Training and Technology Centre in Poland.

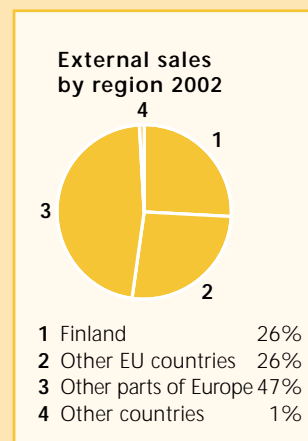
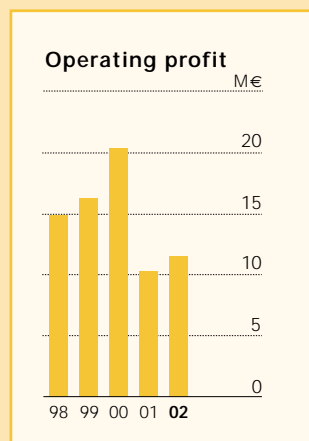
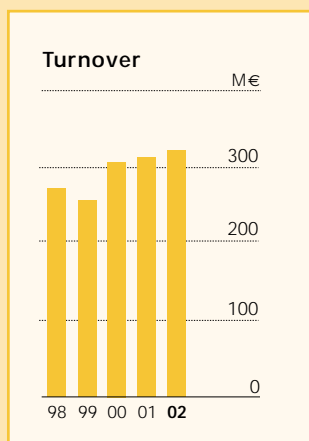
In residential construction, Rannila and Gasell strengthened their positions by expanding their service range and developing new products. Gasell launched the new Classic Modul roofing system. Rannila developed a new roof renovation fastener

for the refurbishment of old roofs. The fastener speeds up roof installation work considerably and reduces costs.

Product development for professional building focused on facade products. The Rannila Design product range was expanded and changes made to the Rannila Panel system expanded the product's area of application and improved its technical characteristics.

### Outlook for 2003

In the division's markets, demand for building products is expected by and large to grow. In the central European market, construction is expected to slow, which will intensify price competition. The Steel Structure Division will continue to develop its sales and production network.







One of the most popular exhibitions at home owners' fairs in Finland was Rautaruukki's Loiste (Shine) single-family house, which makes versatile use of steel.

Rannila supplied the facade panels for Megaone, Moscow's largest shopping centre.



The venerable Uppsala Castle was given a new Gasell Kultur steel roof that harmonises with its style.



**Rannila**

**Gasell**

# Restructuring programme seen to completion

Fundia is the leading Nordic manufacturer of long steel products. The most important products are bar and wire for the engineering industry and reinforcing for the building industry. Fundia is increasing the deliveries of low-alloyed special steels and different kinds of further-processed products.

Key figures	2002	2001
Turnover, M€	731	724
Operating loss, M€	-17	-4
Return on net assets, %	neg.	neg.
Steel production, 1000 t	1688	1604
Personnel at year end	2952	3018

Demand for long steel products strengthened during 2002. The competitive climate was affected by some competitors discontinuing their operations during the year. New owners are partly restarting production at the closed plants.

Demand for reinforcing products was satisfactory in Finland, Norway and Denmark, but weaker Sweden. Fundia's market position improved, particularly in the UK and in Ireland. Deliveries of Fundia's reinforcing products increased and prices rose from the previous year.

After a weak start to the year, the market for bar products clearly improved in the latter half of the year. Deliveries of Fundia's bar steel prod-

ucts grew and prices strengthened.

Demand for wire products strengthened during the year. The price level remained low, but it began to pick up at the end of the year. Deliveries of Fundia's wire products declined owing to production disruptions caused by the development programme.

The market climate for processed bar products remained satisfactory but demand for processed wire products was weak. Fundia's deliveries of processed products remained slightly below the previous year's level.

Fundia's deliveries totalled 1,827,000 tonnes (1,815,000). The average price of deliveries was 1 per cent higher than in 2001.

## Wire depresses result

Fundia's turnover was EUR 731 million (724) and it reported an operating loss of EUR 17 million (4). The operating loss included EUR 7 million in non-recurring write-downs on fixed assets as well as provisions made for the restructuring of certain operations.

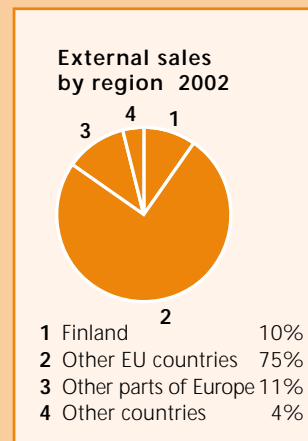
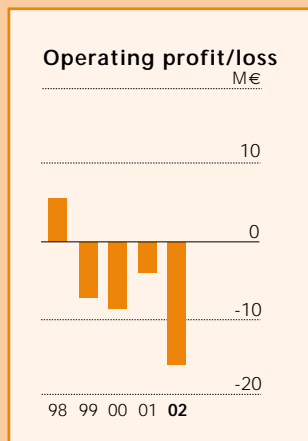
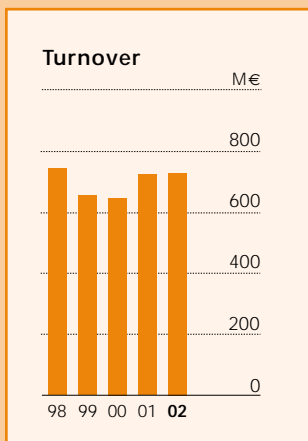
Fundia Special Bar and Fundia Reinforcing improved their performance and returned clearly positive results. Fundia Bar & Wire Processing recorded a slight loss due to non-recurring costs. Fundia Wire's loss was attributable to production problems and higher costs resulting from the implementation of the restructuring and development programme as well as low prices for wire rods.

## Degree of upgrading increases

The extensive restructuring programme initiated at the end of 2000 was completed with the conclusion of the Fundia Wire restructuring programme at the end of 2002. The restructuring programmes of Fundia's other divisions had been completed earlier. Personnel numbers have been reduced by around 500.

Fundia Wire Nedstaal's entire rolling production was centralised in a single rolling line, replacing the former two lines. Interim repairs to the Koverhar blast furnace were carried out in August.

At the end of the year, the division achieved its objective for the production structure of wire products, which makes it possible to significantly in-



crease the degree of upgrading. It has taken longer than expected, however, to introduce the modernised production lines. The planned production level is expected to be reached early in 2003.

At the beginning of the year, the Bar & Wire Processing Division strengthened its position as Europe's leading manufacturer of hard chromed bars by acquiring an Italian company, which will continue operating under the name Fundia Cromax S.p.A.

#### Outlook for 2003

Demand for long steel products is expected to firm up slightly. Prices of products have for the most part risen in the first quarter of the year. Prices of electricity and of scrap used as a raw material have also risen, which will probably be reflected in product prices. The implemented restructuring programmes are expected to improve Fundia's result in 2003.



Spring steels are a growing product group for Fundia Nedstaal.

Fundia Bar's strong micro-alloyed and boron steels are used in the manufacture of conveyor chains.

Fundia's bar steel is used in the bucket and caterpillar tracks of power shovels, and hard-chromed bars go into making the hydraulic equipment.



**fundia**

## Earnings head upwards

Rautaruukki Steel Service markets the Group's steel products prefabricated to the customer's order. The division also markets steel products of other manufacturers as well as other materials such as aluminium and stainless steel.

Key figures	2002	2001
Turnover, M€	646	702
Operating profit, M€	23	9
Return on net assets, %	10.4	4.2
Personnel at year end	1204	1320

In Finland, demand for the Steel Service Division's products was weak throughout the entire year. Total sales of the steel wholesale and service centre sector fell short of the previous year's level by around six per cent. Demand weakened, particularly in the electronics industry, in steel construction and in the shipbuilding industry. Prices of steel products rose. The steady rise in stainless steel prices, on the other hand, faltered in the latter half of the year and prices of aluminium products were exceptionally low throughout the year.

In Sweden, too, the difficulties of the electronics industry weakened demand. In the automotive industry demand was good. In Norway, the strong krone and high interest rates have had

a negative impact on economic prospects. The Steel Service Division's market share increased, however, due to an acquisition completed in 2001.

In the Baltic states, the division's sales increased. In Poland, sales continued to be satisfactory, despite the pressure on the country's economy. In Russia, the division's sales organisation was strengthened during the autumn and sales have gradually started to grow.

The Steel Service Division delivered a total of 450,000 tonnes (471,000) of steel products manufactured within the Group.

### Profitability improves

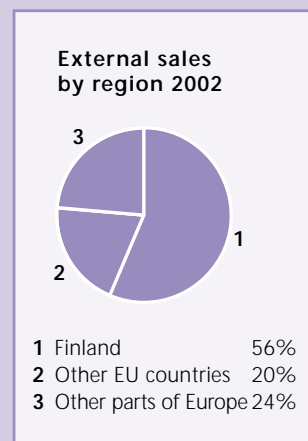
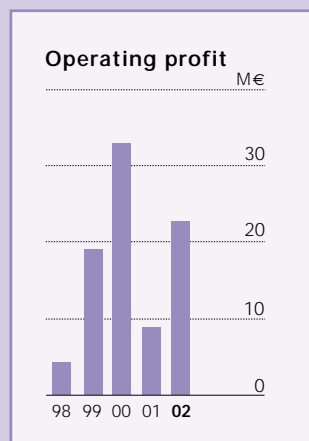
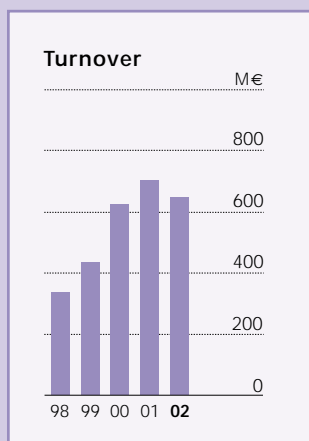
The Steel Service Division's turnover was EUR 646 million (702). Some 44

per cent of turnover came from sales of the Group's own steel products. Rautaruukki Stahlservice GmbH, which operates in Germany, was transferred to the Rautaruukki Steel organisation at the beginning of the year. Asva AB, which operates in Sweden, joined the division in April 2001.

The Steel Service Division's operating profit was EUR 23 million (9). Operating profit includes a capital gain of EUR 7 million arising from a real-estate sale. To improve profitability, costs were cut by adjusting operations to weaker demand.

### Outlook for 2003

The market climate is expected to remain weak in Finland and the other Nordic countries in the first half of the year. In the Baltic states and Russia, the growth in sales is expected to continue.





Laser cutting allows steel tubes to be cut precisely to dimension.

The Steel Service Division's prefabrication services are growing at a good clip in step with customers' increasing preference for outsourcing.



Asva AB's cutting line enables steel strips to be cut exactly to customers' needs.



## Sustainable development underpins operations

Rautaruukki's goal is to increase the company's value over the long term through a balanced approach to the needs of different stakeholders and the principles of sustainable development. The Sustainability Report which the Group publishes tells how economic, social and environmental matters are dealt with at Rautaruukki.

In November 2001 Rautaruukki published its Sustainability Report both on its website and in a printed edition. The data in the report have been updated with the figures for 2002 and are available on the Group's website. The next printed Sustainability Report will come out in 2004.

### Reducing dust emissions

At Rautaruukki Steel's Raahe Works, an extractor for the sintering plant's flue gases was placed in use towards the end of the year, enabling the sintering plant's dust emissions to be lowered by an estimated amount of nearly one third. The bulk of the recovered dust is reused as a raw material in the manufacture of iron.

At Fundia's Koverhar Steel Works a dust treatment method is being developed with the aim of recycling the dust generated by the steel works and reusing it as a raw material for the steel works. The equipment required for treating the dust is in the pilot use stage.

### Preparations for carbon dioxide emissions trading

The EU Commission's proposed directive on carbon dioxide emissions trading will be submitted to the EU Parliament during 2003. It is not yet possible to estimate the effects of the proposal on Rautaruukki's operations. While the proposal was in the drafting stage, Rautaruukki presented to the authorities its views on essential matters that should be taken into account from the standpoint of Rautaruukki's operations.

### Emissions reduced in Norway

The Norwegian authorities have set new emission limits for mercury and other heavy metals at Fundia's Mo i Rana Works. The new limits will come into force on 1 December 2006. Negotiations on the measures which the new emission limits will necessitate are being continued with the Norwegian authorities.

Mercury is released from the scrap that is used as a raw material in electric steel melting. The Mo i Rana steel works uses grades of scrap that are typical for electric melting plants, and its electric arc furnace process does not differ from others that are in use around the world. Rautaruukki is not aware of corresponding mercury emissions limits in other steel melting plants of a similar kind.

The mercury that ends up in an electric arc furnace along with steel scrap is vaporised in the flue gases and this means that it is not extracted in conventional dust separation. The separation of mercury has been studied both theoretically and by means of tests of the treatment of flue gases. Reducing the emissions of other heavy metals is not a problem.

### Ongoing energy saving

Energy saving is continuing at all the Group's locations in accordance with the plans set out in the energy-saving programme. The Raahe Steel Works itself produces about 60 per cent of the electricity it needs by means of process-generated waste gases.

The utilisation of waste heat was stepped up. A rebuild of the waste heat

### ISO 14 001 Environmental Certifications of the Group

#### Rautaruukki Steel

Raahe Steel Works, 1997 (EMAS 1997)  
Hämeenlinna Works, 1998  
Rautaruukki Profiler AS, 1999  
Kankaanpää Works, 2000  
Halikko Works, 2000  
Oy JIT-Trans Ltd, 1999  
SKJ companies, 2000

#### Metform

Pulkkila Works, 1999  
Oulainen Works, 1999  
Hämeenlinna Tube Works, 1999  
Lappohja Works, 1999  
Nordisk Simplex A/S, 1999  
Carl Froh GmbH, 2000  
Wirsbo Stålrör, 2000  
Froh HouseTech GmbH&Co.KG, 2002

#### Steel Structure Division

Rannila Steel Oy, 1988  
Gasell Profil AB, 1999  
Rautaruukki Polska, 1999  
Stelform A/S, 1999  
AS Rannila Profiil, 2000  
Rautaruukki Toijala Works, 2000  
Rannila Slovakia, 2002  
Gasell Profil Polska, 2002  
Rannila Steel Vilnius, 2002

#### Fundia

Fundia Armeringsstål, 1996  
Fundia Wire, 1999  
Fundia Hjulbro, 1999  
Fundia Special Bar, 2000  
Fundia Mandal Stål, 2000  
Fundia Dalwire, 2002

#### Steel Service

Asva Oy, 2001

recovery equipment of one line of the sintering plant at the Raahe Steel Works resulted in a tripling of the heat that is available for process and other use. The power plant began to make use of lower pressure steam than before. At the plant and in the city of Raahe an amount of waste heat corresponding to about 30,000 tonnes of fuel oil is now being utilised annually.

## Speciality products boost profitability

The aim of Rautaruukki's research and development is to improve the Group's competitiveness by developing productivity and production methods as well as new products and services. The operational emphasis in 2002 was on developing the productivity of processes and new speciality products.



The unique characteristics of OPTIM steel are imparted by means of a special rolling and cooling technique. Lighter weight structures make possible bigger payloads.

### Boosting productivity by developing processes

The most important focus of process development was raising the steel output at the Raahe Steel Works to the target level of 2.8 million tonnes a year. A dynamic control system for the converters was placed in use as well as a direct tapping method that enables the tap-to-tap time to be shortened significantly.

Oil wetting of the blended coal was started at the coking plant. This allows more coal to be charged into the coke oven. Thanks to oil wetting, the cold strength of coke improves so that less small-diameter coke is produced and this also increases the output of blast furnace coke. According to preliminary results, the output of blast furnace coke can be raised by about 3 per cent by means of oil wetting.

### A wider range of flat product brands

Rautaruukki Steel expanded its range of hot-rolled Optim structural steels by

adding higher strength grades of steel as well as softer grades that have better formability. Optim steels are used, among other applications, in the motor vehicle industry, where lighter weight structures make possible bigger payloads.

