” YOU HAVE THE IDEA...

OUTOKUMPU

Annual Report 2007

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OUTOKUMPU 2007

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Outokumpu in brief

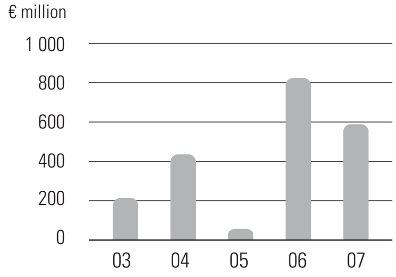
Outokumpu – an international stainless steel company

Outokumpu is a global leader in stainless steel. Our vision is to be the undisputed number one in stainless, with success based on operational excellence. Customers in a wide range of industries use our stainless steel and services worldwide. Being fully recyclable, maintenance-free, as well as very strong and durable material, stainless steel is one of the key building blocks for sustainable future.

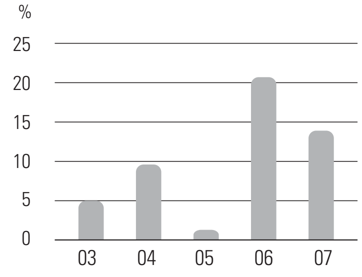
Outokumpu operates in some 30 countries and employs more than 8 000 people. The Group's head office is located in Espoo, Finland. Outokumpu has been listed on the Helsinki stock exchange since 1988. www.outokumpu.com.

OUTOKUMPU IN BRIEF	
Sales (2007)	EUR 6 913 million
Stainless steel deliveries (2007)	1 419 thousand tons
Personnel (Dec. 31, 2007)	8 108
Main products	Cold and hot rolled stainless steel coil, sheet and plate, quarto plate, thin strip, tubular and long products.
Grades	Full range of standard and high alloyed austenitic grades, as well as duplex, ferritic and manganese grades.
Dimensions	Cold rolled flat products in thickness range from 0.12 mm to 6.5 mm. White hot strip and hot rolled plate in varying widths and thicknesses. Full range of tubular products from hygienic tubes to heavy walled pipes.
Customers	Distributors, re-rollers and further processors, tube makers as well as end-user and project customers.
Typical customer industries using stainless steel	Architecture, Building and Construction, Chemical, Petrochemical and Energy, Transportation, Catering and Appliances, Process Industries and Resources and various other industries and applications.
Main production facilities	Finland, Sweden, the UK, the US, The Netherlands
Sales companies and service centers	A comprehensive network of sales companies and service centers in some 30 countries.

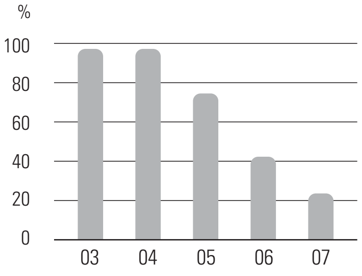
OPERATING PROFIT



RETURN ON CAPITAL EMPLOYED



DEBT-TO-EQUITY RATIO



Stainless steel is used in various end-user industries

Architectural, Building and Construction

Transportation

Process Industries and Resources

Chemical, Petrochemical and Energy

Catering and Appliances

> STAINLESS STEEL AS A MATERIAL

Stainless steel is corrosion resistant, strong, hygienic and recyclable. These properties make it an ideal choice for a variety of demanding industrial and consumer applications. Several life-cycle studies indicate that in many applications the total cost of stainless steel is lower than that of competing materials.

The consumption of stainless steel grows faster than any other metal in the world. Consumption of stainless steel increases with economic growth as both its properties and its aesthetic image are highly competitive. The stainless business covers both austenitic (300-series) and ferritic (400-series) grades. The 300-series stainless steel accounted for nearly 60 percent of the global stainless steel market in 2007.

Stainless steel's unique properties make it difficult to find substitutes.


...WE ACTIVATE YOUR IDEAS."
What makes Outokumpu special is total customer focus – all the way, from R&D to delivery. You have the idea. We offer the world's best stainless steel, technical know-how and support. We activate your ideas.

Outokumpu's market position

The consumption of stainless steel is growing more rapidly than any other metal in the world. Outokumpu is one of the largest producers of stainless steel and is widely recognized as a world leader in technical support, research and development.

According to the current strategic phase, Outokumpu is increasing the share of specialty grades and products in its product mix.

Outokumpu's market position

The global stainless steel market totals 29 million tons or some EUR 110 billion. During the last twenty years, consumption has grown at a rate of 5–7% per annum. In Europe, the Group's main market area, the market totals 4.4 million tons and consumption has grown by 3% annually. In recent years, the largest growth has globally occurred in China with a growth rate of some 20% annually.

Outokumpu is one of the world's largest producers of stainless steel with main production facilities located in Finland, Sweden, the UK and the US. Outokumpu's melting capacity totals 2.55 million tons and the finished products capacity for cold rolled material and white hot strip is 1.6 million tons. Outokumpu also produces 0.3 million tons of long products and plate annually.

In global terms, Outokumpu's biggest site, Tornio Works in Finland, is the world's most cost-efficient and the most integrated single-site stainless steel production facility. Recently announced major investment decisions in specialty stainless and other non-standard steel production in Avesta Works and Tornio Works and in hot rolled plate in Degerfors and Newcastle, will increase Outokumpu's production capacity in the coming years.

Outokumpu has a 16% share of the stainless steel coil market in Europe and a 6% share worldwide. Outokumpu's main markets are Europe (73% of sales in 2007), Asia (12%) and North and South America (12%).

GROUP KEY FIGURES

		2007	2006
Sales	€ million	6 913	6 154
Operating profit	€ million	589	824
Non-recurring items in operating profit	€ million	14	1
Profit before taxes	€ million	798	784
Non-recurring items in financial income	€ million	252	-
Net profit for the period from continuing operations	€ million	660	606
Net profit for the period from discontinued operations	€ million	-18	357
Net profit for the period	€ million	641	963
Capital employed on Dec. 31	€ million	4 125	4 371
Return on capital employed	%	13.9	20.7
Net cash generated from operating activities	€ million	676	-35
Capital expenditure	€ million	190	187
Net interest-bearing debt on Dec. 31	€ million	788	1 300
Equity-to-assets ratio	%	56.5	47.9
Debt-to-equity ratio	%	23.6	42.3
Earnings per share	€	3.52	5.31
Earnings per share from continuing operations	€	3.63	3.34
Earnings per share from discontinued operations	€	-0.10	1.97
Equity per share	€	18.53	16.87
Dividend per share	€	1.20 [1]	1.10
Share price on Dec. 31	€	21.21	29.66
Market capitalization on Dec. 31	€ million	3 820	5 369
Stainless steel deliveries	1 000 tons	1 419	1 815
Stainless steel base price [2]	€/ton	1 304	1 470
Personnel on Dec. 31		8 108	8 159

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

2) Stainless steel: CRU – German base prices (2 mm cold rolled 304 sheet). Please note: Between July–October 2007, European prices for some stainless grades were quoted on a transaction price basis, therefore base prices are the calculated value of transaction price minus alloy surcharge for this time period (CRU).

Raw materials and energy

Recycled stainless and carbon steel as well as ferrochrome and nickel are the main raw materials used in producing stainless steel. Ferrochrome, but especially nickel, are the most valuable of the raw materials. Outokumpu operates its own chromite mine at Kemi and a ferrochrome smelter at Tornio, both in

Finland. Recycled stainless and carbon steel as well as nickel and some of the ferrochrome are purchased on the open market.

Nickel accounted for 76 percent of all raw material costs in Outokumpu's production of stainless steel in 2007.

Energy

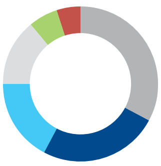
Electrical energy accounts for some 3% of total production costs. The largest consumers of electrical energy in the Group are the Tornio ferrochrome smelter and the stainless steel melt shops in Tornio in Finland, Avesta in Sweden and Sheffield in Britain.

MAJOR STAINLESS STEEL PRODUCERS

Estimated slab capacity million tons	2007	2010
ArcelorMittal, The Netherlands	3.26	3.16
Acerinox, Spain	3.10	3.14
ThyssenKrupp, Germany	2.90	3.10
Outokumpu, Finland	2.55	2.90
TISCO, China	2.50	3.00
POSCO, South Korea	2.30	2.80

Source: CRU and Outokumpu

END-USES OF STAINLESS STEEL



Source: CRU. Global consumption of cold rolled flat products 2007.

CEO's review

Year 2007 was an important milestone in Outokumpu's development. We made significant progress in our focus areas of financial performance, direction, operations and people.

Financial performance met our goals

The external environment of the global stainless steel industry in 2007 was characterized by significant turbulence. During the first part of the year, distributor customers were reducing their inventories from the high levels at the beginning of the year. The price of nickel, the most important alloying element by value, collapsed during the summer, reducing demand for stainless steel even further. This led to record low deliveries for stainless producers during the third quarter of the year.

The dramatic drop in nickel prices, combined with low deliveries, caused Outokumpu to book losses during the second half of 2007. Despite this, thanks to record performance in the first half of the year, our full year financial results were good. I am very pleased that in spite of the market turbulence, the Group's full year results met our financial goals: a return on capital employed of 14%, exceeding our target of 13%; and gearing down to 24% – way better than our target of below 75%. It is encouraging to see that our performance improvement actions in the last few years are bearing fruit.

Year 2007 clearly demonstrated that our business model is very sensitive to external market turbulence. Thus, building a more stable and predictable business model is a key priority for Outokumpu both the short and long term.

In the short term, the change in the alloy surcharge mechanism started from January 2008 is expected to bring more stability to our customers' behavior. Bringing the pricing of alloying elements closer to actual delivery should reduce our customers' incentive to speculate, which so far has been one of the main underlying reasons for demand volatility. In the longer term, the next phase in our strategy, introduced in September 2007, aims at a more stable business model.

Strategic direction to become number one

In line with the path towards our vision, which we launched in 2005, the first years were dedicated to internal improvements. Today, I am very pleased to see the good developments made in this respect, and we are therefore ready for a new phase on our strategic journey seeking profitable growth and a more stable business model.

This phase on our journey to become the undisputed number one in the stainless industry, is based on four strategic elements: to maintain our cost leadership in standard grades, to increase the share of special and ferritic grades in our product portfolio, to increase our sales to end-user and project customers, maintain stable sales volumes to distributors and processors, and, to increase our sales outside western European markets.

During 2007, we took some concrete steps to realize this strategy. The decisions to invest in the Avesta and Hot Rolled Plate operations will significantly increase our volume of special grades, especially the duplex product family. Duplex grades, in which we have some 50% share of world markets, have proven to offer the customers several advantages; good mechanical strength with high corrosion resistance while containing less nickel than the comparable standard grades. These value-adding benefits have turned into solid growth of these grades, and we believe will continue in the future.

Another area of investments, in which decisions were taken in 2007, was the strengthening of our service center network. Our service centers are essential to be able to increase the share of end-user and project customers.

The investment decisions for special grades and service centers total some EUR 1.3 billion. It is a tangible demonstration of our commitment to realize the Group's strategy. With our strong balance sheet these sizeable investments can be comfortably financed.

Improving the quality of our operations

Since 2005, we have been systematically developing the quality of our operations through operational excellence initiatives. Some 2 000 Outokumpu employees have already been trained to implement these methods of continuous improvement within our commercial and production operations. The programs have already delivered some EUR 70 million of cumulative financial benefits, well ahead of the targeted EUR 40 million. Besides, we have managed to maintain a competitive fixed cost level.

As part of our strategy launched in 2007, we also decided to expand the scope of the excellence programs to cover the supply chain and procurement. Based on internal analysis and external benchmarking, we can see significant potential for improvement in these areas. As a result of the enlarging their scope, we have set new targets for the excellence programs, financial benefits of EUR 200 million by 2009 and EUR 300 million by 2010, compared to 2005.

Key operational targets for 2007 were improvements in occupational safety and delivery reliability. Both targets were achieved. While it is positive that the annual targets were met, we are very much aware that being world-class, further improvements need to be made. Thus, these performance indicators remain high on our agenda with more ambitious targets for 2008 and beyond.

People in focus

To align the organizational structure with the new strategy, a revised organizational model was developed and introduced during the autumn of 2007. This has become effective from January 2008 and will be fully operational from April 2008.

The most significant new feature of the revised organizational model is the introduction of segment teams. Their role is to achieve an in-depth understanding of the needs of different customer groups and develop plans for Outokumpu's sales to respective market segments. These cross-functional teams will also steer the field sales operations to ensure

New phase on our strategic journey seeking profitable growth and a more stable business model has started

the delivery of the targeted changes in the customer mix.

Year 2007 marked several important improvements and actions on our journey to become the undisputed number one in the global stainless industry. However, there is still way to go to achieve our vision and thus the work continues as determined as ever.

Year 2008 will be important in taking further steps to implement our strategy and operational improvements. I am confident that the new organizational model will align the efforts of the entire organization in the right direction.

Finally, I would like to take this opportunity to thank all Outokumpu people for their excellent work. I also want to thank our customers, suppliers, investors and other stakeholders for their continued support.

Juha Rantanen
CEO

Vision and strategic direction

Outokumpu is an international stainless steel company. Our vision is to be the undisputed number one in stainless steel, with success based on operational excellence.

Strategic objectives

To this end, we have defined three key strategic objectives:

- Value creation through building superior production and distribution capabilities in all the world's major markets
- Value realization through commercial and production excellence
- Sustaining value by continuously developing our people and putting the customer at the heart of everything we do

The path to reach the vision, to be the undisputed number one in stainless, was divided into two main phases: firstly, ensuring the number one position in Europe with building and strengthening operational excellence, and secondly, achieving global leadership in stainless by multiplying operational excellence. The ultimate goal is to secure a significant and sustained increase in shareholder value.

In autumn 2007, Outokumpu moved to a second phase in its strategy development. Outokumpu aims at delivering a more stable and profitable business model whilst also addressing the most attractive growth opportunities. The new phase will entail the increasing of the share of direct end-user and project sales from the current 35% to at least 50% in five years time. It will also include the expanding of the value-added special products capacity, while at the same time maintaining cost leadership in standard grade volume production.

Outokumpu is today a pure play stainless steel company with a strong balance sheet and is well positioned to accelerate its profitable growth.

Financial objectives

Outokumpu's overall financial objective is to generate maximum sustainable economic value added. The specific group-level financial objectives in line with the vision in terms of growth, profitability and financial strength are:

- To continue growing faster than the market
- A return on capital employed of over 13% and always the best among peers
- Gearing below 75%

Dividend policy

The dividend policy established by the Board of Directors states that the dividend payout ratio over a business cycle should be at least one-third of the company's net profit for that period with the aim to have stable annual payments to shareholders. In its annual dividend proposal, the Board will, in addition to financial results, take into consideration the Group's investment and development needs.

Leadership principles

Outokumpu has defined Group-wide leadership principles. The main principles are:

- Making sound decisions
- Achieving ambitious targets
- Creating a winning team
- Inspiring to perform
- Building trust and respect

Ethical principles

Outokumpu honors human dignity and diversity, and condemns discrimination and intolerance of all kinds.

Outokumpu strives to achieve sustainable human, economic, social and ecological development in all its operations. Outokumpu observes the laws and other regulations of the countries it operates in, and complies with agreements and commitments it has made. Furthermore, Outokumpu condemns corruption and bribery and complies strictly with competition legislation.

A healthy and positive workplace is a source of strength for all employees and benefits families, friends and colleagues as well.

> BEING THE UNDISPUTED NUMBER ONE IN STAINLESS STEEL

- Best financial performance in the industry
- Industry benchmark in customer relationship management
- Most efficient production operations
- Most attractive employer

> OUTOKUMPU'S KEY STRENGTHS

- Stainless steel is the fastest growing segment in the metals market
- World's most cost-efficient production site in Tornio
- A strong position in specialty products
- Strong commitment to customer-related performance and orientation
- Strong R&D in product and process development

Our vision is to be the undisputed number one in stainless steel

Highlights in 2007

Q2

End-user demand continued good but demand for standard grades slowed down as distributors started de-stocking. Base prices fell to 1 500 EUR/t and most producers cut production. Due to the record-high nickel price peaking at 54 000 USD/t, transaction prices reached an all-time high of 4 500 EUR/t. The Group's EBIT in Q2 was EUR 406 million (incl. nickel-related inventory gains of some EUR 100 million). The remaining 12% stake in Outotec was sold and Outokumpu participated in the Talvivaara IPO.

Q1

Strong demand for stainless from end-users continued. Base prices started off at the record-high level of 2 000 EUR/t resulting in very high transaction prices around 4 200 EUR/t. The price of the most valuable raw material of stainless steel, nickel, had risen throughout 2006 and averaged 41 000 USD/t in Q1/2007. Outokumpu's Q1 EBIT was record high at EUR 424 million (incl. nickel-related inventory gains of some EUR 50 million).

Strategy:

Year 2007 was announced the Year of Commercial and in September the next phase of the Group strategy was launched with higher focus on end-user and project customers and special grades and products. Some EUR 1.3 billion will be invested in the production capacity of special grades and ferritics and the service center network.

Q4

Demand for standard grades from distributors started to recover and production in Outokumpu's biggest site at Tornio returned gradually back to normal levels. Base prices stabilized at and increased from around 1 000 EUR/t. Transaction prices came down to around 3 000 EUR/t and nickel prices were quoted around 28 000 USD/t. EBIT for Q4 was EUR 15 million (nickel related inventory losses of some 100 million).

Q3

In the summer, nickel collapsed from its all-time high of 54 000 USD/t to a level of 25 000 USD/t resulting in heavy de-stocking by distributors – demand was almost non-existent for standard grades. Production cuts for standard grades continued resulting in very low delivery volumes in the seasonally low Q3. Transaction prices for stainless dropped to around 3 700 EUR/t. Outokumpu's EBIT was EUR 256 million negative including nickel related inventory losses of EUR 280 million.

Stainless pricing mechanism:

Stainless steel transaction price comprises the base price and the alloy surcharge. Outokumpu is applying a new alloy surcharge method from the beginning of 2008. This calculation method uses the average price of the raw material in the month prior to the delivery month instead of the months two and three prior to the delivery month. This method should result in a more stable behavior by the market but will at the same time reduce the natural hedge of nickel.

Market review

Robust global economic growth

Robust global economic growth continued in 2007. Despite a slight moderation (on an annual level) compared to 2006, global GDP grew at a healthy rate of 3.7%, marking the fourth successive year for such prosperous levels (Consensus Forecast Feb. 08).

Despite growing concerns regarding the economic outlook for 2008, growth in emerging markets is expected to continue strongly, alleviating the expected short-term softening in developed economies and helping to keep global growth rates at healthy levels. In overall terms, world economic activity is expected to soften on an annual basis in 2008 to 3%, before improving to 3.3% in 2009.

Good underlying demand for stainless steel

Overall, 2007 was once again a good year for growth in underlying stainless steel demand, supported by positive developments in end-use industries and generally favourable global economic conditions. However, the development of demand during 2007 was also quite exceptional, mainly as a result of an unprecedented acceleration, and subsequent deceleration, of nickel prices. This had a significant effect on the apparent demand for stainless steel.

Stainless steel demand can be broadly divided into two parts:

- 'real (underlying) demand' – that which is consumed directly within end-uses, and
- 'apparent demand' – that is resulting from a combination of real demand and intermediate demand from the stainless steel distribution sector.

Apparent demand can be impacted by stocking and de-stocking cycles within the stainless distribution sector. The development of nickel prices during the course of 2007 had a significant effect on apparent demand, resulting in a re-stocking phase within the distribution sector during the early part of 2007, followed by a severe de-stocking phase that started at the end of Q2 and continued into late Q3.

With industrial output strengthening during the first half of 2007, the year began with very strong demand for stainless steel and a tight supply situation. Consequently, German stainless steel base prices rose as high as 1 930 EUR/t in Q1 (CRU). Comparatively higher stainless steel base prices within Europe compared to prevailing prices in other regions however, attracted a high volume of imports from other regions, volumes, which were far above historically 'normal' levels. Over-supply then resulted in the second quarter and stainless steel stock levels in the distribution sector rose.

Strong global growth in worldwide production of stainless steel during the first half of the year resulted in increased demand for raw material ingredients. As a result, nickel prices in particular accelerated rapidly: from a level of 33 000 USD/t in early January, LME nickel prices were pushed above 54 000 USD/t in May (more than twice as high as the average price in 2006). This caused stainless steel transaction prices to rise very abruptly, peaking at 4 575 EUR/t in June, compared to the average of 2 811 EUR/t in 2006.

This exceptional nickel price development was seen by many as very much short-term and market participants expected nickel prices to decline from these elevated levels. Stainless steel buyers and distributors in particular therefore delayed purchases where possible, in order to wait for stainless steel transaction prices to normalize. This significantly impacted apparent demand and many stainless steel producers were forced to implement short-term production stoppages during this period. These production cuts caused both nickel usage and prices to decline. Nickel prices were on a sharply declining trend from June, falling from an average price of 52 200 USD/t in May to an average price of 27 600 USD/t in August. With stainless steel transaction prices normalizing and stainless steel stock levels moderating, apparent demand recovered quite significantly in Q4.

Worldwide stainless steel flat products apparent demand, on an annual basis, remained at 19 million tonnes in 2007 following the very strong increase of 16% in 2006. Apparent demand is forecast by CRU to increase by 8.5% in 2008. Global production of stainless steel increased by 1% in 2007, growth is expected to increase to 8.6% in 2008 (CRU Nov. 2007). The benchmark average annual German cold rolled 304 base price moderated from 1 470 EUR/t in 2006 to 1 304 EUR/t in 2007. The cold rolled 304 transaction price, however, increased by 36% year-on-year to 3 828 EUR/t.

> Volatile nickel prices affected stainless steel markets strongly in 2007 – underlying demand for stainless steel remained healthy

Raw material prices accelerated further in 2007

The world's appetite for raw materials and commodities has grown strongly in recent years, driven by high demand in developing countries and good economic developments in other parts of the world. Many raw material industries have struggled to add sufficient capacity in order to meet the world's growing demand. As a consequence, prices of most raw materials and commodities have accelerated higher in recent years.

Average LME nickel prices increased by 54% year-on-year in 2007 to 37 230 USD/t, following a year-on-year increase of 65% in 2006. Strong demand from the stainless steel industry which began during 2006 and continued into 2007, created a tight nickel market. Nickel stocks held in LME warehouses fell to as low as 3 000 tons in January 2007 – a significant reduction compared to year early levels of 37 000 tons. Due to good demand and tight supply, as well as the influence of speculative activity by the financial market, nickel prices continued on an upward trajectory through to May and reached records highs above 54 000 USD/t. These price levels, however, had a negative impact on stainless steel demand, forcing producers to reduce stainless steel production during the summer months. This in turn led to lower demand for nickel. LME stocks of nickel started to climb higher as prices peaked in May, and continued to increase through to the end of 2007, with stock levels reaching 47 000 tons by the year-end. LME nickel prices, after reaching peak levels of some 54 200 USD/t in May, fell by 53% to a low of 25 055 USD/t in August, when stainless production cutbacks were, at their most severe. There was a temporary rise in nickel prices during September and November (to around 33 000 USD/t), before prices fell back below 30 000 USD/t. Nickel prices ended the year at around 26 000 USD/t. Global consumption of nickel declined by 2.3% in 2007, while supply increased by 6% (CRU Jan. 2008).

Average annual ferrochrome contract prices advanced by 26% in 2007 to 0.91 USD/Ib, up from levels of 0.72 USD/Ib in 2006. Ferrochrome prices rose through 2007. Contract prices increased to 1.05 USD/Ib in Q4 and rose to a record high of 1.21 USD/Ib in Q1 2008. Spot prices were even higher at 1.60 USD/Ib. Growing production of, and therefore demand from stainless steel contributed to the increase in prices, but higher energy, labour and raw material costs in South Africa also had a significant impact. Global consumption of ferrochrome grew by 14% in 2007. Supply increased by 19% (CRU Jan. 2008).

Molybdenum prices rose during the course of 2007. The average annual price increased by 22% to 30.57 USD/lb. Although this was slightly below the 2005 average annual price of 32.51 USD/lb, it was significantly higher than the levels in 2004 and 2003 of 16.39 USD/lb and 5.40 USD/lb, respectively. Molybdenum is used in stainless steel to further enhance corrosion resistance properties. Molybdenum grades of stainless steel are used extensively, for example, within the oil and gas and chemical related industries. Molybdenum containing stainless steel demand therefore has benefited from the positive investment environment in these industries. Global consumption of molybdenum grew by 3.7% in 2007, supply increased by 4% (CRU Jan. 2008).

Recycled steel (iron) prices increased by 22% year-on-year to a level of 280 USD/t in 2007. From a level of 243 USD/t at the end of 2006, recycled steel prices moved upwards through to March, reaching 313 USD/t, inline with strong demand from the stainless and carbon steel industries. However, spot demand then weakened as a result of stainless production cuts and softer carbon steel markets. Prices then moved downwards, finding support at 275 USD/t in September. Prices remained at this level during most of the remainder of the year, before increasing to 328 USD/t in late December and further to 356 USD/t in early January.

Raw material prices have been high, and often volatile, for a number of years now. As a result, interest in and demand for stainless steel grades containing lower levels of nickel have increased. According to CRU, the proportion of global stainless steel production which was 300 series (containing around 8–10% nickel) declined to 56% in 2007, down from 64% in 2006. Production of 400 series (grades containing no nickel), however, and 200 series (1–4% nickel containing grades) increased to 27% and 17% respectively, up from 23% and 12.6% in 2006. Outokumpu is well positioned to respond to and benefit from these trends due to the company's leading position in duplex grades, particularly Outokumpu's proprietary lean duplex stainless steel grade LDX 2101®, which contains only 1.5% nickel, and due to Outokumpu's ongoing expansion of 400 series production.

Outlook for stainless steel demand continues bright

Stainless steel apparent consumption growth has averaged 5.5% per year (CAGR) over the period 1985–2007. This rate of growth is expected to strengthen in coming years partly due to the strong development of emerging economies and efforts to tackle key issues facing humanity such as meeting the world's growing demands for energy and water.

The continued development of emerging economies will ensure growing consumption of stainless steel in infrastructure, such as bridges, highways, buildings, airports and other transportation hubs such as metro and train stations, as well as in means of transportation such as trains, metros and automobiles. Growing disposable incomes in emerging economies will also create extra demand for manufactured goods such as domestic appliances, catering equipment and utensils. Additional capital equipment will also be needed to meet growing needs for processed foods, chemicals and energy – all of which are key stainless steel consuming industries.

Two of the world's key challenges in the future will be to meet the growing demand for energy and potable water. Stainless steel is used extensively in energy production industries such as oil and gas, as well as renewable sources and bio-fuels, both of which are growing in importance. Stainless steel is also a key material within desalination processes. Outokumpu's leading position in austenitic and special grades of stainless steel will ensure that the Group can make a positive contribution to the world's development in coming years.

ANNUAL AVERAGE METAL MARKET PRICES

		2003	2004	2005	2006	2007	Change % 2007/2006
Stainless steel							
Base price	EUR/t	1 397	1 424	1 174	1 470	1 304	-11.3
Alloy surcharge	EUR/t	396	828	942	1 341	2 534	89.0
Transaction price	EUR/t	1 793	2 252	2 116	2 811	3 828	36.2
Nickel	USD/t	9 641	13 852	14 744	24 254	37 230	53.5
	EUR/t	10 765	14 649	11 851	19 317	27 161	40.6
Ferrochrome (Cr-content)	USD/lb	0.43	0.69	0.74	0.72	0.91	26.4
	EUR/kg	0.84	1.22	1.32	1.26	1.46	15.9
Molybdenum	USD/lb	5.40	16.39	32.51	25.10	30.57	21.8
	EUR/kg	10.52	29.05	57.61	44.08	49.17	11.5
Recycled steel	USD/t	147	219	204	230	280	21.7
	EUR/t	130	176	164	183	204	11.5

Sources:

Stainless steel: CRU – German base price, alloy surcharge and transaction price (2 mm cold rolled 304 sheet), estimates for deliveries during the period. Please note: Between July–October 2007, European prices for some stainless grades were quoted on a transaction price basis, therefore base prices are the calculated value of transaction price minus alloy surcharge for this time period (CRU).

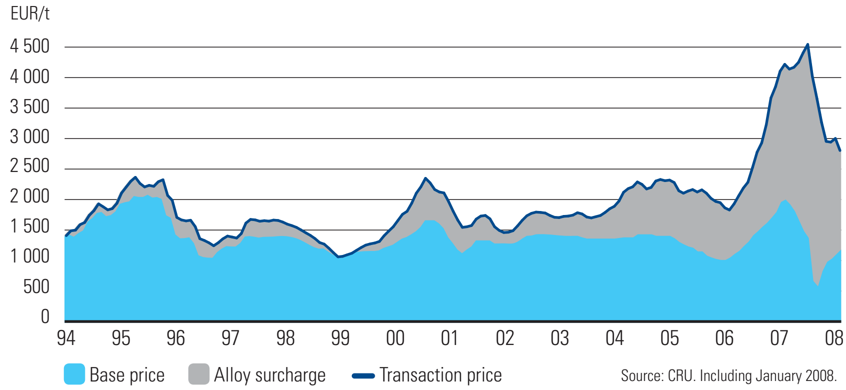
Nickel: London Metal Exchange (LME) cash quotation.

Ferrochrome: Metal Bulletin – Ferrochrome lumpy chrome charge, basis 52% chrome.

Molybdenum: Metal Bulletin – Molybdenum oxide, Europe.

Recycled steel: Metal Bulletin – Steel scrap HMS 1&2 fob Rotterdam.

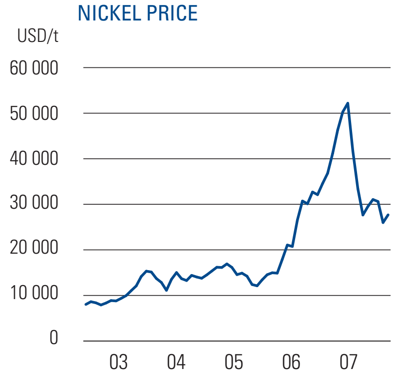
STAINLESS STEEL PRICE



Source: CRU. Including January 2008.