The Dual Phase product family of galvanised steels that are used especially in the side impact absorbers of vehicles was expanded by developing new grades, improving the characteristics of present grades and widening the dimensional range.

### Speciality products from Metform

Metform brought out on the market a new pile pipe based foundation system for residential buildings as well as tubes that are made of ferritic stainless steel. The dimensional range of ultra-strength Optim hollow sections was expanded.

Metform saw to completion the development of gas pipeline steels in the API X60 and X70 class and the manufacturing practice is being fine-

tuned in connection with commercial deliveries that are now in progress. Furthermore, HIC resistant strips and tubes were developed up to the X60 strength class and marketing of them was started.

### New construction component systems

An important research priority for construction products was the development of complete product systems. A new product launch was the Drytec construction system. Drytec is based on lightweight steel structures and construction methods which reduce the moisture that accumulates in a building during construction. The Drytec system is also ecologically efficient because its components are based on recyclable steel, and the joints can be easily dismantled.

A number of new products were added to the product range for facade systems. For roofing needs, a new renovation fastener system was developed that is especially useful in renovating roofs.

### Fundia teams up with customers

Fundia Special Bar started pilot deliveries of SBM steels that have good machinability, and their characteristics were developed in co-operation with customers. The development emphasis now is on optimising manufacturing practice and expanding the product family.

At Fundia Wire, development work on the Dual Phase product family was continued jointly with end-users. The material is well suited, for example, as the raw material for making bolts because it need not be annealed and the completed bolts no longer need to be heat-treated. This speeds up the manufacture of the end product and lowers costs.

## Fully committed to competence development

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 Rautaruukki's basic values.



At Rautaruukki Steel, a new innovation model was developed in working groups whose members came from different functions across the organisation.

During 2002 the development of ways of working, management and the organisational structure were continued with the aim of improving the company's earnings ability and cutting costs. Concurrently, active efforts were made to maintain and develop the personnel's competence and well-being.

The number of employees grew at the Steel Structure Division owing to the expansion of operations. At other units the headcount was reduced. The number of employees will be reduced further in order to improve cost-effectiveness. In accordance with the decisions taken, the Group's personnel strength will be reduced by about 700 employees. Owing to the reduction in personnel, the Group carried out more internal transfers and rearrangements of tasks than customarily.

### Training builds efficiency

The Group continued to develop intranet-based applications that make daily work routines easier. Promoting a customer-oriented way of working and supporting supervisors' work were the primary emphases within human resources development.

Adopting a customer-oriented way of working calls for the personnel's deep understanding of both their own and the customer's business. To this end, Rautaruukki developed a simulation model that illustrates how dynamic markets operate, provides practice in business decision-making and helps the staff learn to understand how a large international Group operates across all its units and functions. The simulation model is used in inter-

nal training, such as in the Rautaruukki Excellence programme, which is a training programme targeted at key employees who work in different countries.

A new training programme was prepared for middle management with the aim of offering practical tools and capabilities for developing the operations of a manager's own workplace. Rautaruukki has long made use of performance development discussions between supervisors and their staff. These aim at developing both the individual's skills and the performance of workplaces. Development discussions are also a good means of motivating staff and offering them incentives.

### Improved accident prevention

The positive trend in the number of accidents continued. At the Group's units in Finland the accident frequency declined by 20 per cent on the previous year. The best results were obtained at Rautaruukki Steel and the Steel Structure Division.

The fundamental premise of Rautaruukki's labour protection is a "zero accidents" approach. The measures introduced have included risk surveys of job stations, an analysis of "close shave" situations, labour protection meetings headed by supervisors and regular labour protection tours of inspection by management.

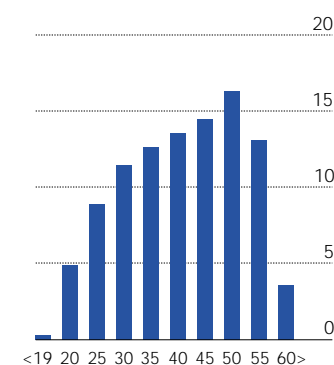
Actions aiming at maintaining working ability were continued in Finland and at certain units abroad. The objective is to develop the employees' working ability, workplace vigour and working conditions. The starting point for these actions is the workplace atmosphere surveys that are carried out at regular intervals and by means of which timely development needs can be identified at any given time. Raising the personnel's physical fitness is supported in a number of different ways.



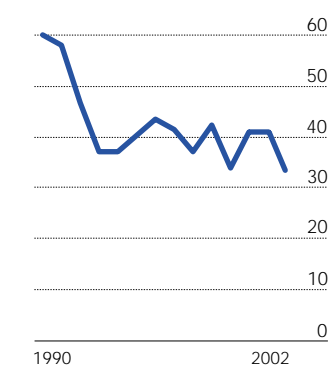
### Personnel at year end

by division	2002	2001
Rautaruukki Steel	5,178	5,185
Metform	1,403	1,415
Steel Structure Division	1,798	1,709
Fundia	2,952	3,018
Steel Service	1,204	1,320
Other units	269	328
<b>Total</b>	<b>12,804</b>	<b>12,975</b>
by country		
Finland	7,433	7,609
Sweden	1,759	1,745
Norway	961	1,061
Germany	586	580
Netherlands	519	559
Russia	266	260
Denmark	241	238
Poland	189	169
Estonia	170	144
Ukraine	141	142
Slovakia	110	139
Great Britain	89	79
Lithuania	88	85
Latvia	86	76
Other countries	166	89
<b>Total</b>	<b>12,804</b>	<b>12,975</b>

### Personnel age brackets, %



### Accident rate (number of accidents per million working hours)



Rautaruukki's units in Finland;  
Fundia and Asva included from 2000

### Personnel incentive systems

Rautaruukki's profit-related bonus system is based primarily on the Group's financial result, but it also includes separate criteria. In Finland the bonuses are paid into a personnel fund, whereas at the units abroad payouts go directly to the employees.

During 2002 the profit target of the Rautaruukki bonus system was not reached. The separate criterion involving lowering of the accident frequency was reached in part, which means that bonuses of about EUR 0.4

million will be paid to the employees of the divisions that lowered their accident frequency.

The bonus systems in use at the divisions have criteria based not only on the performance of the division or unit but also on various indicators of production volume, quality and other gauges of performance.

The long-term incentive system for Group management is a share bonus system that was started in 2000 and covers just over a hundred persons.

The Annual General Meeting in 2002 approved certain amendments to the Articles of Association, of which the most significant were the transfer of the election of the company's Board of Directors to the Annual General Meeting and the transfer of the appointment of the President & CEO to the Board of Directors.

Rautaruukki Corporation's corporate governance conforms to the Finnish Companies Act, other related legislation and the Articles of Association of Rautaruukki Corporation. The organization of Rautaruukki's management takes into account the recommendations on good corporate governance issued by the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry and Employers in 1997 and by the Organization for Economic Cooperation and Development (OECD) in 1999.

Rautaruukki is managed in accordance with sound business principles by raising the Group's shareholder value on a long term basis. Management of the Group's activities takes into account its stakeholders and the principles of sustainable development.

Overall responsibility for the management and operations of Rautaruukki Group lies with the administrative bodies of the parent company, Rautaruukki Corporation. These are the General Meetings of Shareholders, the Supervisory Board, the Board of Directors and the President.

### Supervisory Board

#### *Election and composition*

The Supervisory Board is elected for a term of one year by the Annual General Meeting. The Supervisory Board has 5–12 members. The Ministry of Trade and Industry is entitled to appoint one of these and the company's founding shareholders appoint three. Four representatives of personnel groups participate in the work of the Supervisory Board in accordance with its standing rules. Personnel representatives are entitled to be present and to speak at meetings of the Supervisory Board except in matters connected with the appointment and remuneration of top management and with collective bargaining agreements. The Supervisory Board meets as required, normally 4–6 times a year.

The Supervisory Board has a Working Committee, which prepares matters that are to be brought before the Supervisory Board. The members of the Working Committee are the chairman and vice chairman of the Supervisory Board and a member of the Supervisory Board elected from the founding shareholders. The Chairman of the Board of Directors and the company's President participate in the meetings of the Supervisory Board and the Working Committee.

#### *Duties and responsibility*

The duties and responsibility of the Supervisory Board are defined in the Companies Act and in the Articles of Association of Rautaruukki Corporation. The principle duties of the Supervisory Board are:

1. to ensure that the company's affairs are managed in accordance with sound business principles, aiming at profitability, and in compliance with the Articles of Association and the resolutions of the General Meetings of Shareholders;
2. to decide on issuing instructions to the Board of Directors in matters of wide scope or fundamental importance, and
3. to submit to the Annual General Meeting its statement on the annual financial statements, the consolidated financial statements and the auditors' report.

### Board of Directors

#### *Election and composition*

The Annual General Meeting elects the company's Board of Directors for a one-year term. The Board of Directors comprises the chairman, vice chairman and from two to six ordinary members. The Board of Directors meets as required, normally 8–12 times a year.

#### *Duties and responsibility*

The Board of Directors is responsible for the Group's business management

together with the President and CEO. It is also the task of the Board of Directors to carry out the administrative duties that have not been reserved for the Supervisory Board or expressly entrusted to the President and CEO.

The Board of Directors forms the Audit Committee. This committee, chaired by the Chairman of the Board, meets twice a year by inviting the auditor elected by the Annual General Meeting and the internal auditor to two meetings of the Board of Directors.

The Chairman and Vice Chairman of the Board of Directors with the President and CEO form the Compensation Committee, which makes proposals to the Board of Directors concerning management salaries and remuneration systems.

Principal tasks of the Board of Directors are:

1. to attend to the Group's administration and to the due organization of its operations, and to ensure that the accounting and management of funds are controlled in an appropriate manner;
2. to prepare the matters to be dealt with at General Meetings and meetings of the Supervisory Board and to ensure that the decisions taken by these are implemented;
3. to set long-term targets for the Group and the industrial divisions so as to achieve economic value added, and to approve general strategies to meet these targets;
4. to approve the annual plans of the Group and the industrial divisions;
5. to attend to the due arrangement of financial and operational reporting and control, so that it is possible to continuously monitor how these targets are being met and when necessary to react quickly to exceptional situations;
6. to decide on the Group's total level of capital expenditure and on the largest individual items;
7. to prepare the Group's annual financial statements and interim reports;
8. to decide on the company's dividend policy and to make a proposal to the Annual General Meeting for the dividend to be paid;
9. to define and approve the Group's core values and operational policies for the most important areas for management and control, such as risk manage-

ment, financing, internal audit, data security, and personnel and environmental matters;

10. to decide on the Group's organization;

11. to appoint and dismiss the President and CEO and to determine his remuneration;

12. on the proposal of the President and CEO, to appoint and dismiss members of the executive staff and to determine their remuneration. Executive staff refers to corporate executives that report to the President and those in charge of the industrial divisions.

13. to decide on the principles for the Group's incentive and bonus schemes;

14. to decide on other matters that do not fall within the sphere of daily activities and are significant in relation to the size of the company, such as the expansion or curtailment of operations or on any other significant changes in the company's operations, the raising of long-term loans and the sale and pledging of properties, and

15. to decide on convening General Meetings of shareholders.

The Board of Directors sets targets for profitability and the equity ratio as benchmarks for producing economic value added.

The Board of Directors monitors how these principles of corporate governance are implemented and assesses its own working procedures.

#### **Duties of the President**

The President and CEO is responsible for Rautaruukki's industrial and commercial operations and for attending to its day-to-day administration in accordance with the instructions and directions given by the Board of Directors.

The Board of Directors chooses the deputy for the President.

#### **The Group's Management Group**

The Management Group comprises the President, other corporate executives appointed to the management group by the Board of Directors at the proposal of the President, and the senior vice presidents at the industrial divisions.

The meetings of the management group are chaired by the President. The management group considers corporate strategic issues, annual plans, cap-

ital expenditure, company acquisitions, corporate structure and other issues that are important in managing the Group, and monitors the Group's operations. The management group also prepares matters to be considered by the Board of Directors.

#### **The Group's business organization**

Operationally, the Rautaruukki Group is divided into Group Management and the industrial divisions. The senior vice presidents at the divisions report to the President and CEO and are responsible for developing the operations of their divisions, for their earnings and balance sheets, and for arranging the administration of the companies belonging to their divisions.

Control and reporting at the divisions is based on their own balance sheets and profit and loss accounts.

Group Management comprises the President and CEO and the vice presidents in charge of Group functions. The duties of Group Management include Group-level strategic planning and business development, communications, marketing, coordinating production and sales, research and development, risk management and investment policy, development of human resources, finance, treasury, legal affairs and investor relations. Functions that provide Group services to the divisions and their units also report to Group Management.

#### **Boards and monitoring groups at the industrial divisions**

##### *Appointment and composition*

The parent company appoints Boards of Directors or similar supervisory groups for the industrial divisions at the proposal of the President from executives in Corporate Management and in the business divisions. At the proposal of the President and with the approval of the Board of Directors of the parent company, the Boards of Directors may also include external experts and a maximum of four personnel representatives. The President of the parent company shall be chairman of the Board of Directors or similar supervisory group at the industrial divisions, unless the parent company's Board of Directors decides otherwise.

#### **Duties**

The main duties of the divisional Boards and monitoring groups are:

1. to review strategic and annual plans,
2. to supervise operations and finance,
3. to review capital expenditure, company acquisitions, and plans to expand or curtail operations that have a major impact on the division.

#### **Monitoring system**

The control and monitoring of the operations of Rautaruukki Group is assured by the management system described above. The Group employs the reporting systems necessary for monitoring operations effectively. Overall responsibility for the due arrangement of accounting and the supervision of the management of funds rests with the Board of Directors. The President and CEO is responsible for seeing that the accounting complies with legal requirements and that the management of funds is arranged in a reliable manner.

The Rautaruukki Group's Internal Audit reports to the President and CEO. The Internal Audit examines and assesses the appropriateness and effectiveness of the Group's internal monitoring system, the relevance and efficiency of functions, the reliability of financial information and reporting, and compliance with rules, operating principles and guidelines. The reports of the Internal Audit are also sent to the Chairman of the Board of Directors, and the examination plans are introduced to the entire Board of Directors. The Group's auditor evaluates the effectiveness of internal controls as part of his legal oversight.

Rautaruukki's Board of Directors has approved insider dealing regulations for the company that correspond to those of the Helsinki Exchanges.

The Group's audit is organized so that the authorized public accountant firm elected by the Annual General Meeting as responsible for the parent company carries out its audit through its global organization throughout the Rautaruukki Group and is responsible for auditing the entire Group.



Board of Directors: (from the left) Maija-Liisa Friman, Pekka Timonen, Georg Ehrnrooth, Vice Chairman, Jukka Viinanen, Chairman, Mikko Kivimäki, Carita Putkonen and Christer Granskog.

### Board of Directors

#### Chairman:

Jukka Viinanen, b. 1948  
President and CEO,  
Orion Corporation

#### Deputy Chairman:

Georg Ehrnrooth, b. 1940  
former President and CEO,  
Metra Corporation  
Rautaruukki shares: 1,902

#### Members:

Maija-Liisa Friman, b. 1952  
Vice President, General Manager,  
Vattenfall Oy  
Rautaruukki shares: 3,000

Christer Granskog, b. 1947  
President and CEO,  
Kalmar Industries AB

(Share holdings at 1 March 2003)

Carita Putkonen, b. 1948  
Finance Counsellor,  
Ministry of Finance

Pekka Timonen, b. 1960  
Senior Advisor,  
Ministry of Trade and Industry

Mikko Kivimäki, b. 1939  
President and CEO,  
Rautaruukki Oyj  
Rautaruukki shares: 12,000

### Emoluments of the Board of Directors

The monthly emolument paid to the Chairman of the Board is EUR 3000, that of the Vice Chairman EUR 2350, and the emoluments of the other members of the Board are EUR 1850 per month. A meeting fee of EUR 250 is paid. The company's President and CEO is not paid a separate emolument for his membership of the Board of Directors.

### Supervisory Board

#### Chairman

Turo Bergman\*, b. 1946  
Deputy Head of Department,  
Central Organisation of Finnish  
Trade Unions, SAK

#### Deputy Chairman

Jouko Skinnari\*, b. 1946  
Member of Parliament

#### Members:

Tuula Haatainen, b. 1960  
Member of Parliament

Timo Ihamäki, b. 1939  
Member of Parliament

Ole Johansson, b. 1951  
President and CEO, Wärtsilä Oyj Abp

Seppo Kanerva, b. 1941  
Member of Parliament

Kyösti Karjula, b. 1952  
Member of Parliament

Inkeri Kerola, b. 1957  
Member of Parliament

Bertel Langenskiöld\*, b. 1950  
President and CEO, Fiskars Oyj Abp

Tauno Matomäki, b. 1937  
Mining Counsellor

#### Employee representatives:

Kari Jokinen  
Pauli Kurikka  
Jouko Luttinen  
Eero Raivio

#### \* Supervisory Board

Working Committee  
The Chairman of the Board and the company's President participate in the meetings of the Supervisory Board and the Working Committee.

#### Auditor

KPMG WIDERI OY AB  
Hannu Niilekselä,  
Authorised Public Accountant

## Management Group

The Management Group comprises of the following Group executives and senior vice presidents of the divisions:



**Group executives:**  
Chairman of the Management Group  
President & CEO  
Mikko Kivimäki, b. 1939  
– corporate management  
– communications and  
corporate image  
Rautaruukki shares: 12,000



Deputy Chairman of the  
Management Group  
Senior Executive Vice President  
Lauri Mannerkoski, b. 1944  
– marketing  
– co-ordination of production  
and sales  
Rautaruukki shares: 2,000



Gösta Engman, b. 1945  
– personnel  
– other administration  
– information security  
Rautaruukki shares: 2,179



Jorma Lukkari, b. 1948  
– business development  
– information management  
– investments  
– purchasing and logistics  
Rautaruukki shares: 816



Seppo Sahlman, b. 1948  
– finance  
– treasury  
– legal affairs  
– risk management  
Rautaruukki shares: 2,848



Peter Sandvik, b. 1953,  
– research and development  
– personnel development  
– energy and environment



Sakari Tamminen, b. 1953, has been ap-  
pointed President & CEO as from 1 Janu-  
ary 2004. Mr Tamminen will take over  
for Mikko Kivimäki who, will retire on  
1 January 2004. Tamminen will become  
Senior Executive Vice President and  
deputy to the President at the latest on  
1 May 2003.



**Senior vice presidents  
of the divisions:**  
Matti Arteva, b. 1945  
Steel Service  
Rautaruukki shares: 402



Markku Koljonen, b. 1951  
Steel Structure Division  
Rautaruukki shares: 759



Lauri Rautala, b. 1954  
Rautaruukki Steel



Heikki Rusila, b. 1949,  
Metform  
Rautaruukki shares: 4,516



Jarmo Tonteri, b. 1952  
Fundia AB

The share capital did not change during the year. The paid-in share capital of Rautaruukki Oyj on 31 December 2002 was EUR 236,106,956.50 and comprised 138,886,445 Series K shares, each carrying ten votes at the General Meeting of Shareholders. The accounting countervalue of the share is EUR 1.70. The share has no par value.

The company's minimum share capital is EUR 200,000,000 and its maximum share capital is EUR 800,000,000, within which limits the share capital may be raised or lowered without amending the Articles of Association.

**Convertible bonds 1998**

In 1998 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 EUR 8,41 per share until 15 May 2003. As a consequence of the conversions, the share capital can be increased by a maximum of EUR 680,000.

**Stock bonus plan**

Under the share bonus system that Rautaruukki launched in 2000, the Group's key employees have the possibility of obtaining, after three-year long incentive periods, a bonus equivalent to a maximum of half a year's salary.

More than 100 people are covered by the system. Of the bonus amount, 40 per cent is given in Rautaruukki shares and 60 per cent in cash to cover taxes on the bonus. The employee can sell the shares given as a bonus no earlier than two years after the end of the incentive period.

It is a condition for receiving the maximum bonus that the Rautaruukki Group's average return on assets during the three-year incentive period is among the best three companies in a peer group. The peer group comprises Rautaruukki and ten steel other companies. The other companies in the peer group for the incentive periods that have begun annually from the start of 2001 are Arcelor, Corus, Feralpi Group, Ispat International, Outokumpu, Salzgitter, SSAB, Stelco, US Steel and VA Stahl.

**Treasury shares**

By 31 December 2002, Rautaruukki Oyj had bought back a total of 3,270,000 of its own shares (treasury shares), representing 2.35 per cent of the company's entire shares outstanding. The company has paid EUR 14,737,093 in consideration for them.

The company's own shares are being purchased for the purpose of transferring them to the Group's key employees as part of the incentive system or otherwise to be transferred on or cancelled. The transfer or cancellation

of the shares requires a resolution passed by a general meeting of the shareholders. The company does not have a valid authorisation from the Annual General Meeting to buy back, transfer or cancel its own shares.

**Management's share holdings**

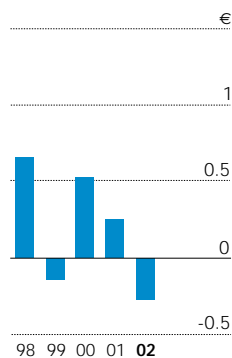
The members of the Supervisory Board and the Board of Directors owned a total of 15,128 shares at 31 December 2002, or 0.01 per cent of the voting rights conferred by all the company's shares. In addition, the members of the Board of Directors owned the company's convertible bonds entitling them to subscribe for a maximum of 1,000 Series K shares, representing 0.0007 per cent of the voting rights conferred by all the company's shares.

**Insiders**

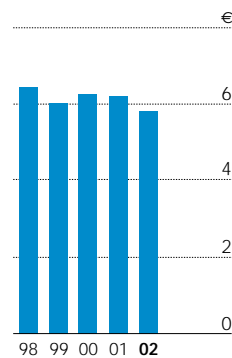
Rautaruukki Group applies the Regulations on Insider Trading approved by Helsinki Exchanges. In addition to the members of the Supervisory Board and the Board of Directors, the Group's insiders include

- members of the Management Group,
- vice presidents reporting to the President and CEO
- Senior vice presidents of the divisions
- the secretary to the Supervisory Board,

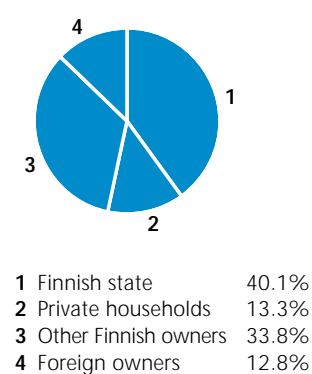
**Earnings per share**



**Equity per share**



**Ownership of Rautaruukki**



- the secretary to the Board of Directors,
- the secretaries to the above mentioned company executives,
- the vice president, Treasury,
- the vice president, Group Controller,
- the vice president, Communications,
- the deputy director, Investor Relations

At 31 December 2002, insiders held a total of 18,482 shares, representing 0.01 per cent of the voting rights conferred by all the company's shares. In addition, insider members owned the company's convertible bonds entitling them to subscribe for a maximum of 4,800 Series K shares, or 0.003 per cent of the voting rights conferred by all the company's shares.

#### State ownership

The Finnish State's holding in Rautaruukki Oyj was 40.1 per cent at 31 December 2002. 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 20 per cent of the company's shares outstanding and the voting rights they confer.

As a shareholder, the state has not given guarantees or otherwise made commitments to assume responsibility for the company's debts and obligations.

#### Pre-emption clause

According to the Articles of Association 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.

#### Authorisations

Rautaruukki Oyj's Board of Directors does not have a valid authorisation to issue convertible bonds or bonds with warrants, to increase the company's share capital or to buy back the company's own shares.

#### Dividends

The Board of Directors proposes to the Annual General Meeting that no dividend be distributed for 2002.

#### Share price trend

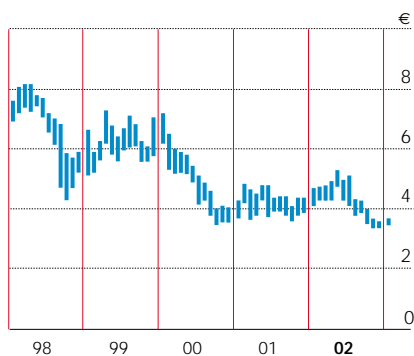
During 2002 the highest share price of Rautaruukki's share was EUR 5.30 and the lowest price was EUR 3.36. The closing price of the year was EUR 3.44. Market capitalisation of Rautaruukki Oyj was EUR 478 million. The share turnover during the year was 34 million representing a total value of EUR 145 million. The average price of the share trades during the year was EUR 4.26.

#### Analysts

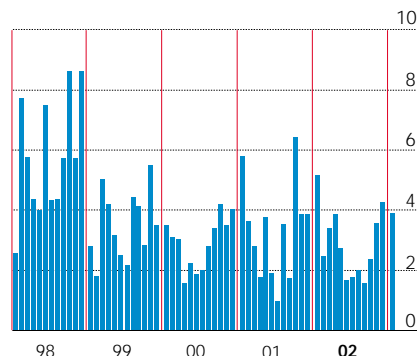
Rautaruukki is analysed by following companies:

- Commerzbank
- Conventum Securities
- Credit Lyonnais Securities
- Credit Suisse First Boston
- D. Carnegie
- Danske Bank
- Deutsche Bank
- Enskilda Securities
- Evli Securities
- FIM Securities
- Goldman Sachs International
- Handelsbanken Capital Markets
- HSBC / CCF Securities
- ING Barings
- Mandatium Stockbrokers
- Merrill Lynch International
- Nordea Securities
- Opstock
- Société Générale
- UBS Warburg

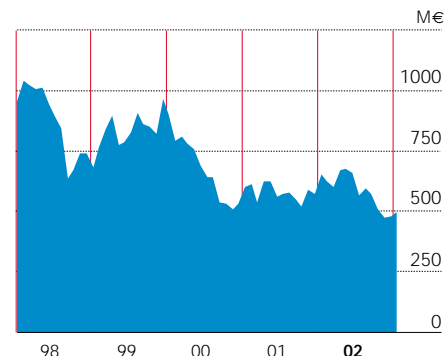
Rautaruukki share price, monthly high-low



Rautaruukki share monthly trading volume, millions of shares



Market capitalisation



**Share issues 1998–2002**

	Number of K Shares	Increase in share capital, €	Share capital, €
Share capital 31.12.1997	133,228,416		224,074,110.33
Share issue 1.9.1999	+ 5,658,029	9,516,121.65	233,590,231.98
Bonus issue 30.3.2000		2,516,724.52	236,106,956.50
Share capital 31.12.2002	138,886,445		236,106,956.50

**The biggest shareholders of Rautaruukki Oyj according to the share register at 31.12.2002**

Shareholder	Shares, %	Shares
1. The Finnish State	40.1	55,656,699
2. Mutual Pension Insurance Company Varma-Sampo	4.01	5,563,587
3. Odin Norden	3.42	4,746,900
4. Rautaruukki Oyj	2.35	3,270,000
5. OP-Delta Investment Fund	1.18	1,644,000
6. Rautaruukki Pension Foundation	1.14	1,585,455
7. Federation of Finnish Metal, Engineering and Electronical Industries	0.92	1,272,000
8. Finnish State Pension Fund	0.86	1,200,000
9. Mutual Life Insurance Company Suomi	0.83	1,153,000
10. Nordea Life Insurance Finland Ltd	0.82	1,143,846
11. Esa Rannila	0.70	978,000
12. Finnish Local Government Pension Foundation	0.62	858,917
13. Sampo Life Insurance Company Ltd	0.58	800,000
14. Mutual Insurance Company Tapiola	0.54	750,700
15. Investment Fund Conventum Finland Value	0.54	750,000
16. Fortum Pension Foundation	0.51	710,900
17. Investment Fund Sampo Finland Equity	0.47	649,837
18. Onnenmäki Foundation	0.44	616,257
19. OP-Profit Investment Fund	0.43	602,000
20. The Finnish National Fund for R&D, Sitra	0.42	587,700
Administrative registrations	8.88	12,335,332
Other foreign owners	3.96	5,504,130
Other owners	26.29	36,507,185
Total	100.00	138,886,445

**Shareholders by share ownership according to the share register at 31.12.2002**

Number of shares	Shareholders		Shares	
	No.	%	Thousands	%
1–100	2,168	10.74	131	0.09
101–1 000	14,031	69.48	6,760	4.87
1 001–10 000	3,567	17.66	9,958	7.17
10 001–100 000	343	1.70	9,653	6.95
100 001–	84	0.42	112,384	80.92
	20,193	100.00	138,886	100.00

**Shareholders by sector according to the share register at 31.12.2002**

Number of shares	Shareholders		Shares	
	No.	%	Thousands	%
Companies	787	3.90	11,880	8.56
Banks and insurance companies	101	0.50	13,981	10.07
Public institutions	68	0.34	71,472	51.46
Non-profit institutions	255	1.26	5,223	3.76
Private households	18,887	93.53	18,491	13.31
Nominee registrations	9	0.04	12,335	8.88
Other foreign owners	86	0.43	5,504	3.96
	20,193	100.00	138,886	100.00





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## REPORT OF THE BOARD

Rautaruukki's consolidated turnover in 2002 was EUR 2,884 million (2,906). The result before taxes was a loss of EUR 46 million (+41). The result in Rautaruukki Steel deteriorated and Fundia Wire again recorded a significant loss.

Non-recurring costs totalled EUR 27 million, of which the most significant was a provision of EUR 20 million arising from agreed reductions in personnel numbers at Rautaruukki Steel and Metform.

Contributions to the Rautaruukki Pension Fund were EUR 12 million higher than last year, mainly as a result of the slide in share prices.

The profit before taxes for the final quarter was EUR 2 million (-22). Excluding non-recurring costs, the final quarter profit was EUR 22 million.

The Board of Directors proposes to the Annual General Meeting that no dividend be distributed for 2002.

### Business environment and market

During 2002 economic growth continued to be very slow in Western Europe, North America and Japan. In China, Southeast Asia and the countries of Eastern Europe, economic growth was faster than in the rest of the world.

Demand for steel products in Europe was slightly lower than in 2001, while demand in the United States remained at the same level. Demand for steel products grew in China, Southeast Asia and Eastern Europe.

In March the United States imposed 8-30 per cent import tariffs on imported steel products. Since then the United States has exempted some steel products from the import tariffs, but the tariffs still apply to the bulk of steel products imported into the United States.

At the end of March the European Union imposed protective measures that were in force for six months against the import of steel products into the EU countries. According to these measures, imports can exceed

	2002	2001
Rautaruukki Steel	1308	1316
Metform	367	351
Steel Structure Division	321	311
Fundia	731	724
Steel Service	646	702
Other units	171	150
less internal invoicing	- 660	- 648
Consolidated turnover	2884	2906

by a maximum of 10 per cent the average volume of imports during 1999-2001, the amount in excess of this being subject to a 15-26 per cent tariff. At the end of September the EU decided to continue the protective measures for another 2.5 years. Excluded from the protective measures so far are, among other products, bar steels and heavy plates, for which any protective measures will be decided by the end of February 2003.

Due to the protective measures, imports of steel products into the EU were lower than in 2001. The export and import of steel products were balanced in the EU area. Stocks of steel products in Europe were at normal levels at the end of the year.

In Europe prices of steel products were very low at the beginning of the year but they began to strengthen as supply and demand reached a balance from the second quarter onwards. Average prices for the year were, however, lower than the previous year.

In the United States the prices of steel products, which rose sharply at the beginning of the year due the contraction of the supply, declined significantly as supply increased in the second half of the year. Average prices for the year were, however, higher than the previous year. In the countries of Southeast Asia the prices of steel products strengthened.