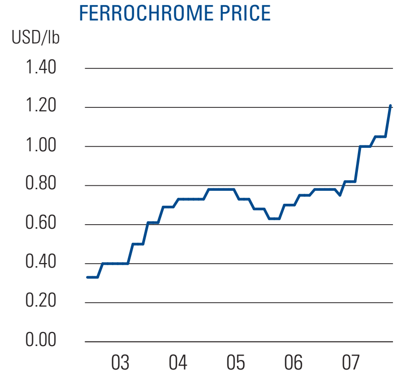
Note: Between July–October 2007, European prices for some stainless steel grades were quoted on a transaction price basis, therefore base prices are the calculated value of transaction price minus alloy surcharge for this time period (CRU).

NICKEL PRICE



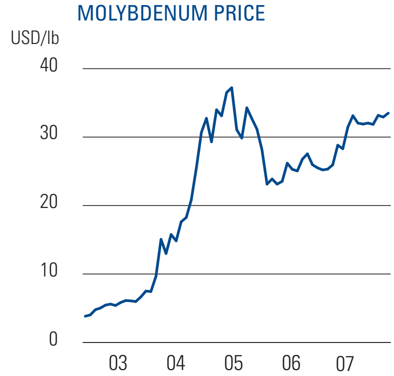
Source: LME. Including January 2008.

FERROCHROME PRICE



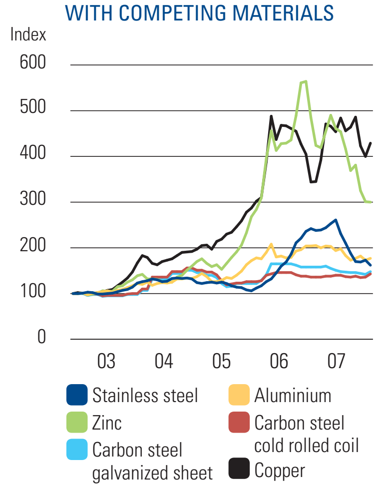
Source: Metal Bulletin. Including January 2008.

MOLYBDENUM PRICE



Source: Metal Bulletin. Including January 2008.

MARKET PRICE COMPARISON WITH COMPETING MATERIALS



Source: CRU, LME and Metal Bulletin. Including January 2008.

Management discussion on strategy and financial performance

Good financial performance and sizeable investment decisions supporting the strategic development

In 2007, Outokumpu further solidified its balance sheet by achieving its financial targets, entered a new phase in its strategic development and made significant investment decisions. After achieving record profits in the first half of the year, the collapse in demand in the stainless steel market in the latter part of the year resulted in significant nickel related inventory losses. Still the company was able to reach the full year target for the return on capital employed. The next phase in the Group's strategy implementation targets aggressive shifts in customer and product mix as well as growth outside Europe and is expected to create a more stable and profitable business model. Enabled by the very strong balance sheet, major investment decisions supporting implementation of the strategy were made.

Progress towards the leading position through operational excellence

Outokumpu's vision is to be the undisputed number one in stainless, with success based on operational excellence. The path to achieving this vision has two main phases: firstly, ensuring the number one position in Europe with building and strengthening operational excellence, secondly, achieving global leadership in stainless by multiplying operational excellence. The ultimate goal is to secure a significant and sustained increase in shareholder value.

Outokumpu already has a strong position in the stainless steel industry. In Tornio in Finland, Outokumpu has the world's most cost-efficient and most integrated production site ensuring the cost leadership in standard grades. Furthermore, Outokumpu's long history and comprehensive knowledge as well as well-tailored production facilities in Sweden, gives the Group a leading position in specialized stainless steel products. In accordance with the plan, the emphasis has been so far on internal improvements and strengthening financial performance, as well as on improving the quality of the current asset base. Today, both the Production Excellence and Commercial Excellence programs are proceeding at full speed. In addition, the EUR 100 million Group-wide fixed-cost reduction program successfully completed in 2006 delivered its full benefits in 2007. Closure of the cold rolling facility in Sheffield, completed in 2006, delivered an additional EUR 50 million annual fixed cost savings. The sale of shares and listing of Outokumpu Technology (Outotec Oyj) in 2006 and the subsequent sale of the remaining minority share in Outotec last year practically completed the targeted restructuring of the Group.

Outokumpu is today a pure-play stainless steel company with a strong balance sheet and is well positioned to accelerate its profitable growth.

New phase in the strategy development with major investment decisions

In 2007, Outokumpu launched the next phase in the Group's strategy development towards being the undisputed number one in stainless. In this phase, the focus is on developing and securing a more stable and profitable business model to balance the effects of volatility in the market for stainless steel standard products. Growth prospects related to both the size and geographical coverage of the Group will also be addressed. The new phase in strategy entails increasing the proportion of direct end-user and project sales from its current level of 35% to at least 50% over the next five years. It also includes expansion of capacity in value-added special products from one third to a half, while maintaining cost leadership in standard grade volume production. The capital expenditure decisions made up to date for the next five years represent so far a total investment of EUR 1.3 billion. The excellence programs are expanded to include supply chain management and procurement, increasing the targeted benefits.

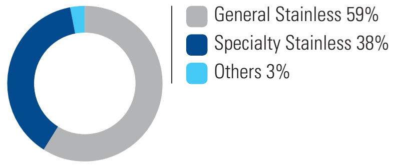
Increasing Outokumpu's capacity in value-added special products will include a broadening of the range of grades manufactured and an increase in the production of low-nickel duplex grades. Growth targets also include a scaling up of production capacity in ferritic grades to help reduce the earnings cyclicality driven by volatile nickel prices.

> Good financial performance and sizeable investment decisions supporting the strategic development

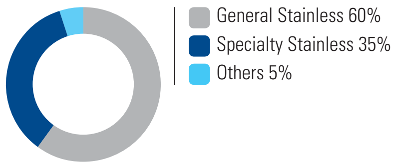
As a major step in increasing the Group's capacity in value-added special products, Outokumpu has decided to invest EUR 550 million, to expand capacity in special grades at the Avesta Works in Sweden. This investment will increase finished products capacity at Avesta from its current 250 000 tons to some 650 000 tons in mainly duplex grades, with the additional capacity operational from 2010. An investment decision was also made to expand Outokumpu's capacity in hot rolled plate (quarto plate) at Degerfors, Sweden by 80 000 tons and at New Castle (IN), the US by 20 000 tons. Following these EUR 220 million investments, total quarto plate production capacity will increase from its current level of 160 000 tons to 260 000 tons in 2010.

Further, in order to shift customer and product mix, Outokumpu will start producing high-quality ultra-clean ferritic stainless steel grades, as well as bright-annealed austenitic and ferritic stainless products. The decision to invest EUR 370 million over three years to broaden the product range of Tornio Works was made in early 2008. The investment,

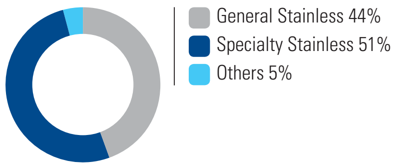
SALES, 6 913 € MILLION



OPERATING CAPITAL, 4 340 € MILLION



PERSONNEL AT YEAR-END, 8 108



together with the on-going replacement of the no. 2 Annealing and Pickling Line, will increase total finished products installed capacity of Tornio Works from the current 1.2 million tons to some 1.3 million tons by the end of 2010. Establishment of a service center near Stuttgart in southern Germany that focuses on these bright-annealed austenitic and ferritic products is included in this investment.

The transformation towards increased end-user and project sales requires investment in the Group's service capabilities. To this end, Outokumpu's service center network is being upgraded and expanded by 350 000 tons over three years. In total, investments of EUR 230 million to service centers in China, Finland, France, Germany, India, Italy, Poland and Sweden have been decided.

FINANCIAL DEVELOPMENT

€ million	2007	2006
Sales		
General Stainless	5 321	4 770
Specialty Stainless	3 456	2 723
Other operations	237	361
Intra-group sales	-2 101	-1 700
The Group	6 913	6 154
1 000 tons		
Stainless steel deliveries		
Cold rolled	703	936
White hot strip	314	390
Quarto plate	146	162
Tubular products	65	74
Long products	54	59
Semi-finished products	137	195
Total deliveries	1 419	1 815
€ million		
Operating profit		
General Stainless	220	536
Specialty Stainless	337	338
Other operations	21	-35
Intra-group items	11	-15
The Group	589	824
€ million		
Major non-recurring items in operating profit		
General Stainless		
Gain on the sale of real estate in Britain	-	9
Specialty Stainless		
Thin Strip restructuring in the UK	-11	-
Closure of OSTP Fagersta	-	-8
Other operations		
Gain on the sale of Hitura mine in Finland	25	-
Total	14	1
€ million		
Major non-recurring items in financial income		
Gain on the sale of Outotec shares	142	-
Gain on the Talvivaara transaction	110	-
Total	252	-

To expand the Group's geographical coverage, in addition to the above mentioned service centers, Outokumpu is currently conducting a feasibility study on the building of a 250 000-ton stainless steel cold rolling mill in India. Finalization of this study is expected to take place during the second quarter of 2008. The possibility of utilizing some equipment from the Group's cold rolling mill in Sheffield, closed in 2006, is also being evaluated.

Originally the set combined benefit targets from the longer-term Commercial and Production Excellence programs were some EUR 40 million in 2007, EUR 80 million in 2008 and EUR 160 million on an annual basis thereafter. Encouraged by the success of these initiatives, they have been expanded to include the supply chain management. The first phase of the Supply Chain Excellence program will concentrate on procurement. Addition of this new initiative into the Operational Excellence programs will increase the EUR 160 million combined cumulative benefit target for the year 2009 to EUR 200 million, and the target from 2010 onwards to some EUR 300 million.

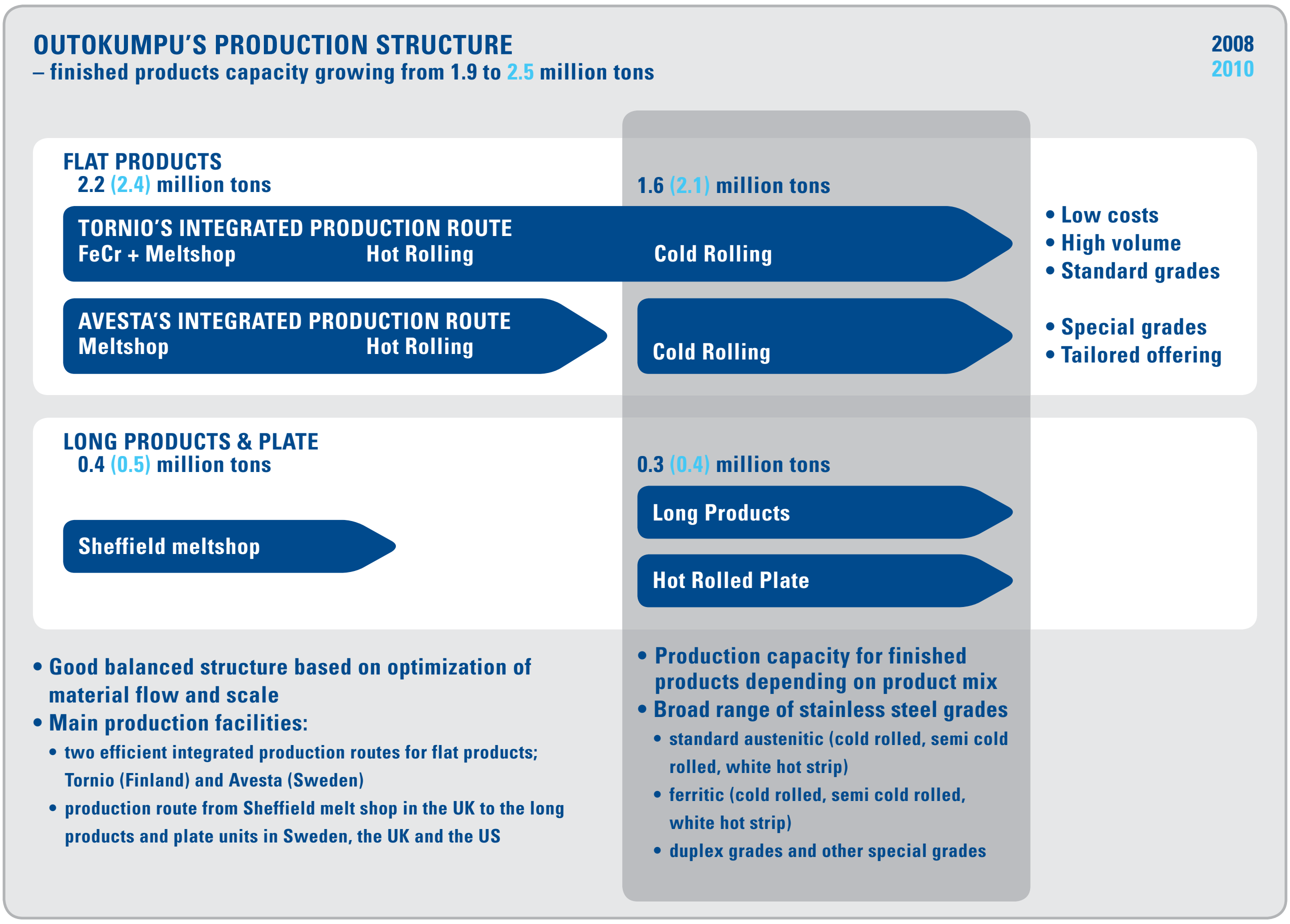
Due to the good profitability and tight capital expenditure in the past three years, Outokumpu's balance sheet is now very strong and can tolerate these fairly sizeable strategic investments. In addition to the organic growth investments, the Group is continuously mapping a variety of structural growth alternatives for accelerating global expansion.

Through the measures outlined above, Outokumpu is steadily moving forward on the path towards the vision of becoming the undisputed number one in stainless. Actions decided on cover the priority areas of ensuring the competitiveness of the Group's European asset base, increased focus on managing the customer interface, steps towards growth and readiness for global consolidation as well as developing stability over the business cycle. Outokumpu is well positioned for multiplying its operations and pursuing the global leadership.

SHARE-RELATED KEY FIGURES

€	2007	2006
Earnings per share	3.52	5.31
from continuing operations	3.63	3.34
from discontinued operations	-0.10	1.97
Equity per share	18.53	16.87
Dividend per share	1.20 [1]	1.10
Share price on Dec. 31	21.21	29.66
Market capitalization on Dec. 31, € million	3 820	5 369

[1] Board's proposal to the Annual General Meeting



Factors affecting Outokumpu's profitability

Stainless steel business is cyclical. In addition to company's own actions, Outokumpu's profitability depends on the economic cycle in the world economy and especially on the level of industrial investments. Over the long term, demand for stainless steel has been growing at a rate of 5–7% per annum. Changes in regional or global capacity may sometimes have an adverse effect on the stainless markets resulting in a temporary imbalance between supply and demand. Increasing stainless steel production capacity in China will continue to have an effect on global supply in the coming years.

A key factor directly affecting Outokumpu's profitability is base price development in stainless steel. The price level is linked to the economic cycle, and to the level of industrial investments in the Group's main customer segments. Changes in the base prices have also been attributable to strong fluctuations in demand from distributors who are either de-stocking or re-stocking their inventories. The current dependency on traditional nickel containing standard austenitic grades exposes Outokumpu to demand volatility caused by the nickel price fluctuations. Especially the distributor sector has postponed ordering when seeing nickel and thus stainless steel transaction prices falling, resulting in unnecessary volatility without any changes in the underlying demand.

The transaction price of stainless steel is the base price plus the alloy surcharge. The alloy surcharge is applied in Europe and in North America and includes the cost of alloying materials when the prices of these exceed the predefined trigger price levels. The cost of alloying materials for stainless steel – nickel, chrome, molybdenum, iron and titanium – is invoiced by stainless steel producers to customers through the alloy surcharge mechanism thus reducing the alloying materials price risk for the stainless steel producers. Nonetheless, the price paid for alloying materials feeds through into the amount of capital tied up as working capital. The price changes in alloying materials may lead to timing difference with impact on profitability as Outokumpu's throughput time is longer than the time period applied in the alloy surcharge mechanism.

The Group's chromium mine near Tornio means that Outokumpu can satisfy the majority of its need for ferrochrome at the cost of production. This has a direct positive impact on profitability.

As of January 2008, Outokumpu has been applying a new method for calculating the alloy surcharge. The alloy surcharge is based on the 30-day average raw material prices calculated backwards from the 20th day of the previous month. The old alloy surcharge calculation method was based on average raw material prices in two and three months prior to delivery. Only the reference period has changed, and all other parameters remain as before. As a result, the customers know the future alloy surcharge only for a maximum of just over one month resulting in a less speculative buying behavior. This change was made to bring more stability in the stainless steel market.

Stainless steel is fully recyclable. Usually the alloying materials can be bought at discount when sourced as recycled stainless steel and Outokumpu is therefore constantly maximizing usage of recycled steel in the Group's manufacturing process. Some 60% of Outokumpu's raw material is sourced as recycled stainless.

Outokumpu's operating profit is affected not only by changes in base prices but also by unit costs, delivery volumes and product mix. In the production of stainless steel the capacity utilization rate also has a major impact on operating profit. Production volumes depend on demand, and products are mainly manufactured to fulfill orders. The product mix also has an effect on profitability, because the profit margins on products which involve more processing are higher.

As a rule the currencies used for pricing stainless steel products are determined by the market areas: euros in Europe and US dollars in the US and Asia. Price levels between Europe, the US and Asia may vary. Outokumpu is exposed to fluctuations in foreign exchange rates primarily because of sales to Asian and US markets as well as own ferrochrome production. Exchange rates may also impact the relative competitiveness of stainless steel producers on different continents. For the most part, Outokumpu's production costs are in euros, Swedish crowns and British pounds. Prices of raw materials are determined primarily in US dollars, the alloy surcharge mechanism transfers changes in exchange rates to the euro price in Europe.

OUTOKUMPU'S SENSITIVITY – EFFECT OF SUSTAINED CHANGE ON ANNUAL OPERATING PROFIT

€ million	
Stainless steel base price, +100 EUR/ton [1]	200
Ferrochrome price, +5 USc/lb	10
USD/EUR, +10%	60
SEK/EUR, +10%	-70
GBP/EUR, +10%	-20

The figures are estimates and they do not take into account the impact of hedging. They have been calculated on the basis of the average exchange rates in 2007 and projected 2008 production volumes.

[1] Immediate effect on standard grades

OUTOKUMPU'S FINANCIAL OBJECTIVES

Outokumpu's financial objective is to generate maximum sustainable economic value added on the capital that shareholders have invested in the company. At the group-level the financial objectives aligned with the vision to become number one in stainless for growth, profitability and financial strength are:

- Continue to grow faster than the market
- A return on capital employed to be more than 13% and always the best among peers
- Gearing to be below 75%

The table on the previous page shows the approximate sensitivity of Outokumpu's operating profit in 2007 to changes in stainless steel base prices, ferrochrome prices and the foreign exchange rates between the main currencies and the euro.

Good financial result in a turbulent year 2007

Year 2007 in stainless steel market was characterized by a price peak followed by a collapse in demand due to the dramatic fall in the nickel price. Once again, raw material prices reached new highs. The price of nickel rose strongly in January–May, reached a record high of 54 200 USD/t in May but collapsed in the summer to 25 000 USD/t before stabilizing close to 30 000 USD/t. Global apparent consumption of stainless steel flat products in 2007 was at the same level as in 2006 despite good underlying demand. According to CRU, China was the fastest growing area with annual growth of 16%. In Europe, annual consumption of stainless steel flat products fell by 9%.

Base prices started at a very high level of 2 020 EUR/t in January but declined in the summer. Due to the very thin market activity in July–October, no base prices were reported by CRU in this period. At the year-end, the base price level was 1 125 EUR/t. By using a calculated value for the base price (transaction price minus the alloy surcharge) in July–October, the average base price in 2007 was 1 304 EUR/t. Prices for special grade and project-related products were more stable due to strong and more stable demand during the year.

Group operating profit totaled EUR 589 million in 2007. Operating profit was down from the record-high level achieved in 2006, because the sudden mid-year collapse in the nickel price froze demand and turned the healthy level of deliveries in the first half of 2007 to very low volumes in the second half. Also, significant nickel-related inventory gains that occurred in the first half of 2007 turned into inventory losses during the second half of the year. Total nickel related inventory losses in 2007 amounted to EUR 230 million (2006: gains EUR 175 million). Even so, the underlying operational result was some EUR 800 million (2006: EUR 650 million). Operating profit for 2007 includes EUR 14 million of net positive non-recurring items due to an EUR 25 million gain from the sale of the Hitura mine and EUR 11 million net non-recurring costs related to the restructuring of the Group's Thin Strip operations in the UK. The impact of demand and price volatility on profitability in General Stainless was greater than in Specialty Stainless as changes affecting standard products occur more rapidly than those related to more specialized products.

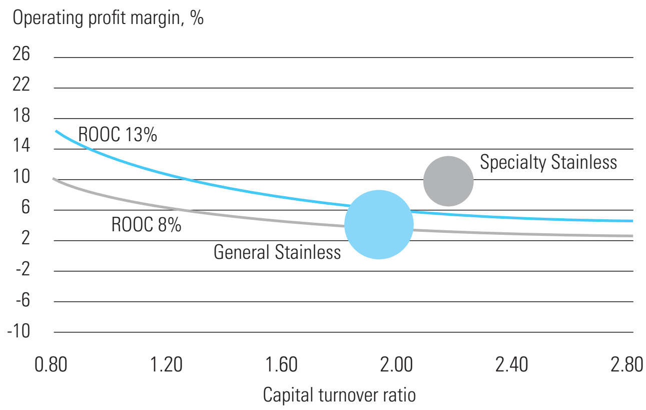
The fixed cost reduction program, started in 2005, resulted in annual savings of some EUR 100 million with full effect in 2007. The closure of the cold rolling operations in Sheffield resulted in cost reduction of some EUR 50 million on an annual basis from the second half of 2006 onwards. Both Production and Commercial Excellence programs have been proceeding well and are ahead of schedule. To date, they have delivered cumulative benefits of some EUR 70 million (EUR 25 million in 2006 and EUR 45 million in 2007), clearly above the estimated EUR 40 million. The cumulative profitability improvement target for 2008 compared to 2005 is EUR 80 million.

Net financial income of EUR 206 million included EUR 268 million of non-recurring gains comprising a EUR 142 million tax-free non-recurring gain from the sale of the remaining 12% stake in Outotec Oyj and a EUR 110 million tax-free non-recurring gain from the Talvivaara transaction. Net interest expenses fell slightly to EUR 58 million (2006: EUR 62 million).

In 2007, Outokumpu achieved its financial targets. Return on capital employed was 13.9% (target: above 13%). Gearing improved further to 23.6% being clearly better than the target below 75%, enabling major investment decisions to be taken. The Group's net cash generated from operating activities totaled EUR 676 million (2006: EUR 35 million negative). EUR 181 million was released from working capital in 2007 primarily as a result of lower inventory volumes and lower nickel prices in the second half of the year. At the end of the second quarter after the peak of the nickel price, working capital was in excess of EUR 2.5 billion but fell to EUR 1 885 million by the end of 2007. Capital expenditure in 2007 totaled EUR 190 million. At the year-end, the Group's net interest-bearing debt stood at EUR 788 million.

In 2007, underlying demand for stainless steel remained healthy. After the nickel price stabilized in the autumn and distributors' inventories had fallen to more normal levels, buyers returned to the markets,

OPERATING CAPITAL AND RETURN ON OPERATING CAPITAL 2007



The return on operating capital (ROOC) in the chart above comprises two components: the operating profit margin and the capital turnover ratio. There are two curves for ROOC. Each point on the upper curve gives a 13% target return on operating capital and, similarly, the lower curve indicates the Group's calculatory 8% weighted average cost of capital before taxes. If a division does not cover the weighted average cost of capital, it generates negative economic value added. The higher the capital turnover ratio, the smaller change in operating profit margin will impact ROOC. The size of the circle reflects the amount of operating capital tied up into a division.

order intake for standard products began to recover and a gradual increase in base prices took place in the fourth quarter of 2007. As 2008 began, base prices were low, but slowly improving.

Dividend policy emphasizes stability

Group earnings per share totaled EUR 3.52, with earnings per share from continuing operations totaling EUR 3.63 and from discontinued operations EUR 0.10 negative. The total shareholder return (TSR) was -24.8% (2006: 139.9%). TSR is calculated as the annual change of share price plus dividend divided by the starting share price for the year. An all-time-high share price of EUR 31.65 was reached on February 1, 2007. Outokumpu's market capitalization at the end of 2007 was EUR 3 820 million (corresponding share price EUR 21.21) Outokumpu paid dividends of EUR 199 million (EUR 1.10 per share) in 2007.

Outokumpu's Board of Directors has approved a revision of the Group's dividend policy to stress the importance of stability in dividend payouts. The revised dividend policy reads as follows: "Payout ratio over a business cycle should be at least one-third of the Group's profit for the period with the aim to have stable annual payments to shareholders. In its annual dividend proposal, the Board of Directors will, in addition to financial results, take into consideration the Group's investment and development needs." The Board of Directors is proposing to the Annual General Meeting that a dividend of EUR 1.20 per share be paid for 2007. The dividend yield is 5.2% and payout ratio is 33.9%. Outokumpu's average dividend payout ratio over the past five years has been 36.0%.

Solid economic value added

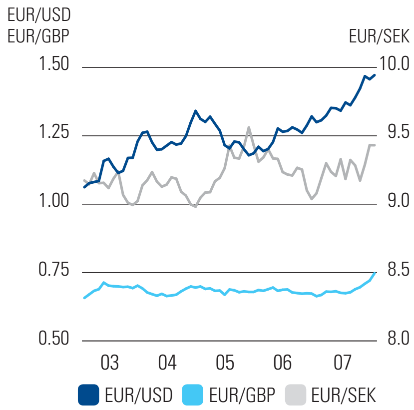
Outokumpu's overall financial objective is to generate maximum sustainable economic value added on the capital invested by shareholders. Outokumpu uses the weighted average cost of capital (WACC) in defining the capital charge for economic value added, and applies this when estimating the profitability of investment projects and defining the economic and commercial value of the Group's business operations. In 2007, Outokumpu's WACC after taxes was approximately 6%. The figure was obtained using a target capital structure in which the weight of the equity was 60% and the weight of debt 40%. The cost of equity was 7.4% and the after-tax cost of debt was 4.1%. In 2007, economic value added by Outokumpu's continuing operations totaled EUR 152 million (2006: EUR 366 million).

Outokumpu and stainless steel market going forward

Global demand for stainless steel is estimated to remain healthy and the long-term annual growth in consumption is expected to continue at a rate of 5–7%. Capacity increases taking place in the rapidly growing Chinese markets are significant and this new capacity is expected to produce mainly standard grades of stainless steel to meet primarily local demand. However, there may be periods of imbalance when supply exceeds demand in China impacting the global market situation including Europe.

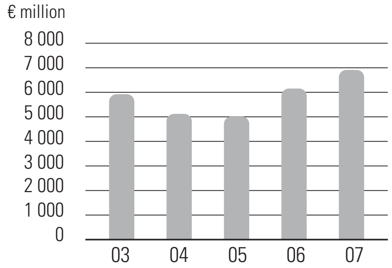
Outokumpu's strategy of building operational excellence has delivered clearly proven, solid results. The next phase in strategy development is focus on developing and securing a more stable and more profitable business model. Outokumpu is well positioned for multiplying its operations and pursuing the global leadership position.

EXCHANGE RATES

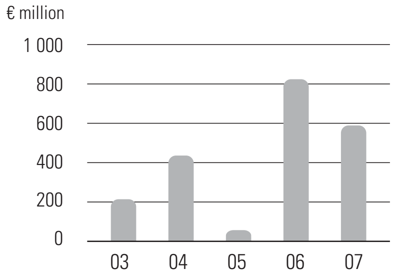


Including January 2008.

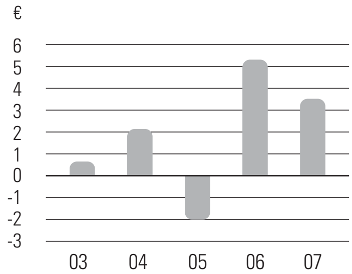
SALES



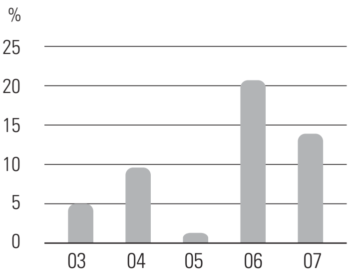
OPERATING PROFIT



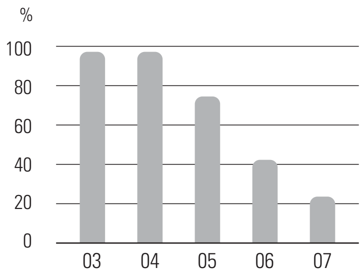
EARNINGS PER SHARE



RETURN ON CAPITAL EMPLOYED



DEBT-TO-EQUITY RATIO



Outokumpu's business and business units

Outokumpu is one of the top players in the global stainless steel market. Outokumpu's main product is stainless steel coil, in which it has a market share of about 16% in Europe and 6% worldwide.

The Group's product range covers standard as well as special grades and products. Outokumpu's main production facilities are two efficient integrated stainless steel mills – in Tornio in Finland and in Avesta in Sweden – as well as a production route from the Sheffield melt shop in Britain to several long products and plate production units.

In September 2007, Outokumpu announced that the company enters the next phase in its strategic development aiming at delivering a more stable and profitable business model by increasing the share of value-added special grades sales and by increasing the share of sales to end-user and project customers in relation to the share of sales to transactional customers, whilst also addressing the most attractive growth opportunities. To facilitate this new phase in the strategic development, Outokumpu will align its organization into an integrated model emphasizing the one-company approach towards customers.

In order to increase the share of sales to end-use and project customers, the service center network is being strengthened in existing markets and also expanded into new market areas such as Eastern Europe, China and India. To increase the share of value-added special grades sales, Outokumpu has decided on major investments in special grades production in Sweden, the US, and the ferritic grades and bright annealed products production in Tornio Works. Also, the successful Operational Excellence programs are further expanded to cover the Supply Chain Management, and new targets have been set for 2009 and beyond.

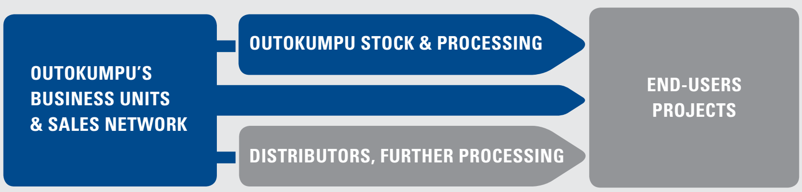
The renewed organization model is designed to serve customers in an optimal way. Sales will be organized into customer industry based groups that are served by dedicated teams. Outokumpu's production operations are organized into business units that are grouped in two divisions based on the type of product produced: General Stainless and Specialty Stainless. In the integrated organization the business units are in charge of product strategy and have accountability for overall profitability. The cross-organizational Group Sales and Marketing is responsible for the delivery of the Group's commercial targets, and the Supply Chain Management for the end-to-end delivery performance.

The Group also has a comprehensive network of sales companies, service centers and sales agents in some 70 countries.

Outokumpu's business units and cross-organizational functions are described in more detail in the following sections.

MAIN ROUTES TO MARKET TRANSFORMING

A significant part of the Group's business is made with distributors, re-rollers and tubemakers. These segments continue to be essential for the Group's total business, while Outokumpu is looking for growth in value-adding end-use segments such as construction, various industrial uses, and catering and appliances. As a supplier for project applications, market segments such as pulp and paper, desalination plants, and oil and gas are central to the Group's development.



OUTOKUMPU STAINLESS STEEL DELIVERIES

1 000 tons	2007	2006
Cold rolled	703	936
White hot strip	314	390
Quarto plate	146	162
Tubular products	65	74
Long products	54	59
Semi-finished products	137	195
Total deliveries	1 419	1 815

FOUR MAIN TYPES OF STAINLESS STEEL

Different grades and compositions of stainless steel are developed for different end-use purposes. The four main grades are austenitic, ferritic, ferritic-austenitic, and martensitic steel. All grades of stainless steel contain a minimum of 10.5% of chromium. Outokumpu's main product is austenitic stainless steel, which typically contains 8% nickel in addition to 18% chromium. Ferritic stainless steel does not contain nickel, but chromium up to 24%. Martensitic stainless steel contains 11–13% chromium. Ferritic-austenitic grades contain 1.5–5% nickel, and they are very strong and corrosion resistant. Outokumpu's duplex steel grades are ferritic-austenitic, containing only small amounts of nickel.

Some end-user industries using stainless steel

Architectural, Building and Construction
Architectural, furniture and equipment, lifts and escalators and structural applications as well as heating, cooling and ventilation systems.

Chemical, Petrochemical and Energy
Chemical and petrochemical industry, oil and gas (offshore and onshore), pharmaceuticals and energy sector including for example flue gas cleaning, hydro and nuclear power, renewable energy sources.

Process Industries and Resources
Engineering, manufacturing industries, food and drink manufacturing, primary industries, metal working, pulp and paper as well as water treatment including desalination.

Transportation
Applications for automotive industry, aircrafts and aerospace, railway, shipbuilding and tanks.

Catering and Appliances
Domestic appliances including small appliances and white goods as well as hospitals and catering including catering equipment, cutlery, medical equipment, pots and pans, sinks.

General Stainless

General Stainless produces high-quality standard stainless steel in the form of coil and sheet. The main market for these products is Europe. Cost efficiency, high quality and delivery reliability are the key competitive advantages required for success in this standard high-volume market segment. By exploiting the advantages offered by the integrated Tornio facility, the Group's operational excellence programs and reduced fixed costs, Outokumpu's strategy is to maintain its cost leadership in standard stainless steel grades.

Currently, the main product applications of General Stainless are in industrial segments such as pulp and paper, chemicals and petrochemicals, construction and energy-related industries as well as catering and households. Customers are both end-users and distributors who also stock and process stainless steel to serve end-customer needs.

Following the new Group organization as of 2008, General Stainless consists of Tornio Works and Long Products (until the end of 2007 part of Specialty Stainless). In addition the majority of the Group's stock and processing units as well as its sales companies are reported under General Stainless.

GENERAL STAINLESS
KEY FIGURES

€ million	2007	2006
Sales	5 321	4 770
of which Tornio Works	3 468	3 316
Operating profit	220	536
of which Tornio Works	178	440
Non-recurring items in operating profit	-	9
Operating capital on Dec. 31	2 607	2 847
Return on operating capital, %	8.1	20.1
Capital expenditure	58	83
Depreciation	133	131
Personnel on Dec. 31	3 571	3 498
1 000 tons		
Deliveries of main products		
Cold rolled	587	805
White hot strip	270	305
Semi-finished products	383	551
Total deliveries of the division	1 240	1 661

Tornio Works

Located in Northern Finland, Tornio Works is one of the world's largest stainless steel mills and the world's most integrated single-site operation. The main products coming from Tornio are cold rolled and hot rolled austenitic stainless steel coils and sheets. Ferritic grades are also being produced. Tornio's integrated production process starts at the neighboring Kemi chromite mine, continues in the Tornio ferrochrome smelter and proceeds through two stainless steel melt shops, a hot rolling mill and cold rolling lines. This high level of integration offers significant advantages, allowing for example the use of liquid ferrochrome in the steel melt shop. To provide customers in the Group's main markets with even better service, a significant proportion of finishing operations are carried out in Terneuzen in The Netherlands.

Tornio's annual production capacities are: 1.65 million tons of melting, 1.6 million tons of hot rolling and 1.2 million tons of finished products from the cold rolling mills. Tornio also delivers some black hot band material to both internal and external customers.

Tornio Works' competitive edge

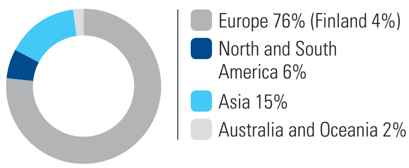
Tornio Works is the Group's biggest unit and, following the expansion carried out in 2000–2005, the world's most cost-efficient stainless steel operations. The innovative new rolling, annealing and pickling line (RAP) provides additional flexibility in production. Production on the RAP line can be shifted between hot rolled (white hot strip) and cold rolled products in accordance with market demand. As an integrated cold rolling line, the RAP line also has a clear cost advantage over traditional cold rolling processes where annealing and pickling operations are carried out on separate lines. Integrating these two process steps results in lower costs and reduces working capital. The RAP line can also be used to produce RAP™2E, a semi-cold rolled product. This product has been well received especially by the stainless steel tube industry, where it can replace cold rolled stainless steel in a variety of applications.

Widening of product mix in Tornio

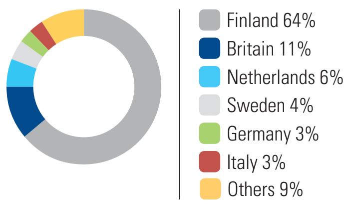
To expand the Group's product offering, Outokumpu initiated production of 400-series ferritic stainless steel in Tornio during 2007. As the nickel content is zero, prices for 400-series products have traditionally been less volatile than those of Outokumpu's main product, 300-series austenitic stainless steel. Tornio has a competitive cost advantage in producing 400-series products as liquid ferrochrome from its own chrome can be utilized in the manufacturing process, reducing melting costs.

In 2007, EUR 13 million was invested in batch annealing furnaces and the annual target for ferritics production is 60 000 tons. A decision to invest EUR 90 million in replacing the no. 2 annealing and pickling line (AP-line) in Tornio was also made in 2007. The new AP-line will have an annual capacity of 300 000 tons and will allow the production of austenitic and ferritic products with a minimum set-up time. This investment will increase the capacity of Tornio cold rolling mill by 75 000 tons by the end of 2009.

GENERAL STAINLESS
SALES BY MARKET AREA



GENERAL STAINLESS
PERSONNEL BY COUNTRY



In January 2008, a decision was made to invest some EUR 370 million in Tornio over three years in the production of high-quality ultra-clean ferritic stainless steel grades, as well as bright annealed austenitic and ferritic stainless products. The investment also includes a service center in Germany. The annual capacity of austenitic and ferritic bright annealed products will be some 100 000 tons and the total annual capacity of ferritic grades will be some 230 000 tons. The investment, together with the replacement of the no. 2 AP-line, will increase the total finished products installed capacity of Tornio Works from the current 1.2 million tons to some 1.3 million tons by the end of 2010.

Chromite ore mined at the Kemi underground mine and converted into ferrochrome at Tornio Works is used in stainless steel production. As ferrochrome is the alloying component that gives stainless steel its corrosion resistance, owning a supply of this material is both a significant cost advantage and a risk

KEMI MINE AND TORNIO FERROCHROME SMELTER

Production	**2007**	2006
Ore excavated, million tons	**1.2**	1.2
Chromite concentrates, 1 000 tons	**556**	549
Ferrochrome, 1 000 tons	**242**	243

Ore reserves and mineral resources

Dec. 31, 2007	Million tons	Grade
Ore reserves		
Proven	38	26% Cr_2O_3
Mineral resources		
Indicated	13	29% Cr_2O_3
Inferred	72	29% Cr_2O_3

A mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. An ore reserve is the economically mineable part of the measured and/or indicated mineral resource. Ore reserves are not included in the mineral resources.

Cr_2O_3 = chromium oxide.

mitigation factor for Outokumpu. The majority of global ferrochrome production takes place in South Africa and Kazakhstan.

Long Products

The Sheffield melt shop in the UK, part of Long Products, has an annual operational capacity of some 400 000 tons. The melt shop produces both slabs for flat stainless steel production and billets and blooms for use in producing long products.

The hot rolling mill in Degerfors in Sweden produces rolled billets and heavy bars from blooms cast in Sheffield. The annual operational rolling capacity at Degerfors is some 50 000 tons.

Outokumpu's Long Products rod operations also consist of wire rod production in Europe and bar and rod production in the US. Manufacturing units for long products are located in Sheffield in the UK and in Richburg, S.C. in the US. Annual delivery capacity for long products totals some 80 000 tons. The Group is also involved (50% ownership) in Fagersta Stainless in Sweden, a long products company which manufactures and sells stainless steel wire rod and wire products.

Stainless steel market turbulence affected profitability

2007 was a very turbulent year for General Stainless. The year started with strong demand for stainless steel and record-high base prices, but demand by distributors for standard grades deteriorated and the market experienced a very-heavy de-stocking phase during the summer when nickel price collapsed from its record-high levels. Demand for standard grades began to pick up again after the summer. As a result of this de-stocking, General Stainless' delivery volumes fell to 1 240 000 tons (2006: 1 661 000 tons). Sales totaled EUR 5 321 million, up by 11% due to the high nickel prices. Operating profit was EUR 220 million (2006: EUR 536 million). The Group booked some EUR 230 million of net nickel-related inventory losses in 2007, most of which were related to General Stainless mainly as a result of NRV (net realizable value) write-downs due to the collapse in the nickel price.

Case

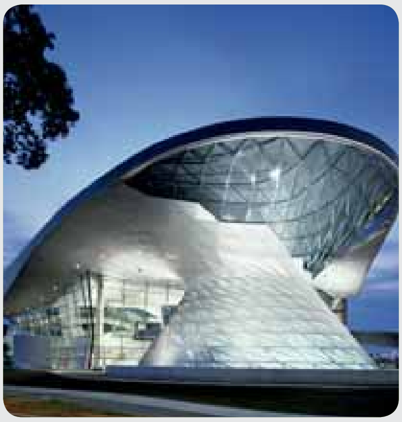
Stainless shines on architectural masterpiece

Stunning in architectural design, BMW Welt in Munich, Germany, is BMW's new glass-and-steel palace for car delivery and brand experience. The façade is built by Josef Gartner using Outokumpu's austenitic stainless steel.

BMW elevates car purchase from a mere transaction to a ritualistic experience: buyers can choose to pick up their new vehicles from BMW Welt, a futuristic showroom opened to the public on October 2007. BMW Welt (BMW World in English) is, however, much more than a delivery center. This landmark building, situated on a highly visible site between Munich's Olympic Park and the BMW headquarters, is designed to embrace visitors entirely into the world of BMW. BMW expects to deliver 45 000 cars and to receive 800 000 visitors at BMW Welt in a year.

The contract for the façade, roof constructions, and some indoor wall structures was awarded to Josef Gartner GmbH of Germany, a company with an extensive track record of customized steel and aluminum curtain walls worldwide. Josef Gartner selected Outokumpu as the stainless steel supplier on the basis of long-term good relations with the stainless company and Outokumpu's long experience in the architecture sector. Victor Merenda, former Project Manager at Josef Gartner (recently retired), comments on their cooperation with Outokumpu, "We were absolutely satisfied with Outokumpu's performance. Outokumpu met our expectations. We received the material in the right condition, and at the right place and time."

Outokumpu's supply for BMW Welt comprised approximately 500 tons of stainless coil and sheet. Most of the total, used on the exterior surfaces, is in grade EN 1.4404 (ASTM 316L). This highly alloyed austenitic grade provides adequate corrosion resistance in Munich's inland atmospheric conditions. EN 1.4301 (ASTM 304), providing good resistance to atmospheric corrosion in milder conditions, was used in indoor cladding. All material was delivered in the 2B surface-finish condition. It was shotblasted prior to fabrication into cladding elements by Josef Gartner.



Courtesy of BMW Group.

Specialty Stainless

Specialty Stainless is strong in tailored solutions and demanding customer applications in flat products and in stainless tubular products. Specialty Stainless serves customers – for example in the oil and gas industry, the chemical and petrochemical industry, nuclear power plants and the pulp and paper industry – who have very high requirements for stainless steel properties such as steel grade, shape, thickness, surface finish or other specific properties. Project orders form an important part of the business, which is supported by a strong R&D function and long-term experience in delivering tailored solutions that match customers' needs.

Growth in these high-performance segments and applications is expected to continue buoyant. As part of Outokumpu's strategy, Specialty Stainless focuses on both differentiation and further specialization in special grades and products, especially offering excellent development opportunities for duplex grades, which provide protection from continually increasing competition in the market for standard stainless steel grades.

The main products produced in Specialty Stainless are hot and cold rolled sheet, quarto plate, tubes and various fittings and precision strip. Stainless steel is supplied to Specialty Stainless units mainly from the division's own melt shop in Avesta in Sweden and the Sheffield melt shop in the UK. In finished products, Specialty Stainless units have a capacity of some 500 000 tons of cold rolled and white hot strip and plate, 170 000 tons of quarto plate, and 100 000 tons of tubular products.

An increasing proportion of production by Specialty Stainless consists of a variety of special grades, mainly duplex grades that have been developed in response to specific customer requirements. A good example of Outokumpu's steel grade developments is lean duplex, LDX 2101®, a patented low-nickel, high-strength stainless steel with good corrosion resistance properties corresponding to those of austenitic grades. The high strength of this material enables thinner gauges to be employed in a variety of applications, yielding considerable savings in material costs. The excellent properties and competitive pricing of both lean duplex and duplex grades are resulting in increased market share compared to more traditional grades in applications such as tanks, pressure vessels, piping, transportation, building and construction, and desalination plants. Outokumpu is a market leader in duplex grades with a market share of around 50%. The duplex market is growing at an annual rate of some 20%, much faster than the market for standard stainless grades.

While the Group's business units are pursuing further specialization and an increasing focus on higher value-added solutions that provide higher and more stable returns, a very important focus of attention is the maintenance of a competitive cost structure.

Research and development activity, especially work at the Avesta Research Center in Sweden, focuses on the development of new grades, identifying new applications and finding the right solutions for customers.

SPECIALTY STAINLESS
KEY FIGURES

€ million	2007	2006
Sales	3 456	2 723
Operating profit	337	338
Non-recurring items in operating profit	-11	-8
Operating capital on Dec. 31	1 513	1 594
Return on operating capital, %	21.7	24.5
Capital expenditure	69	95
Depreciation	63	80
Personnel on Dec. 31	4 099	4 200
1 000 tons		
Deliveries of main products		
Cold rolled	174	196
White hot strip	135	166
Quarto plate	151	162
Tubular products	63	74
Long products	52	59
Total deliveries of the division	574	656

Major investment decisions in the production of special grades and products were announced

The following business units are part of the Specialty Stainless division:

Special Coil and Plate

Special Coil and Plate consists of former Avesta Works and Hot Rolled Plate business units.

Avesta Works in Sweden is a world-class supplier of two-meter-wide, thick cold rolled and white hot rolled products and continuously produced plate to the process industry. The integrated Avesta production facility covers the entire process chain from melt shop through hot rolling to cold rolling. Annual operational production capacities at Avesta total approximately 500 000 tons for melting with the current mix, 450 000 tons for hot rolling (current manned capacity) and 250 000 tons for finished products.

Avesta supplies the Nyby and Kloster cold rolling mills with black hot band material and hot rolled plate operations with slabs and steckel hot rolled plate.

In 2007, Outokumpu announced an investment of EUR 550 million at Avesta to raise capacity in finished products by 400 000 tons to 650 000 tons for mainly duplex grades, starting in 2010. The finished products will mainly be sold directly to end-user and project customers.

This investment includes a new AOD converter, an increase in the melt size from 100 to 125 tons and a new slab grinding line, increasing annual melting capacity by some 250 000 tons to 750 000 tons. It also includes a new 400 000-ton, two-meter-wide annealing and pickling line. The Avesta hot rolling mill is well suited for production of duplex grades and has sufficient capacity to treat the expanded melt shop capacity.

Outokumpu is the market leader with a 20% global market share in hot rolled plate or quarto plates. Thick, wide and individually rolled, quarto plates are used in demanding applications in segments such as pulp and paper, oil and gas, power plants, desalination and chemical tankers. Outokumpu produces quarto plate at Degerfors in Sweden and in New Castle in the US. The Group's European plate service centers complement these facilities. Outokumpu's annual delivery capacity for hot rolled plate and quarto plate totals some 160 000 tons.

In 2007, the decision was made to invest EUR 220 million over five years to expand quarto plate production capacity by some 100 000 tons. Current equipment will be upgraded and new equipment installed to increase capacity at Degerfors by some 80 000 tons to 190 000 tons and capacity at New Castle by some 20 000 tons to 70 000 tons. Outokumpu's quarto plate product mix will increasingly shift towards value-added tailor-made plates and special grades, especially lean duplex and other duplex grades.

Thin Strip

Outokumpu's Thin Strip operations consist of the cold rolling mills at Nyby and Kloster in Sweden and Sheffield in the UK. Currently, these three mills have a combined annual delivery capacity totaling approximately 195 000 tons. Thin strip products are mainly used in plate heat exchangers, heating elements, flexible tubes, head gaskets and telecom applications.

The EUR 50 million investment program completed at Kloster in 2007, which included a new cold rolling mill, a bright annealing line and a slitting line, has more than doubled annual production capacity to 45 000 tons and also allows the production of thinner and wider products.

At Nyby, EUR 27 million is invested in equipment for surface grinding and automatic storage. This investment will, at the expense of standard grades, increase finished products capacity in special grades by 30 000 tons to 64 000 tons by the end of 2008.

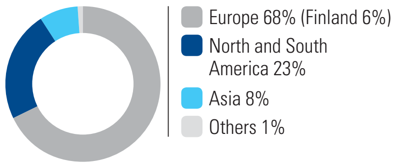
Based in the UK, Sheffield Special Strip (SSS) focuses on precision strip rolling. This unit's main products are stainless precision strip and carbon spring-steel strip, with the ability to produce material down to 0.035 mm gauge. Approximately 50% of production is destined for the automotive market in the form of springs and deep drawn components. The production of martensitic

> DUPLEX GRADES

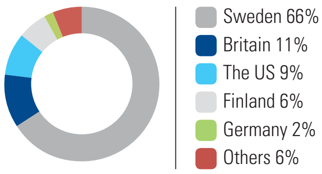
Demand for duplex grades grows faster than that of standard stainless grades. Annual growth is estimated to be over 20%. Duplex stainless steel is characterized with good corrosion resistance and high strength, as well as low nickel content. The high strength of the material enables the use of thinner gages in a variety of applications such as tanks, pressure vessels, piping, transportation, civil engineering and structures, thus bringing considerable savings in material costs. Outokumpu is a clear market leader in duplex grade stainless deliveries with a global market share of some 50%. Avesta Works has a long and successful track record in the demanding production process of duplex.

Outokumpu has developed and patented the Lean Duplex grade (LDX 2101®) which contains only 1.5% of nickel making its price less dependent of the volatility of the nickel price. The corrosion resistance of LDX is similar to that of the standard austenitic 304 grade, but its strength is about twice as high. Outokumpu's Lean Duplex was introduced in 2002 and has met with great success in demanding applications. To further facilitate the market penetration of Lean Duplex, Outokumpu has awarded manufacturing licenses to two other stainless steel producers in Europe and Asia.

SPECIALTY STAINLESS
SALES BY MARKET AREA



SPECIALTY STAINLESS
PERSONNEL BY COUNTRY



stainless steel strip for razor, scalpel and cutlery was sold off in 2007 and production ceased at the beginning of 2008.

OSTP
(Outokumpu Stainless Tubular Products)

Outokumpu is one of Europe's largest producers of stainless steel tubes, with an 18% market share. OSTP manufactures and sells welded stainless steel tubes and pipes as well as butt-welded and threaded fittings. Tubular products are manufactured in Sweden, Finland, Estonia, the US and Canada. Annual delivery capacity totals some 100 000 tons.

An investment totaling some EUR 8 million in a second LAP (Laser welding-Annealing-Pickling) line is being made at the OSTP unit in Nyby, Sweden. Production is scheduled to start in the third quarter of 2008. The production of heat-exchanger tubes currently located at OSTP's Fagersta unit was transferred to Nyby during 2007.

OSTP has strengthened its global presence through a joint venture in the Middle East with Saudi Arabian tube manufacturer Armetal, forming the biggest local producer of process pipe.

With the ambition of creating customer value and increasing sales in its duplex range, OSTP has assembled a team of tubular products application engineers.

Stable profits in volatile stainless steel markets

Specialty Stainless' deliveries declined to 574 000 tons (2006: 656 000). Sales totaled EUR 3 456 million (2006: EUR 2 723 million) due to the high nickel price. Operating profit was still good at previous year's level and totaled EUR 337 million (2006: EUR 338 million). Because the inventory turnover in Specialty Stainless is slower than the time period applied in the alloy surcharge calculation method in 2007, nickel price movements resulted in significant nickel-related inventory gains in the first half of 2007 and losses during the second half. However, the net impact of the nickel-related gains and losses in 2007 was fairly marginal in Specialty Stainless.

Case

A Duplex milestone in desalination

The MARAFIQ desalination plant in Saudi Arabia by SIDEM of France uses 10 000 tons of duplex stainless steel in grades 2304 and 2205 from Outokumpu, out of a total quantity of 16 500 tons for the plant.

The Eastern Province of Saudi Arabia is seeing fast industrialization, increasing population numbers and, as a result, growing needs for freshwater. The long-term plan for this desert region includes expansion of power generation and desalination capacities. As part of the plan, Veolia Water Solutions & Technologies, through its thermal-desalination specialist SIDEM (Veolia WST-Sidem), has been chosen to design and build one of the world's largest desalination plants for the MARAFIQ power and water utility company. The plant will provide 800 000 cubic meters of desalted water per day.

SIDEM is the world leader in Multiple Effect Distillation (MED), and this technology also forms the core of the MARAFIQ plant. The process utilizes steam from the adjacent power plant to evaporate seawater at low temperatures. Featuring low energy consumption, the process addresses the normally high energy consumption of desalination. The evaporator chambers will be built using duplex stainless steel plate from Outokumpu. Duplex stainless steels have emerged as optimal materials for desalination owing to their high strength, combined with good to very high corrosion resistance depending on the grade. As a result, duplex evaporators can be built with thinner plates, requiring less material and less welding compared to other material configurations. Outokumpu is a pioneer in duplex stainless steel for desalination.

Outokumpu first introduced the idea of solid duplex evaporators and then developed the concept of "DualDuplex" evaporators, where two different grades of duplex are used: a highly corrosion-resistant grade is used in sections exposed to the most hostile conditions and a milder grade in sections exposed to less hostile conditions. SIDEM and Outokumpu first partnered in 2006, to build the Al Hidd desalination plant in Bahrain using the DualDuplex concept and duplex grades 2 304 and 2 205. The two companies now continue the cooperation in the MARAFIQ project based on the same concept and grades.

Courtesy of Sidem.

Other operations

Other operations consists of activities outside the Group's primary businesses, industrial holdings and available for sale financial assets. Corporate Management and business development expenses as well as expenses associated with Group functions and services that are not allocated to the businesses are also reported under Other operations.

Outokumpu's most significant industrial holding is a 33% stake in Rapid Power, a company providing hydro power from Norway. Major available-for-sale financial asset at the end of 2007 is a 4.9% stake in Talvivaara Mining Company Ltd. Outokumpu also holds a 20% stake in Talvivaara Project Ltd. owned by Talvivaara Mining Company.

Outokumpu's other industrial holdings include a 16% stake in silicon wafer manufacturer Okmetic Oyj and a 15% stake in the Swedish steel distributor Tibnor AB.

At the end of 2007, the market value of Outokumpu's holdings in Talvivaara Mining Company Ltd., listed on the London Stock Exchange, and Okmetic Oyj, listed on the OMX Nordic Exchange Helsinki, were some EUR 44.7 million and some EUR 8.2 million, respectively.

Other operations' operating profit was EUR 21 million (2006: EUR 35 million negative).

Outokumpu sold its remaining 12% shareholding in Outotec Oyj (previously Outokumpu Technology) in April 2007. The Group's financial income included a EUR 142 million tax-free non-recurring gain on the sale of the Outotec stake as well as EUR 110 million tax-free non-recurring gain on the Talvivaara transaction.

OTHER OPERATIONS
KEY FIGURES

€ million	2007	2006
Sales	237	361
Operating profit	21	-35
Non-recurring items in operating profit	25	-
Operating capital on Dec. 31	236	138
Capital expenditure	64	9
Depreciation	8	10
Personnel on Dec. 31	439	462

Discontinued operations

In accordance with the IFRS principles, discontinued operations are reported separately from Outokumpu's continuing operations. Currently, the Group's discontinued operations include Outokumpu Copper Tube and Brass (held-for-sale).

Outokumpu Copper Tube and Brass

Outokumpu divested the Group's fabricated copper products business in 2005, excluding the copper tube and brass rod business in Europe. It is Outokumpu's intention to restructure and divest also this business.

The main products produced by Outokumpu Copper Tube and Brass are installation and industrial copper tubes for plumbing and industrial applications and brass rods for applications in the construction, electrical and automotive industries. The copper tube mills are located in Pori (Finland), Västerås (Sweden), Liège (Belgium), and Zaratamo (Spain), and the brass rod plant is located in Drunen in the Netherlands. The division also has a 50% stake in a brass rod company in Gusum (Sweden).

Market conditions for Copper Tube and Brass were challenging also in 2007, when prices for copper and zinc were high. Delivery volumes fell somewhat from the level of 2006.

In 2007, sales by the tube and brass businesses totaled EUR 599 million, with an operating loss of EUR 8 million. Operating capital at the end of December totaled EUR 130 million. Net loss from discontinued operations totaled EUR 18 million (2006: profit 357 milllion). In 2006, net profit from discontinued operations also comprised operating result of Outotec Oyj for the I-III/2006 and the gain on the sale of shares in Outotec Oyj.

Group Sales and Marketing

Outokumpu's target of achieving the number one position in stainless steel is based on building superior relationships with its customers. This ambition will also among others require a broader product mix, a customer base to whom a broad range of products and services can be offered on a long term basis, and the ability to serve each customer as one company, making dealing with Outokumpu easy.

The Commercial Excellence program that started in late 2005 will be completed at the end of March 2008. This program launched Group-wide Key Account Management and uniform pricing practices. It also improved internal transparency regarding financial performance with a variety of customers. This makes it easier to understand customer relationships at a deeper level than before, and also improves comprehension of the Group's total offering to large international customers who are working in a number of countries.

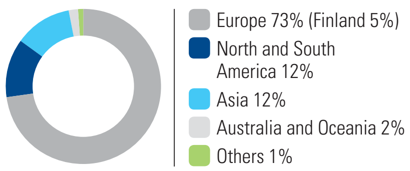
As a result of detailed commercial strategy planning during 2007, it became clear that a structural change within Outokumpu will be necessary to achieve the targets stated above. While the Group needs to maintain and perfect its production capabilities, Outokumpu has to organize its sales and marketing activities around customers' actual needs. A new organization that divides the Group's salesforce into seven units based on customer application segments is therefore being launched. This will enable Outokumpu to offer customers in various industries the whole of the Group's range of products and services, to specialize in customer industries, and to identify optimal solutions.

Business with end-user and project customers to grow

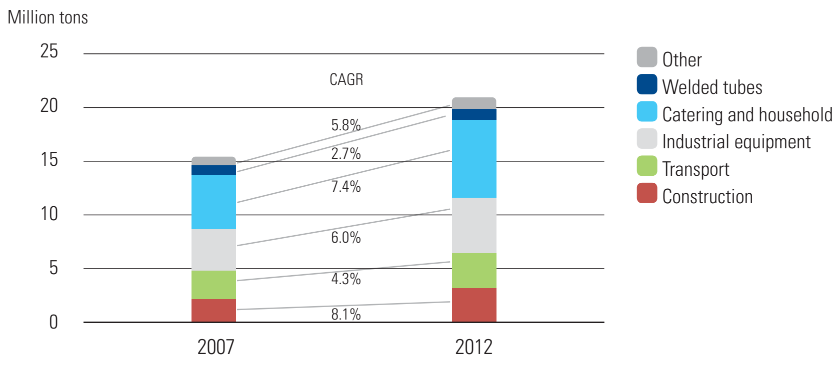
End-user and project customers currently represents some 35% of Group business in 2007. By building on Outokumpu's customer service, technical expertise, product development and international reach, the aim is

Outokumpu's target of achieving the number one position in stainless steel is based on superior relationships with customers

THE GROUP'S SALES (6 913 € MILL.) BY MARKET AREA 2007



COLD ROLLED STAINLESS STEEL DEMAND OUTLOOK



Source: CRU. Cold rolled flat products, February 2008.

Outokumpu's end-user and project business is being organized into five groups according to customer industry

to increase this to above 50% of sales over the next 5 years. Several developments will be needed to achieve this goal.

Outokumpu is broadening its product mix by moving into ferritic (400 series) grades as well as manganese (200 series) grades. By 2010 the Group will have the capacity to produce 230 000 tons of ferritic products. Manganese grades will be produced according to market demand.