World steel output grew by 6 per

cent compared with 2001, of which a significant contribution came from increased production in China. Steel output in European Union countries was at the previous year's level, and in the rest of Europe it grew by 3 per cent.

### Rautaruukki in the market

Rautaruukki Steel's output was 2,562,000 tonnes (2,565,000). Because of operating disturbances and interim repairs made to Rautaruukki Steel's Blast Furnace No.1 in July, steel production fell more than 200,000 tonnes short of the target level. Since the interim repair of the blast furnace, steel production has been at the target level of 2.8 million tonnes per year.

Fundia's steel output was 1,688,000 tonnes (1,604,000). Interim repairs to the Fundia Koverhar blast furnace were carried out in August.

The Group's deliveries of flat and tubular products were 3 per cent greater than in 2001. The average price of deliveries was 3 per cent lower than the previous year. In the final quarter of the year, the average price of deliveries was 1 per cent higher than in the previous quarter.

Deliveries of long steel products fell by 2 per cent. Deliveries of rebar steels and bar products grew. Deliveries of wire products and hot-rolled profiles declined. The average price of long steel products was 1 per cent higher than in 2001. In the final quar-

ter of the year, the average price of deliveries was 1 per cent lower than in the previous quarter.

The average price of deliveries is influenced by product mix and market area changes as well as by the general trend in prices.

#### Turnover and financial result

Consolidated turnover was EUR 2,884 million (2,906).

Prices of iron raw materials were on average 6 per cent lower and the price of coking coal was 1 per cent higher than in 2001. The price of electricity was 9 per cent higher and the price of scrap used by Fundia was 8 per cent higher than in 2001.

Operating profit was EUR 6 million (93). The lower prices of Rautaruukki Steel's deliveries and the loss on operations at Fundia Wire contributed to the weakening of the operating profit. Fundia Wire's financial performance was influenced by production problems and higher costs resulting from the implementation of the restructuring and development programme as well as the low prices for wire rods.

Non-recurring costs totalled EUR 27 million, of which the most significant was a provision of EUR 20 million arising from agreed reductions in personnel numbers at Rautaruukki Steel and Metform. Another EUR 7 million in non-recurring costs resulted from write-downs on Fundia's fixed assets and provisions made for certain restructuring measures.

Contributions to the Rautaruukki Pension Fund were EUR 12 million higher than last year, mainly as a result of the slide in share prices.

Operating profit for the final quarter of 2002 was EUR 17 million (-12), which includes non-recurring costs of EUR 20 million and capital gains amounting to EUR 7 million.

The Group's other operating income was EUR 15 million (17). The loss before extraordinary items and taxes was EUR 46 million (+41). Re-

Operating profit by division, EUR million		
	2002	2001
Rautaruukki Steel	9	83
Metform	17	12
Steel Structure Division	12	10
Fundia	- 17	- 4
Steel Service	23	9
Other units and internal items	- 36	- 16
Consolidated operating profit	6	93

turn on net assets was 0.6 per cent (5.0).

The loss before taxes and minority interest was EUR 46 million (+41). The loss for the financial year was EUR 35 million (+30).

#### Improving profitability

In 2002 an action programme was initiated in Rautaruukki's integrated flat product operations (Rautaruukki Steel, Metform and Steel Service Division) to improve the material margin and to lower fixed costs. The material margin means the difference between the sales income and the material, energy and transport costs of production.

To improve the sales income, the customer structure will be enhanced and the proportion of high-margin special products within sales will be increased. The introduction of a new control system will improve control over the product stream of flat products to the market along the most profitable processing and sales route.

Production costs will be cut by improving the utilisation rate of production lines and by reducing specific energy costs, procurement costs and quality costs.

Fixed costs will be lowered by the end of 2003 by a total of EUR 50 million, of which personnel costs will account for three quarters. In accordance to the codetermination negotiations conducted with personnel the Group's workforce will be reduced

by around 700 employees, mostly during 2003.

The extensive restructuring programme initiated in Fundia at the end of 2000 was completed with the conclusion of the Fundia Wire restructuring programme at the end of 2002. The restructuring programmes in Fundia's other subdivisions were completed earlier and the full benefits of them were obtained during 2002. Except for Fundia Wire, Fundia's subdivisions recorded a clearly positive result.

#### Financing

Rautaruukki's gearing ratio was 138 per cent (129) and equity ratio was 31.1 per cent (33.3). Equity per share at the end of the year was EUR 5.81 (6.21). Total assets were EUR 2,561 million (2,559).

Working capital declined by EUR 3 million. Cash flow from operations was EUR 152 million (141) and cash flow before financing EUR 23 million (-9). The Group's interest-bearing net debt stood at EUR 1,092 million (1,087). The short-term position of interest-bearing loans was EUR 205 million (216) and the long-term position EUR 943 million (912).

On 25 September 2002 Rautaruukki issued two callable subordinated notes with a total nominal value of EUR 104 million.

The Group's liquidity was good throughout the year. The ratio of financial assets and inventories to

## Report of the Board

short-term liabilities at the end of the year was 1.9 (1.8). At the end of 2002 the Group had uncommitted revolving credit facilities with banks totalling EUR 284 million.

Net interest expenses were EUR 50 million (49) and their proportion of net sales was 1.7 per cent (1.7). Financial expenses totalled EUR 52 million (52). Financial expenses include a gain on foreign exchange of EUR 1 million (-1). The operating result includes a loss on foreign exchange of EUR 12 million (+6). The average interest on the Group's net debt at the end of the year was 4.9 per cent (4.6).

### Rautaruukki Oyj's Supervisory Board and Board of Directors

Rautaruukki's Annual General Meeting, held on 26 March 2002, approved certain amendments to the Articles of Association, of which the most significant were the transfer of the election of the company's Board of Directors to the Annual General Meeting and the transfer of the appointment of the President & CEO to the Board of Directors.

The Annual General Meeting re-elected Turo Bergman Lic. (Pol. Sc.) as Chairman of Rautaruukki's Supervisory Board and Member of Parliament Jouko Skinnari as Vice Chairman. Re-elected to seats on the Supervisory Board were Members of Parliament Tuula Haatainen, Timo Ihamäki, Seppo Kanerva and Inkeri Kerola as well as Tauno Matomäki, former President & CEO, UPM-Kymmene Corporation, Ole Johansson, President & CEO, Wärtsilä Corporation, and Bertel Langenskiöld, President & CEO, Fiskars Corporation. Member of Parliament Kyösti Karjula was elected to the Supervisory Board as a new member.

The Annual General Meeting elected Rautaruukki's Board of Directors, re-electing Jukka Viinanen, President & CEO, Orion Group, as Chairman of the Board of Directors and Georg Ehrnrooth, former President & CEO, Metra Corporation, as Vice

Chairman. Re-elected as members were Christer Granskog, President & CEO, Kalmar Industries AB, Carita Putkonen, Finance Councillor, Ministry of Finance, Pekka Timonen, Senior Advisor, Ministry of Trade and Industry, and Mikko Kivimäki, Rautaruukki's President & CEO. Maija-Liisa Friman, Vice President, General Manager, Vattenfall Oy, was elected as a new member.

Mikko Kivimäki, Rautaruukki's President & CEO, will retire on 1 January 2004. Rautaruukki's Board of Directors has appointed Sakari Tamminen, M.Sc. (Econ.), as the company's President & CEO as of 1 January 2004. Tamminen will become Senior Executive Vice President and deputy to the President at the latest on 1 May 2003.

Rautaruukki is administered in accordance with the prevailing legislation, the company's Articles of Association and the principles of corporate governance laid down in the company's annual report.

The Supervisory Board has a Working Committee, which prepares matters that are brought before the Supervisory Board. The Chairman of the Board of Directors and the President and CEO attend meetings of the Supervisory Board and the Working Committee.

The Board of Directors and the auditors form an Audit Committee, which meets twice a year. The Chairman and Vice Chairman of the Board of Directors, together with the President and CEO, form the Compensation Committee of the Board of Directors.

### Share capital, shares and shareholders

The share capital did not change during the year. The share capital as at 31 December 2002 was EUR 236,106,956.50. Rautaruukki Oyj's Board of Directors has no valid authorisation to increase the share capital.

The company has purchased a

total of 3,270,000 of its own shares, which is 2.35 per cent of the 138,886,445 shares outstanding. The company has paid a total of EUR 14,737,093 for these shares.

The company's own shares are purchased for the purpose of transferring them to the Group's key employees as part of the incentive system that was decided by the company's Supervisory Board or otherwise to be transferred on or cancelled. The transfer or cancellation of the shares requires a resolution passed by a general meeting of the shareholders.

The convertible bonds issued in 1998 can be exchanged for a maximum total of 400,000 Rautaruukki Series K shares at a conversion price of EUR 8.41 per share up to 15 May 2003. As a consequence of the conversions, the share capital can be increased by a maximum of EUR 680,000.

Rautaruukki currently has no option programmes. A share bonus scheme, launched in 2000, has acted as an long-term incentive to key employees. The minimum bonus is paid when Rautaruukki's average return on assets in a three-year incentive period is at least at the median level in a comparison group of eleven companies in the sector. Bonuses, excluding taxes, are paid in the form of company shares, which can be surrendered at the earliest two years after the end of the incentive period.

The lowest trading price of Rautaruukki Oyj's Series K share during the year was EUR 3.36 and the highest price was EUR 5.30. The last trade of the year was done at a price of EUR 3.44. Rautaruukki Oyj's market capitalisation at the end of the year was EUR 478 million (569).

The share turnover during the year was 34 million (39) representing a total value of EUR 145 million (162). The number of registered shareholders at the close of the year was 20,093 (19,824). The Finnish State's holding was 40.1 per cent, and foreigners held 12.8 per cent (13.6) of the company's

shares outstanding.

It is proposed that no dividend be distributed for 2002.

### Capital expenditure

Gross expenditure on fixed assets totalled EUR 142 million (162) and net capital expenditure EUR 129 million (150).

Interim repairs to the Raahe Steel Works' Blast Furnace No. 1 and the Koverhar Works' blast furnace were carried out in July–August. At Fundia Nedstaal, a modernised rolling line was brought into service in November, replacing the previous two lines. At the beginning of 2002, Fundia Cromax acquired the Italian company Fluid S.p.A, which manufactures hard chromed bars. The Steel Structure Division opened new plants in Kazakhstan and in central Russia. Other capital expenditures consisted of normal development and replacement investments.

### Research and development

In line with the strategy, the focus of research and development was on development projects to improve the Group's profitability. The main emphasis was on improving the productivity of processes and on developing special products. Greater attention is being paid to tightening environmental protection requirements and to questions relating to the life-cycle of products. The Rautaruukki Group spent a total of EUR 17 million (19), namely 0.6 per cent of turnover (0.7), on research and development.

One of the most important process development projects was raising the steel output of the Raahe Steel Works to the target level of 2.8 million tonnes per year. A dynamic control system and a direct tapping method were installed in the converters, enabling the tap-to-tap time to be shortened significantly.

Rautaruukki Steel expanded its range of hot-rolled Optim structural steels with harder steel grades and also with softer grades that possess

	2002	2001
Rautaruukki Steel	68	55
Metform	12	26
Steel Structure Division	12	11
Fundia	42	45
Steel Service	6	21
Other units	2	3
	142	162

better formability. The range of galvanized Dual Phase steels used in vehicle side impact absorbers was expanded. The colour-coated Hiarc sheet steel, which changes its hue depending on the angle of viewing and is suitable for modern façade solutions, was launched on to the market.

Metform brought to the market a new foundation system for residential buildings based on hollow sections as well as tubes made of ferrite stainless steel. The dimensional range of extra high-strength Optim hollow sections was extended.

In steel structure products, the development of total product systems was an important priority. The Drytec construction system was launched on to the market. The system is based on lightweight steel structures and construction methods that eliminate moisture damage arising during construction. The façade system product range was expanded with new products.

Fundia expanded its selection of products with new machinable steels, and it also developed alloy steels for the needs of Fundia Nedstaal's product range.

### Sustainable development

Rautaruukki is committed to increasing the value of the company while taking the principles of sustainable development into account. In November 2001 the Group published a

sustainable development report, which states how financial, social and environment-related matters are handled within Rautaruukki. An updated version of the report will be posted on the Group's website in February 2003. The next printed sustainable development report will be published in 2004.

A new flue gas cleaning unit was brought into service in the sintering plant at Rautaruukki Steel's Raahe Steel Works, enabling dust emissions to be cut to nearly a third. Most of the dust recovered is reused as a raw material in the production of iron.

A dust processing method is being developed at Fundia's Koverhar Works. The objective is to recycle the process dust generated and to reuse it as a raw material in the steel works. The equipment needed in processing the dust is currently undergoing testing.

The Norwegian authorities have set new emission limits for mercury and other heavy metals at Fundia's Mo i Rana Works. The new limits will come into force on 1 December 2006. Negotiations on the measures which the new emission limits will necessitate are being continued with the Norwegian authorities.

The EU Commission's proposed Carbon Dioxide Emissions Trading Directive will be discussed in the EU Parliament during 2003. The impact of the proposal on Rautaruukki's op-

## Report of the Board

erations cannot be assessed at this stage. Rautaruukki has presented to the officials preparing the proposal its views on the essential aspects to be taken into account in terms of Rautaruukki's operations.

### Personnel

The Group's payroll at the close of the year consisted of 12,804 people (12,975) and the parent company employed 5,472 people (5,599). During the year the Group employed an average of 13,325 (13 678) people and the parent company 5,794 (5,990). An expansion of operations increased the payroll in the Steel Structure Division. Personnel numbers decreased, however, in all of the other divisions.

The payroll will be further cut to achieve improvements in cost-effectiveness. Decisions made will lead to a decrease in personnel numbers of around 700. As a result of the reduction in personnel, there were more internal transfers than normal and posts have been reorganised.

During 2002, Rautaruukki continued to develop its working practices, management and organisational structure with the objective of improving its earning power and cutting costs. At the same time, activities aimed at maintaining and enhancing the well-being and expertise of personnel were practised throughout the Group.

On the Group's intranet network the development of applications to facilitate efficient daily working routines continued. In personnel development the promotion of customer-oriented working practices and supervisor support had a prominent role. A new middle management training programme was prepared with the aim of providing the practical tools and skills to improve the

functioning of the working community. The Rautaruukki Excellence Programme, a training programme for management and experts of units operating in different countries, was revamped.

The number of accidents has declined. Accident frequency in Finnish units, for example, fell by 20 per cent. Rautaruukki has an occupational safety target of zero accidents. An active effort is under way to reduce accidents by surveying workplace risks and by arranging training courses for personnel.

Activities to maintain working capacity continued in all Finnish units and in some units abroad. Working climate surveys were conducted to identify aspects of working conditions that need improvement. Activities to boost the physical fitness of personnel were supported in many different ways.

### Outlook for 2003

Economic forecasts for 2003 contain many uncertainties. Forecasts indicate that world economic growth will improve slightly during 2003, but will continue to be sluggish. Economic growth is forecast to occur mainly in the second half of the year.

In Western Europe economic growth is expected to continue at roughly the same level as in 2002. In the countries of eastern Central Europe and Eastern Europe economic growth is expected to be faster than in the rest of Europe. Economic growth is also expected to pick up in the United States and the countries of Southeast Asia.

In the EU countries demand for steel products is forecast to grow slightly. The prices of strip products and certain long steel products have strengthened in the first quarter of 2003. During the latter part of the

year, the price development of steel products will be influenced substantially by the level of the EU countries' own production and the level of imports into the EU.

In the United States demand for steel products is expected to grow slightly. Prices of steel products may weaken due to growth in the United States' own production and higher exports. In the countries of Southeast Asia, demand for steel products is expected to increase.

Prices of raw materials for steel production will be agreed at the beginning of 2003. Prices of raw materials in euros are not expected to change substantially. The price of electricity, however, is expected to be higher than in 2002.

Rautaruukki's financial performance will be improved by an increase in its own steel output and by measures already implemented and under way to improve profitability.