A key channel in serving end-user and project customers is through the Group's network of stainless steel service centers. Outokumpu will increase the total capacity offered by these service centers by 350 000 tons by 2010, with expansion primarily taking place in Poland, Germany, Italy, France, India and China. Using the expanded service center network, the Group's ability to provide the right mix of direct deliveries from mills and rapid local deliveries from service centers will be improved.

Outokumpu's end-user and project business is being organized into five groups of segments according to customer industry:

- Architectural, building and construction
- Transport
- Catering and appliances
- Chemical, petrochemical and energy
- Process industries and resources

Each segment group will be managed by dedicated teams made up of members of the salesforce in all the countries Outokumpu is supplying. Although geographically Europe is Outokumpu's main market, the Group is seeking significant growth in areas such as China, India and Eastern Europe. A key component of the Group's business with end-user and project customers is the service provided to Key Accounts. Key Account Managers and their teams will be provided with the level and quality of resources required to serve Key Accounts in a personalized manner, providing tailor-made solutions – globally.

Business with distributor and processor customers to focus on long-term relationships

A significant part of the stainless steel market is served by distributors and service centers. These customers make up a large part of Outokumpu's customer base and they continue to be key business partners. One of the Group's strategic aims is to strengthen relationships with long-term distributor partners. This is of particular importance in the standard products sector, where the volumes being supplied to the market are large.

Large-volume re-rollers and tube makers also represent an important market for Outokumpu. As with distributors, close relationships with these customers are a particular target as this enables the Group to develop products, processes and ways of working that benefit customers over the long term.

In the new commercial organization, business of this type is organized into two groups:

- Distributors
- Re-rollers, tube-makers and further processors

Some members of the Group's salesforce will focus on these customers exclusively. In this way, Outokumpu will be able to service the specific needs of distributors and large volume processors in ways that serve these customers in an optimal manner.

The geographic focus of the Group's distributor and processor business is Europe.

Case

Top design made of stainless steel from the northernmost steel plant in the world

"Some things remain simple by their nature, as does JAUR, which gets its name from deep waters. The artifacts and decorative objects from the world's northernmost steel works. The result is like its source, Nature itself: direct, uncomplicated and beautiful. Unfettered."

These are the words used to advertise the JAUR steel design collection available at Marimekko since autumn 2007. "The world's northernmost steel works" is, of course, Outokumpu Tornio Works.

The collection, designed by Eero Hyrkäs from Tornio, consists of fifteen products, e.g. water jugs and coffee pots, servers, a champagne cooler and trays. "This has been refined very carefully to eliminate everything unnecessary. Peace is what is left in it," the designer sums up.

"I am very impressed by these wonderful products and by their uncompromising designer, whose design is a union of pure lines and practicality. And what is especially world-shaking is that these products are hand-made in Tornio, in the company started by Hyrkäs, from the material produced by the local, world's northernmost steel plant. Praise to the Finnish expertise," says Kirsti Paakkanen of Marimekko.

Courtesy of Design House Idoli.

Supply Chain Management

Emphasis on Supply Chain Management

As part of Outokumpu's strategic review and in pursuit of the Group's vision to be the undisputed number one in stainless steel, a decision has been made to focus on the development of customer-orientated supply chain thinking and development of end-to-end management of the internal value chain. The background for this decision was detailed analysis and development of Outokumpu's sales and marketing strategy. This has been developed to focus commercial operations on growth in the end-user and projects customer base, with the objective of creating increased stability in both sales and financial performance.

In line with this, Outokumpu has made changes to its organizational structure, aligning it with the new strategic aims. A new executive position with responsibility for managing the Group Supply Chain (Executive Vice President – Supply Chain Management) has been created, in order to develop the efficiency and reliability of the Operational Supply Chain, and to ensure the Group attracts and retains end-user customers. The new supply chain function includes order and demand management, procurement, production management, distribution management and supporting systems.

This function will manage supply chain operations at Group level, procurement (including raw materials and general procurement), and Outokumpu's Production Excellence program. Supply chain operations are aiming at delivering value for customers with quality products and services on time while optimizing the efficient flow of products through Group operations from raw material receipt through to delivery to the customer. The aim of the procurement function is to leverage the Group's buying power and procurement excellence to reduce costs and improve operational efficiency, and the Production Excellence team will continue to train Group employees through the Production Excellence Change Agent Training Program while also targeting and eliminating waste, losses and inefficiencies in production operations.

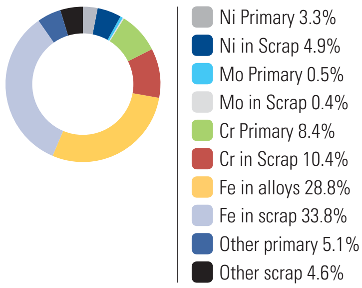
The primary aims of the new Supply Chain Management function are: to create value as perceived by the customer through improving and stabilizing the Group's delivery performance; improving the management of inventories as these account for a very high proportion of the Group's costs; levering Procurement activities via a new Procurement Excellence program; continuing the development and sustainability of the Production Excellence program; and improving forecasting and the ability to adapt rapidly to changes in the business environment.

Procurement

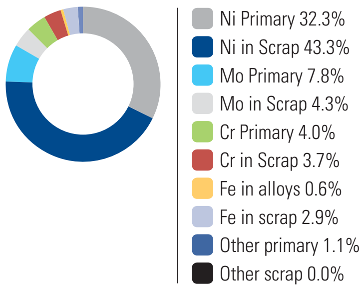
The share of production costs accounted for by nickel raw materials kept growing in 2007. Nickel accounted for 75.6% of raw material costs. The price of nickel continued to surge exceptionally buoyantly in the first part of the year and then plummeted. In July, the price of nickel dropped by 50% significantly from its highest average quotation in May 2007 to the average quotation for December.

At the Group level, the share of materials accounted for by recycled raw materials has grown compared with primary raw materials. Recycled raw materials represent nearly 60% of the value of nickel used in production. The Production Excellence development programs have yielded further improvements in the use of recycled steel in production. The use of recycled steel has significantly lowered the total costs of raw materials per melt, as recycled steel is the cheapest source of the stainless steel alloying materials nickel, chrome and molybdenum. All raw material procurement contracts are made at the company level, and the quantities of raw materials that are supplied to the melt shops are agreed jointly.

RAW MATERIAL USAGE BY VOLUME 2007



RAW MATERIAL USAGE BY VALUE 2007




MARIA TIMONEN

Towards the end of 2007, Outokumpu revised the pricing method applied to purchases of primary nickel. In most of the nickel procurement contracts made for 2008, the price is set at the average figure for the month of delivery, while it was previously set at the average for the month preceding the delivery. This reduces the difference between the price of purchased nickel and the nickel component in the alloy surcharges invoiced from the customer, and also lessens the impact of timing differences on earnings.

Outokumpu sources its raw materials from external suppliers, with the exception of ferrochrome from the company's own production. The market price of ferrochrome more than doubled from January 2007 to the end of the year. Price increases are due to export restrictions set by certain producer countries. Outokumpu's own production is a highly competitive source of raw materials.

Category management has been adopted in the drive to harmonize the operating models of the Procurement function between different business units. A purchasing process development project was kicked off to increase transparency and the efficiency of intra-unit functions. One aspect of the program is the implementation of a new global purchasing system.

Company-level purchasing teams utilize the best contracts and purchasing processes throughout the line. Category management in procurements succeeded as planned, yielding permanent savings of over EUR 10 million. Drawing on the results of these projects, the development of category management will continue in other sourcing functions.

At the end of 2007, Outokumpu decided to establish a separate Procurement Excellence Program that will serve to further bolster Outokumpu Oyj's purchasing as an integral part of its business functions.

Emphasis on Supply Chain Management

Production Excellence is becoming the preferred problem-solving tool

The purpose of the Production Excellence program (OK>1) is to reduce "losses", i.e. to identify and take advantage of improvement opportunities. The quest against losses, and the first phase of OK>1 implementation, begins with achieving an understanding of how these losses occur through detailed and systematic analyses of operations e.g. the following: quality, cost, volume, delivery, innovation, safety, motivation and environment. Input to the next phase is a plan of defining problems to solve, and the aim of the phase is to train problem solving and to introduce improvement teams as a way of solving problems.

> EXAMPLES OF SUCCESSFUL PRODUCTION EXCELLENCE IMPROVEMENT PROJECTS

In Nyby, Sweden: an improvement team reduced edge scrap by 40% using a structured problem solving methodology and involving the key production line employees. The team implemented a new standard operating procedure that was communicated to all line employees. This yielded a benefit of EUR 120 000 per annum.

In Degerfors, Sweden, an improvement team was tasked to reduce the number of short stops on the bottleneck item of plant and therefore increase throughput in the plant. The use of a structured methodology and involving the key production line employees and engineers, the team concluded that the application of a standard way of working across all shift teams would lead to a reduction in the number of short stops. This yielded a saving of EUR 1.1 million per annum.

In the Sheffield Melting Shop, an improvement team identified that a change in the cleaning, inspection and lubrication process for a grinding machine yielded an improved slab surface condition and which ultimately benefited the Hot Rolled Plate business (the next operation in the supply chain) through not having to re-grind slabs prior to rolling. The multi-disciplinary team from the melting shop used a wide range of problem solving techniques to establish a root cause and they implemented new standards and audit processes to ensure that the improvement can be sustained.

In Tornio Hot Rolling Mill, a team was established to improve how hot rolled coils are paint marked with key information for tracking purposes. Any problems with marking could lead to material being held until the correct details were established. The team was made up of production and engineering resources who followed a systematic approach to establishing root causes for the coil marking anomalies. A range of improvement actions were identified and so far the benefits against previous years has been calculated at EUR 800 000 per annum.

The above examples are just a taste of the improvements that have been taking place. It is clear that Outokumpu has made some very bold steps in its continuous improvement journey with many more to come.

Further in-depth analysis and the need for problem solving know-how then triggers the third phase of implementation, in which the key theme is the introduction and building up of so-called pillars. A pillar is a small cross-functional team of people responsible for the analysis of losses, providing problem-solving know-how, and for managing improvement work. Ten different types of pillars currently exist, with specific types being deployed in similar ways in several of the Group's plants, making communication between these pillars uncomplicated. Pillar leaders also make up a forum called the Master Pillar at Group level. Strict follow-up of how well OK>1 is being implemented and used is applied on improvement teams, in pillars and finally in whole plants in the form of an audit scheme executed by management. Training is obviously an integral component in all steps of implementation. Production Excellence Change Agent Training is the most demanding training, and it takes a year.

By the end of 2007, all of the Group's large plants were implementing the Production Excellence program, and the decision has been made to expand this to smaller units and service centers. A total of 28 implementation projects are currently active. Improvement targets corresponding to significant financial value have been identified. Some 400 improvement teams have successfully concluded their activities. All ten types of pillars have been started at least once at some location in the Group, and a total of more than 50 pillar teams have been established. Both teams and pillars are being audited, and six plant audits have been performed with satisfactory results.

The targeted financial benefits for 2007 were achieved and the 2008 target appears to be within reach. Implementation of the Production Excellence program is clearly delivering a new, sustainable, process-led way of working that is well understood and on its way to becoming the Group's preferred problem-solving tool.

Case

Pioneering use of Duplex LDX 2101® in concrete reinforcement

The Gateway Upgrade Project, to duplicate a motorway bridge across the Brisbane River in Australia's Queensland, will use duplex LDX 2101® stainless steel reinforcement bar from Outokumpu in a ground-breaking move towards sustainable infrastructure development at competitive cost.

South-east Queensland is the fastest growing region in Australia. To meet the region's future demands and to secure its economic success, Brisbane's six-lane Gateway Bridge will be duplicated as part of the Gateway Upgrade Project. This is the largest road and bridge project in Queensland's history, delivered by Queensland Motorways with design, construction and maintenance by the Leighton Abigroup Joint Venture.

Looking to the future, the new bridge will have a design life of 300 years. To ensure such a long lifespan, the bridge design specifies stainless steel reinforcement bar (rebar for short) in the most critical bridge structures: the splash zones of the two main river pylons.

LDX 2101® had never been used in rebar before. So the bridge engineers had the question, would that grade have the required corrosion resistance for the extended period of time? Outokumpu's in-house research metallurgists had made extensive corrosion tests on LDX 2101® rebar in the event that concrete is permeated by seawater. The results prove that LDX 2101® withstands such a high corrosion environment.

As a result of the research and tests, the second Gateway Bridge is now under construction with LDX 2101® rebar. Outokumpu has supplied 28 tons for the project to date, and further deliveries are scheduled for early 2008. The Gateway Upgrade Project is scheduled for completion in 2011.

Research and development

> Outokumpu's R&D experts provide advice for both sales and customers about product properties and material selection

Fine-tuning new processes and the development of special grades and applications

Outokumpu Group has research centers in Tornio and Avesta, and the main subjects for R&D are process, product and application development. Some process and technology development work is also carried out in production units, and there are links between the Group's R&D operations and the Production Excellence program.

Special grades are a key focus area at Avesta, including high-alloyed corrosion-resistant austenitic, duplex and heat-resistant alloys. Much effort has been put into the development of duplex grades, which offer a good combination of strength and corrosion resistance. Demand for these grades has grown very strongly in response to the high price of nickel. Outokumpu has been able to increase the volumes of these products substantially, and customers have also shown growing interest in LDX 2101®, Outokumpu's own development of Lean Duplex. Production technology for this grade has been improved and new applications for the products are continually being developed.

Research and development teams at Tornio have continued to work on the fine-tuning of new processes and equipment at the Tornio Works. Good progress was made in the new steel melt shop, the unique Steckel-Tandem hot rolling mill and the RAP line, and availability in critical process steps improved. Optimum process parameters and product properties for standard ferritic grades have been studied intensively at production scale. Ferritic production volumes increased after new batch annealing furnaces became operational in the first quarter of 2007.

Cr-Mn-Ni grades (200 series) are not only an opportunity to reduce the dependence of raw material costs on the nickel price, they are also an interesting alternative for many applications. The Group is now capable of producing and selling these grades. A new development is initiation of the standardization process for the "soft 201" alloy within EuroInox by Outokumpu and other European stainless steel producers.

The traditional focus for application development has always been the process industries, where stainless steel plays a dominant role in the manufacturing of industrial equipment used in the pulp and paper, oil and gas, desalination and chemical sectors. Outokumpu's R&D experts provide advice for both sales personnel and customers about product properties and material selection and also receive valuable direct feedback concerning customer needs. This in turn serves as input for further product development activity.

The high strength and good formability of stainless steels has made it the subject of further study for use as a construction material in the AB&C and Transport segments. Stainless steel's lower weight and low life-cycle costs make it an excellent substitute for many other materials. Activities within the automotive segment have continued in the Next Generation Vehicle project, a co-operative project between some European stainless steel producers, car manufacturers and engineering companies. Components for passenger cars made of high-strength stainless steels have yielded very promising results in the first crash tests. This more than EUR 5 million project will be completed in 2008.

Outokumpu's experts are actively engaged in many international associations such as ISSF and EuroInox, as well as in EU co-operation projects. In Finland, together with other steel companies and universities, Outokumpu is participating in the New Pro project, in which some sub-projects are handling new products and applications for stainless steel. In 2007, Outokumpu's researchers made some 20 presentations at international conferences on material properties and selection criteria for different applications.

The main subject of environmental research in 2007 was slag utilization (including process development), studies of the properties of different slag products and the development of applications. When treated in an optimal manner, slag from steel melt shops is a suitable material for roads and construction beds and can replace virgin material. Development of the Hydroflux process to utilize processed pickling sludge in steel melt shops continued.

Outokumpu's R&D costs totaled EUR 19 million in 2007 and the R&D function employed nearly 200 professionals.

Energy

Outokumpu joins Fennovoima to build a nuclear power plant

The main task of the Group's Energy function is to procure the electrical energy supplied to Outokumpu's Nordic sites at favorable and stable prices, and to hedge against future price developments. The Energy function also supports Group companies in their energy-related activities.

During 2007, prices in the Nordic electricity market continued to increase with high levels of volatility. The rising price trend in long-term power contracts has continued as a result of climate combat actions, as well as because of high fuel prices.

Group policy is to price hedge electrical power for at least the next three to five years so that a minimum of 80% of expected consumption is covered. The indicative diagram below illustrates the mix of energy sources over time.

Because of the rising price trend and to secure the availability of electrical energy, Outokumpu has continued its efforts to obtain power production assets. During 2007, the "Fennovoima" nuclear power project was unveiled with Outokumpu as one of the founding partners. Co-owned by Finnish industrial and utilities groups (66%) and German E.ON (34%), Fennovoima plans to license and build a state-of-the-art 1 500–2 500 MW nuclear power plant in Finland by 2018. Outokumpu's aim is to obtain 150 MW of electricity from the new plant at the cost of production, an amount representing more than half of the Tornio Work's current needs.

Outokumpu is also active in wind power. Rajakiiri Oy, in which Outokumpu is a minority shareholder, is planning to build a wind power park at Cape Röyttä near Tornio. The first investment decisions related to this project are expected during 2008.

The Tornio CHP (combined heat and power) plant, in which Outokumpu has a minority stake, delivers heat to the Tornio Works and began commercial operation as planned in December 2007.

In 2007, Outokumpu's consumption of electrical power totaled some 2.9 TWh, of which the Group's Nordic operations consumed some 2.6 TWh.

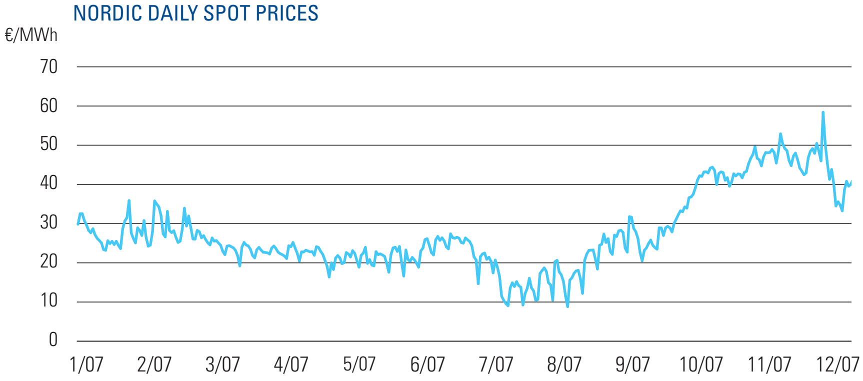
> FENNOVOIMA

Fennovoima is a new Finnish nuclear power company that aims at constructing a new 1 500–2 500 MW nuclear power plant. The operation of the plant is planned to start by 2018.

Fennovoima plans to produce electricity for its owners' needs at production cost. Each owner would get the share of capacity proportional to its ownership in the company. Outokumpu's share in Fennovoima is currently 9%.

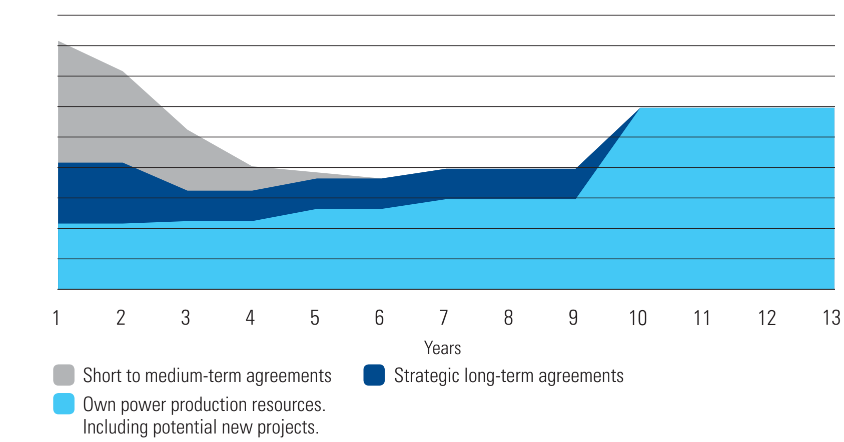
By increasing competition in the electricity market in Finland, Fennovoima wants to ensure the supply of CO_2-free and reasonably-priced electricity for enterprises as well as for Finnish households.

NORDIC DAILY SPOT PRICES



Source: Nord Pool

OUTOKUMPU'S PLANNED POWER PROCUREMENT MODEL (INDICATIVE)



Human Resources

Outokumpu's aim to become the undisputed number one in stainless steel comprises the aim to be a very attractive employer. In 2007, Human Resources function continued its efforts to fulfill this goal. The work continued by implementation of the Group's Leadership Principles and several, extensive personnel development initiatives.

Time to live up to the Leadership principles

Excellent leadership plays a vital role in Outokumpu. 2007 saw the continued, extensive implementation of the Group's Leadership principles and behaviors in all operations. A good leader builds trust and respect, makes sound decisions, achieves ambitious targets, creates a winning team and inspires to perform. The senior management was given the mission to carry forward the message of excellent leadership in accordance with a specific plan.

> OUTOKUMPU'S LEADERSHIP PRINCIPLES:

- Making sound decisions
- Achieving ambitious targets
- Creating a winning team
- Inspiring to perform
- Building trust and respect

O'People personnel survey results into actions

The personnel survey O'People mapped out the opinions of employees concerning their working environment and working practices. A total of 64% of employees responded to the survey. The results show that Outokumpu has responsible employees on every level of the organization and that we are in the world class in organizational efficiency. The results will be examined openly throughout the organization, and serve as a basis for continuous improvement and corporate culture change throughout the Group. All management teams review the results, clear targets are set and concrete action plans are made involving with all employees. Everyone´s contribution is important.

Extensive personnel development in focus

Personnel development is one of the key priority areas of Outokumpu's human resources agenda. In 2007, the most visible projects were the extensive training program on Production Excellence, Outokumpu Management Development Program and the Strategic Leadership Program.

In 2007, an international graduate program, Stainless Pro, was initiated. The program seeks recent graduates that have passion for stainless steel, to join the two-year program with four placements in two business units, a sales company and the head office with starting locations in Finland, Sweden and the UK. The second program begins in September 2008. For the program started in 2007, there were over 800 applicants.

In addition, the Management Review Process, which identifies and evaluates Outokumpu's talent and potential, was carried out in 2007.

Training costs amounted to 1.4% of total salaries in 2007 (2006: 1.1%). The Group provided 3.3 training days per employee (2006: 2.9%).

Uniform Development Dialogues in use

The uniform model for Development Dialogues took place with all clerical staff. The development dialogue model emphasizes the link between personal targets, work performance, personal development and reward, and it facilitates immediate feedback. The objective is to extend the dialogues to cover the entire personnel in 2008.

Incentive bonuses paid out amounted to 5.6% of total salaries and wages.

Co-operation between management and personnel strengthened further

The forum dedicated to co-operation between personnel and management is called Outokumpu Personnel Forum. It includes 21 personnel representatives from Outokumpu's various European company locations. The Personnel Forum held its 16th meeting in Avesta, Sweden in October 2007.

The Working Committee of the Outokumpu Personnel Forum is responsible for the ongoing co-operation between personnel and management and acts as a consultative team on matters concerning personnel and the human resources strategy. The committee met 7 times in 2007. The Working Committee's activities were enhanced in 2007 and this development will continue during 2008.

Success is about people

New phase in strategy development requires organizational change

The new phase in Outokumpu's strategy development, announced in autumn 2007, initiated a wide organizational change process in the Group's commercial operations. The commercial operations were reorganized for improved customer focus. Along with the organizational change, a wide-scale internal recruitment process was launched at the end of 2007.

Also, the recent major investment decisions place challenges on recruitment and talent acquisition.

Personnel in some 30 countries

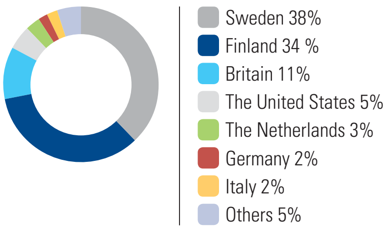
At the end of 2007, the Group employed 8 108 people in some 30 countries (2006: 8 159). The number of Outokumpu personnel fell slightly compared to the previous year. The average age of employees was 43.5 years. The average length of employment was 16.3 years, and the personnel turnover was 6.1%.

Human resources and development are described in more detail in Outokumpu's corporate responsibility report on pages 42–53.

KEY FIGURES

	2007	2006
Sales/person, € million	0.8	0.7
Incentives of total remuneration costs, %	5.6	4.2
Training costs of total remuneration costs, %	1.4	1.1
Training days/person	3.3	2.9
Days lost due to strikes	1 235	15
Personnel turnover, %	6.1	10.1

PERSONNEL BY COUNTRY AT YEAR-END, 8 108



Environment

Production of stainless steel has an impact on the environment. Within defined financial and technical parameters, Outokumpu makes every effort to minimize environmental impacts. Efforts are concentrated on reducing emissions and waste, increasing energy efficiency and preventing soil pollution.

Stainless steel is 100 percent recyclable, corrosion-resistant and hygienic, and the environmental impacts resulting from its use are negligible. Almost all environmental impacts therefore arise during the production, manufacturing and reprocessing stages of the material's lifecycle.

The major environmental issues connected with stainless steel production are: dust and particulate emissions into the air; soil contamination as a result of metals settling out of dust emissions or spills of metals, solvents and oil-containing liquids onto the ground; the intake of cooling water; contamination of waters by discharges from plant; and high levels of direct and indirect energy consumption during production. In particular, the use of primary raw materials consisting of natural ores requires a lot of energy.

As a stainless steel producer, Outokumpu is committed to responsible production. In line with the Group's corporate responsibility policy, ethical principles and environmental policy, Outokumpu aims to minimize the negative impact of its operations on the environment as much as economically and technically possible while achieving continual improvements in overall performance.

Environmental issues are an essential part of the management systems employed in Outokumpu's plants and units, and the functioning of these systems is monitored by both internal and external audits. The relevant authorities also receive regular reports on the operations.

Integrating environmental costs into the material value chain

Being the undisputed number one also in environmental matters requires Outokumpu to create maximum value while using as little resources as possible and minimizing any resulting ecological burden. To achieve this, the Group has initiated a challenging project to develop an internal environmental value chain. The objective of the project is to construct a model which integrates environmental costs into the material value chain. Environmental costs and the use of resources connected with the process and Group products will be evaluated from a value-creation perspective, with the aim of employing resources in the most efficient ways.

The project includes the analysis and valuations of specific emissions, side streams and environmental costs for different stainless steel grades and product phases. The first phase of the project was conducted in Tornio during 2007 and the biggest side stream losses have been identified.

Some spills and non-compliances occurred

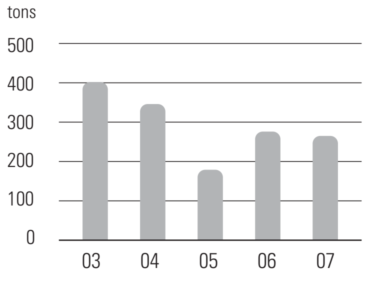
All Outokumpu production sites have environmental or risk-based management systems. 22 out of 26 in total are certified to ISO 14001, the international standard for environmental management systems. Six of the eight service centers have also external certificate for the ISO 14001 environmental management system. This way of working helps to avoid many of the spills and accidents that could be harmful to humans or the environment.

Although some spills and non-compliances occurred in 2007, the general level of emissions and discharges was normal and in compliance with environmental permits. The non-compliances were reported to the authorities and remedial actions were immediately taken. The non-compliances caused no financial consequences.

The major flooding on June 15 caused several problems for the group's UK production units. The Meadowhall site in Sheffield, for example, experienced difficulties with a minor breach of permitted hexavalent chromium release levels breach in effluent and with the rolling oil release. Hexavalent chromium is a harmful form of chrome. The first period of flooding was overshadowed by subsequent, city-wide floods that occurred on June 25 and also affected Meadowhall and Stockbridge.

At the Tornio works, dust particle emissions increased as a result of malfunctions in the dust filters at the ferrochrome plant. The emitted dust amounted up to 38 tons, which exceeded the annual permit level for ferrochrome operation, 20 tons. First aid measures were taken to improve the filter performance. In autumn 2008, a new filter system will replace the old one. Tornio had also some short time dust emission non-compliances at a temporary boiler unit and steel melting shop. In April, a fire in the steel melting shop's dust filtering unit resulted in an emission of particles totaling approximately one ton. In October a piece of radioactive Am 241 isotope was melted. Steel was not contaminated, but low level of activity was detected in slag and dust. The slag and dust

PARTICLE EMISSIONS TO AIR



ACCIDENTS
(Employees and contractors)

were immediately isolated and stored in a safe manner according to guidelines issued by the national authority (STUK).

Carbon dioxine emissions from Outokumpu's production units totaled 932 000 tons in 2007. In 2007, the Group sold externally 364 000 tons of carbon dioxide allowances. The allowances for the period 2008 – 2012 were applied. By the end of the year the allocation was clear for the SMACC melt shop in the UK and Tornio Works in Finland. In Sweden the final decision was still pending, but according to the information received, the total amount allocated to the installations in the UK, Sweden and Finland should be high enough for Outokumpu's planned production. The scope of emission trading was extended to heat treatment installations in Sweden.

Emissions to the air reduced

Dust emissions have traditionally been the main cause of releases by the steel manufacturing industry. The main particulate emissions by the Outokumpu group originate from the Tornio, Avesta and Sheffield steel mills and the New Castle hot rolling mill.

At the beginning of 2007, the steel melting shop in Tornio began monitoring dust particle emissions using a continuous emission measurement system. These continuous measurements provide emission data on a daily basis, helping to detect and repair potential filter leakages more quickly. A new dust filter was also installed at the Tornio cold rolling unit in August 2007.

Dusts emissions from Outokumpu's operations typically contain some quantities of metals (including iron, chromium and nickel) which are mainly present in a harmless form. For example, chromium is usually in its trivalent form and not in the hazardous hexavalent form.

Environmental protection expenditure and investments

Environmental investments by Outokumpu in 2007 totaled some EUR 12 million (2006: EUR 8 million). Operational environmental costs totaled EUR 44 million (2006: EUR 52 million), with the treatment and disposal of waste amounting to EUR 2.7 million. Group provisions and guarantees related to environmental issues at the end of 2007 totaled 23 million.

Health and safety

Outokumpu is committed to providing its personnel with a healthy and safe working environment. The Group is also accountable for the safety of subcontractors and suppliers when they are working at Outokumpu's production plants. The basic principle is that they receive the same occupational safety training and induction as Outokumpu's own employees. All management committees and equivalent bodies throughout the Group start their meetings with a safety review.

The Group's employees have access to occupational health services. Regular health checks are arranged for those employees who are exposed to health risks. Outokumpu provides its employees with rehabilitation and offers various sports activities in order to foster occupational well-being.

Accident prevention, risk awareness

The annual theme for 2005 was occupational safety at Outokumpu. That year, a target was set to reduce the accident rate to less than five per one million working hours by 2009. The target set for 2007 was a maximum of 12 accidents per one million working hours, and the actual rate was 11 accidents (17 in 2006). The figure includes accidents suffered by Outokumpu's own employees as well as those suffered by subcontractor personnel.

Safety Log bolsters occupational safety

Work on developing a new occupational safety information system – the Safety Log – for the entire Group got underway in February 2007. The project group included occupational safety experts from all of the business units. The system was brought into production use at the beginning of 2008, and it can be used to generate and report real-time comprehensive information concerning occupational safety that can be used as the grounds for decision-making.

Staying healthy in the workplace

Outokumpu provides occupational health services at its operating locations in line with national legislation and local needs. The services are provided either by the company's own occupational health centers or by external providers. Activities focus on improving the working environment. The health of employees is also monitored by various occupational health checks and fitness tests. The occupational health centers at some locations also provide routine medical services.

In 2007, an average of 6.2% of working time at the Group's production plants was lost due to sickness and accidents. A total of four occupational diseases were diagnosed during the year.

> REPORTING ON CORPORATE RESPONSIBILITY

Outokumpu's corporate responsibility report is based on the Global Reporting Initiative (GRI) and is published in connection with this annual report. Additional and further details concerning environmental issues and health and safety can be found in the corporate responsibility report – Outokumpu and the environment 2007 – and at www.outokumpu.com.

Risk management

Outokumpu operates in accordance with the Board-approved risk management policy which defines the objectives, approaches and areas of responsibility of risk management. Risk management supports the Group's strategy and also helps to define a balanced risk profile from the perspective of shareholders as well as other stakeholders such as customers, suppliers, personnel and lenders. Outokumpu has defined risk to be anything that might have an adverse impact on activities that the company has undertaken to achieve its objectives. Risks can thus be threats, uncertainties or lost opportunities that relate to present or future operations.

Outokumpu's appetite for risk and tolerance to it are defined in relation to Group's capital structure, earnings and cash flow. The risk management process is part of the Group's management system, and in practical terms is divided into four stages: the identification of risks; risk assessment and measurement; control and mitigation; and reporting.

The Board of Directors is ultimately responsible for the Group's risk management. The CEO and the Group Executive Committee are responsible for defining and implementing risk management procedures, and for ensuring that risks are properly addressed and taken into account in strategic and business planning. Business units are responsible for managing the risks involved in their own operations. The risk management function supports the implementation of risk management policy and prepares quarterly risk report to the management and auditors of the company. Both auditors and Internal Audit monitor the risk management process and the Group Executive Committee, Audit Committee and Board of Directors review key risks and risk management actions on a regular basis.

Strategic and business risks

Strategic risks relate to Outokumpu's business portfolio, the market situation and major investments. Business risks are related to the operational environment, customer behavior and the economic outlook. Outokumpu's key strategic and business risks are presented below.

The global stainless steel market

The market for stainless steel is divided into three main regions: Asia, Europe and the Americas. Significant flows of trade between the regions take place despite some political barriers. Outokumpu's key production facilities are located in Europe and it has a global sales and distribution network. Outokumpu's main market area is Europe. The changes that occur in different market areas and regional differences – such as the prevailing levels of supply and demand, price levels, or currency rates – can have an impact on Outokumpu's competitive position and financial performance. Because of good demand prospects for stainless steel in China, a lot of new production capacity is being built there e.g. the capacity to produce cold rolled stainless steel in China is estimated to exceed demand in the next couple of years. Demand and supply for stainless steel in China have been close to balance and this has led to continued tough competition in the sector. Outokumpu has already taken action and by maintaining cost-efficient production, broadening its product offering, improving delivery reliability and developing distribution channels it is making preparations for a possible continuation of overcapacity situation and the adverse effects of it. In addition to recently announced service center investments in India and China, Outokumpu will also study other ways of strengthening its position outside Europe in the years ahead.

Cyclical nature of stainless steel demand

Demand for Outokumpu's main product, austenitic stainless steel, is sensitive not only to fluctuations in actual end-user demand, but also to changes in the price of nickel, the most valuable alloying element. Stockists may speculate on changes in the nickel price by timing of their purchases, and this can both complicate the forecasting of

demand and affect Outokumpu's sales volumes. Outokumpu seeks to mitigate this risk in several ways, such as by increasing the share of direct end-user customers. At the end of 2007, Outokumpu decided to change its application of the alloy surcharge in most European markets with the aim to reduce variations in product demand. The new surcharge, which will be applied as from the beginning of 2008, will follow the market prices of alloy metals quicker than the previously applied clause did. This characteristic of the new alloy surcharge widens the time gap between price of raw material at purchase and the pricing of product sales.

Commercial strategy and development

As part of Outokumpu's commercial strategy, the Group aims to develop its business model to collaborate and transact more directly with end users of stainless steel. This change may challenge the role of some of the existing distributors and potentially lead to sales channel conflict. Outokumpu is also exposed to competitor actions in case they would start acquiring important distributors.

Raw materials and energy

Apart from its own ferrochrome production, Outokumpu is dependent on external suppliers for the raw materials used in production of stainless steel, and, as a rule, enters into long-term agreements with them. The availability and price of many raw materials and energy are subject to fluctuation. Reduced availability of raw materials and energy or a significant rise in their price may have an adverse effect on both Outokumpu's operations and profits if the risk mitigation measures by Outokumpu prove insufficient or if price increases cannot be passed on to customers. Carbon dioxide emissions trading affects Outokumpu mainly through possible increases in the price of electrical energy. Outokumpu has prepared to meet higher electricity prices not only through hedging, but also by stepping up the efficiency of energy use in its plants, concluding long-term delivery agreements and acquiring stakes in power generation companies.

Competition in the stainless industry

Competition in the stainless steel industry is fierce, and factors such as increases in competitors' production capacity, a decrease in prices or the development of better or new products and services can weaken Outokumpu's position in relation to its competitors. Substitution between different product grades takes place within the stainless industry, e.g. between austenitics and ferritics, in those applications where such substitution is technically feasible. Stainless producers also compete with manufacturers of other materials such as carbon steel, aluminium, plastics and composites. On the other hand, stainless steel is being used in many new applications where other materials have previously been used. One of stainless steel's key advantages over competing materials is its low life-cycle cost.

Operational risks

Operational risks arise as a consequence of inadequate or failed internal processes, employees' actions, systems or other events such as natural catastrophes and misconduct/crime. Risks of this kind are often connected with production operations, logistics, financial processes, projects or information technology, and if they materialize, can lead to personal injury, liability, loss of property, suspension of operations or environmental impacts. Risk surveys are carried out regularly to assess such risks and keep them under control.

Part of Outokumpu's operational risks are covered by insurance.

Property damage and business interruptions

The majority of Outokumpu's production is located in large industrial areas and comprises a number of separate buildings and production lines. The production of stainless steel also involves the integration of production and logistics between the Group's facilities in Tornio, Avesta, Sheffield and other facilities. Production is capital intensive and a large part of the Group's operating capital is tied up in the above-mentioned facilities. For example, a fire or a serious machine failure can lead to major damage to property or loss of production, or have other indirect adverse effects on Outokumpu's operations. Outokumpu endeavors to guard against such risks by continually evaluating its production facilities and processes from a risk management perspective and by arranging reasonable insurance coverage for a large part of these risks.

Corporate security

In 2007, Outokumpu reviewed its security statement and policy. Systematic auditing of site security was started. In connection with strengthening and the nomination of personnel responsible for security, the Outokumpu Security Working Group was established. Its key responsibilities include ensuring co-operation and the implementation of security instructions across the Group. The main focus of practical security activities has been in the physical security to prevent thefts during transportation and at sites.

Financial risks

Financial risks comprise market, liquidity and default risks. One of the main market risks is the price of nickel, which is used as an alloying material in stainless steel production. A significant portion of the risk resulting from fluctuations in nickel price is passed on to customers in form of an alloy surcharge that is added to base price. In the short-term, however, variations in the price of nickel can feed through into Outokumpu's earnings. Price fluctuations also have a major impact on the Group's working capital.

Financial risk management issues are discussed in further detail in the notes to the consolidated financial statements.

Shares and shareholders

Shares and share capital
On December 31, 2007, Outokumpu Oyj's fully paid and registered share capital totaled EUR 308 247 053.20 and it consisted of 181 321 796 shares. Each share entitles its holder to one vote at general meetings of shareholders. The Company's shares have been entered in the Finnish book-entry securities system.

Listing of shares
Outokumpu Oyj's shares are listed on the OMX Nordic Exchange Helsinki. The trading symbol is OUT1V. Outokumpu Oyj's stock options are also listed on the OMX Nordic Exchange Helsinki, the trading symbol for the 2003A stock options is OUT1VEW103 and the trading symbol for the 2003B stock options is OUT1VEW203.

Treasury shares
At the end of 2007, the Company held 1 218 603 treasury shares. The repurchases have been made between April 9 and November 27, 2001 and November 1 and 6, 2007. The amount corresponds to 0.7% of the Company's shares and voting rights.

State ownership
The Finnish State holds 31.1% of the Company's shares and voting rights. According to a new act passed by Finnish Parliament in December 2007, the state's shareholding in Outokumpu can be reduced down to 0%.

Redemption obligation
The Outokumpu Annual General Meeting decided on March 28, 2007 to remove the provision concerning redemption obligation from the Articles of Association.

Board's authorization to decide to issue shares and grant share entitlements
On March 28, 2007 the Annual General Meeting authorized the Board of Directors to decide to issue shares and grant share entitlements:

New shares can be issued, treasury shares can be transferred (share issue) and share entitlements, as specified in Chapter 10, Section 1, of the Finnish Companies Act, excluding option rights for company management and personnel, can be granted.

Under a share issue and/or by exercising share entitlements the maximum number of new shares to be issued is 18 000 000, currently representing 9.93 % of the Company's issued and outstanding shares and, in addition, the maximum number of treasury shares to be transferred is 18 000 000, currently representing 9.93 % of the Company's issued and outstanding shares.

The Board of Directors is authorized to decide who will have the right to subscribe for the shares or be entitled to share entitlements. The Board of Directors decides amongst other things the subscription price and the other terms and conditions of the issue of shares and granting of share entitlements.

The authorization is valid until the end of the next Annual General Meeting, however no later than May 31, 2008. The Board has not exercised the authorization.

Board's authorization to repurchase the Company's own shares
On March 28, 2007 the Annual General Meeting authorized the Board of Directors to repurchase the Company's own shares (treasury shares). The maximum number of shares to be repurchased is 18 000 000, currently representing 9.93% of the company's issued and outstanding shares. Based on this and earlier authorizations the Company holds 1 218 603 of its own shares.

The price payable for the shares is, at the most, the highest prevailing price in public trading.

The shares can be repurchased in deviation from the proportional shareholdings of the current shareholders.

The Board of Directors is authorized to decide on other matters and measures related to the repurchasing of own shares.

The authorization is valid until the next Annual General Meeting, however no later than May 31, 2008.

The Board has exercised this authorization between November 1 and 6, 2007 (1 000 000 shares).

2003 option program

The Annual General Meeting held in 2003 passed a resolution on a stock option program for management. Stock options are part of the Group's incentive and commitment-building system for key employees, and the objective is to encourage recipients to work in the long term to increase shareholder value. The reward system is based on both Group earnings and relative performance, with rewards geared to accomplishments.

The total amount of share options that may have been issued was 5 100 000, entitling holders of stock options to subscribe for 5 100 000 new shares in the Company in the period 2006–2011. Stock options have been marked 2003A, 2003B and 2003C and have been distributed by decision of the Board of Directors, without additional consideration, in 2004, 2005 and 2006, in deviation from shareholders' pre-emptive rights, to the key persons employed by the Outokumpu Group. In deciding on the number of stock options to be distributed annually in total and to each individual, the Board of Directors assessed the Group's earnings trend and performance by comparing, for example, the trend in earnings per share with the trend for the same key ratio in peer companies. In accordance with the share ownership plan of the program members of the Group Executive Committee are obligated to purchase Outokumpu shares with 10% of the income they obtain from stock options.

The subscription price for shares through the exercise of stock option 2003A is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki Stock Exchange from December 1, 2003 to February 29, 2004, with stock option

2003B it is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki Stock Exchange from December 1, 2004 to February 28, 2005 and with stock options 2003C it is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki Stock Exchange from December 1, 2005 to February 28, 2006. On each dividend record date, the share subscription price of stock options will be reduced by the amount of dividends to be decided after the close of the period for determining the subscription price and prior to share subscription.

The subscription period for shares with stock option 2003A is from September 1, 2006 to March 1, 2009, with stock option 2003B it is from September 1, 2007 to March 1, 2010 and with stock option 2003C it is from September 1, 2008 to March 1, 2011.

In February 2004, the Board of Directors confirmed that a total of 742 988 stock options 2003A be distributed to 116 persons in management positions of Outokumpu. The maximum number of 2003A stock options was 1 700 000. Members of the Group Executive Committee received 62% and other key persons received 45.25% of the maximum number of 2003A stock options. The number of 2003A stock options distributed was decided on the basis of the earnings criteria established in June 2003, and which were the Group's earnings per share and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing. Trading with Outokumpu Oyj's stock options 2003A commenced on the main list of the Helsinki Stock Exchange as of September 1, 2006. The unallocated 1 040 698 stock options have been annulled and removed from the Finnish book-entry system. By the end of year 2007, a total of 56 862 Outokumpu Oyj shares had been subscribed for on the basis of 2003A stock options. An aggregate maximum of 602 440 Outokumpu Oyj shares can be subscribed for with the remaining 2003A stock options. In accordance with the terms and conditions of the option program, the dividend adjusted share subscription price for a stock option was EUR 8.45 at the end of 2007.

In February 2005, the Board of Directors confirmed that a total of 1 148 820 stock options 2003B be distributed to 130 persons in management positions of Outokumpu. The maximum number of 2003B stock options was 1 700 000. Members of the Group Executive Committee received 55.2% and other key persons received 75% of the maximum number of 2003B stock options. The number of 2003B stock options distributed was decided on the basis of the earnings criteria established in February 2004, and which were the Group's earnings per share and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing. Trading with Outokumpu Oyj's stock options 2003B commenced on the main list of the Helsinki Stock Exchange as of September 3, 2007. The unallocated 671 180 stock options have been annulled and removed from the Finnish book-entry system. By the end of year 2007, a total of 14 379 Outokumpu Oyj shares had been subscribed for on the basis of 2003B stock options. An aggregate maximum of 1 014 441 Outokumpu Oyj shares can be subscribed for with the remaining 2003B stock options. In accordance with the terms and conditions of the option program, the dividend adjusted

INCREASES IN SHARE CAPITAL 2003–2008

	Number of shares	Share capital, €
Share capital on Jan. 1, 2003	172 516 613	293 278 242.10
Rights offering Nov. 28–Dec. 17, 2002		
Secondary subscriptions registered on Jan. 3, 2003	+142 506	293 520 502.30
Share subscription under the 1999 convertible bond		
Apr. 8–Nov. 28, 2003	+255 417	293 954 711.20
Share subscription under the 1998 option warrants		
Sep. 10–Dec. 19, 2003	+659 629	295 076 080.50
Share issue to Boliden Mineral AB on Dec. 31, 2003	+5 000 000	303 576 080.50
Share subscription under the 1998 option warrants		
Dec. 20–31, 2003	+2 195	303 579 812.00
Jan. 1–Mar. 31, 2004	+2 174 244	307 276 026.80
Share subscription under the 1999 convertible bond		
Jan, 2–Apr. 5, 2004	+499 951	309 125 943.50
Shares subscribed with 2003A options		
Nov. 14–Dec. 29, 2006	+33 323	308 182 592.60
Shares subscribed with 2003A options		
Dec. 30, 2006–Oct. 29, 2007	+23 539	308 222 608.90
Shares subscribed with 2003B options		
Sep. 8–Oct. 29, 2007	+14 379	308 247 053.20
Share capital on Dec. 31, 2007	181 321 796	308 247 053.20
Shares subscribed with 2003A options		
Oct. 30, 2007–Jan. 2, 2008, registered on Jan 15, 2008	+400	308 247 733.20
Shares subscribed with 2003B options		
Oct. 30, 2007–Jan. 2, 2008, registered on Jan 15, 2008	+1 000	308 349 433.20
Share capital on Jan. 31, 2008	181 323 196	308 249 433.20
Treasury shares on Dec. 31, 2007	1 218 603	2 071 625.10
Number of shares outstanding on Dec. 31, 2007	180 103 193	306 175 428.10

share subscription price for a stock option was EUR 11.51 at the end of 2007.

In February 2006, the Board of Directors decided that a total of 97 500 stock options 2003C be distributed to 7 members of the Group Executive Committee. The maximum number of 2003C stock options was 1 160 000. Members of the Group Executive Committee received 25% of the maximum number of 2003C stock options. No stock options were distributed to other key persons, because the earnings criteria established in March 2005, the Group's operating profit in 2005 and relative development of total shareholder return, were not achieved. The additional earnings criterion for the Group Executive Committee members was the Group's gearing and the established gearing target was achieved.

At the end of 2007 an aggregate maximum of 102 500 Outokumpu Oyj shares could be subscribed for with 2003C stock options. In accordance with the terms and conditions of the option program, the original subscription price for a stock was EUR 13.69 per share, from which subsequent annual dividends will be deducted.

Following the subscriptions with 2003 stock options, Outokumpu Oyj's share capital may be increased by a maximum of EUR 2 922 947.70 and the number of shares by a maximum of 1 719 381. The number of shares that can be subscribed for on the basis of the stock options corresponds to 1.0% of Company's shares and voting rights.

SHAREHOLDERS BY GROUP JANUARY 31, 2008

PRINCIPAL SHAREHOLDERS ON JANUARY 31, 2008

Shareholder	Shares	%
The Finnish State	56 440 597	31.1
The Finnish Social Insurance Institution	15 670 644	8.6
Ilmarinen Mutual Pension Insurance Company	4 533 704	2.5
Varma Mutual Pension Insurance Company	4 444 063	2.5
Odin Norden	1 566 975	0.9
Finnish State Pension Fund	1 420 000	0.8
Outokumpu Oyj	1 218 603	0.7
Investment fund OP-Delta	1 212 872	0.7
Etera Mutual Pension Insurance Company	1 083 000	0.6
Henki-Sampo Pension Insurance Company	631 651	0.3
Nominee accounts held by custodian banks	65 731 332	36.3
Other shareholders	27 369 755	15.1
Total number of shares	181 323 196	100.0

SHAREHOLDERS BY GROUP ON JANUARY 31, 2008

Shareholder group	Shares	%
Finnish corporations	3 990 783	2.2
Financial and insurance institutions	5 091 255	2.8
The public sector and public organizations		
The Finnish State	56 440 597	31.1
The Finnish Social Insurance Institution	15 670 644	8.6
Other	13 355 150	7.4
Non-profit organizations	3 302 686	1.8
Households/private persons	14 500 596	8.0
International shareholders	68 971 485	38.0
Shares not transferred to book-entry securities system	1 312	0.0
Total	181 323 196	100.0

DISTRIBUTION OF SHAREHOLDINGS ON JANUARY 31, 2008

Number of shares	Number of shareholders	% of shareholders	Total shares	% of share capital	Average shareholding
1–100	5 547	26.2	344 294	0.2	62
101–500	8 896	42.1	2 451 402	1.4	276
501–1 000	3 043	14.4	2 354 510	1.3	774
1001–10000	3 393	16.0	9 118 546	5.0	2 687
10 001–100 000	224	1.1	5 739 418	3.2	25 622
100 001–1 000 000	38	0.2	7 993 236	4.4	210 348
> 1 000000	13	0.1	87 590 458	48.3	6 737 728
	21 154	100.0	115 591 864	63.7	5 464
Nominee accounts held by custodian banks			65 731 332	36.3	
Shares not transferred to book-entry securities system			1 312	0.0	
Total			181 323 196	100.0	

SHARE-RELATED KEY FIGURES

		2003	2004	2005	2006	2007
Earnings per share	€	0.65	2.12	-2.01	5.31	**3.52**
Cash flow per share	€	1.13	-0.71	2.54	-0.19	**3.74**
Equity per share	€	11.54	13.65	11.31	16.87	**18.53**
Dividend per share	€	0.20	0.50	0.45	1.10	**1.20** [1]
Dividend payout ratio	%	32.1	23.6	neg.	20.7	**33.9**
Dividend yield	%	1.9	3.8	3.6	3.7	**5.7**
Price/earnings ratio		16.7	6.2	neg.	5.6	**6.0**
Development of share price						
Average trading price	€	8.75	12.52	11.89	19.77	**24.94**
Lowest trading price	€	6.87	9.93	9.63	12.60	**18.48**
Highest trading price	€	11.41	14.46	14.72	30.39	**31.65**
Trading price at the end of the period	€	10.77	13.15	12.55	29.66	**21.21**
Change during the period	%	29.8	22.1	-4.6	136.3	**-28.5**
Change in the OMXH index during the period	%	4.4	3.3	31.1	17.9	**20.5**
Market capitalization at the end of the period [2]	€ million	1 911	2 377	2 272	5 369	**3 820**
Development in trading volume						
Trading volume	1 000 shares	75 574	123 832	179 289	319 345	**516 489**
In relation to weighted average number of shares	%	44.0	68.8	99.0	176.4	**285.5**
Adjusted average number of shares [2]		171 623 035	180 056 920	181 031 415	181 033 168	**180 922 336** [3]
Number of shares at the end of the period [2]		177 450 725	180 752 022	181 031 952	181 031 952	**180 103 193**

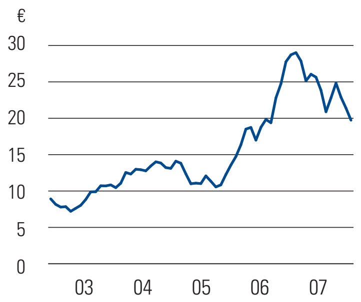
[1] The Board of Directors' proposal to the Annual General Meeting.

[2] Excluding treasury shares.

[3] The average number of shares for 2007 diluted with the 2003A, 2003B and 2003C options was 181 919 553. These have a diluting effect of 0.02 euro on earnings per share in 2007.

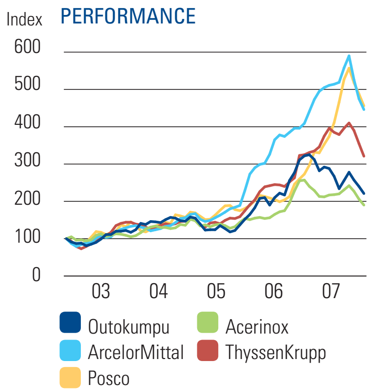
In addition, Outokumpu's options 2003A and 2003B are currently traded in OMX Nordic Exchange Helsinki. Further information on pages 47–49.

SHARE PRICE



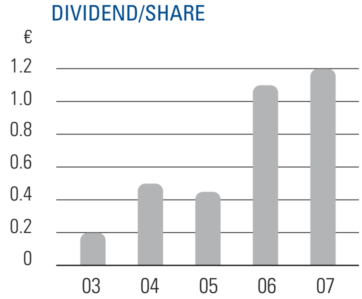
Source: OMX. Including January 2008, monthly averages.

PEER GROUP SHARE PRICE PERFORMANCE



Including January 2008.

DIVIDEND/SHARE



Share-based incentive program for 2006–2010

On February 2, 2006, Outokumpu's Board of Directors confirmed a share-based incentive program as part of the key employee incentive and commitment system of the company. The share incentive program will last five years, comprising three earning periods of three calendar years each. The earning periods commence on January 1, 2006, January 1, 2007 and January 1, 2008. The Board of Directors decides on the persons entitled to participate in the program for each earning period. At the end of 2007, 131 people were in the scope of the program for the earning period 2006–2008 and 137 people for the earning period 2007–2009. On January 31, 2008, 165 people were confirmed to be in the scope of the program for the earning period 2008–2010. The objective of the share-based incentive program is to reward for good performance, which supports the Company's strategy and at the same time to direct the management's attention to increasing the company's shareholder value over a longer period of time. The program offers a possibility to receive Outokumpu shares and cash (equaling to the amount of taxes) as an incentive reward, if the targets set by the Board for each earning period are achieved.

The aggregate number of shares to be distributed for each of the earning periods cannot exceed 500 000 shares. In accordance with targets confirmed for the earning periods the reward is based on relative development of TSR (Total Shareholder Return) (50% of the maximum reward) and achieving targets set for Operational Excellence programs (50% of the maximum award).

If persons covered by the three earning periods of the share-based incentive program were to receive the number of shares in accordance with the maximum reward (a total of 863 765 shares), their shareholding obtained via the program would amount to 0.5% of the Company's shares and the voting rights. Under the program, entitled persons must keep the shares in their possession for at least two years from their receipt. In addition, according to the share ownership plan of the Outokumpu Group the members of the Group Executive Committee are obliged to own Outokumpu shares received under the incentive programs for the value of their annual gross base salary.

Management shareholding

On January 31, 2008 members of the Board of Directors and the Group Executive Committee held a total of 50 319 Company shares, corresponding to 0.03% of the Company's shares and voting rights. If the 2003A, 2003B and 2003C options were exercised in their entirety and if the three earning periods of the share-based incentive program for 2006–2010 yielded the maximum number of shares, shareholdings and aggregate voting rights held by the members of the Group Executive Committee would increase by 0.1 percentage points pursuant to the option warrants, and by 0.11 percentage points pursuant to the share-based incentive program. Details of management shareholdings are given on page 56.

Dividend proposal for 2007

For the financial year 2007, a dividend of EUR 1.20 per share is proposed. The effective dividend yield is 5.7%. The average dividend payout ratio during the past five years is 36.0%. Share price development, trading volume and share-related figures of the Outokumpu share are shown in the table on page 50.

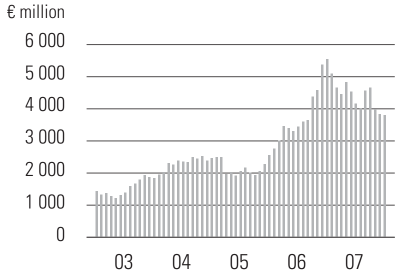
Outokumpu share price development in 2007

On the last day of trading in 2007, the closing price of Outokumpu's share was EUR 21.21 (2006: EUR 29.66), down 28% during the report year.

The highest share price in 2007, also the all-time high quotation, was EUR 31.65 (2006: EUR 30.39) quoted in February and the lowest was EUR 18.48 (2006: EUR 12.60) in August. The average price was EUR 24.94 (2006: EUR 19.77). At year's end, market capitalization was EUR 3 820 million (2006: EUR 5 376 million), down 28 per cent on the previous year.

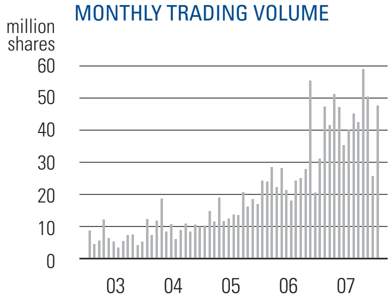
Share turnover grew significantly compared with 2006, with 516.4 (2006: 319.3) million shares being traded on the OMX Nordic Exchange Helsinki in 2007. The value of share turnover more than doubled and was EUR 12 882 million (2006: EUR 6 312 million). Average daily turnover amounted to 2 065 955 (2006: 1 272 294) shares.

MARKET CAPITALIZATION



Source: OMX. Including January 2008.

MONTHLY TRADING VOLUME



Source: OMX. Including January 2008.

Corporate governance

The Group's parent company, Outokumpu Oyj, is a public limited liability company incorporated and domiciled in Finland.

In its corporate governance and management, Outokumpu Oyj complies with Finnish legislation, the Company's Articles of Association and the Corporate Governance policy resolved and approved by the Board of Directors. Outokumpu follows the Corporate Governance Recommendations for Listed Companies published jointly in December 2003 by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. As one exception to these recommendations, Outokumpu has both the Board Nomination and Compensation Committee and the Shareholders' Nomination Committee appointed by the Annual General Meeting of Shareholders. Furthermore, Outokumpu complies with the regulations and recommendations issued by the Helsinki Stock Exchange.

Group structure

Outokumpu's Corporate Management consists of the Chief Executive Officer, members of the Group Executive Committee, and managers and experts who assist the CEO and the Group Executive Committee members. The task of Corporate Management is to manage the Group as a whole, and its duties include coordination and execution work in the areas of strategy and planning, business development, financial control, internal audit, human resources, environment, health and safety, communications and investor relations, legal affairs as well as treasury and risk management. In addition to the Corporate Management tasks, Outokumpu's functional steering across the businesses has been organized into sales and marketing functions and Supply Chain Management. Certain support functions have been centralized at Group level.

As of January 1, 2008 the businesses are organized into five business units: Tornio Works, Special Coil and Plate, Thin Strip, OSTP (Outokumpu Stainless Tubular Products) and Long Products. The business units report directly to individual Group Executive Committee members. In the reporting, the business units are consolidated into two divisions according to the types of product produced; General Stainless (Tornio Works and Long Products) and Specialty Stainless (Special Coil and Plate, Thin Strip and OSTP).

As a discontinued operation, Outokumpu Copper Tube and Brass is managed separately from the Group through the Outokumpu Copper Tube and Brass' Board of Directors. The Outokumpu Group is managed in accordance with its business organization, in which the legal company structure of the Group provides the legal framework for operations. Clear financial and operational targets have been defined for all the Group's operational businesses.

Tasks and responsibilities of governing bodies

The ultimate responsibility for the Group management and Group operations lies with the governing bodies of the parent company Outokumpu Oyj: the General Meeting of Shareholders, the Board of Directors and the President and Chief Executive Officer (CEO). The Group Executive Committee operates within the authorities of the CEO and has been formed for the efficient management of the Group.

General Meeting of Shareholders

The General Meeting of Shareholders normally convenes once a year. Under the Finnish Companies Act, certain important decisions fall within the exclusive domain of the General Meeting of Shareholders. These decisions include the approval of financial statements, decisions on dividends and increasing or decreasing share capital, amendments to the Articles of Association and election of the Board of Directors and auditors.