Rautaruukki Steel's output is expected to rise to the target level of 2.8 million tonnes. As a result, the use of purchased slabs will decline, which will in turn reduce the manufacturing costs of rolled products. Profitability will be improved by the completed Fundia Wire restructuring programme and by the action programme under way in integrated flat product operations.

To improve cash flow, the level of capital expenditure will be kept below the level of depreciation and measures to accelerate capital turnover will be enhanced.

Consolidated turnover is forecast to be around EUR 3 billion in 2003. The development of steel product prices will have a substantial impact on financial performance. The operating environment for the steel industry in Europe is expected to be slightly more favourable.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

M€	Note	1.1.-31.12.2002	%	1.1.-31.12.2001	%
TURNOVER	1)	2884	100.0	2906	100.0
Variation in stocks of finished goods and work in progress		-4		-14	
Production for own use		7		8	
Other operating income	3)	15		17	
Share of results in associated companies		2		2	
Raw materials and services	4)	1746		1738	
Staff expenses	5)	593		550	
Depreciation and reduction in value	6)	177		172	
Other operating charges	7)	382	-2898	366	-2826
OPERATING PROFIT / LOSS	2)	6	0.2	93	3.2
Financial income and expenses	8)				
Income from other investments held as non-current assets		0		0	
Other interest and financial income		7		5	
Interest and other financial expenses		-59	-52	-57	-52
PROFIT / LOSS BEFORE EXTRAORDINARY ITEMS		-46	-1.6	41	1.4
Extraordinary items		0		0	
PROFIT / LOSS BEFORE APPROPRIATIONS		-46	-1.6	41	1.4
Income taxes					
Taxes for the year	10)	-2		-5	
Taxes from the previous years		0		6	
Change in deferred tax		12	11	-13	-12
PROFIT / LOSS BEFORE MINORITY INTEREST		-35	-1.2	29	1.0
Minority interest of the profits		0		0	
GROUP PROFIT / LOSS FOR THE FINANCIAL YEAR		-35	-1.2	30	1.0

## CONSOLIDATED BALANCE SHEET

M€	Note	31.12.2002	%	31.12.2001	%
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
11-13)					
Intangible assets					
Intangible rights		6		7	
Goodwill		19		25	
Other capitalised long-term expenses		17		20	
Advance payments		18	60	9	61
Tangible assets					
Land and waters		26		24	
Buildings		347		353	
Machinery and equipment		926		948	
Advance payments and construction in progress		49	1348	55	1381
Investments					
Associated company shares		23		23	
Long term loans receivable from associated companies		1		1	
Other shares and similar rights of ownership		10		11	
Own shares or similiar rights of ownership		11	45	13	49
		1453	56.7	1490	58.2
<b>CURRENT ASSETS</b>					
14)					
Stocks					
Raw materials and consumables		141		136	
Finished products/Goods		363		367	
Other stocks		5		4	
Advance payments		1	511	0	507
15)					
Debtors					
Long-term					
Loans receivable		6		2	
Loans receivable owed by associated companies		1		2	
Non-interest bearing receivables		9		11	
Deferred tax assets	20)	33	50	14	30
Short-term					
Trade debtors		413		401	
Amounts owed by associated companies		4		6	
Loans receivable		1		1	
Other debtors		41		54	
Prepayments and accrued income		32	491	29	491
		540		521	
Cash in hand and at banks		57		41	
		1108	43.3	1068	41.8
		2561	100.0	2559	100.0



M€	Note	31.12.2002	%	31.12.2001	%
<b>LIABILITIES</b>					
<b>CAPITAL AND RESERVES</b> 16)					
Share capital		236		236	
Share premium account		220		220	
Revaluation reserve		23		24	
Fund for own shares		11		13	
Translation adjustment		12		4	
Retained earnings		333		330	
Profit / loss for the financial year		-35		30	
		799	31.2	856	33.5
<b>MINORITY INTEREST</b>					
		3	0.1	3	0.1
<b>OBLIGATORY PROVISIONS</b> 18)					
Provisions for pensions		38		14	
Provisions for taxation		0		1	
Other provisions		20	58 2.3	9 23 0.9	
<b>CREDITORS</b> 19)					
<b>Non-current creditors</b>					
Interest bearing					
Bonds and debenture loans		237		131	
Convertible bonds		0		3	
Loans from credit institutions		607		664	
Pension loans		76		88	
Other creditors		23	943	26 912	
Non interest bearing					
Pension loans		10		10	
Deferred tax liability	20)	166		161	
Other creditors		0	177	8 179	
			1120		1092
<b>Current creditors</b>					
Interest bearing					
Loans from credit institutions		106		183	
Pension loans		6		5	
Other creditors		93	205	28 216	
Non interest bearing					
Advance payments		9		9	
Trade creditors		184		184	
Accruals and deferred income	23)	125		119	
Amounts owed to associated companies	22)	2		4	
Other creditors		55	375	52 369	
			580		585
			1700 66.4		1676 65.5
			2561 100.0		2559 100.0

## CONSOLIDATED CASH FLOW STATEMENT

M€	1.1.–31.12.2002	1.1.–31.12.2001
Cash flow from operations		
Profit / loss before extraordinary items	-46	41
Adjustments		
Depreciation	177	172
Financial income and expenses	52	52
Share of associated companies' results	-2	-2
Other adjustments	14	-2
Cash flow before working capital changes	196	261
Change in working capital		
Change in current non-interest bearing debtors	2	22
Change in inventories	-1	-5
Change in current non-interest bearing creditors	3	-42
Change in working capital	3	-26
Cash flow before financing items and taxes	199	235
Interest and other financing items on business operations paid	-51	-55
Taxes paid	7	-16
Cash flow before extraordinary items	155	164
Cash flow from extraordinary items	-3	-22
Cash flow from operations	152	141
Cash flow from investing activities		
Investments in tangible and intangible assets	-140	-153
Proceeds from sale of tangible and intangible assets	13	10
Other investments	-2	-9
Proceeds from sale of other investments	2	2
Change in unpaid investments	-1	-1
Cash flow from investing activities	-129	-150
Cash flow before financing	23	-9
Cash flow from financing activities		
Buyback of own shares	0	-8
Change in current loans receivable	0	0
Change in non-current loans receivable	-1	3
Change in current loans payable	-11	41
Change in non-current loans payable	31	1
Dividends paid	-27	-34
Cash flow from financing activities	-7	3
Change in liquid assets according to the calculation	16	-6
Cash and cash equivalents at beginning of period	41	46
Cash and cash equivalents at end of period	57	41
	16	-6

## RAUTARUUKKI OYJ'S PROFIT AND LOSS ACCOUNT

M€	Note	1.1.–31.12.2002 %		1.1.–31.12.2001 %	
TURNOVER	1)	1303	100.0	1285	100.0
Variation in stocks of finished goods and work in progress		-25		19	
Production for own use		5		5	
Other operating income	3)	9		9	
Raw materials and services	4)	742		742	
Staff expenses	5)	302		267	
Depreciation and reduction in value	6)	106		109	
Other operating charges	7)	149	-1299	139	-1257
OPERATING PROFIT / LOSS		-8	-0.6	60	4.7
Financial income and expenses	8)				
Income from other investments held as non-current assets		2		5	
Other interest and financial income		37		38	
Revaluations of investments in non-current assets		-20			
Interest and other financial expenses		-57	-38	-59	-16
PROFIT / LOSS BEFORE EXTRAORDINARY ITEMS		-46	-3.5	44	3.4
Extraordinary items	9)				
Extraordinary income				17	
Extraordinary expenses		0		-27	-10
PROFIT / LOSS BEFORE APPROPRIATIONS AND TAXES		-46	-3.5	33	2.6
Appropriations					
Change in depreciation reserve		1		-26	
PROFIT / LOSS BEFORE TAXES		-44	-3.4	7	0.6
Income taxes	10)				
Taxes for the year		0		-2	
Taxes from the previous years		0	0	0	-2
PROFIT / LOSS FOR THE FINANCIAL YEAR / LOSS		-44	-3.4	5	0.4

## RAUTARUUKKI OYJ'S BALANCE SHEET

M€	Note	31.12.2002	%	31.12.2001	%
ASSETS					
NON-CURRENT ASSETS					
11-13)					
Intangible assets					
Intangible rights		2		2	
Goodwill		5		12	
Other capitalised long-term expenses		12		15	
Advance payments		17	37	9	38
Tangible assets					
Land and water		6		6	
Buildings		236		237	
Machinery and equipment		628		660	
Advance payments and construction in progress		37	907	37	941
Investments					
Shares in Group companies		256		272	
Receivables from Group companies		0		12	
Shares in associated companies		7		7	
Receivables from associated companies		1		1	
Other shares		4		6	
Own shares		11	280	13	311
		1224	53.0	1290	55.0
CURRENT ASSETS					
14)					
Inventories					
Raw materials and consumables		72		78	
Finished products and goods		86	158	111	189
15)					
Debtors					
Long-term					
Amounts owed by Group companies		344		426	
Amounts owed by associated companies		1		2	
Loan receivables		6		1	
Other debtors		0		1	
Short-term					
Trade debtors		132		123	
Amounts owed by Group companies		85		73	
Amounts owed by associated companies		3		5	
Loan receivables owed by Group companies		239		138	
Other debtors		20		29	
Prepayments and accrued income		16	847	14	812
Cash in hand and at banks					
		82		55	
		1086	47.0	1056	45.0
		2310	100.0	2345	100.0

M€	Note	31.12.2002	%	31.12.2001	%
LIABILITIES					
CAPITAL AND RESERVES					
	16)				
Share capital		236		236	
Share premium reserve		220		220	
Revaluation reserve		33		33	
Fund for own shares		11		13	
Retained earnings		129		151	
Profit / loss for the financial year		-44		5	
		584	25.3	658	28.0
APPROPRIATIONS					
	17)				
Depreciation reserve		412	17.8	413	17.6
PROVISIONS					
	18)				
Provisions for pensions		25		6	
Other provisions		4	29	0	0.3
CREDITORS					
Non-current creditors					
Interest bearing					
Bonds and debenture loans	19)	237		131	
Convertible bonds				3	
Loans from credit institutions		606		662	
Pension loans		58		66	
Other creditors		20	921	22	885
Non-interest bearing					
Amounts owed to Group companies		2		2	
		923	40.0	887	37.8
Current creditors					
Interest bearing					
Loans from credit institutions		97		169	
Pension loans		6		5	
Other creditors		92	196	27	201
Non-interest bearing					
Advances received		1		1	
Trade creditors		62		56	
Amounts owed to Group companies	21)	7		35	
Amounts owed to associated companies	22)	2		4	
Accruals and deferred income	23)	78		70	
Other creditors		17	167	14	180
		362	15.7	381	16.3
		1286	55.6	1268	54.1
		2310	100.0	2345	100.0

## RAUTARUUKKI OYJ'S CASH FLOW STATEMENT

M€	1.1.-31.12.2002	1.1.-31.12.2001
Cash flow from operations		
Profit / loss before extraordinary items	-46	44
Adjustments		
Depreciation	106	109
Financial income and expenses	38	16
Other adjustments	15	2
Cash flow before working capital changes	113	171
Change in working capital		
Change in current non-interest bearing debtors	-13	17
Change in inventories	31	-37
Change in current non-interest bearing creditors	-21	19
Change in working capital	-2	0
Cash flow before financing items and taxes	110	171
Interest and other financing items on business operations paid	-18	-23
Taxes paid	8	-22
Group contributions	0	-9
Cash flow before extraordinary items	101	116
Cash flow from extraordinary items		
Cash flow from operations	101	116
Cash flow from investing activities	-55	-102
Cash flow before financing	45	14
Cash flow from financing activities		
Buyback of own shares	0	-7
Change in current loans receivable	-101	13
Change in non-current loans receivable	79	-68
Change in current loans payable	-5	43
Change in non-current loans payable	36	30
Dividends paid	-27	-34
Cash flow from financing activities	-18	-23
Change in liquid assets	27	-8
Cash and cash equivalents at beginning of period	55	63
Cash and cash equivalents at end of period	82	55
	27	-8

## NOTES TO THE ACCOUNTS

### ACCOUNTING PRINCIPLES

#### Accounting principles for the financial statements

The consolidated financial statements and those of the parent company Rautaruukki Oyj have been prepared in accordance with Finnish Accounting Act.

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) are included in the consolidated financial statements 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.

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 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.

In the consolidated financial statements balance sheet items of foreign companies have been converted into euros at the exchange rate on the balance sheet date. The profit and loss accounts of subsidiaries have been converted into euros at the average exchange rate during the financial year. The translation difference caused by the difference in exchange rate on the date of acquisition and on the balance sheet date as well as the difference arising from translating the profit and loss account and balance sheet at different rates are included in consolidated capital and reserves. 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.

#### Foreign currency derivative contracts

Open external exchange contracts and currency swaps have been valued at the exchange rate 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 and booked as a credit or charge to earnings. Premiums on options that have fallen due are included in financial income and expenses.

#### Interest rate derivative contracts

Interest rate swaps used to hedge the Group's long-term interest-bearing loans are not valued in the financial statements. Interest on interest rate swaps is periodised over the contract period and booked in a net amount as an adjustment to interest expenses.

#### Commodity derivatives

Commodity derivatives taken out to hedge the Group's raw material purchases (zinc and electricity) are not valued in the annual accounts. The realised results of commodity derivatives are booked as an item adjusting hedged raw material purchases.

#### 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.

#### Stocks

Stocks are valued at the acquisition price, or at the probable 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.

## Notes to the accounts

### 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, in the operating profit.

Fixed assets obtained through leasing and other rental agreements are treated in the annual accounts in accordance with the regulations in force in each country. As a rule, assets obtained on financial lease terms are also treated as a rental agreement under Contingent liabilities, whereby their value is not stated under fixed assets in the balance sheet.

### Extraordinary income and expenses

Extraordinary income and expenses include exceptional business transactions and events that are of material importance.

In 2000, extraordinary expenses included EUR 25 million to cover the Group's forecast non-recurring restructuring expenses, of which EUR 22 million had been realised during 2001 and EUR 3 million during 2002.

The parent company's extraordinary income and expenses also include group contributions as well as the merger differences resulting from intra-Group mergers.

### 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, temporary 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.

### Rounding off of figures in the annual accounts

Individual figures and grand totals presented in the annual accounts have been rounded off to full thousands or millions of euros from exact figures, which means that when added together or subtracted they will not always tally.

### Foreign exchange rates

The main foreign exchange rates applied in the annual accounts during the years 1998–2002:

Average rates	2002	2001	2000	1999	1998
USD	0.946	0.896	0.924	1.066	1.113
GBP	0.629	0.622	0.610	0.659	0.672
SEK	9.161	9.255	8.447	8.808	8.846
NOK	7.509	8.048	8.113	8.310	8.400
DKK	7.431	7.452	7.454	7.436	7.454

Year-end rates	2002	2001	2000	1999	1998
USD	1.049	0.881	0.931	1.005	1.167
GBP	0.651	0.609	0.624	0.622	0.705
SEK	9.153	9.301	8.831	8.563	9.487
NOK	7.276	7.952	8.234	8.077	8.872
DKK	7.429	7.437	7.463	7.443	7.449

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

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

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
<b>Turnover by division</b>				
Rautaruukki Steel	795	818	1066	1067
Metform	333	315	216	196
Steel Structure Division	312	300	21	19
Fundia	638	632		
Steel Service	636	691		
Other units	171	149	0	2
	2884	2906	1303	1285
<b>Turnover by market area</b>				
Finland	784	858	410	451
Other EU-countries	1506	1432	689	625
Other Europe	499	508	156	164
Other countries	95	108	47	45
Total external turnover of which	2884	2906	1303	1285
- Exports from Finland	725	738	893	834
- International operations	1401	1337		

### 2. Operating profit by division

M€	Group	
	2002	2001
Rautaruukki Steel	9	83
Metform	17	12
Steel Structure Division	12	10
Fundia	-17	-4
Steel Service	23	9
Other units and internal items	-36	-16
	6	93

### 3. Other operating income

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Gains on the sale of fixed assets	9	3	8	0
Other	6	14	1	9
	15	17	9	9

### 4. Raw materials and services

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Materials, supplies and goods				
Purchases during the accounting period	1558	1580	636	665
Change in inventories	3	-17	6	-18
External services	186	175	100	96
	1746	1738	742	742



## 5. Personnel expenses

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Wages and salaries	433	425	207	204
Profit-related bonus paid to the personnel fund	1		1	
Pension insurance premiums and pensions	94	61	72	42
Other indirect personnel expenses	65	65	22	21
Total	593	550	302	267

### Salaries and emoluments of directors

of the members of the Supervisory Board	0.1	0.1	0.1	0.1
of the members of the Board and of Managing Directors including results-based bonuses to Management	5.9	6.1	0.5	0.7
	0.0	0.1		

### The Group's average payroll by division

	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Rautaruukki Steel	5470	5539	4923	5071
Metform	1445	1510	611	628
Steel Structure Division	1790	1767	90	91
Fundia	3060	3221		
Steel Service	1270	1279		
Other units	290	361	170	200
Total	13325	13678	5794	5990

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

It has been agreed that the president of the Group's parent company will retire at the age of 65. The group has no loans to insiders.