The Board of Directors convenes a General Meeting of Shareholders. The Board can decide to convene a General Meeting on its own initiative, but is obliged to convene a General Meeting if the auditor or shareholders holding at least 10% of the Company's shares so request. Furthermore, each shareholder has the right to bring a matter that falls within the domain of the General Meeting before a General Meeting of Shareholders provided that a written request to do this has been received by the Board of Directors early enough to allow the matter to be placed on the agenda included in the notice announcing that a General Meeting is being convened. According to its Articles of Association, Outokumpu has only a single class of shares. All shares therefore have equal voting power at General Meetings of Shareholders.

Board of Directors

The general objective of the Board of Directors is to direct the Company's business in a manner that secures a significant and sustained increase in the value of the Company for its shareholders. To this end the members of the Board offer their expertise and experience for the benefit of the Company. The tasks and responsibilities of the Company's Board of Directors are determined on the basis of the Finnish Companies Act as well as other applicable legislation. The Board has general authority to decide and act in all matters not reserved for other corporate governing bodies by law or under the provisions of the Company's Articles of Association. The Board's general task is to organize the Company's management and operations. In all situations, the Board must act in accordance with the Company's best interests.

The Board of Directors has established rules of procedure, which define its tasks and operating principles. The main duties of the Board of Directors are as follows:

With respect to directing the Company's business and strategies:

- To decide on the Group's basic strategies and monitor their implementation;

- To decide on annual authority frames for the Group's capital expenditure, monitor their implementation, review such plans quarterly and decide on changes;
- To decide on individual investments or items of expenditure that are included in the authorized capital expenditure frames and have a value exceeding EUR 20 million, as well as on other major and strategically important investments;
- To decide on any individual business acquisitions and divestments within the current scope of business, having a value exceeding EUR 10 million;
- To decide on any financing arrangements by any Group company which either exceed EUR 150 million, are organized by way of public offerings, or which are otherwise out of the Group's normal course of business; and
- To decide on any other commitments by any of the Group companies that are out of the ordinary either in terms of value or nature, taking into account the size, structure and field of operation of the Group.

With respect to organizing the Company's management and operations:

- To nominate and dismiss the CEO and his deputy, and to decide on their terms of service, including incentive schemes, on the basis of a proposal made by the Board Nomination and Compensation Committee;
- To nominate and dismiss members of the Group Executive Committee, to define their areas of responsibility, and to decide on terms of service, including incentive schemes, on the basis of a proposal by the Board Nomination and Compensation Committee;
- To decide on the composition of boards of directors of certain key subsidiaries of the Group;
- To monitor the adequacy and allocation of the Group's top management resources;
- To decide on any significant changes to the Group's business organization;
- To define the Group's ethical values and methods of working;
- To ensure that policies outlining the principles of corporate governance are in place;
- To ensure that policies outlining the principles of managing the Company's insider issues are in use; and
- To ensure that the Company has other guidelines concerning matters which the Board deems necessary and fall within the scope of the Board's duties and authority.

With respect to the preparation of matters to be resolved by General Meetings of Shareholders:

- To establish a dividend policy and issue a proposal on dividend distribution; and
- To make other proposals to General Meetings of Shareholders.

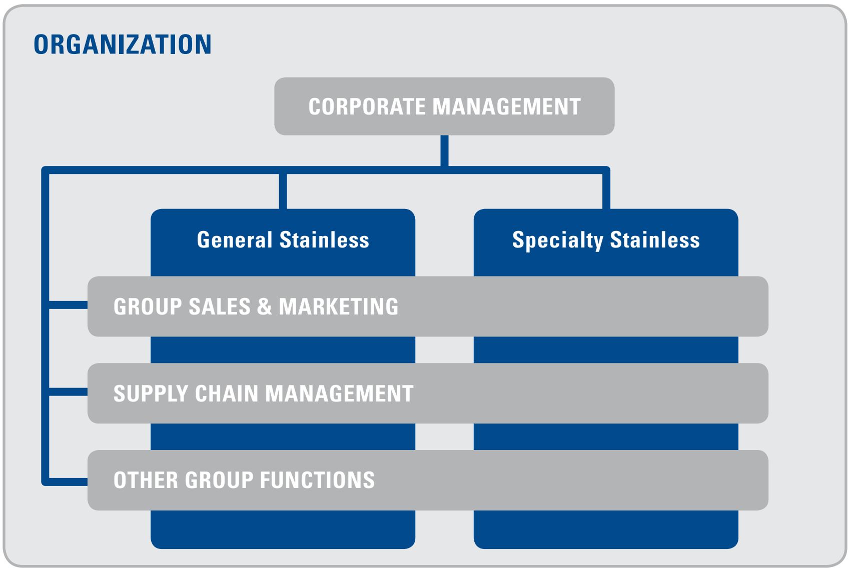
With respect to financial control and risk management:

- To discuss and approve interim reports and annual accounts;
- To monitor significant risks related to the Group's operations and management of such risks; and
- To ensure that adequate procedures concerning risk management are in place.

The Board of Directors also assesses its own activities on a regular basis.

The Board of Directors is quorate when more than half of its members are present. A decision by the Board of Directors shall be the opinion supported by more than half the members present at a meeting. In the event of a tie, the Chairman shall have the casting vote.

The Annual General Meeting elects the chairman, the vice chairman and the other members of the Board of Directors for a term expiring at the close of the following Annual General Meeting. The entire Board is therefore elected at each Annual General Meeting. A Board member may be removed from office at any time by a resolution passed by a General Meeting of Shareholders. Proposals to the Annual General Meeting concerning the election of Board members which have been made known to the Board prior to the Annual General Meeting will be made public if a given proposal is supported by shareholders holding a minimum of 10% of all the Company's shares and voting rights and if the person proposed has consented to such nomination.



Under the Articles of Association, the Board shall have a minimum of five and a maximum of twelve members. At the 2007 Annual General Meeting, eight members were elected to the Board of Directors. The current Board members are Jukka Härmälä (Chairman), Ole Johansson (Vice Chairman), Victoire de Margerie, Evert Henkes, Anna Nilsson-Ehle, Leo Oksanen, Leena Saarinen and Taisto Turunen. The CEO of Outokumpu is not a Board member. The Company's largest shareholders have confirmed that they are in favor of a principle according to which members of the Company's Board of Directors should, as a rule, be qualified experts from outside the Company. Seven of the Board's eight members are independent of the Company (Evert Henkes, Jukka Härmälä, Ole Johansson, Victoire de Margerie, Anna Nilsson-Ehle, Leena Saarinen and Taisto Turunen) and six are independent of both the Company and its significant shareholders (Evert Henkes, Jukka Härmälä, Ole Johansson, Victoire de Margerie, Anna Nilsson-Ehle and Leena Saarinen).

The Board of Directors shall meet at least five times a year. In 2007, the Board met nine times. The average attendance rate of members at Board meetings was 96%.

Board committees

The Board of Directors has set up two permanent committees from among its members and confirmed rules of procedure for these committees. The committees report on their work to the Board of Directors.

The Audit Committee comprises three Board members who are independent of the Company: Ole Johansson (Chairman), Leena Saarinen and Taisto Turunen. Mr. Johansson holds a B.Sc.(Econ.) degree and his working experience includes several years as the Chief Financial Officer of a publicly listed company.

The task of the Audit Committee is to deal with matters relating to financial statements, auditing work, internal controls, the scope of internal and external audits, billing by auditors, the Group's financial policies and other procedures for managing the Group's risks. In addition, the Committee prepares a recommendation to the Company's largest shareholders concerning the election of an external auditor and auditing fees. The Audit Committee met three times during 2007.

The Nomination and Compensation Committee comprises the Chairman of the Board and two other Board members who are independent of the Company: Jukka Härmälä (Chairman), Evert Henkes and Anna Nilsson-Ehle. The tasks of the Committee do not comply in all respects with the Corporate Governance Recommendations for Listed Companies published by the OMX Nordic Exchange Helsinki, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. The task of the Nomination and Compensation Committee is to prepare proposals for the Board of Directors concerning appointment of the company's top management – excluding the Board of Directors – and the principles of their compensation. The Committee is authorized to determine the terms of service and benefits of the Group Executive Committee members other than the CEO and the Deputy CEO. The Nomination and Compensation Committee met four times during 2007.

For attending to specific tasks, the Board of Directors can also set up temporary working groups from among its members. These working groups report to the Board. During 2007 no such working groups were set up.

Shareholders' Nomination Committee

Outokumpu's 2007 Annual General Meeting decided to establish a Shareholders' Nomination Committee to prepare proposals for the following General Meeting of Shareholders on the composition of the Board of Directors and director remuneration. The 2007 Annual General Meeting also decided that the Shareholders' Nomination Committee should consist of the representatives of Outokumpu's four largest registered shareholders in the Finnish book-entry securities system on November 1, 2007, which accept the assignment. The Chairman of Outokumpu's Board of Directors acts as an expert member of the Committee.

The largest shareholders are determined based on their registered shareholdings in the Finnish book-entry system. However, holdings by a shareholder, who under the Finnish Securities Markets Act has the obligation to disclose changes in shareholdings (flagging obligation), e.g. divided into a number of funds, may be combined provided that the owner presents a written request to that effect to the Board of Directors of the Company no later than on October 31, 2007.

The representatives of the shareholders in the committee were: The Finnish State, The Finnish Social Insurance Institution, Ilmarinen Mutual Pension Insurance Company and Varma Mutual Pension Insurance Company. These shareholders chose the following persons as their representatives on the Shareholders' Nomination Committee: Jarmo Väisänen, Senior Financial Counsellor, Prime Minister's Office (The Finnish State); Jorma Huuhtanen, Director General (The Finnish Social Insurance Institution); Jussi Laitinen, Chief Investment Officer (Ilmarinen) and Matti Vuoria, President & CEO (Varma).

The Chairman of Outokumpu's Board Jukka Härmälä served as an expert member and Jarmo Väisänen as the Chairman of the Committee. The Committee submitted its proposals on Board composition and director remuneration to the Board of Directors. The Outokumpu Board will incorporate these proposals into the notice announcing the 2008 Annual General Meeting of Shareholders.

CEO and Deputy CEO

The CEO is responsible for the Company's day-to-day operations with the objective of securing significant and sustainable growth in the value of the Company to its shareholders. The CEO prepares the matters for the Board of Directors' decision-making, develops the Group in line with the targets agreed with the Board and ensures proper implementation of the Board's decisions. It is further the CEO's responsibility to make sure that existing laws and regulations are observed throughout the Group. The CEO chairs meetings of the Group Executive Committee. The Deputy CEO is responsible for attending to the CEO's duties in the event that the CEO is prevented from attending to them.

FEES, SALARIES AND EMPLOYEE BENEFITS PAID

2007

€	Salaries and fees with employee benefits	Performance/ project-related bonuses	Options	Total
Board of Directors				
Chairman of the Board, Härmälä	61 000	-	-	61 000
Vice Chairman of the Board, Johansson	42 000	-	-	42 000
Board member, Henkes	40 300	-	-	40 300
Board member, Lohiniva	8 200	-	-	8 200
Board member, de Margerie	29 600	-	-	29 600
Board member, Nilsson-Ehle	41 300	-	-	41 300
Board member, Oksanen	25 600	-	-	25 600
Board member, Saarinen	35 300	-	-	35 300
Board member, Suonoja	8 200	-	-	8 200
Board member, Turunen	34 800	-	-	34 800
CEO	683 039	354 517	140 876	1 178 432
Deputy CEO	347 503	186 025	-	533 528
Other Group Executive Committee members	1 302 743	543 781	621 645	2 468 169

2006

€	Salaries and fees with employee benefits	Performance/ project-related bonuses	Options	Total
Board of Directors				
Chairman of the Board, Härmälä	54 200	-	-	54 200
Vice Chairman of the Board, Johansson	43 000	-	-	43 000
Board member, Henkes	35 300	-	-	35 300
Board member, Honkaniemi	8 700	-	-	8 700
Board member, Huuhtanen	7 700	-	-	7 700
Board member, Karinen	13 500	-	-	13 500
Board member, Lohiniva	33 300	-	-	33 300
Board member, Nilsson-Ehle	34 300	-	-	34 300
Board member, Saarinen	35 800	-	-	35 800
Board member, Suonoja	33 300	-	-	33 300
Board member, Turunen	28 000	-	-	28 000
CEO	661 060	-	-	661 060
Deputy CEO	332 127	-	312 046	644 173
Other Group Executive Committee members	1 160 835	-	642 466	1 803 301

Shares and options received through share-related schemes are also included in the table on page 56.

Group Executive Committee

The role of the Group Executive Committee is to manage Outokumpu's main business, stainless steel, as a whole. The Committee members have extensive authorities in their individual areas of responsibilities and have the duty to develop the Group's operations in line with the targets set by the Board of Directors and the CEO. The Group Executive Committee consists of eight members appointed by the Board of Directors. The members of the committee are the CEO and his Deputy, Executive Vice President – General Stainless, Executive Vice President – Specialty Stainless, Executive Vice President – Supply Chain Management, Executive Vice President - Group Sales & Marketing, Executive Vice President – Chief Financial Officer, and Executive Vice President – Human Resources. The Group Executive Committee meets 1–2 times a month.

Remuneration and other benefits of Board members, the CEO and members of the Group Executive Committee

Monthly fees for members of the Board of Directors as confirmed by the Annual General Meeting are the following: Chairman EUR 4 500, Vice Chairman EUR 3 000, other members EUR 2 400. All members of the Board of Directors are to be paid a meeting fee of EUR 500 (EUR 1 000 for non-Finnish members). A meeting fee is also paid for meetings of Board committees. The period of notice for the CEO is six months on both sides. If the Company terminates the CEO's employment for a reason or reasons unconnected with his performance or events interpreted as him having failed in his duties, the Company will make a compensation payment. The amount of this payment will total the CEO's basic salary in the preceding 24 months plus the monetary value of his employee benefits at the moment of termination. The performance-related bonus paid to the CEO and members of the Group Executive Committee in addition to their salary and employee benefits for the year 2008 is determined on the basis of achieving Group's ROCE (Return on capital employed) target, operating profit margin compared with a peer group, operational (safety and delivery reliability and increase of deliveries to projects and end-users customers) targets and separately set individual targets. The maximum amount of this bonus is for the CEO 75% and for the other members of the Group Executive Committee 60% of the annual base salary.

No separate remuneration is paid to the CEO or members of the Group Executive Committee for membership of the Committee or the other internal governing bodies of the Group. Members of the Group Executive Committee are entitled, subject to a decision by the Board of Directors, to retire at the age of 60. Pension benefits of Finnish members of the Group Executive Committee amount to 60% of the total average annual salary in the last five full years of service. The Company has not given any guarantees or other similar commitments on behalf of the members of the Board of Directors or the Group Executive Committee. Neither members of the Board of Directors or the Group Executive Committee, or closely related persons or institutions, have any significant business relationships with the Company.

Control systems

The Group's operations are controlled and steered by means of the above-described corporate governance system. The Group is organized into operational business units providing clear channels of financial responsibility within the Group and promoting supervision

SHARES OF THE MEMBERS OF THE BOARD OF DIRECTORS ON JANUARY 31, 2008

Member	Shares
Jukka Härmälä	3 000
Ole Johansson	1 789
Evert Henkes	-
Victoire de Margerie	500
Anna Nilsson-Ehle	500
Leo Oksanen	2 387
Leena Saarinen	800
Taisto Turunen	-
Total	8 976

SHARES AND OPTIONS OF THE GROUP EXECUTIVE COMMITTEE MEMBERS ON JANUARY 31, 2008

Member	Shares	Options 2003A	Options 2003B	Options 2003C	Share-based incentive program 2006–2008	Share-based incentive program 2007–2009	Share-based incentive program 2008–2010
Juha Rantanen	7 000	-	50 000	27 500	30 000	15 500	16 500
Karri Kaitue	4 880	-	19 320	15 000	15 000	7 500	8 000
Jamie Allan	-	-	-	-	4 000	2 100	5 500
Bo Annvik	-	-	-	10 000	-	5 300	5 500
Pekka Erkkilä	9 000	-	-	15 000	10 000	5 300	5 500
Andrea Gatti	10 263	-	-	10 000	10 000	5 300	5 500
Esa Lager	8 200	-	19 320	10 000	10 000	5 300	5 500
Timo Vuorio	2 000	-	-	10 000	10 000	5 300	5 500
Total	41 343	-	88 640	97 500	89 000	51 600	57 500

of the operations and administration of the Group's different parts. Outokumpu employs the reporting systems required for operational business control and effective monitoring of the Group's assets and interests.

Ultimate responsibility for accounting and financial controls rests with the Board of Directors. It is the CEO's duty to attend to the practical arrangements concerning accounting and the control mechanism. Realization of the objectives set is monitored monthly by means of an operational planning and financial control reporting system. In addition to actual data, the system provides up-to-date forecasts and plans for the current year and the next 12 months. The accumulation of economic value added (EVA) is monitored in Outokumpu's internal quarterly reports and this information is published in the Annual Report. The Board of Directors has the ultimate responsibility for the Group's risk management.

The CEO and the Group Executive Committee are responsible for defining and implementing risk management procedures and ensuring that risks are taken into account in the Group's strategic planning. The Business Units are responsible for managing the risks related to their own operations.

The Group's risk management function supports the implementation of risk management policy and develops practical ways of working. External and internal auditors monitor the proper functioning of the risk management process. Outokumpu has classed risks that affect its operations in three categories: risks relating to strategy and business, operational risks and financial risks. Risk management is discussed in more detail on pages 44–45. Financial risks are discussed in more detail in note 20 to the financial statements.

The internal audit function provides consultative auditing on areas and matters that are agreed separately with the Board Audit Committee and the Group Executive Committee. The focus of the audit is on business risks and on the sharing of information. The internal audit acts in close cooperation with the Group's finance and risk management function, financial and business control and the external auditors. The internal audit function operationally reports to the Board Audit Committee. The CEO, members of the Group Executive Committee and other managers working at Corporate Management are responsible for ensuring that day-to-day operations of the Group comply with existing laws and regulations, the Company's operating principles and decisions by the Board of Directors.

Managing of insider issues

Outokumpu's Insider Rules are based on and comply with the Guidelines for Insiders by the OMX Nordic Exchange Helsinki. The Company's permanent insiders with a duty to declare consist of the members of the Board of Directors, the Auditor in Charge, the CEO and his deputy, as well as the other members of the Group Executive Committee. Outokumpu maintains a public register on the permanent insiders with the duty to declare.

Employees of the Group who receive inside information on a regular basis due to their positions or tasks are registered in a non-public register of permanent company-specific insiders. Permanent insiders must not purchase or sell securities issued by the Company in the 14 days prior to publication of interim reports or annual accounts (the so-called closed window). Separate non-public project-specific insider registers are maintained for insider projects. Persons defined as project-specific insiders are those who in the course of their duties in connection with a project receive information concerning the Group which, when realized, is likely to have a significant effect on the value of the company's publicly traded security.

Outokumpu's General Counsel is responsible for coordinating and supervising insider issues. Up-to-date information on holdings by Outokumpu's permanent insiders with a duty to declare can be found on the Outokumpu website.

Auditors

Under the Articles of Association, the Company shall have a minimum of one and a maximum of two auditors who are auditors or firms of independent public accountants authorized by the Central Chamber of Commerce of Finland. The Annual General Meeting elects the auditors to a term of office ending at the close of the next Annual General Meeting. Proposals to the Annual General Meeting concerning the election of auditors which have been made known to the Board prior to the Annual General Meeting will be made public if the proposal is supported by shareholders holding a minimum of 10% of all the Company's shares and voting rights and if the person or company proposed has consented to such nomination. The Company's auditors submit the statutory auditor's report to the Company's shareholders in connection with the Company's financial statements. The auditors also report their findings to the Board of Directors on a regular basis. The parent company, Outokumpu Oyj, is audited by KPMG Oy Ab, and the Auditor in charge is Mauri Palvi, Authorized Public Accountant. KPMG Oy Ab is also responsible for overseeing and coordinating the auditing of all Group companies.

Both Outokumpu and KPMG Oy Ab highlight the requirement for an auditor to be independent of the company being audited. In its global independence policy, KPMG Oy Ab has stated its commitment to applying the Code of Ethics of the International Federation of Accountants (IFAC).

Outokumpu's Board Audit Committee continuously monitors the global level of non-audit services purchased by the Group from KPMG Oy Ab. In 2007, auditors were paid fees totaling EUR 1.7million, of which non-auditing services accounted for EUR 0.3 million.

Communications

The aim of the Outokumpu's external communications is to support the correct valuation of the Company's listed securities by providing the markets with sufficient information on Outokumpu's business structure, financial position, market developments and, in particular, the Group's objectives and strategy for attaining these objectives. Outokumpu's website at www.outokumpu.com contains the information that has been made public based on the disclosure requirements for listed companies.

Board of Directors

Chairman Jukka Härmälä
b. 1946, Finnish citizen,
B.Sc. (Econ.)

Outokumpu Board member 2005–,
Chairman of the Board 2006–,
Chairman of the Nomination and
Compensation Committee
CEO and board member:
Stora Enso Oyj 1999–2007
Board member: Rautaruukki Oyj,
Russian Timber Group
Supervisory board member:
Varma Mutual Pension
Insurance Company

Vice Chairman Ole Johansson
b. 1951, Finnish citizen,
B.Sc. (Econ.)

Outokumpu Board member 2002–,
Vice Chairman of the Board 2004–,
Chairman of the Audit Committee
President and CEO:
Wärtsilä Corporation 2000–
Chairman of the board: Technology
Industries of Finland
Vice Chairman of the board:
Confederation of Finnish Industries,
Varma Mutual Pension
Insurance Company

Evert Henkes
b. 1943, Dutch citizen,
B.Sc. (Ag. Econ.)

Outokumpu Board member 2003–,
Member of the Nomination and
Compensation Committee
CEO: Shell Chemicals Ltd.
1998–2003
Board member: Tate & Lyle Plc,
CNOOC Ltd, SembCorp Industries
Ltd, Air Products and Chemicals Inc.

Victoire de Margerie
b. 1963, French citizen
Ph. D. (Management),
LL.M., M.Pol.Sc.

Outokumpu Board member 2007–
Professor of Strategic Management:
Grenoble Graduate
School of Business 2003–
Board member: Ciments Francais,
Ipsos, Solinest, Rondol

Anna Nilsson-Ehle
b. 1951, Swedish citizen,
Ph.D., M.Sc. (Eng.)

Outokumpu Board member 2005–,
Member of the Nomination and Compensation Committee
Managing Director: Universeum AB 1999–2004,
Consultant: Ohde & Co 2005–2006
Director: SAFER–National vehicle and traffic safety research center 2006–
Board member: Innovationsbron Väst AB, Svensk Bilprovning AB

Leo Oksanen
b. 1945, Finnish citizen
M.Sc. (Chem.)

Outokumpu Board member 2007–
Senior Advisor – Chemical Safety and Occupational Hygiene
Employed by Outokumpu 1974–

Leena Saarinen
b. 1960, Finnish citizen,
M.Sc. (Food technology)

Outokumpu Board member 2003–,
Member of the Audit Committee
President and CEO:
Tradeka Oy 2007–
President and CEO:
Altia Corporation 2005–2007
Managing Director:
Unilever Bestfoods Nordic Foodsolution 2003–2005,
National Manager 2002–2005:
Suomen Unilever Oy and board member 1999 and 2001–2005

Taisto Turunen
b. 1945, Finnish citizen,
M. Pol. Sc.

Outokumpu Board member 2006–,
Member of the Audit Committee
Director General: Energy Department, Ministry of Trade and Industry 1984–
Supervisory board member:
Gasum Oy
Board member: Ekokem Oy

Outokumpu shareholding of the members of the Board of Directors is presented on page 56.

Group Executive Committee

Juha Rantanen
b. 1952, Finnish citizen,
M.Sc. (Econ.), MBA

CEO 2005–
Chairman of the Group Executive Committee 2005–
Outokumpu Board member and Vice Chairman 2003–2004
Responsibility: Group management, Communications and IR and corporate social responsibility
Employed by the Outokumpu Group since 2004
Chairman of the Board of Directors: Finpro Association, Fennovoima Oy
Vice Chairman of the board of Directors: Moventas Oy
Vice President: European Confederation of Iron and Steel Industries Eurofer
Board member: Technology Industries of Finland, Association of Finnish Steel and Metal Producers
Supervisory board member: Varma Mutual Pension Insurance Company

Karri Kaitue
b. 1964, Finnish citizen,
LL.Lic.

Deputy CEO 2005–
Member of the Group Executive Committee 2002–,
Vice Chairman of the Group Executive Committee 2005–
Responsibility: Group strategy, business development and M&A, new ventures, legal affairs & IPR and portfolio businesses
Employed by the Outokumpu Group since 1990
Vice Chairman of the board: Okmetic Oyj, Outotec Oyj
Board member: Cargotec Oyj

Jamie Allan
b. 1956, British citizen

Executive Vice President – Supply Chain Management
Member of the Group Executive Committee 2008–
Responsibility: Production Excellence, Supply Chain Management operations, procurement
Employed by the Outokumpu Group since 1978
Member of the British Stainless Steel Association

Bo Annvik
b. 1965, Swedish citizen,
B. Sc. (Econ.)

Executive Vice President – Specialty Stainless
Member of the Group Executive Committee 2007–
Responsibility: Special Coil and Plate, Thin Strip, OSTP and investment projects
Employed by the Outokumpu Group since 2007
Board member: Scandinavian Automotive Suppliers

Pekka Erkkilä
b. 1958, Finnish citizen,
M.Sc. (Eng.)

Executive Vice President –
General Stainless
Member of the Group Executive Committee 2003–
Responsibility: Tornio Works, Long Products, R&D, energy procurement, and safety, environment and quality
Employed by the Outokumpu Group since 1983
Chairman of the board: Finnish Association of Mining and Metallurgical Engineers
Board member: International Stainless Steel Forum (ISSF), Jernkontoret

Andrea Gatti
b. 1962, Italian citizen,
M.Sc. (Econ.)

Executive Vice President –
Group Sales and Marketing
Member of the Group Executive Committee 2005–
Responsibility: End-user and project sales, distributors and processors sales, group marketing, European stock and processing development, pricing office and sales company controlling
Employed by the Outokumpu Group since 2002

Esa Lager
b. 1959, Finnish citizen,
M.Sc. (Econ.), LL.M.

Chief Financial Officer (CFO)
Member of the Group Executive Committee 2001–
Responsibility: Financial and business control, treasury and risk management, IT, change management and projects, and real estate
Employed by the Outokumpu Group since 1990
Board member:
Olvi Oyj, Okmetic Oyj

Timo Vuorio
b. 1949, Finnish citizen,
M.Sc. (Econ.)

Executive Vice President –
Human Resources
Member of the Group Executive Committee 2005–
Responsibility: HR strategy and policy, and key HR processes: performance management (incl. compensation), resource management and HRD and leadership, and head office administration
Employed by the Outokumpu Group since 2005

Outokumpu shareholding and options of the members of the Group Executive Committee are presented on page 56.

Stock exchange releases 2007

11.1.2007
Shares subscribed with the Outokumpu Oyj 2003A stock options and the increase in share capital

25.1.2007
Outokumpu – Publishing of the 2006 financial results

1.2.2007
Outokumpu Annual Accounts Bulletin 2006 – record financial performance

1.2.2007
Outokumpu's AGM to convene on March 28, 2007

1.2.2007
Outokumpu investing EUR 90 million in replacement of the annealing and pickling line 2 in Tornio

1.2.2007
Bo Annvik appointed to Outokumpu's Group Executive Committee

1.2.2007
Share-based Incentive Programme for 2006–2010 – earning period 2007–2009

13.3.2007
Outokumpu's Annual Report 2006 published

14.3.2007
Tornio works staff questioned in relation to export to Russia

15.3.2007
Shares subscribed with the Outokumpu Oyj 2003A stock options and the increase in share capital

28.3.2007
Outokumpu AGM – CEO Juha Rantanen comments on stainless markets

28.3.2007
Resolutions of Outokumpu Oyj's Annual General Meeting 2007

28.3.2007
Outokumpu Board decisions at their first meeting

18.4.2007
Outokumpu – Publishing of the first-quarter 2007 financial results

24.4.2007
Outokumpu first quarter 2007 interim report – Another record operating profit

27.4.2007
Outokumpu sold its minority shareholding in Outotec Oyj

30.5.2007
Outokumpu participated in the initial public offering of Talvivaara

4.6.2007
Outokumpu Oyj stock options 2003B

6.6.2007
Outokumpu joins Fennovoima to build a new nuclear power plant in Finland – Reliable stable-priced electricity for the Tornio Works

17.7.2007
Outokumpu – Publishing of the second-quarter 2007 financial results

19.7.2007
Shares subscribed with the Outokumpu Oyj 2003A stock options and the increase in share capital

19.7.2007
Correction: Shares subscribed with the Outokumpu Oyj 2003A stock options and the increase in share capital

24.7.2007
Outokumpu – Change in the location of the news conference for the second-quarter 2007 interim report

24.7.2007
Outokumpu builds stainless steel Service Center in India and also prepares feasibility study to build a cold rolling mill in India

24.7.2007
Outokumpu second quarter 2007 interim report – Good profitability complemented by inventory gains and non-recurring items

31.8.2007
Outokumpu Oyj's stock options 2003B to the main list of OMX Nordic Exchange Helsinki

17.9.2007
Outokumpu moves into a new phase in the Group's strategy development with major investment decisions

17.9.2007
Outokumpu invests EUR 550 million in stainless steel special grades in Avesta Sweden

17.9.2007
Outokumpu Capital Markets Day 2007 September 20–21

16.10.2007
Outokumpu – Publishing of the third-quarter 2007 financial results

17.10.2007
Possible strike by the Union of Salaried Employees threatens to temporarily halt production at Outokumpu's Tornio Works

23.10.2007
Outokumpu to make further EUR 240 million investment into stainless steel value-added special products and service centers

23.10.2007
Outokumpu to start repurchase of its own shares

23.10.2007
Outokumpu third quarter 2007 interim report – substantial nickel-related inventory losses hit profitability, underlying operational result positive

29.10.2007
Tornio Works' production ramped back up after strike ends

31.10.2007
Outokumpu – Financial reporting schedule for the year 2008

5.11.2007
Outokumpu to align its organization to support the new phase in its strategy development

9.11.2007
Shares subscribed with the Outokumpu Oyj 2003A and 2003B stock options and the increase in share capital

27.11.2007
Shareholders' Nomination Committee at Outokumpu

14.12.2007
Change in Barclays Plc's Reported Holding in Outokumpu Oyj

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Consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). The parent company's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

All figures in the annual report have been rounded and consequently the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures.

SUMMARY OF THE REVIEW BY THE BOARD OF DIRECTORS FOR 2007

Good financial performance and major investment decisions supporting strategic development

The new phase of strategic development in Outokumpu's vision of becoming the undisputed number one in stainless steel – delivering a more stable and profitable business model – was initiated. The main targets are to increase the share of sales to end-users and project customers, to increase the share of value-added special grades and also address the most attractive growth opportunities, while at the same time maintaining cost leadership in standard grade volume production. Major investment decisions relating to special grades capacity and the Group's stock and processing network were therefore made.

Cost cutting initiatives were completed as planned and good progress was achieved in the Operational Excellence programs.

Group sales for 2007 rose by 12% to EUR 6 913 million (2006: EUR 6 154 million). Stainless steel deliveries fell by 22% to 1 419 000 tons. Operating profit totaled EUR 589 million (2006: EUR 824 million). Underlying operational result for 2007 was however some EUR 800 million (2006: EUR 650 million). Operating profit includes some EUR 230 million of nickel-related inventory losses (2006: EUR 175 million gains). Nickel is the main alloying material used in production of stainless steel.

In 2007, mainly as a result of a sharp decline in the nickel price, some EUR 181 million was released from working capital and the Group's working capital at the end of 2007 was EUR 1 885 million. Net cash generated from operating activities was EUR 676 million (2006: EUR 35 million negative).

Return on capital employed was 13.9% and gearing improved to 23.6%, achieving the Group's targets of more than 13% return on capital employed and gearing below 75%. Earnings per share totaled EUR 3.52, and earnings per share from continuing operations EUR 3.63. Outokumpu's Board of Directors has approved a revision of the Group's dividend policy to stress the importance of payout stability. The Board of Directors is proposing to the Annual General Meeting a dividend of EUR 1.20 per share to be paid for 2007 (2006: EUR 1.10). The dividend corresponds to a payout ratio of 33.9% in 2007.

Turbulence in stainless steel markets with historical price peak and trough

Global apparent consumption of stainless steel flat products in 2007 was only 1.2% higher than in 2006 despite good underlying demand. According to CRU, China was the fastest growing area with growth of 5.6%. In Europe consumption of stainless steel fell by 2%.

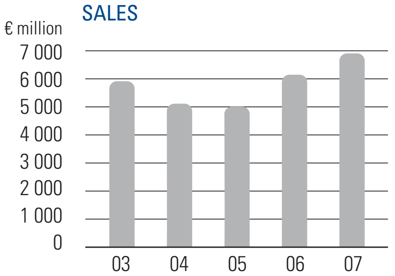
The first half of 2007 was characterized by strong demand for stainless steel and record-high transaction prices. The price of nickel rose strongly in January–May, reached a record high of 54 200 EUR/t in May but collapsed in the summer to 25 000 before stabilizing around 30 000 EUR/t. This collapse weakened stainless steel order intake as buyers postponed their purchases in expectation of lower transaction prices. A strong de-stocking phase in the distributor sector started, as markets turned oversupplied. As a result, stainless steel producers cut back production strongly to balance the oversupplied markets during the second and third quarter of 2007. Underlying demand for stainless steel remained healthy. After the nickel price stabilized in the autumn and distributors' inventories had fallen to more normal levels, buyers returned to the markets, order intake for standard products began to recover and base prices increased gradually in the fourth quarter of 2007.

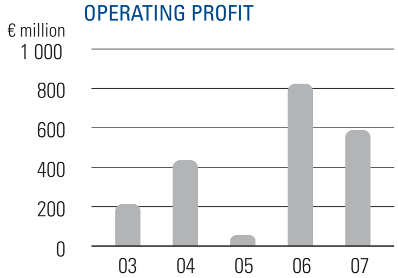
According to CRU, the German base price for cold rolled 304 2mm stainless steel sheet in 2007 was 2 020 EUR/t in January and 1 125 EUR/t in December. Due to the very thin market activity in July–October, no base prices were reported by CRU in this period. Using a calculated value for the base price (transaction price minus alloy surcharge) in July–October, the average base price for 2007 was 1 304 EUR/ton. As a result of the record high nickel price during 2007, the alloy surcharge almost doubled from 2006 and the average was 2 524 EUR/t in 2007. The average transaction price for stainless steel in 2007 was 3 828 EUR/ton, 36% higher than in 2006.

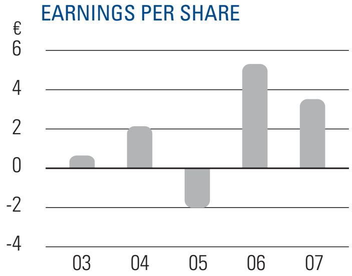
Market volatility continued for main alloying materials used in the production of stainless steel: nickel, ferrochrome and molybdenum. Nickel markets were extremely volatile in 2007. The price of nickel rose continuously from the beginning of the year peaking at 54 200 USD/t in mid-May. Since then, the price of nickel dropped sharply until reaching a level of 25 000 USD/t in mid-August, and remained at levels around 25 000–33 000 USD/t ending the year at 25 805 USD/t. The average nickel price for 2007 was 37 230 USD/t, up 54% on 2006. Ferrochrome markets tightened in the course of 2007. Demand for ferrochrome increased by 14% in 2007, led especially by China where, according to CRU, stainless steel production increased by 42%. The average contract price in 2007 was 0.91 USD/lb, 26% higher than in the previous year. The contract price was on a rising trend and ended the year at 1.05 USD/lb. Markets for molybdenum remained tight in 2007. The price of molybdenum in 2007 was 30.57 USD/lb, up 22% from the previous year. The average price of recycled steel was 280 USD/t in 2007, up by 22% from 2006.

High transaction prices increased sales

Group sales for 2007 increased to EUR 6 913 million, up by 12% on the previous year. Sales increased mainly as a result of strong stainless steel demand and very high transaction prices during the first half of the year. Stainless steel deliveries by the Group declined







by 22% to 1 419 000 tons mainly due to the weak demand for standard products in the second half of the year. Sales by General Stainless increased by 12% and sales by Specialty Stainless were up by 27% from 2006.

The European share of Group sales decreased slightly to 73% in 2007 (2006: 76%). The shares taken by Asia and the Americas were 12% (2006: 11%) and 12% (2006: 10%), respectively.

SALES

€ million	2007	2006	Change, %
General Stainless	5 321	4 770	12
Specialty Stainless	3 456	2 723	27
Other operations	237	361	-34
Intra-group sales	-2 101	-1 700	24
The Group	6 913	6 154	12

STAINLESS STEEL DELIVERIES

1 000 tons	2007	2006	Change, %
Cold rolled	703	936	-25
White hot strip	314	390	-19
Quarto plate	146	162	-10
Tubular products	65	74	-12
Long products	54	59	-8
Semi-finished products	137	195	-30
Total deliveries	1 419	1 815	-22

Operating profit at a good level

Operating profit totaled EUR 589 million in 2007. Operating profit was down from the record-high level achieved in 2006, as the sudden mid-year collapse in the nickel price froze demand and turned the healthy level of deliveries in the first half of 2007 to very low volumes in the second half. Also, significant nickel-related inventory gains that occurred in the first half of 2007 turned into inventory losses during the second half of the year. In total for 2007, nickel related inventory losses amounted to EUR 230 million (2006: EUR 175 million gains). The underlying operational result was some EUR 800 million (2006: EUR 650 million).

Operating profit for 2007 included EUR 14 million of net positive non-recurring items due to an EUR 25 million gain from the sale of the Hitura mine and EUR 11 million net non-recurring costs related to the restructuring of the Group's Thin Strip operations in the UK. Return on capital employed was 13.9% (2006: 20.7%), exceeding the Group's target of 13%.

PROFITABILITY

€ million	2007	2006	Change
Operating profit			
General Stainless	220	536	-316
Specialty Stainless	337	338	-1
Other operations	21	-35	56
Intra-group items	11	-15	26
Operating profit	589	824	-235
Share of results in associated companies	4	8	-4
Financial income and expenses	206	-48	254
Profit before taxes	798	784	14
Income taxes	-138	-178	40
Net profit, continuing operations	660	606	54
Net profit, discontinued operations	-18	357	-375
Net profit for the financial year	641	963	-322
Return on capital employed, %	13.9	20.7	-6.8
Earnings per share from continuing operations, €	3.63	3.34	0.29
Earnings per share, €	3.52	5.31	-1.79

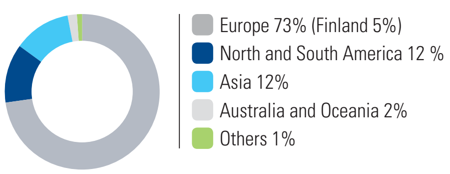
Net financial income totaled EUR 206 million. Financial income in 2007 included EUR 268 million of non-recurring gains. These comprise a EUR 142 million tax-free non-recurring gain from the sale of the remaining 12% holding in Outotec Oyj and a EUR 110 million tax-free non-recurring gain from the Talvivaara transaction. Net interest expenses fell slightly to EUR 58 million (2006: EUR 62 million). Taxes totaled EUR 138 million. The effective tax rate was low at 17%, mainly due to the tax-free non-recurring gains mentioned above.

Net profit for the period from continuing operations totaled EUR 660 million and net loss from discontinued operations totaled EUR 18 million. Group earnings per share totaled EUR 3.52, with earnings per share from continuing operations EUR 3.63 and from discontinued operations EUR 0.10 negative.

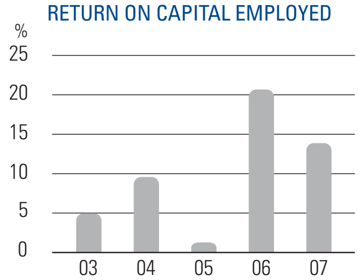
Capital structure strengthened

Outokumpu's financial position strengthened further during 2007. Net interest-bearing debt fell by EUR 512 million to EUR 788 million. At the end of 2007, the Group's equity-to-assets ratio stood at 56.5%. Gearing improved to 23.6%, significantly better than the Group's target of below 75%.

SALES BY MARKET AREA



RETURN ON CAPITAL EMPLOYED



The Group's net cash generated from operating activities totaled EUR 676 million (2006: EUR 35 million negative). EUR 181 million was released from working capital in 2007 primarily as a result of lower inventory volumes and lower nickel prices in the second half of the year. At the end of the second quarter after the peak of the nickel price, working capital was in excess of EUR 2.5 billion and reduced to EUR 1 885 million at the end of 2007.

KEY FINANCIAL INDICATORS ON FINANCIAL POSITION

€ million	2007	2006
Net interest-bearing debt		
Long-term debt	1 046	1 293
Current debt	464	685
Total interest-bearing debt	1 510	1 977
Interest-bearing assets	-589	-515
Net assets held for sale	-132	-162
Net interest-bearing debt	788	1 300
Shareholders' equity	3 337	3 054
Debt-to-equity ratio, %	23.6	42.3
Equity-to-assets ratio, %	56.5	47.9
Net cash generated from operating activities	676	-35
Net interest expenses	58	62

Capital expenditure

Capital expenditure totaled EUR 190 million, somewhat below the annual depreciation level. The largest investments were the expansion at Kloster in Sweden, replacement of an annealing and pickling line at Tornio Works in Finland, purchase of the 11.6% minority share in OSTP, and participation in Talvivaara IPO.

After the EUR 55 million expansion at Kloster, Sweden, production was ramped up in the beginning of 2007. This investment increased the mill's annual capacity in special products from 25 000 tons to 45 000 tons and enabled the production of thinner (0.12 mm) and wider (1 050 mm) products.

At Tornio Works, the EUR 13 million investment in batch annealing furnaces enabling annual production of 60 000 tons of ferritic stainless steel was completed. The first deliveries took place during II/2007. Replacement of one of the five annealing and pickling lines at Tornio Works provides additional production capacity totaling 75 000 tons of cold rolled products. It also improves Outokumpu's ability to produce brighter ferritic steel grades and enhances Group flexibility in meeting customer needs. The total investment at Tornio will be EUR 90 million, spread over 2007–2009.

At Thin Strip Nyby in Sweden, EUR 27 million is being invested in equipment for surface grinding and automatic storage and retrieval.

This investment will increase the proportion of special grade sales at the expense of standard grade products and will result in annual special grades capacity in cold rolled stainless steel products being scaled up from 34 000 to 64 000 tons by the end of 2008.

CAPITAL EXPENDITURE

€ million	2007	2006
General Stainless	57	83
Specialty Stainless	69	95
Other operations	64	9
The Group	190	187
Depreciation	204	221

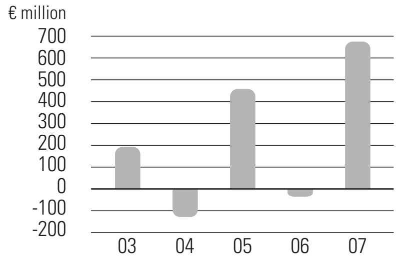
Major investment decisions support Group strategy

In September 2007, Outokumpu launched the next phase in the Group's strategy development towards being the undisputed number one in stainless. In this phase, the focus is on developing and securing a more stable and profitable business model to balance the effects of volatility in the market for stainless steel standard products. Growth prospects related to both the size and geographical coverage of the Group will also be addressed. This entails increasing the proportion of direct end-user and project sales from its current level of 35% to at least 50% over the next five years. It also includes expansion of capacity in value-added special products from one third to half, while maintaining cost leadership in standard grade volume production.

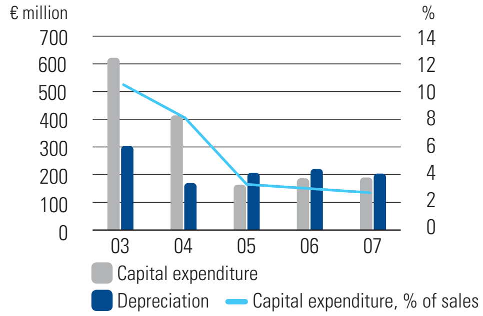
Increasing Outokumpu's capacity in value-added special products will include a broadening of the range of grades manufactured and an increase in the production of low-nickel duplex grades. Growth targets also include a scaling up of production capacity in ferritic grades to help reduce the earnings cyclicality driven by volatile nickel prices.

In September, as a major step in increasing the Group's capacity in value-added special products, Outokumpu decided on an investment of EUR 550 million, over the next three years, to expand capacity in special grades at Avesta Works in Sweden. This investment will increase finished products capacity at Avesta from its

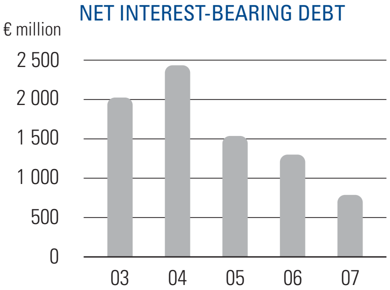
NET CASH FLOW FROM OPERATIONS



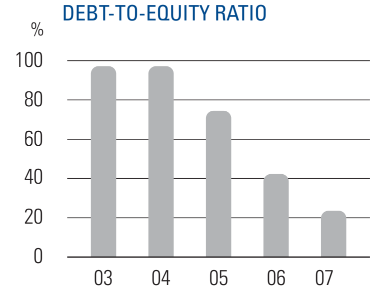
CAPITAL EXPENDITURE AND DEPRECIATION



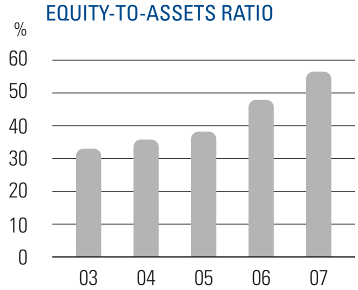
NET INTEREST-BEARING DEBT



DEBT-TO-EQUITY RATIO



EQUITY-TO-ASSETS RATIO



current 250 000 tons to some 650 000 tons by mainly duplex grades, with the additional capacity operational in 2010.

In October, an investment decision was made to expand Outokumpu's capacity in hot rolled plate (quarto plate) at Degerfors, Sweden by 80 000 tons and at New Castle (IN) in the US by 20 000 tons. Following the EUR 220 million investments, total quarto plate capacity will increase from its current level of 160 000 tons to 260 000 tons in 2010.

The transformation towards increased end-user and project sales requires investment into the Group's service capabilities. To this end, Outokumpu's service center network is being upgraded and expanded.

In March, a new service center for plate and tubular products was opened on the Group's site at Sheffield in the UK. The plate service centers in Jyväskylä in Finland and in Eskilstuna in Sweden were revamped and expanded during 2007.

The Group's service center in Italy is to be restructured and expanded. This EUR 70 million investment will increase capacity at this service center from its current level of 40 000 tons to some 110 000 tons from 2010 onwards.

To serve the growing markets in Eastern Europe better, a new stainless steel service center is being established near Katowice in the south of Poland. This EUR 20 million investment in a combined coil and plate facility is scheduled to be operational during the first half of 2009.

To establish presence in growing Asian markets, a new service center with the annual capacity to stock and process some 50 000 tons of stainless steel coil, will be built in the western part of India. The investment totals EUR 30 million and the service center is scheduled to be operational in the first half of 2009. A new service center will also be built near Shanghai in China. This investment of EUR 20 million will result in capacity to stock and process some 30 000 tons of mainly special grades from 2010 onwards.

The Group's service center in Willich, Germany, will be upgraded. An investment of EUR 18 million will increase its current capacity from some 60 000 tons to 110 000 tons in 2009.

To expand the Group's geographical coverage, in addition to the above mentioned service centers, Outokumpu is currently conducting a feasibility study on the building of a 250 000 ton stainless steel cold rolling mill in India. Finalization of the study is expected in II/2008. The possibility of utilizing some equipment from the Group's cold rolling mill in Sheffield, closed in 2006, is being evaluated.

The total estimated EUR 1.3 billion cash outflow of strategy related investments decided in 2007 (including the Tornio investment announced on January 31, 2008), is estimated to materialize as follows: EUR 300 million in 2008, EUR 650 million in 2009, EUR 260 million in 2010, EUR 80 million in 2011 and EUR 20 million in 2012. In addition, the Group's annual maintenance capital expenditure for 2008–2010 is estimated to be EUR 150 million.

Acquisitions and divestments

In March, OSTP (Outokumpu Stainless Tubular Products) sold its flange business in order to focus on pipes, tubes, butt-welded and threaded fittings. The purchaser was a subsidiary of Shree Ganesh Forgings Ltd, an Indian company. This divestment had no significant impact on Group results.

In April, Outokumpu sold its remaining 12% shareholding in Outotec Oyj to institutional investors. The net proceeds from the sale totaled EUR 158 million and a tax-free non-recurring gain of EUR 142 million was recognized in the Group's financial income.

In May, Outokumpu acquired Swedish Sandvik's 11.6% minority shareholding in OSTP for EUR 22 million. Full ownership in OSTP enables Outokumpu to further develop the business in line with its strategy of increasing the proportion of special products with higher added value.

Outokumpu divested the Talvivaara exploration project in 2004 as part of its Exit Mining program, and held an option to subscribe for shares with a 20% discount in a possible initial public offering (IPO), representing up to 5% ownership in the company. The IPO of Talvivaara Mining Company Ltd. was carried out and the company's shares were listed on the London Stock Exchange on May 30, 2007. Outokumpu subscribed for 10.9 million shares for a total consideration of EUR 32 million, representing a holding of 4.9%. Outokumpu also exercised its option, part of the divestment agreement, to acquire a 20% stake in the Talvivaara nickel mining project company (Talvivaara Project Ltd.) owned by Talvivaara Mining Company Ltd., for a total consideration of one euro. The fair valuation of Outokumpu's 20% stake resulted in a tax-free non-recurring gain of EUR 110 million, which was recognized in financial income.

In June, Outokumpu sold the Hitura nickel mine in Finland to Belvedere Resources Ltd. of Canada. Hitura produces some 2 200 tons of nickel in concentrate annually and employs 90 people. Outokumpu recognized a non-recurring gain of EUR 25 million from this transaction. The Hitura mine was the last remaining asset in Outokumpu's Exit Mining program.

In June, Outokumpu announced its participation in a new Finnish power company Fennovoima Oy, a consortium consisting of Outokumpu, Boliden, Rauman Energia, Katternö and E.ON. Fennovoima's aim is to construct a new 1 500–2 500MW nuclear power plant to meet Finland's increasing need for electricity. Operation of the plant is planned to start by year 2018. By participating in Fennovoima, Outokumpu's aim is to secure a significant portion of its electricity needs in years to come.

Discontinued operations

Outokumpu's discontinued operations includes the Outokumpu Copper Tube and Brass business in Europe. Outokumpu's intention is to divest this business. In 2007, sales of the tube and brass businesses totaled EUR 599 million with an operating loss of EUR 8 million. Operating capital at the end of December 2007 totaled EUR 130 million. Net profit from discontinued operations totaled EUR 18 million negative (2006: EUR 357 million profit). In 2006, net profit from discontinued operations also comprised operating result of Outokumpu Technology (later Outotec Oyj) for the I–III/2006 period and the gain on the sale of shares in the company.

Operational Excellence and profitability improvement initiatives progressed well

Both Production and Commercial Excellence programs have been proceeding well and are ahead of schedule and have delivered cumulative benefits of some EUR 70 million (EUR 25 million in 2006 and EUR 45 million in 2007) from the start of the program in 2005 until the end of 2007, clearly above the estimated EUR 40 million. The profitability improvement target for 2008 compared to 2005 is EUR 80 million.

Encouraged by the success of the on-going Production and Commercial Excellence programs the excellence initiatives were expanded into supply chain management. The first phase of the Supply Chain Excellence program concentrates on procurement. Due to the expansion, the total original EUR 160 million benefit target of the Operational Excellence programs for the year 2009 was raised to EUR 200 million and the target from 2010 onwards to EUR 300 million.

In the Group's cost cutting initiatives, initiated in 2005 and completed in 2006, full effect of the EUR 150 million lower comparable fixed cost running rate was achieved in 2007.

Stainless steel price calculation method revised

Outokumpu changed its calculation method for the alloy surcharge in stainless steel pricing starting from stainless steel deliveries for January 2008. Outokumpu's alloy surcharge is now based on the 30-day average price of raw materials calculated backwards from the previous month's 20th day.

The former alloy surcharge was based on the average raw material prices two and three months prior to delivery. Outokumpu has changed the calculation method in order to bring more stability in the stainless steel market and to ultimately reduce the raw material price volatility. The new alloy surcharge calculation period is shorter than Outokumpu's production cycle. In case of a very volatile nickel price, this may result in substantial nickel related inventory gains or losses.

Class actions regarding the sold fabricated copper products business

The fabricated copper products business sold in 2005, comprised among others Outokumpu Copper (USA), Inc. This company has been served with several complaints in cases filed in federal district courts and state courts in the US by various plaintiffs. The complaints allege claims and damages under US antitrust laws and purport to be class actions on behalf of all direct and indirect purchasers of copper plumbing tubes and ACR tubes in the US. Outokumpu believes that the allegations in these cases are groundless and will defend itself in any such proceeding. In connection with the transaction to sell the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to these class actions.

Customs investigation of exports to Russia by Outokumpu Tornio Works

In March, Finnish Customs authorities initiated a criminal investigation into the Group's Tornio Works' export practices to Russia. The preliminary investigation is connected with another preliminary investigation concerning a forwarding agency based in South-eastern Finland. It is suspected that defective and/or forged invoices have been prepared at the forwarding agency as regards export of stainless steel to Russia. The preliminary investigation is focusing on possible complicity by Outokumpu Stainless Oy in the preparation of defective and/or forged invoices by the forwarding agency in question. The investigation is expected to last until the summer of 2008.
Directly after the Finnish Customs authorities started their investigations, Outokumpu initiated its own investigation into the trade practices connected with stainless steel exports from Tornio to Russia. In June, after carrying out its investigation, the leading Finnish law firm Roschier Attorneys Ltd., concluded that it had not found evidence that any employees of Tornio Works or the company had committed any of the crimes alleged by the Finnish Customs.

Risk management

Outokumpu operates in accordance with the Board-approved risk management policy, which defines the objectives, approaches and areas of responsibility of risk management. Risk management supports the Group's strategy and it also helps to define a balanced risk profile from the perspective of shareholders as well as other stakeholders. Outokumpu categorizes risks to being strategic/business, operational or financial.

The most important strategic and business risks include overcapacity of stainless steel production, product substitution and cyclical nature of stainless steel demand. There is lots of investment activity in the sector in China and this may lead to overcapacity of cold rolled stainless production. In order to mitigate risk related to the cyclical nature of the business and risk of product substitution, Outokumpu aims to increase sales to end-users and to widen its product offering.

Operational risks arise as a consequence of inadequate or failed internal processes, employees' actions, systems or other events, such as natural catastrophes and misconduct or crime. Property damage and business interruption caused by fire at some major site is a key risk concern for the Group. Outokumpu has a systematic fire audit program in place and part of hazard risk is covered with insurances. In last year Outokumpu strengthened the internal organization for corporate security and started focused security audits at sites.

Financial risks include exposure to market prices, capability to maintain adequate liquidity and exposure to default risk. The most important market risks for Outokumpu include variation in nickel price, Swedish krona exchange rate against euro and the value of the US dollar. Outokumpu has also significant exposures to equity and loan security prices. Part of Group's market risks is mitigated with use of financial derivative contracts. Liquidity and refinancing risk is taken into account in capital management decisions. It is Outokumpu's aim to mitigate significant part of credit risk with insurances and other arrangements.

Environment, health and safety

In the European Union, preparations for emission trading in the Kyoto-period 2008–2012 are ongoing. By the end of the year the allocation was clear for Tornio Works in Finland and Sheffield melt shop in the UK. In Sweden, the final decision was still pending, but according to the information received, the total amount allocated to the installations in the UK, Sweden and Finland are estimated to be enough for the Group's planned production. The scope of emission trading was extended to heat treatment installations in Sweden.

Carbon dioxide emissions for the Group were about 1 000 000 tons in 2007 at almost the same level as in 2006. Due to changes in product mix and raw material base, production cuts, performance improvements and better energy efficiency, all sites had surplus of allowances. In 2007, the Group sold 364 000 tons of carbon dioxide allowances. The permission for allowances for the period 2008–2012 was applied for.

In 2007, at Outokumpu sites, emissions to air and discharges to water in 2007 mostly remained within permitted limits and the breaches that occurred were temporary, were identified quickly and caused only minimal environmental impact. Outokumpu is not a party in any significant juridical or administrative proceeding concerning environmental issues, nor is it aware of any environmental risks that could have a material adverse effect on the Group's financial position.

At the beginning of 2007, the steel melting shop in Tornio began monitoring dust particle emissions using a continuous emission measurement system. These continuous measurements provide emission data on a daily basis, helping to detect and repair potential filter leakages more quickly. A new dust filter was also installed at the Tornio cold rolling unit in August 2007.

In 2007, the lost-time injury rate (i.e. lost-time accidents per million working hours) improved clearly to 11 (2006: 17) and was below the Group's annual target of 2007 (less than 12). No severe accidents were reported during the review period.

In September, the results of the annual review carried out for the Dow Jones Sustainability Indexes (DJSI) by the Sustainable Asset Management Group (SAM) were published. Outokumpu retained its position in the Pan-European Dow Jones STOXX Sustainability Index (DJSI STOXX) and was also accepted into the Dow Jones Sustainability World Index (DJSI World). In January 2008, Outokumpu was given the title of "SAM Sector Mover" for having shown the greatest relative improvement in its sustainability performance and for its outstanding achievements in the area of sustainability.

In the Carbon Disclosure Project (CDP), published in September, Outokumpu was for the first time included in the Climate Disclosure Leadership Index (CDLI). Among all carbon intensive companies, Outokumpu was ranked number eight and was the best of the Nordic Metals and Mining companies.

Outokumpu's corporate responsibility report – Outokumpu and the environment 2007 – is based on the Global Reporting Initiative (GRI). The report will be published together with the annual report.

Research and development

Group expenditure on research and development in 2007 totaled EUR 18 million or 0.3% of sales (2006: EUR 17 million and 0.3%). Outokumpu has research centers in Tornio, Finland and in Avesta, Sweden. Some process and technology development work is also carried out in production units, and there are close links between R&D operations and the Production Excellence program. The R&D function employs almost 200 professionals. Outokumpu conducts research also in collaboration with its customers, research institutes and universities.

The main focus area in 2007 was development new low-nickel and nickel-free stainless steels, which reduce dependence on the volatile nickel price in steel price. Much effort has been put on development of duplex grades, which offer a good combination of high strength and good corrosion resistance. Outokumpu has been able to substantially increase volumes of these products, and customers have also shown growing interest in Outokumpu's LDX 2101®. Production technology for this grade has been improved and new applications are continuously being developed.

Studies on optimum process parameters and product properties for several ferritic grades at production scale continued. The capability to sell and produce different type of Cr-Mn-Ni grades (200-series) is now available.

In addition to new products, R&D operations focus on innovative manufacturing processes that reduce costs, result in lower emissions, shorten lead times and improve quality as well as on new applications for stainless steel. The main subject of environmental research in 2007 was slag utilization. When treated in an optimal manner, slag from steel melt shops is a suitable material for roads and construction beds where it replaces virgin material.

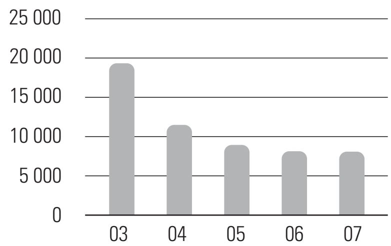
Personnel

In 2007, the Group's continuing operations employed an average of 8 270 people (2006: 8 505) in some 30 countries. At the end of 2007, the number of personnel employed by the Group was 8 108. Net reduction in the number of personnel in 2007 was 51 (2006: 804). Personnel expenses totaled EUR 499 million (2006: EUR 506 million).

The most visible personnel training and development projects were an extensive training program on Production Excellence and a Strategic Leadership Program. Also, the implementation of Outokumpu's leadership principles, introduced in 2006, continued throughout the Group. The recruitment program for graduates, Stainless Pro, was started in 2007.