## 6. Depreciation and reduction in value

Depreciation according to plan 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 depreciation according to plan used is in accordance with local accounting practice, which is not significantly different from the principles applied to depreciation by the parent company.

### Depreciation according to plan by the balance sheet line:

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Goodwill	7	9	6	9
Other long-term expenses	9	9	5	5
Buildings and structures	20	20	12	12
Machinery, equipment and other material goods	136	132	82	83
Total	172	170	106	109
Reductions in value	6	2		
Depreciation and reductions in value, total	177	172	106	109

## 7. Other operating charges

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Sales freights	193	190	98	94
Rents	47	51	5	4
Other	141	125	47	41
Total	382	366	149	139

## 8. Financial income and expenses

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Income from other investments held as non-current assets				
Dividend income from group companies			1	2
Dividend income from associated companies			1	3
Dividend income from other companies			1	
	0	0	2	5
Other interest and financial income				
Interest income from group companies			33	36
Interest income from other companies	4	4	2	1
Exchange gains	2	1	1	
Other financial income	1	1		
Total	7	5	37	38
Write-downs on investments held in non-current assets				
Write-downs on the values of group companies			-20	
			-20	
Interest and other financial expenses				
Interest expenses to group companies			-2	-2
Interest expenses to other companies (see also Note 10)	-55	-53	-53	-54
Exchange losses	-1	-2	0	-2
Other financing expenses to other companies	-3	-2	-2	-1
Total	-59	-57	-57	-59
Total financing income and expenses	-52	-52	-38	-16

## Notes to the accounts

### 9. Extraordinary items

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Extraordinary income				
Group contributions				17
Extraordinary expenses				
Group contributions				-26
Group restructuring				-1
Extraordinary items, total	0	0	0	-10

### 10. Income taxes

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Taxes for the year	-2	-5	0	-2
Taxes from the previous years		6		
Change in deferred tax	12	-13		
	11	-12	0	-2

The Group's total tax rate was 24% (29% in the previous year). The Group's total tax rate is lower than Rautaruukki Oyj's tax rate, because foreign subsidiaries' losses for the previous years, among other things, could have been utilized during the accounting period.

In 2001, the crediting to income of taxes for previous years was due to the discharge of the tax provision booked in Sweden in 1996. Sweden's Kammarrätten (Fiscal Court of Appeal) has delivered its judgement on the tax appeal in favour of the company. The judgement nevertheless does not yet have force of law because the tax recipient has applied for a permit to submit an appeal to the Högsta Domstolen, which is Sweden's Supreme Court.

The amount of the discharged tax provision was EUR 6 million. At the same time, accrued interest liabilities of EUR 5 million were credited to income by deducting them from interest expenses.

The company believes that with a very great probability a permit to submit an appeal will not be granted because in two other similar cases, appeal permit applications were rejected, whereby the judgement of the lower court received force of law.

### 11. Intangible assets

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Intangible rights				
Acquisition cost 1.1.	17	16	6	6
Increases 1.1.-31.12.	2	1		
Decreases and adjustment 1.1.-31.12.	-1			
Acquisition cost 31.12.	18	17	6	6
Accumulated depreciation according to plan 1.1.	-10	-8	-4	-4
Accumul. depreciation of decreases and adjustment acc. to plan 1.1.-31.12	1			
Depreciation according to plan 1.1.-31.12	-2	-2		
Book value 31.12.	6	7	2	2
Goodwill				
Book value 1.1.	25	40	12	21
Increases 1.1.-31.12.		-5		
Depreciation according to plan 1.1.-31.12	-7	-9	-6	-9
Book value 31.12.	19	25	5	12

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Other capitalised long-term expenses				
Acquisition cost 1.1.	69	67	58	56
Increases 1.1.-31.12.	4	3	3	2
Decreases and adjustment 1.1.-31.12.	-8	-1	-8	
Acquisition cost 31.12.	65	69	52	58
Accumulated depreciation according to plan 1.1.	-49	-43	-43	-38
Accumul. depreciation of decreases and adjustment acc. to plan 1.1.-31.12.	8		8	
Depreciation according to plan 1.1.-31.12.	-7	-7	-5	-5
Book value 31.12.	17	20	12	15

### Advance payments

Book value 1.1.	9	2	9	2
Changes 1.1. - 31.12.	8	7	8	7
Book value 31.12.	18	9	17	9
Intangible assets, total 31.12.	60	61	37	38

### 12. Tangible assets

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Land and water areas				
Book value 1.1.	24	25	6	6
Increases 1.1.-31.12	2	1		
Decreases and adjustment 1.1.-31.12.	-1	-1		
Book value 31.12.	26	24	6	6

### Revaluations included in the book values of land areas<sup>1</sup>

Revaluations 1.1.	2	2	2	2
Revaluations 31.12.	2	2	2	2
Book value 31.12.	2	2	2	2

### Buildings

Acquisition cost 1.1.	621	584	405	400
Increases 1.1.-31.12	18	29	12	6
Decreases and adjustment 1.1.-31.12.	-22	8	-2	
Acquisition cost 31.12.	618	621	415	405
Accumulated depreciation according to plan 1.1.	-268	-226	-168	-156
Accumul. depreciation of decreases and adjustment acc. to plan 1.1.-31.12.	18	-22		
Depreciation according to plan	-20	-20	-12	-12
Book value 31.12.	347	353	236	237

### Revaluations included in the book value of buildings<sup>1</sup>

Revaluations 1.1.	30	30	30	30
Revaluations 31.12.	30	30	30	30

<sup>1</sup> Revaluations made in 1970's are based on replacement values.

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
<b>Machinery and equipment</b>				
Acquisition cost 1.1.	2301	2205	1588	1571
Translation adjustment	13	-4		
Increases 1.1.-31.12.	108	96	50	35
Decreases and adjustment 1.1.-31.12.	-66	5	-52	-18
Acquisition cost 31.12.	2356	2301	1586	1588
Accumulated depreciation according to plan 1.1.	-1354	-1252	-928	-861
Translation adjustment	-9	3		
Accumul. depreciation of decreases and adjustment according to plan 1.1.-31.12.	68	30	52	17
Depreciation according to plan 1.1.-31.12.	-136	-135	-82	-83
Book value 31.12.	926	948	628	660
Book value of machinery 31.12.	912	933	624	655
<b>Advance payments and construction in progress</b>				
Acquisition cost 1.1.	55	49	37	22
Changes 1.1.-31.12.	-6	6	0	15
Book value 31.12.	49	55	37	37
Tangible assets, total 31.12.	1348	1381	907	941

### 13. Investments

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
<b>Shares in Group companies</b>				
Book value 1.1.			272	245
Increases 1.1.-31.12.			6	30
Decreases 1.1.-31.12.			-1	-3
Revaluations 1.1.-31.12.			-21	
Book value 31.12.			256	272
<b>Receivables from Group companies</b>				
Book value 1.1.			12	5
Changes 1.1.-31.12.			-12	7
Book value 31.12.			0	12
<b>Shares in associated companies</b>				
Book value 1.1.	23	25	7	7
Transfer between balance sheet rows			-1	
Share of the profit for the year			-1	
Book value 31.12.	23	23	7	7
Acquisition cost includes Goodwill	0	0		
<b>Long-term receivables from associated companies</b>				
Book value 1.1.	1	1	1	1
Book value 31.12.	1	1	1	1
<b>Other shares and similar rights of ownership</b>				
Book value 1.1.	11	13	6	6
Decreases 1.1.-31.12.	-1	-2	-2	
Book value 31.12.	10	11	4	6
<b>Own shares</b>				
Book value 1.1.	13	6	13	6
Increases 1.1.-31.12.		8		8
Change in value	-2	-1	-2	-1
Book value 31.12.	11	13	11	13

On 31.12.2002 the company possessed 3,270,000 pieces of K-Shares with the accounting countervalue EUR 5.6 million.

Total investments 31.12. 45 49 280 311

## Notes to the accounts

### Stocks and shares 31.12.2002

	Country Domicile	Number of shares	Group share (%) of share capital voting rights		Nominal value currency thousands	Book values, 1000 € held by Rautaruukki Oyj held by other Group companies	
Subsidiaries of Rautaruukki Oyj:							
Asva Oy	FI Helsinki	98500	100.0	100.0	EUR 16567	78755	
August Lindberg Oy	FI Raahe	5	100.0	100.0	EUR 42	616	
Carl Christensen og Brødre AS	NO Oslo	66	100.0	100.0	NOK 2310	20674	
DCA-instruments Oy	FI Turku	990	97.2	71.0	EUR 167	167	
Etnarör Ab	FI Oulu	100	100.0	100.0	EUR 8	8	
Finnsteel Inc	US Northbrook	3000	100.0	100.0	USD 30	996	
Fundia Acier S.A.R.L	FR Paris	100	100.0	100.0	EUR 15	253	
Oy JIT-Trans Ltd	FI Raahe	150	100.0	100.0	EUR 252	925	
Kiinteistö Oy Pakilantie 61-63	FI Helsinki	27000	100.0	100.0	EUR 4541	6567	
OOA NPO-SPU	RU St Petersburg	1235	100.0	100.0	RUB 40029	3699	
OOO Stalpark	RU St Petersburg	1	100.0	100.0	RUB 32550	1273	
Presteel Oy	FI Raahe	2365	55.0	55.0	EUR 398	2128	
Rannila Slovakia s.r.o.	SK Kosice	139630	51.0	51.0	SKK 139630	3101	
Rannila Steel Oy	FI Vimpeli	1500	100.0	100.0	EUR 2523	16819	
Rautaruukki(Benelux) B.V.	NL Almelo	40	100.0	100.0	EUR 18	123	
Rautaruukki Holding AB	SE Stockholm	570000	100.0	100.0	SEK 57000	37215	
Rautaruukki Holding B.V.	NL Amsterdam	40	100.0	100.0	EUR 18	14	
Rautaruukki Holding Danmark A/S	DK Vallengbæk Strand	1000	100.0	100.0	DKK 16000	7009	
Rautaruukki Holding GmbH	DE Düsseldorf	1	100.0	100.0	EUR 2071	48414	
Rautaruukki (UK)Ltd	GB Solihull	2501000	100.0	100.0	GBP 2501	4611	
Rautaruukki (Norge) A/S	NO Oslo	200	100.0	100.0	NOK 200	44	
Rautaruukki Polska Sp.zo.o.	PL Zyrardow	23173	100.0	100.0	PLN 2317	952	
Rautaruukki Profiler AS	NO Mo i Rana	70000	100.0	100.0	NOK 70000	18000	
Rautaruukki Sales Ltd	GB London	10000	100.0	100.0	GBP 10000	14	
SKJ-yhtiöt Oy	FI Raahe	1000	100.0	100.0	EUR 84	141	8
Star Tubes (UK) Ltd.	GB Birmingham	2780000	100.0	100.0	GBP 2800	3289	36
						255806	45
Subsidiaries not eliminated from consolidated accounts:							
Housing and real estate corporations, 1 company						526	
Other subsidiaries of Rautaruukki Group (non-trading) 3 companies			100.0	100.0	120	10	50
Non-eliminated subsidiaries, total						536	50
						256343	95
Subsidiaries of Asva Oy:							
Asva StalSerwis Sp.zo.o	PL Zyrardow	7022	100.0	100.0	PLN 7022		1 765
Kiinteistö Oy Alpinus	FI Kuusamo	450	100.0	100.0	EUR 8		109
Mittalevy Oy	FI Helsinki	150	100.0	100.0	EUR 3		7
Asva Eesti AS	EE Tallinn	9450	100.0	100.0	EEK 945		89
SIA Asva Latvija	LV Riga	37	100.0	100.0	LVL 37		56
UAB Asva Lietuva	LT Vilnius	150	100.0	100.0	LTL 150		201
ZAO Asva Stal	RU Moscow	12	100.0	100.0	RUB 120		19
OOO Asva Stalservis	RU St Petersburg	1	100.0	100.0	RUB 20		781
ZAO Stal Ross	RU St Petersburg	100	100.0	100.0	RUB 100		9
OOO Rautaruukki	RU Moscow	1	100.0	100.0	RUB 5500		171
							3206
Subsidiary of A/S Carl Christensen og Brødre:							
CCB Stål AS	NO Oslo	600	100.0	100.0	NOK 600		1736

	Country Domicile	Number of shares	Group share (%) of		Nominal value currency thousands	Book values, 1000 €	
			share capital	voting rights		Rautaruukki Oyj	held by other Group companies
Subsidiaries of Rannila Steel Oy:							
Alamentti Oy	FI Alajärvi	100	100.0	100.0	EUR 17		79
Rannila Kattopalvelu Oy	FI Karkkila	2000	100.0	100.0	EUR 7		928
ZAO Rannila Sankt-Petersburg	RU St Petersburg	7900	100.0	100.0	RUB 7900		1066
ZAO Rannila Taldom	RU Taldom	28800	100.0	100.0	RUB 2880		751
AS Rannila Profiil	EE Pärnu	1500	100.0	100.0	EEK 4395		339
Rannila Steel Export Oy	FI Vimpeli	5	100.0	100.0	EUR 8		8
Rannila Steel Latvia S.I.A	LV Riga	1800	100.0	100.0	LVL 180		290
Rannila Steel Vilnius U.A.B	LT Vilnius	30	100.0	100.0	LTL 30		6
Rannila CZ s.r.o.	CZ Velvary		100.0	100.0	CZK 30000		1057
ZAT Rannila Ukraina	UA Kiev	5481	100.0	100.0	UAH 2192		539
ZAO Rannila Minsk	BY Minsk	520	100.0	100.0	BYR 52000		
TOO Rannila Kazakshstan	KZ Alma-Ata		90.0	90.0	KZT 15074		106
ZAO Rannila Marketing	RU Moscow	50	100.0	100.0	RUB 50		
							5169
Subsidiaries of Rannila Slovakia s.r.o.:							
Rannila Kft. Hungary	HU Budapest		100.0	100.0	HUF 484		12
Rannila Romania r.t.l	RO Brasov		100.0	100.0	ROL 359		9
							20
Subsidiary of Rautaruukki Holding B.V.:							
Rautaruukki Finance B.V.	NL Amsterdam	40	100.0	100.0	EUR 18		18
Subsidiaries of Rautaruukki Holding Danmark A/S:							
Nordisk Simplex A/S	DK Vallensbæk Strand	2	100.0	100.0	DKK 25000		8707
Stelform A/S	DK Fredericia	3	100.0	100.0	DKK 25000		1347
Asva A/S	DK Glostrup	500	100.0	100.0	DKK 500		222
							10276
Subsidiaries of Rautaruukki Holding GmbH:							
Carl Froh GmbH	DE Sundern	1	100.0	100.0	EUR 3477		37569
Fundia GmbH	DE Mülheim	1	100.0	100.0	EUR 4607		6854
Rautaruukki Rohr GmbH	DE Sundern	1	100.0	100.0	EUR 102		113
Rautaruukki Stahl GmbH	DE Düsseldorf	1	100.0	100.0	EUR 27		307
Rautaruukki Stahlservice GmbH	DE Duisburg	1	100.0	100.0	EUR 26		3830
Schmacke Rohr GmbH	DE Sundern	1	100.0	100.0	EUR 2045	47	2674
						47	51347
Subsidiary of Carl Froh GmbH:							
Froh House Tech GmbH & Co KG	DE Sundern	1	100.0	100.0	EUR 2000		2000
Subsidiary of Fundia GmbH:							
Groth Eisenhandel GmbH & Co KG	DE Monheim	1	100.0	100.0	EUR 383		415
Subsidiaries of Rautaruukki Holding AB:							
Asva AB	SE Halmstad	70000	100.0	100.0	SEK 7000		9208
Fundia AB	SE Stockholm	1320000	100.0	100.0	SEK 350000		127266
Gasell Profil AB	SE Trelleborg	162000	100.0	100.0	SEK 16200		5659
Rautaruukki Rör AB	SE Surahammar	9000	100.0	100.0	SEK 90		104
Wirsbo Stålrör AB	SE Surahammar	50000	100.0	100.0	SEK 5000		2185
							144422

## Notes to the accounts

	Country Domicile	Number of shares	Group share (%) of		Nominal value currency thousands	Book values, 1000 €	
			share capital	voting rights		held by Rautaruukki Oyj	held by other Group companies
Subsidiaries of Gasell Profil AB:							
Gasell Profil A/S	DK Herlev	500	100.0	100.0	DKK 500		162
Gasell Profil AS	NO Frogner	500	100.0	100.0	NOK 50		67
Gasell Profil Polska Sp.zo.o.	PL Warsaw	40	100.0	100.0	PLN 4		845
Gasell Profiles Ltd.	GB Maisemore	1000	100.0	100.0	GBP 1		1
U.A.B. Gasell Profil	LT Kaunas	10	100.0	100.0	LTL 10		2
ZAO Gasell Profil Moscow	RU Moscow	770	100.0	100.0	RUB 770		24
Gasell Profil S.R.L	RO Bucharest	1005	100.0	100.0	ROL 1000		55
							1157
Subsidiaries of Fundia AB:							
Fundia Bar & Wire Processing AB	SE Gävle	40000	100.0	100.0	SEK 40000		20263
Fundia Special Bar AB	SE Smedjebacken	106000	100.0	100.0	SEK 106000		10926
Fundia Wire Oy Ab	FI Dragsfjärd	200	100.0	100.0	EUR 3364		20759
Fundia Reinforcing AS	NO Oslo	579901	100.0	100.0	NOK 57990		70055
							122003
Subsidiaries of Fundia Bar & Wire Processing AB:							
Fundia Cromax AB	SE Smedjebacken	1000	100.0	100.0	SEK 100		5670
Fundia Dalwire Oy Ab	FI Dragsfjärd	120000	100.0	100.0	EUR 2018		1044
Fundia Hjulstro AB	SE Linköping	80000	100.0	100.0	SEK 8000		3360
Fundia Mandal Stål AS	NO Mandal	16358	100.0	100.0	NOK 16358		2254
Fundia Steelservice AB	SE Gävle	60000	100.0	100.0	SEK 6000		3469
Fundia SWL AB	SE Smedjebacken	8000	100.0	100.0	SEK 800		869
							16666
Subsidiaries of Fundia Reinforcing AS:							
Fundia Armeringstål AS	NO Mo i Rana	230001	100.0	100.0	NOK 128111		56628
Fundia Armering AS	NO Oslo	440000	100.0	100.0	NOK 44000		9896
Fundia Betoniteräkset Oy	FI Dragsfjärd	1570	100.0	100.0	EUR 2893		3082
Fundia Armering AB	SE Halmstad	600000	100.0	100.0	SEK 60000		10052
Robocon International AS	NO Oslo	500	100.0	100.0	NOK 50		
SNJ Gesellschaft für Walzhandel GmbH	DE Mülheim	500	100.0	100.0	EUR 13		19
							79677
Subsidiaries of Fundia Armering AB:							
Fundia Welbond BV	NL Raamdonksveer	499	100.0	100.0	EUR 227		261
Fundia Armering A/S	DK Ølstykke	38	100.0	100.0	DKK 1000		697
							958
Subsidiaries of Fundia Cromax AB:							
Fundia Bright Bar AB	SE Hallstahammar	50000	100.0	100.0	SEK 5000		3682
Fundia Cromax S.p.A	IT Molinella	1000000	100.0	100.0	EUR 520		2247
Fundia Mora AB	SE Mora	38500	100.0	100.0	SEK 3850		1214
Fundia Redon S.A.	FR Redon	25050	100.0	100.0	EUR 382		875
Fundia Twente B.V.	NL Almelo	5000	100.0	100.0	EUR 2269		0
							8019
Subsidiary of Fundia Special Bar AB:							
Fundia Tankoteräs Oy	FI Helsinki	150	100.0	100.0	EUR 3		3
Subsidiaries of Fundia Wire Oy Ab:							
Asunto Oy Lappohjan Kerrostalot	FI Hanko	34556	100.0	100.0	EUR 100		590
Fastighets Ab Järnstängen	FI Hanko	10100	100.0	100.0	EUR 1		1
Fastighets Ab Lapphyddan	FI Hanko	810	81.0	81.0	EUR 14		14
Fundia Nedstaal B.V	NL Alblasserdam	4545455	100.0	100.0	EUR 7947		7947
Fundia Tråd AB	SE Borlänge	500	100.0	100.0	SEK 100		938
							9490
Stocks and shares in subsidiaries, total							256390

	Country Domicile	Number of shares	Group share (%) of		Nominal value currency thousands	Book values, 1000 €		
			share capital	voting rights		held by Rautaruukki Oyj	held by other Group companies	
Associated companies, share of voting rights 20–50%:								
BuildForum Oy	FI Helsinki	100000	35.3	35.3	EUR	1445	9	818
ACH Aluminium AB	SE Halmstad	12	20.0	20.0	SEK	600		
AB Järnbruksförnödenheter	SE Stockholm	623	41.5	41.5	SEK	100		11
Bet-Ker Oy	FI Ylivieska	120	44.4	44.4	EUR	224		202
Ekometall AOZT	UA Jenakievo	1000	50.0	50.0	USD	25		
Helens Rör AB	SE Halmstad	4500	25.0	25.0	SEK	4500	6694	
Kiinteistö Oy Teknocent	FI Oulu	1916	47.9	47.9	EUR	322	322	
It Barents Region AS	NO Tromsø	4000	33.3	33.3	NOK	4000		
Kings Lynn Steel (Holdings) Ltd.	GB Peterborough	5000	50.0	50.0	GBP	500		
Mofjellet Berghaller AS	NO Mo i Rana	600	40.0	40.0	NOK	1000		201
Norsk Jern Eiendom AS	NO Mo i Rana	3600	30.3	30.3	NOK	22500		11306
Osuuskunta Teollisuuden Romu	FI Helsinki	2	33.3	33.3	EUR	3	2	2
PPTH Steelmanagement Oy	FI Peräseinäjoki	11660	22.0	22.0	EUR	10	10	
Raahen Kauppaklubin Kannatus Oy	FI Raahе	15	33.3	33.3	EUR	25	25	
Rannila Centrostal Bydgoszcz Sp.zo.o.	PL Torun	1	49.0	49.0	PLN	660		
							7062	12540
							19601	
Associated companies' profits and goodwill							3616	
Associated companies' value in balance sheet							23217	
Other stocks and shares, share of voting rights less than 20%:								
Ancofer Stahlhandel GmbH	DE Mülheim	1	10.0	10.0	EUR	732		3219
Brødrene Sundt Verktøimaskinfabrikk A/S	NO Oslo	2939	15.4	15.4	NOK	73		27
Oy Datacity Center Ab	FI Turku	1000	7.0	7.0	EUR	17	17	
Ekokem Oy Ab	FI Riihimäki	230	1.3	1.3	EUR	77	77	
Hangöudds Utvecklingsbolag Ab	FI Hanko	800	10.0	10.0	EUR	135		137
Hex Oy	FI Helsinki	24400	0.6	0.6	EUR	17	25	
Buc Smedjebacken AB	SE Smedjebacken	125	12.5	12.5	SEK	13		1
Metalplast-Oborniki Sp.zo.o	PL Obornik	149903	16.9	16.9	PLN	141	910	
Odda Recycling AS	NO Odda	83	8.3	8.3	NOK	500		10
Raahen Tietotekniikka Oy	FI Raahе	10	2.3	2.3	EUR	2	8	
Skandinavian Link Finska Oy	FI Helsinki	100	7.7	7.7	EUR	3	17	
Tammet Oy	FI Tammisaari	900	15.0	15.0	EUR	54		747
Shares in housing and real estate companies							1921	614
Other stocks and shares							1082	416
Other stocks and shares, total							4056	5171
Other stocks and shares and non-eliminated subsidiary shares, total								9813
Own shares							11249	
Stocks and shares owned by Rautaruukki Oyj, total							278756	

## Notes to the accounts

### 14. Inventories

Inventories are valued at the acquisition price or at the probable selling price, if it is lower. Raw material costs are determined on a FIFO basis.

### 15. Debtors

Long-term receivables include receivables due for repayment in one year or later.

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
<b>Short-term non-interest bearing amounts owed by Group companies</b>				
Trade debtors			49	30
Other non-interest bearing debtors			36	43
			85	73
<b>Short-term amounts owed by associated companies</b>				
Trade debtors	4	5	3	5
Other non-interest bearing debtors		1		1
	4	6	3	5
<b>Essential items in prepayments and accrued income</b>				
Interest receivables	1		1	
Tax receivables	1	2		
Insurance compensation receivables	1	2	0	1
Prepaid personnel expenses	1			
Currency hedgings	8	10	11	10
Insurance compensation receivables	20	14	4	3
Total accruals	32	29	16	14

### 16. Capital and reserves

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Share capital 1.1.	236	236	236	236
Share capital 31.12.	236	236	236	236
Share premium reserve 1.1.	220	220	220	220
Share premium reserve 31.12.	220	220	220	220
Revaluation reserve 1.1.	24	24	33	33
Change	0			
Revaluation reserve 31.12.	23	24	33	33
Fund for own shares 1.1.	13	6	13	6
Transfer from retained earnings		8		8
Write-down on own shares	-2	-1	-2	-1
Fund for own shares 31.12.	11	13	11	13
Profit from previous years 1.1.	360	373	156	193
Transfer to fund for own shares		-8		-8
Dividend	-27	-34	-27	-34
Profit from previous years 31.12.	333	330	129	151
Profit / loss for the year	-35	30	-44	5
Translation difference	12	4		
Capital and reserves, total 31.12.	799	856	584	658

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
<b>Distributable earnings</b>				
Profit from previous years	333	330	129	151
+ Profit / loss for the year	-35	30	-44	5
+ Translation difference of distributable earnings	15			
- Accumulated depreciation difference and other appropriations shown under capital	-331	-320		
= Distributable earnings	-19	39	85	156

### The biggest shareholders of Rautaruukki Oyj according to the share register as on 31.12.2002

Shareholder	Shares		Number of shares
	%		
1. The Finnish State	40.1	55 656 699	
2. Mutual Pension Insurance Company Varma-Sampo	4.01	5 563 587	
3. Odin Norden	3.42	4 746 900	
4. Rautaruukki Oyj	2.35	3 270 000	
5. OP-Delta Investment Fund	1.18	1 644 000	
6. Rautaruukki Pension Foundation	1.14	1 585 455	
7. Federation of Finnish Metal, Engineering and Electrical Industries	0.92	1 272 000	
8. Finnish State Pension Fund	0.86	1 200 000	
9. Mutual Life Insurance Company Suomi	0.83	1 153 000	
10. Nordea Life Insurance Finland Ltd	0.82	1 143 846	
11. Rannila Esa	0.70	978 000	
12. Finnish Local Government Pension Foundation	0.62	858 917	
13. Sampo Life Insurance Company Ltd	0.58	800 000	
14. Mutual Insurance Company Tapiola	0.54	750 700	
15. Investment Fund Conventum Finland Value	0.54	750 000	
16. Fortum Pension Foundation	0.51	710 900	
17. Investment Fund Sampo Finland Equity	0.47	649 837	
18. Onnenmäki Foundation	0.44	616 257	
19. OP-Profit Investment Fund	0.43	602 000	
20. The Finnish National Fund for R&D, Sitra	0.42	587 700	
Administrative registrations	8.88	12 335 332	
Other foreign owners	3.96	5 504 130	
Other owners	26.29	36 507 185	
Total	100.00	138 886 445	

The total number of shares held by members of the Supervisory Board and the Board of Directors was 15,128, which represent 0.01 % of the voting right conferred by all the company's shares. In addition the members of the Board of Directors held company convertible bonds which confer entitlement to subscribe at most a total of 1,000 K Shares, i.e. 0.0007 % of the voting right.

Share capital of Rautaruukki Oyj by share series:

	accounting number	countervalue, €
Series K (10 votes per share)	138,886,445	236,106,957

Series A shares, as defined in the Articles of Association, have not been issued.



Shareholders by share ownership according to the share register as on 31.12.2002

Osakkeiden lukumäärä	Shareholders		Shares	
	No.	%	Thousands	%
1–100	2,168	10.74	131	0.09
101–1 000	14,031	69.48	6,760	4.87
1 001–10 000	3,567	17.66	9,958	7.17
10 001–100 000	343	1.70	9,653	6.95
100 001–	84	0.42	112,384	80.92
	20,193	100.00	138,886	100.00

Shareholders by sector according to the share register as on 31.12.2002

	Shareholders		Shares	
	No.	%	Thousands	%
Companies	787	3.90	11,880	8.56
Banks and insurance companies	101	0.50	13,981	10.07
Public institutions	68	0.34	71,472	51.46
Non profit institutions	255	1.26	5,223	3.76
Private households	18,887	93.53	18,491	13.31
Administrative registrations	9	0.04	12,335	8.88
Other foreign owners	86	0.43	5,504	3.96
	20,193	100.00	138,886	100.00

### 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 EUR 119 million, has not been separated out from appropriations.

### 19. Interest bearing long-term creditors

Creditors denominated in foreign currency have been valued in the balance sheet at the rate on the balance sheet date.

The currency mix and repayment schedule of the Group's long-term debt as of 31.12.2002

M€	Currency	Repayments							Total	% of total debt
		2003	2004	2005	2006	2007	2008	2009–		
Convertible bonds	EUR	3							3	0
Bonds and debenture loans	EUR		64		71			104	238	23
Loans from credit institutions	EUR	81	156	257	40	93	5	15	647	61
Pensions loans	SEK	16	3	3	3	33			57	5
	EUR	6	6	6	3	1	1	42	65	6
	SEK							17	17	2
Others	NOK							1	1	0
	EUR	4	5	5	5	5	4		27	3
		110	234	269	121	131	10	178	1,054	100

The average interest rate on long-term loans was 4.9 %

M€	Rautaruukki Oyj	
	2002	2001
Accumulated depreciation difference 1.1.	413	387
Change in profit and loss account	-1	26
Accumulated depreciation difference 31.12.	412	413
Appropriations, total 31.12.	412	413

### 18. Provisions

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

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Pension liabilities 1.1.	14	12	6	5
Change in staff expenses in the profit and loss account	21	2	19	2
Transfer from interest bearing pensions loans	3			
Pension liabilities 31.12.	38	14	25	6
Tax provisions 1.1.	1	8		
Change (see also Note10)	0	-7		
Tax provisions 31.12.	0	1		
Other obligatory provisions 1.1	9	26		
Transfer from non-interest bearing loans	9			
Changes in the profit and loss account	2	-17	4	
Other obligatory provisions 31.12.	20	9	4	0
Obligatory provisions, total	58	23	29	6

M€	interest rate	currency	2002	2001
<b>Bonds (nominal value)</b>				
1999–2004	4.0 %	EUR	65	65
1999–2006	4.5 %	EUR	71	71
			135	135
<b>Callable subordinate notes (nominal value)</b>				
2002–2009	7.5 %	EUR	54	
2002–2009	5.9 %	EUR	50	
			104	
<b>Convertible bonds</b>				
1998–2003	5.0 %	EUR	3	3

On the basis of equity warrants, 400 000 Series K shares can be subscribed for.

#### 20. Deferred tax assets and liabilities

M€	Group Rautaruukki Oyj <sup>1</sup>			
	2002	2001	2002	2001
<b>Deferred tax assets</b>				
In the companies' accounts	8	5		
From consolidation	5	5		
From temporary differences	20	4		
	33	14		
<b>Deferred tax liabilities</b>				
In the companies' accounts	3	3		
From appropriations	133	124	119 <sup>1</sup>	120 <sup>1</sup>
From consolidation	8	8		
From temporary differences	22	26		
	166	161	119	120

<sup>1</sup> For the parent company, the deferred tax liability from the depreciation difference in the balance sheet is shown. This deferred tax liability is not booked to Rautaruukki Oyj's balance sheet.

#### 21. Current non-interest bearing creditors owed to Group companies

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Trade creditors			7	7
Other creditors			1	27
			1	35

#### 22. Current non-interest bearing creditors owed to associated companies

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Trade creditors	2	4	2	4
	2	4	2	4

#### 23. Current creditors

Essential items in accruals and deferred income

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
Tax liability	4	5		
Interest debts	11	10	11	10
Personnel expenses	63	65	39	37
Currency hedgings	17	12	17	12
Other accruals	30	27	11	11
Total accruals	125	119	78	70

#### 24. Contingent liabilities and other liabilities

Given securities

M€	Group Rautaruukki Oyj			
	2002	2001	2002	2001
<b>Mortgage backed liabilities</b>				
Pensions loans	40		40	
Loans from financial institutions	12	3	12	2
	52	3	52	2
<b>Collateral in value</b>				
Mortgaged real estates	86	71	79	69
<b>Collateral given on behalf of Group companies</b>				
Guarantees			47	55
Debit balance of Group bank accounts			81	73
			128	128

Collateral given on behalf of associated companies

Guarantees	2	2	2	2
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Collateral given on behalf of others

Guarantees	5	8	4	7
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Contingent and other liabilities

<b>Leasing and rental liabilities</b>				
Due next year	36	37	11	11
Due later	139	142	69	78
	176	179	88	88

Other financial liabilities

Repurchase liabilities	14	14	12	12
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Letter of Comfort liabilities\*

for Group companies			12	13
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\*Letter of Comfort liabilities do not constitute a legal guarantee.

Other liabilities

By a decision issued on 4 February 2003, the Norwegian authorities imposed on Fundia's Mo i Rana steel mill new emission limits for mercury and other heavy metals. The new limits will come into force on 1 December 2006. The new emission limit for mercury will be 30 kg a year. The company is examining the effects of this decision together with the Norwegian authorities, but it is not yet possible to estimate its economic impact.

#### 25. Financing and the management of financial risks

The Rautaruukki Group's financing operations and the management of financial risks are handled centrally by the parent company's Corporate Treasury in accordance with the financial policy approved by the Group's Board of Directors. The divisions and subsidiaries are responsible for their own financial result and carry out their financial transactions within the Group. The objective of the Group's management of financial risks is to minimise the unfavourable effects of financial risks on the Group's earnings, shareholders' equity and liquidity.

### Foreign exchange risk

The Group's foreign exchange risk is managed via three separate positions: the balance sheet, equity and cash flow positions. The balance sheet position was on average completely hedged during 2002. The foreign exchange risk for the shareholders' equity amounts of foreign shareholdings was not hedged.

The bulk of the Group's foreign exchange surplus is in British pounds and Danish kroner. In 2002, Danish kroner amounts were not hedged and amounts in British pounds were hedged for about six months of cash flow. The prices of the most important raw materials are set in United States dollars, which means that the Group has a substantial dollar deficit. Of this, an amount corresponding on average to 4–5 months flow was hedged.

Estimated annual net cash flow risk against euro

	M€
USD	- 300
GBP	+ 150
SEK	+ 50
NOK	- 90
DKK	+ 140
PLN	+ 25
RUB	+ 25
Other currencies	+ 50
Total	+ 50

### Interest rate risk

The Group's interest-bearing net debt at 31 December 2002 was EUR 1092 million and the average interest rate was 4.9 per cent. The euro represents about 80 per cent of the interest rate risk and the Swedish krona about 20 per cent.

Interest rate risk is monitored and managed in terms of interest flow risk and price risk. At 31 December 2002 the interest flow risk impact over the next 12 months of a one percentage point rise in the interest rate was EUR 2.4 million. Taking into account derivatives, the duration of the net liabilities exposure at the end of the year was 1.5 years. A change of one percentage point in the interest rate curve would have led to a change of about EUR 16 million in the market value.

Estimated effect of a percentage point change in the interest rate curve on the sensitivity of net debt and net interest expenses

M€	interest flow	
	sensitivity risk (12 months)	
EUR	15.1	2.3
Other currencies	0.4	0.1
Total	15.5	2.4

### Liquidity risk

To minimise refinancing risks, the Group strives to achieve a balanced maturity distribution of its loans and to make use of a number of different sources of financing. To ensure liquidity the Group had, at the end of 2002, committed revolving credit facilities totalling EUR 523 million, of which EUR 284 million was unused.

The Group has several uncommitted short-term credit lines as well as an EUR 250 million commercial paper programme, of which EUR 165 million was unused at the end of the year.

### Credit risk

With a view to minimising credit risks in financing, agreements and commitments are made only with leading and financially solid banks and other counterparties. Financial credit risks did not result in losses during the financial year. Rautaruukki does not have major long-term delivery or trade debtors from customers, or large individual customer risks. The major part of unsecured trade receivables is covered by credit risk insurance.

### Commodity price risks

#### Zinc

The raw materials used by the Group involve price risks, for which the established derivatives markets provide only for hedging the price risk of zinc. Approximately 40,000 tonnes of zinc was purchased in 2002. At the end of the year, 50 per cent of the estimated zinc purchases for 2003 and 20 per cent for 2004 had been hedged.

#### Electricity

The price risk for electricity is monitored and managed in accordance with the risk policy approved by Group management. For the Group's functions in Finland, risk management is centralised within the parent company. In other countries, risk management is handled locally. Of the Group's total use of electric power, about half is self-generated and half is purchased electricity. The amount of purchased electricity in 2002 was about 1,400 GWh, of which about half was purchased in Finland. At the end of the year, electricity derivatives had been employed to hedge 80 per cent of the purchases in Finland for 2003, 60 per cent for 2004 and 30 per cent for 2005.

### Derivative contracts as at 31.12.2002

The following table shows the nominal values and fair values of the Group's financing instruments and commodity derivatives. The calculation of fair values is based on the available market prices or a price given by a bank. For options, general valuation models are used. The nominal amounts do not correspond to the money payments exchanged by the parties and they also include closed contracts.

M€	Nominal value	Fair value
Interest rate derivatives		
Interest rate swaps	652	-6.6
Foreign currency derivatives		
Forward contracts	309	0.2
Options*		
Bought	215	-3.3
Bought	215	-4.6
Zinc derivatives		
Forward contracts**	30,200	-2.3
Electricity derivatives		
Forward contracts***	1,343	22.5

\*Risk reversal

\*\*Nominal amounts in tonnes

\*\*\*Nominal amounts in GWh

## Notes to the accounts

### 26. Financial and share based key figures

		2002	2001	2000	1999	1998
Turnover	M€	2,884	2,906	2,708	2,388	2,579
Personnel on average		13,325	13,678	13,176	13,219	13,409
FINANCE						
Operating profit	M€	6	93	156	57	186
% of turnover	%	0.2	3.2	5.8	2.4	7.2
Profit/Loss before extraordinary items	M€	-46	41	106	-6	127
% of turnover	%	-1.6	1.4	3.9	-0.2	4.9
Profit/Loss before taxes	M€	-46	41	81	-6	109
% of turnover	%	-1.6	1.4	3.0	-0.2	4.2
Return on net assets	%	0.6	5.0	8.7	3.3	10.4
Return on equity	%	-4.3	3.4	8.2	-2.0	9.7
Equity ratio	%	31.1	33.3	34.1	34.6	36.9
Gearing ratio	%	138	129	118	121	109
Gross investments	M€	142	162	176	197	235
% of turnover	%	4.9	5.6	6.5	8.2	9.1
Research and development	M€	17	19	20	20	18
% of turnover	%	0.6	0.7	0.7	0.8	0.7
Net interest expenses	M€	50	49	50	50	61
% of turnover	%	1.7	1.7	1.8	2.1	2.4
Interest bearing net debt	M€	1,092	1,087	1,017	1,014	954
Balance sheet total	M€	2,561	2,559	2,523	2,432	2,402
SHARE BASED KEY FIGURES						
Earnings per share, EPS	€	-0.26	0.22	0.51	-0.13	0.64
- diluted	€	-0.26	0.21	0.49	-0.13	0.63
Equity per share	€	5.81	6.21	6.23	6.02	6.44
Dividend per share	€	0.00*	0.20	0.25	0.20	0.30
Dividend per earnings	%	0.0*	91.9	49.4	-154.6	47.3
Price per earnings, P/E		-13.2	18.8	7.6	-53.7	8.6
Share trading	thousands	33,902	39,038	34,318	41,116	68,150
Stock turnover	%	25	29	25	30	51
Share trading	M€	145	162	166	254	443
Average price of share	€	4.26	4.16	4.83	6.18	6.50
Lowest price of share	€	3.36	3.59	3.45	5.10	4.29
Highest price of share	€	5.30	4.85	7.20	7.30	8.16
Average adjusted number of shares	thousands	135,616	136,132	138,462	135,109	133,228
- diluted	thousands	136,016	138,947	142,183	138,699	134,939
Adjusted number of shares at year-end	thousands	138,886	138,886	138,886	138,886	133,228
Number of shares at year-end	thousands	138,886	138,886	138,886	138,886	133,228
- not counting own shares	thousands	135,616	135,616	137,540	138,886	133,228
- diluted	thousands	136,016	138,431	141,355	142,476	135,779
Share price at year-end	€	3.44	4.10	3.82	6.95	5.53
Market capitalization at year-end	M€	478	569	531	965	737
Effective dividend yield	%	0.0*	4.9	6.5	2.9	5.5

\* Board proposal

## Principles governing the calculation of key figures

$$\text{Return on net assets} = \frac{\text{profit before extraordinary items} + \text{interest expenses} \pm \text{exchange rate differences} + \text{other financial expenses}^1}{[\text{balance sheet total}^2 - \text{obligatory provisions} - \text{non-interest bearing debt}] \text{ (average of the beginning and end of the year)}}$$

$$\text{Return on equity} = \frac{\text{profit before extraordinary items} - \text{taxes}^3}{[\text{capital and reserves}^2 + \text{minority interest}] \text{ (average of the beginning and end of the year)}}$$

$$\text{Equity ratio} = \frac{\text{capital and reserves} + \text{minority interest}}{\text{balance sheet total}^2 - \text{current advanced payments received}}$$

$$\text{Gearing ratio} = \frac{\text{interest bearing net debt}}{\text{capital and reserves}^2 + \text{minority interest}}$$

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

$$\text{Earnings per share (EPS)} = \frac{\text{profit before extraordinary items} - \text{minority interests} - \text{taxes}^3}{\text{adjusted average number of shares}^2}$$

$$\text{Equity per share} = \frac{\text{capital and reserves}^2}{\text{adjusted number of shares at year-end}^2}$$

$$\text{Dividend per share} = \frac{\text{dividends paid}}{\text{adjusted number of shares at year-end}^2}$$

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

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

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

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

$$\text{Effective dividend yield} = \frac{\text{dividend / share}}{\text{share price at year-end}}$$

<sup>1</sup> Excluding depreciation of short-term investments

<sup>2</sup> The own shares in the company's possession are not included in the number of shares, shareholders' equity or total assets in the key ratio calculations.

<sup>3</sup> Taxes have been stated without taxes related to extraordinary items.

## BOARD PROPOSAL FOR THE DISPOSAL OF DISTRIBUTABLE FUNDS

The consolidated distributable capital and reserves, in which the net loss for the financial year was 35 million euros, was 19 million euros negative at the end of the 2002 financial year. The parent company's distributable shareholders' equity was made up as follows:

Net loss for the year	EUR -44,221,418.70
Retained earnings from previous years	EUR 128,786,049.39
<u>Total</u>	<u>EUR 84,564,630.69</u>

The Board of Directors proposes to the Annual General Meeting that no dividend be paid out and that the loss for the financial year be transferred to the retained earnings account.

Helsinki, 5 February 2003

BOARD OF DIRECTORS

Jukka Viinanen

Georg Ehrnrooth    Maija-Liisa Friman    Christer Granskog

Carita Putkonen    Pekka Timonen    Mikko Kivimäki

## AUDITORS' REPORT

(translation)

*To the shareholders of Rautaruukki Oyj*

We have audited the accounting, the financial statements, and the administration of Rautaruukki Oyj for the year ended 31 December 2002. 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 on administration of the parent company.

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

entation. The purpose of our audit of administration is to examine that the members of the Supervisory Board and the Board of Directors and the Managing Director of the parent company have legally 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. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations, as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board and 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 by the Board of Directors on how to deal with the result is in compliance with the Finnish Companies Act.

Helsinki, 5 February 2003

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 2002, as well as the Auditors' Report, the Supervisory Board of Rautaruukki Oyj proposes to the 2003 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.

Helsinki, 4 March 2003

### SUPERVISORY BOARD

Turo Bergman

Jouko Skinnari	Tuula Haatainen	Timo Ihamäki
Tauno Matomäki	Seppo Kanerva	Inkeri Kerola
Ole Johansson	Bertel Langenskiöld	Kyösti Karjula

## FIGURES BY QUARTER

### TURNOVER BY QUARTER

(EUR million)	I/2001	II/2001	III/2001	IV/2001	I/2002	II/2002	III/2002	IV/2002
Rautaruukki Steel	351	357	314	295	304	328	331	345
Metform	97	95	80	80	90	102	83	92
Steel Structure Division	58	80	94	79	58	83	93	88
Fundia	199	195	158	172	178	195	169	189
Steel Service	156	192	182	172	162	168	157	159
Other units	31	39	40	41	41	44	36	50
– internal invoicing	– 161	– 182	– 164	– 142	– 147	– 176	– 167	– 170
Consolidated turnover	731	774	703	697	686	743	703	753

### OPERATING PROFIT/LOSS BY QUARTER

(EUR million)	I/2001	II/2001	III/2001	IV/2001	I/2002	II/2002	III/2002	IV/2002
Rautaruukki Steel	38	30	10	5	2	– 10	4	13
Metform	1	6	3	1	5	9	2	1
Steel Structure Division	– 3	3	10	0	– 4	4	10	2
Fundia	2	4	– 5	– 6	– 1	1	– 18	1
Steel Service	6	3	2	– 3	2	5	5	10
Other units and internal items	0	– 5	– 2	– 10	– 4	– 8	– 15	– 10
Consolidated operating profit/loss	46	42	17	– 12	1	1	– 12	17

### EXTERNAL DELIVERIES BY QUARTER

(1000 t)	I/2001	II/2001	III/2001	IV/2001	I/2002	II/2002	III/2002	IV/2002
Hot rolled plates, sheets and coils	269	259	255	260	269	278	267	292
Cold rolled sheets and coils	48	55	41	43	51	44	48	50
Coated sheets and coils	178	191	161	172	167	166	178	179
Tubular products	147	151	127	126	139	166	128	147
Profiled sheets and sections	58	66	71	63	50	69	75	67
Long steel products	559	519	423	469	473	516	441	502