Development Dialogues took place with all clerical staff, and the objective is for all Group employees to fall within the sphere of dialogues in 2008. Harmonized performance appraisal and reward models have been in use from the beginning of 2007.

PERSONNEL



The Outokumpu Personnel Forum held its 16th meeting in Avesta in Sweden. The Group Working Committee, a forum for continuous dialogue between personnel and management, met 7 times during 2007.

The personnel survey O'People was carried out again in 2007, and it mapped out the opinions of employees concerning their working environment and its working practices as well the company strategy and leadership. The results are a basis for further development and change in the working environment and corporate culture throughout the Group.

As entering into the second phase in the Group's strategy development, the organization is being aligned into an integrated model. As a result, a wide-scale internal recruitment was launched at the end of 2007.

PERSONNEL

Dec. 31	2007	2006	Change
General Stainless	3 571	3 498	73
Specialty Stainless	4 099	4 200	-101
Other operations	439	462	-23
The Group	8 108	8 159	-51

Strike by the Union of Salaried Employees in Finland

In October 22–26, the operations at Tornio Works were affected by a strike by the Union for Salaried Employees in Finland suspending most of the stainless steel production operations in Tornio. Due to the short duration of the strike, direct effects to the Group's results were marginal.

Organizational change and appointments in Corporate Management

To facilitate the second phase in its strategy development Outokumpu aligns its organization into an integrated model that emphasizes the one-company approach towards customers. The new organization model, starting from January 1, 2008, is designed to serve customers in an optimal way, and sales will be organized into customer segment groups served by dedicated teams.

In the integrated model, business units are responsible for product strategy and overall profitability. The cross-organizational Group Sales and Marketing function is responsible for delivery of commercial targets, and the Supply Chain Management for end-to-end delivery performance. The new organizational structure will be fully effective as of April 1, 2008.

Bo Annvik was appointed Executive Vice President – Specialty Stainless and a member of Outokumpu's Group Executive Committee as of June 1, 2007. Mr. Annvik's current responsibilities include Special Coil and Plate, Thin Strip, OSTP.

Jamie Allan was appointed Executive Vice President – Supply Chain Management and a member of Outokumpu's Group Executive Committee as of January 1, 2008. Mr. Allan's responsibility includes supply chain management operations, Production Excellence program and procurement.

Päivi Lindqvist was appointed Outokumpu's Senior Vice President – Communications and IR as of October 1, 2007. Ms. Lindqvist reports to CEO Juha Rantanen.

Shares and shareholders

According to the Nordic Central Securities Depository, Outokumpu's largest shareholders by group at the end of 2007 were the Finnish State (31.1%), foreign investors (39.2%), Finnish public sector institutions (15.2%), Finnish private households (7.9%), Finnish financial and insurance institutions (2.9%), Finnish corporations (2.1%) and Finnish non-profit organizations (1.7%).

Shareholders that have more than 5% of shares and votes of Outokumpu Oyj are the Finnish State (31.1%) and the Finnish Social Insurance Institution (8.6%).

At the beginning of the year, Outokumpu's closing share price was EUR 29.97. At the year-end, the closing share price was EUR 21.21 (2006: EUR 29.66), down 28%. The average share price during 2007 was EUR 24.94 (2006: EUR 19.77). At the year-end, the market capitalization of Outokumpu Oyj shares totaled EUR 3 845 million (2006: EUR 5 376 million). Share turnover in 2007 was 62% higher than in 2006, with 516.4 (2006: 319.3) million shares being traded on OMX Nordic Exchange Helsinki. The total value of share turnover more than doubled to EUR 12 882 million in 2007 (2006: EUR 6 312 million).

At the year-end, Outokumpu's fully paid share capital totaled EUR 308 247 053.20 and consisted of 181 321 796 shares. The average number of shares outstanding during 2007 was 180 922 336. On January 31, 2008, shares owned by Board members totaled 8 976 and members of the Executive Committee held 41 343 shares and had share options that entitle to subscribe a maximum of 186 140 shares. In addition, based on the share incentive programs the members of the Executive Committee can obtain a maximum of 198 100 shares.

Annual General Meeting 2007

The Annual General Meeting (AGM), held on March 28, 2007, approved a dividend of EUR 1.10 per share for 2006 and dividends totaling EUR 199 million were paid on April 11, 2007.

The AGM authorized the Board of Directors to repurchase a maximum of 18 000 000 of the Company's own shares. Based on the authorization given by the AGM of March 28, 2007 to repurchase of its own shares, Outokumpu repurchased 1 000 000 of its own shares between November 1 and 6, 2008 for EUR 24.9 million. These shares represent some 0.6% of the company's share capital and voting rights. After these share repurchases Outokumpu holds 1 218 603 treasury shares, which correspond to 0.7% of Group's shares and votes. The shares repurchased are mainly to be used in the Outokumpu's share-based incentive schemes.

The AGM also authorized the Board of Directors to decide to issue shares and grant share entitlements for a maximum of 18 000 000 shares and, in addition, the maximum number of treasury shares to be transferred is 18 000 000. To date, this authorization has not been exercised.

Evert Henkes, Jukka Härmälä, Ole Johansson, Anna Nilsson-Ehle, Leena Saarinen and Taisto Turunen were re-elected as members of the Board of Directors, and Victoire de Margerie and Leo Oksanen were elected as new members. Mr. Härmälä was re-elected as Chairman of the Board of Directors and Mr. Johansson was re-elected as Vice Chairman. The Board of Directors also appointed two permanent committees consisting of Board members. Ole Johansson (Chairman), Leena Saarinen and Taisto Turunen were elected as members of the Board Audit Committee and Jukka Härmälä, Evert Henkes and Anna Nilsson-Ehle were elected as members of the Board Nomination and Compensation Committee.

KPMG Oy Ab, Authorized Public Accountants, was elected as the company's auditor.

Shareholders' Nomination Committee

Outokumpu's Annual General Meeting of March 28, 2007 decided to establish a Shareholders' Nomination Committee to prepare proposals on the composition of the Board of Directors along with director remuneration for the following Annual General Meeting. The members represent Outokumpu's four largest shareholders, registered in the Finnish book-entry securities system as of November 1, 2007, which accepted the assignment. The Shareholders' Nomination Committee of Outokumpu consists of the following four shareholders: The Finnish State (Jarmo Väisänen, Senior Financial Counsellor, Prime Minister's Office), The Finnish Social Insurance Institution (Jorma Huuhtanen, Director General), Ilmarinen Mutual Pension Insurance Company (Jussi Laitinen, Chief Investment Officer) and Varma Mutual Pension Insurance Company (Matti Vuoria, President & CEO). Jarmo Väisänen acts as Chairman of the Committee. The Chairman of Outokumpu's Board of Directors Jukka Härmälä serves as an expert member. The Shareholders' Nomination Committee is required to submit its proposals to the Board of Directors of the company by February 1, 2008.

Events after the review period

Today, the Board of Directors made a decision to invest EUR 370 million over three years to broaden the product range of Tornio Works. In order to increase the share of direct end-user and project sales and to expand the value-added special stainless steel products capacity, Outokumpu will start producing high-quality ultra-clean ferritic stainless steel grades, as well as bright-annealed austenitic and ferritic stainless products. The investment, together with the on-going replacement of the no. 2 annealing and pickling line, will increase the total finished products installed capacity of Tornio Works from the current 1.2 million tons to some 1.3 million tons by the end of 2010.

The investment also includes a service center for especially the bright-annealed austenitic and ferritic products near Stuttgart in Southern Germany. The annual processing capacity for the service center will be some 60 000 tons and will be in place by the end of 2010.

Short-term outlook

Underlying demand for stainless steel is healthy. End-user demand and demand for special grades also continues healthy. The current global economic turmoil has however created some uncertainty that might have an impact on overall stainless steel fundamentals.

Distributor inventories for standard products have declined and are at or below long-term average levels. Outokumpu's order intake for standard products has improved and lead times have normalized. Due to the pick-up in demand for standard products, Outokumpu's delivery volumes are expected to be close to capacity. The gradual recovery in base prices is expected to continue during the first quarter. Towards the end of the quarter, base price for cold rolled 304 2mm sheet is expected to be 100–125 EUR/t higher than the December price of 1 125 EUR/t reported by CRU.

Following the decline in nickel price in the fourth quarter, the January alloy surcharge is lower than in December but will rise slightly in February. As a result, nickel-related inventory losses continue to impair results in the first quarter due to the lower alloy surcharge. At current nickel price level, the losses due to the timing differences between the alloy surcharge and inventory turnover are estimated to be in the range of EUR 50–70 million.

Outokumpu's operating profit for the first quarter 2008 is estimated to be better than in the previous quarter, assuming no major further negative impact from nickel price volatility. Outokumpu's underlying operational result in the first quarter, excluding nickel-related inventory losses and non-recurring items, is expected to be somewhat better than in the fourth quarter 2007.

Board of Directors proposal for profit distribution and revision of dividend policy

Today, Outokumpu's Board of Directors has approved a revision of the Group's dividend policy to stress the importance of payout stability. The approved dividend policy reads as follows: "Payout ratio over a business cycle should be at least one-third of the Group's profit for the period with the aim to have stable annual payments to shareholders. In its annual dividend proposal, the Board of Directors will, in addition to financial results, take into consideration the Group's investment and development needs."

The Board of Directors is proposing to the Annual General Meeting to be held on March 27, 2008 a dividend of EUR 1.20 per share to be paid from the parent company's distributable funds on December 31, 2007 and that any remaining distributable funds be allocated to retained earnings. The suggested dividend record date is April 1, 2008 and the dividend will be paid on April 8, 2008. The payout ratio is 33.9%.

According to the financial statements at December 31, 2007, distributable funds of the parent company totaled EUR 807 million. No material changes have taken place in the company's financial position after the balance sheet date and the proposed dividend does not compromise the company's financial standing.

In Espoo, January 31, 2008

Jukka Härmälä
Ole Johansson
Evert Henkes
Victoire de Margerie
Anna Nilsson-Ehle
Leo Oksanen
Leena Saarinen
Taisto Turunen

AUDITORS' REPORT

TO THE SHAREHOLDERS OF OUTOKUMPU OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Outokumpu Oyj for the period January 1, 2007–December 31, 2007. The Board of Directors and the Chief Executive Officer have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors and the administration.

We conducted our 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 and the report of the Board of Directors are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the Board of Directors and the Chief Executive Officer of the parent company have complied with the rules of the Limited Liability Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

Opinion

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Chief Executive Officer of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Limited Liability Companies Act.

Espoo, January 31, 2008

KPMG OY AB

Mauri Palvi
Authorized Public Accountant

Consolidated income statement

€ million	Note	2007	2006
Continuing operations			
Sales	3	6 913	6 154
Cost of sales	8	-6 108	-5 112
Gross margin		806	1 043
Other operating income	6	82	44
Selling and marketing expenses	8	-102	-100
Administrative expenses	8	-136	-135
Research and development expenses	8	-18	-17
Other operating expenses	7	-43	-11
Operating profit		589	824
Share of results of associated companies	16	4	8
Financial income and expenses	10		
Interest income		25	26
Interest expenses		-82	-88
Market price gains and losses		0	12
Other financial income		268	8
Other financial expenses		-5	-5
Total financial income and expenses		206	-48
Profit before taxes		798	784
Income taxes	11	-138	-178
Net profit for the financial year from continuing operations		660	606
Net profit for the financial year from discontinued operations	4	-18	357
Net profit for the financial year		641	963
Attributable to			
Equity holders of the Company		638	962
Minority interest		4	2
Earnings per share for result attributable to the equity holders of the Company			
Earnings per share, €	12	3.52	5.31
Diluted earnings per share, €		3.50	5.29
Earnings per share from continuing operations attributable to the equity holders of the Company			
Earnings per share, €		3.63	3.34
Diluted earnings per share, €		3.61	3.33
Earnings per share from discontinued operations attributable to the equity holders of the Company			
Earnings per share, €		-0.10	1.97
Diluted earnings per share, €		-0.10	1.97

Consolidated balance sheet

€ million	Note	2007	2006
ASSETS			
Non-current assets			
Intangible assets	14	475	493
Property, plant and equipment	15	1 980	2 069
Investments in associated companies [1]	16	163	47
Available-for-sale financial assets [1]	18	125	171
Derivative financial instruments [1]	25	37	24
Deferred tax assets	11	26	45
Trade and other receivables	27		
Interest-bearing [1]		128	133
Non interest-bearing		51	32
Total non-current assets		2 986	3 014
Current assets			
Inventories	26	1 630	1 710
Available-for-sale financial assets [1]	18	14	17
Derivative financial instruments [1]	25	26	24
Trade and other receivables	27		
Interest-bearing [1]		10	14
Non interest-bearing		975	1 314
Cash and cash equivalents [1]	28	86	85
Total current assets		2 740	3 164
Receivables related to assets held for sale [1]	4	184	235
TOTAL ASSETS		5 910	6 414

[1] Included in net interest-bearing debt.

€ million	Note	2007	2006
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital		308	308
Premium fund		701	701
Other reserves		72	155
Retained earnings		1 617	928
Net profit for the financial year		638	962
		3 337	3 054
Minority interest		-	17
Total equity	29	3 337	3 071
Non-current liabilities			
Long-term debt [1)]	32	1 036	1 287
Derivative financial instruments [1)]	25	10	6
Deferred tax liabilities	11	241	226
Pension obligations	30	58	54
Provisions	31	36	55
Trade and other payables	33	2	2
Total non-current liabilities		1 382	1 630
Current liabilities			
Current debt [1)]	32	420	632
Derivative financial instruments [1)]	25	18	25
Income tax liabilities	11	22	111
Provisions	31	45	30
Trade and other payables	33		
Interest-bearing [1)]		26	27
Non interest-bearing		609	814
Total current liabilities		1 139	1 640
Liabilities related to assets held for sale [1)]	4	52	73
TOTAL EQUITY AND LIABILITIES		5 910	6 414

[1)] Included in net interest-bearing debt.

Consolidated cash flow statement

€ million	Note	2007	2006
Cash flow from operating activities			
Net profit for the financial year		641	963
Adjustments for			
Taxes	4, 11	139	194
Depreciation and amortization	14, 15	204	229
Impairments	4, 10, 14, 15	1	12
Share of results of associated companies	16	-4	-6
Gain on the sale of Outotec shares	10	-142	-328
Gain on the Talvivaara transaction	10	-110	-
Profit/loss on sale of property, plant and equipment	6, 7	-26	-29
Interest income	10	-19	-27
Dividend income	10	-11	-6
Interest expense	10	82	86
Other adjustments		38	3
		152	129
Change in working capital			
Change in trade and other receivables		336	-696
Change in inventories		26	-602
Change in trade and other payables		-194	375
Change in provisions		13	-52
		181	-975
Dividends received		13	7
Interest received		10	17
Interest paid		-83	-89
Income taxes paid		-239	-87
Net cash from operating activities		676	-35
Cash flow from investing activities			
Acquisition of the minority in OSTP	5	-22	-
Acquisition of shares in associated companies	16	-	-1
Purchase of Talvivaara shares	18	-32	-
Other purchases of available-for-sale financial assets	18	-2	-5
Purchases of property, plant and equipment	15	-160	-174
Purchases of intangible assets	14	-1	-4
Proceeds from disposal of subsidiaries, net of cash	5	1	338
Proceeds from sale of shares in associated companies	16	-	9
Proceeds from sale of available-for-sale financial assets	18	1	1
Proceeds from sale of property, plant and equipment	15	12	11
Proceeds from sale of intangible assets	14	2	8
Change in other long-term receivables		4	14
Net cash from investing activities		-197	198
Cash flow before financing activities		479	163
Cash flow from financing activities			
Purchase of treasury shares		-25	-
Borrowings of long-term debt		150	173
Repayments of long-term debt		-382	-374
Change in current debt		-180	3
Borrowings of finance lease liabilities		1	1
Repayments of finance lease liabilities		-6	-7
Dividends paid		-199	-81
Proceeds from the sale of Outotec shares		158	-
Proceeds from the sale of other financial assets		6	-
Other financing cash flow		1	-2
Net cash from financing activities		-477	-286
Net change in cash and cash equivalents		2	-123
Cash and cash equivalents at the beginning of the financial year		85	212
Foreign exchange rate effect on cash and cash equivalents		-1	-5
Net change in cash and cash equivalents		2	-123
Cash and cash equivalents at the end of the financial year	28	86	85

Consolidated statement of changes in equity

€ million	Attributable to the equity holders of the Company									
	Share capital	Unregistered share capital	Premium fund	Other reserves	Fair value reserves	Treasury shares	Cumulative translation differencest	Retained earnings	Minority interest	Total equity
Equity on Jan. 1, 2006	**308**	**-**	**701**	**11**	**23**	**-2**	**-38**	**1 044**	**15**	**2 062**
Cash flow hedges	-	-	-	-	-3	-	-	-	-	-3
Fair value changes on available-for-sale financial assets	-	-	-	-	124	-	-	-	-	124
Net investment hedges	-	-	-	-	-	-	-2	-	-	-2
Change in translation differences	-	-	-	-	-	-	6	-	0	6
Items recognized directly in equity	-	-	-	-	121	-	4	-	0	125
Net profit for the financial year	-	-	-	-	-	-	-	962	2	963
Total recognized income and expenses	-	-	-	-	121	-	4	962	2	1 088
Unregistered share capital	-	0	-	-	-	-	-	-	-	0
Dividends	-	-	-	-	-	-	-	-81	-	-81
Management stock option program, value of received services	-	-	-	-	-	-	-	2	-	2
Equity on Dec. 31, 2006	**308**	**0**	**701**	**11**	**144**	**-2**	**-35**	**1 927**	**17**	**3 071**
Cash flow hedges	-	-	-	-	3	-	-	-	-	3
Fair value changes on available-for-sale financial assets	-	-	-	-	13	-	-	-	-	13
Available-for-sale financial assets recognized through P&L	-	-	-	-	-100	-	-	-	-	-100
Net investment hedges	-	-	-	-	-	-	3	-	-	3
Change in translation differences	-	-	-	-	-2	-	-51	-	0	-53
Items recognized directly in equity	-	-	-	-	-86	-	-48	-	0	-134
Net profit for the financial year	-	-	-	-	-	-	-	638	4	642
Total recognized income and expenses	-	-	-	-	-86	-	-48	638	4	508
Transfers within equity	0	-0	-	5	-	-	-	-5	-	-
Dividends	-	-	-	-	-	-	-	-199	-	-199
Purchase of treasury shares	-	-	-	-	-	-25	-	-	-	-25
Shares subscribed with options	-	-	0	-	-	-	-	-	-	0
Management stock option program, value of received services	-	-	-	-	-	-	-	3	-	3
Acquisition of minority in OSTP	-	-	-	-	-	-	-	-	-21	-21
Equity on Dec. 31, 2007	**308**	**-**	**701**	**16**	**57**	**-27**	**-82**	**2 364**	**-**	**3 337**

Notes to the consolidated financial statements

1. Corporate information

Outokumpu Oyj is a Finnish public limited liability company organized under the laws of Finland and domiciled in Espoo. The parent company, Outokumpu Oyj, has been listed on the Helsinki stock exchange since 1988. A copy of the consolidated financial statements is available at the Group's website www.outokumpu.com, from Outokumpu Oyj/Corporate Communications, Riihitontuntie 7 B, P.O. Box 140, 02201 Espoo, Finland or via e-mail corporate.comms@outokumpu.com.

Outokumpu is an international stainless steel company. Customers in a wide range of industries use our products and services worldwide. In 2006 Outokumpu Oyj and its subsidiaries (together "the Outokumpu Group" or "the Group") have been organized into two divisions: General Stainless and Specialty Stainless.

In 2007, Outokumpu operated in about 30 countries and employed some 8 100 people. The Group's sales amounted to EUR 6.9 billion, of which 95% was generated outside Finland.

2. Accounting principles for the consolidated accounts

Basis of preparation

The consolidated financial statements of Outokumpu have been drawn up in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The consolidated financial statements are presented in millions of euros and have been prepared under the historical cost conventions, unless otherwise stated in the accounting principles.

Applied amended standards and interpretations

In 2007 the Group has adopted the following amended and new International Financial Reporting Standards as of January 2007:

IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements – Capital management

The adoption of amended and new standards had impact only on the format and extent of disclosure information and comparative information for 2006 has been amended accordingly.

In 2007 the Group has adopted the following new interpretations as of January 2007:

IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The adoption of new interpretations had no material impact on the Group's consolidated accounts.

Adoption of new and amended standards in 2008-2009

Outokumpu will adopt in 2008 amended standard IAS 23 Borrowing Costs. The amended standard requires the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As Outokumpu has already capitalized the interest costs of major investment projects, the adaptation does not have material impact on consolidated financial statements.

Outokumpu will adopt in 2009 the following new standards:

IFRS 8	Operative segments
IAS 1	Presentation of Financial Statements

Outokumpu investigates the impacts on the disclosure information in 2008.

Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period.

Accounting estimates are employed in the financial statements to determine reported amounts, including the realizability of certain assets, the useful lives of tangible and intangible assets, income taxes, inventories, provisions, pension obligations, impairment of goodwill and other items. The basis for the estimates are described in more detail in these accounting principles and in connection with the relevant disclosure to the financial statement.

Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

Principles of consolidation

The consolidated financial statements include the parent company Outokumpu Oyj and all subsidiaries where over 50% of the subsidiary's voting rights are controlled directly or indirectly by the parent company, or the parent company is otherwise in control of the company. Associated companies, where Outokumpu holds voting rights of 20–50% and in which Outokumpu has significant influence, but not control, over the financial and operating policies, are included in the consolidated financial statements using the equity method. When Outokumpu's share of losses exceeds the interest in the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated companies. The interest in an associated company is the carrying amount of the investment under the equity method together with any long-term interest that, in substance, forms part of the investor's net investment in the associated company.

Acquired companies are accounted for using the purchase method according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The cost of goodwill is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsidiaries acquired during the financial year are included in the consolidated financial statements from the date of their acquisition and disposed subsidiaries are included up to their date of sale.

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated.

Minority interest is presented separately from the net profit and disclosed as a separate item in the equity.

Discontinued operations

A discontinued operation results from a decision, pursuant to a single disposal plan, to divest an operation comprising a separate major line of business for which the assets less liabilities and net financial results may be distinguished physically, operationally and for financial reporting purposes. The disposal shall be highly probable. The result from discontinued operations is presented in the income statement as a separate item after the profit from continuing operations. Comparative income statement figures are restated accordingly. Comparative balance sheet items are not restated but presented separately from the assets and liabilities of continuing operations from the date they have been classified as discontinued operations.

Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of segments in other economic environments.

Outokumpu's primary reporting segments are its business divisions General Stainless and Specialty Stainless. Other operations consists mainly of such business development and Corporate Management expenses that are not allocated to businesses. Pricing of inter-segment transactions is based on current market prices. Secondary reporting segments are geographical and based on the main areas where Outokumpu has activities and sales: Finland, Sweden, Britain, Other Europe, North America, Asia and Australia and other countries.

Foreign currency transactions
Items of each subsidiary included in the consolidated financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional currency of the parent company. Group companies' foreign currency transactions are translated into functional currencies using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into functional currencies at the exchange rates prevailing at the balance sheet date.

Foreign exchange gains and losses resulting from the settlement or translation of monetary interest-bearing assets and liabilities denominated in foreign currencies and related derivatives are recognized in financial income and expenses in the income statement. Foreign exchange differences arising in respect of other financial instruments are included in operating profit under sales, purchases or other income and expenses. Income statements and cash flows of subsidiaries, whose functional and reporting currencies are not the euro, are translated into euros at the average exchange rates during the financial period. Their balance sheets are translated at the exchange rates prevailing at the balance sheet date. The translation differences are entered in equity. When a subsidiary is sold, possible translation differences are recognized in the income statement as part of the gain or loss on the sale.

Revenue recognition
Sales are recognized after the significant risks and rewards that are connected with ownership have been transferred to the buyer, and the Group retains neither a continuing managerial involvement to the degree usually associated with ownership, nor effective control of those goods. Usually this means that sales are recorded upon delivery of goods to customers in accordance with agreed terms of delivery.

Outokumpu ships stainless steel products to customers under a variety of delivery terms. The used terms are based on Incoterms 2000, terms of trade published and defined by the International Chamber of Commerce Terms of Trade. These trade terms set out for each specified delivery term the primary duties of both the seller and the buyer of goods and identifies when the risks and rewards of ownership transfer from the seller to the buyer.

The most common delivery terms used by Outokumpu are "C" terms, whereby the Group arranges and pays for the carriage and certain other costs, though the Group ceases to be responsible for the goods once they have been handed over to the carrier in accordance with the relevant term. Sale is recognized when goods are handed to the carrier.

Less frequently are used "D" terms, under which the Group is obliged to deliver the goods to the buyer at the agreed destination, usually the buyer's premises, in which case sales is recognized when the goods are delivered to the buyer, and "F" terms, where the buyer arranges and pays for the carriage, thus sale is recognized when the goods are handed over to the carrier contracted by the buyer.

Revenues from services are recorded when the service has been performed. Sales are shown net of indirect sales taxes and discounts.

Research and development
Research and development costs are expensed as they are incurred, except for qualifying development costs, which are capitalized when it is probable that a development project will generate future economic benefits, and certain criteria, including commercial and technological feasibility, have been met. Capitalized development expenses, comprising materials, supplies, direct labor and related overhead costs are amortized on a systematic basis over their expected useful lives.

Income taxes
The Group income tax expense includes taxes of the group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred income taxes. The income tax effects of items recognized directly in equity are similarly recognized. The share of results in associated companies is reported in the income statement as calculated from net profit and thus including the income tax charge. Deferred income taxes are stated using the balance sheet liability method, as measured with enacted tax rates, to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities.

The main temporary differences arise from the depreciation difference on property, plant and equipment, fair valuation of net assets in acquired companies, fair valuation of available-for-sale financial assets and derivatives, intra-group inventory profits, pension and other provisions, untaxed reserves and tax losses carried forward.

Deductible temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized.

Goodwill and other intangible assets
Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities acquired. Goodwill is stated at cost and is not amortized, but tested annually for impairment. In respect of associated companies, the carrying amount of goodwill is included in the carrying amount of the investment.

Other intangible assets include customer relations, capitalized development expenses, patents, copyrights, licenses and software. The valuation of intangible assets acquired in a business combination is based on fair value,

Other intangible assets are stated at cost. Intangible assets are amortized on a straight-line basis over their expected useful lives. Development costs or acquisition costs of new software clearly associated with an identifiable product, which will be controlled by the Group and has probable economic benefit exceeding its cost beyond one year, are recognized as an intangible asset and depreciated over the software's expected useful life. Associated costs include staff costs of the development team and an appropriate portion of overhead. An intangible asset is recognized only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. All other expenditure is expensed as incurred.

Periods of amortization used for intangible assets are:

Intangible rights	up to 20 years
Software	up to 10 years

Property, plant and equipment
Property, plant and equipment acquired by group companies are stated at historical cost, except the assets of acquired companies that were stated at their fair values at the date of acquisition. Depreciation is calculated based on the useful lives of the assets and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment in the balance sheet represents the cost less accumulated depreciation and any impairment charges. Interest costs on borrowings to finance the construction of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Depreciation is based on the following expected useful lives:

Buildings	25–40 years
Heavy machinery	15–20 years
Light machinery and equipment	5–15 years

Land is not depreciated and mine properties are depreciated using the units-of-production method based on the depletion of ore reserves. Expected useful lives of non-current assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly. Ordinary repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred. The cost of major renovations is included in the asset's carrying amount when it is probable that the Group will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Major renovations are depreciated over the useful lives of the related assets. Gains and losses on sales and disposals are determined by comparing the received proceeds with the carrying amount and are included in operating profit.

Government grants
Government or other grants are recognized as income on a systematic basis over the periods necessary to match them with the related costs, which they are intended to compensate. Investment grants are recognized as revenue on a systematic basis over the useful life of the asset. In the balance sheet, investments grants are deducted from the value of the asset they relate to.

Impairments
Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is tested at least annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level for which there are separately identifiable, mainly independent, cash inflows and outflows. The lowest level of cash generating units in the Group is the business unit. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the asset's value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted value is higher than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill are not reversed.

Leases
Leases of property, plant and equipment where the Group has substantially all the rewards and risks of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the estimated present value of the underlying lease payments. Each lease payment is allocated between the capital liability and finance charges, so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities with the interest element of the finance charge being recognized in the income statement over the lease period. Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the useful life of the asset or lease period. Leases of assets, where the lessor retains all the risks and benefits of ownership, are classified as operating leases. Payments made thereunder, and under rental agreements, are expensed on a straight-line basis over the lease periods.

Financial instruments
Financial instruments are classified as loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at amortized cost and financial assets and liabilities at fair value through profit and loss. Equity securities are classified as available-for-sale financial assets and convertible loan receivables are classified as financial assets at fair value through profit and loss. Liquid interest-bearing securities are classified as financial assets at fair value and included in cash equivalents.

Available-for-sale financial assets, as well as financial assets and liabilities at fair value through profit and loss, are measured at fair value and the valuation is based on quoted rates and market prices as well as appropriate valuation methodologies and models. Unlisted equity securities for which fair value cannot be reliably measured are recognized at cost less impairment. Fair value changes of available-for-sale financial assets are recognized directly in equity. Significant and prolonged decline in the fair value will lead to impairment recognition. In the event such an asset is disposed of, the accumulated fair value changes are released from equity to financial income and expenses in the income statement. Purchases and sales of available-for-sale financial assets are recognized at the trade date.

Loans and receivables as well as all financial liabilities, except for derivatives, are recognized at the settlement date and measured at amortized cost using the effective interest rate method. Transaction costs are included in the initially recognized amount. The need for impairment is assessed separately for each loan receivable and when realized it is deducted from the carrying value. The impairment shall be based on evidence that it is probable that the Group will not be able to collect the loan receivable according to initial terms. Financial assets and liabilities at fair value through profit and loss are recognized at the trade date and measured at fair value.

All derivatives, including embedded derivatives, are initially recognized at fair value on the date Outokumpu has entered into the derivative contract, and are subsequently remeasured at fair value. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

Fair values of currency forwards and swaps, interest rate swaps and metal forwards are determined by discounting the future nominal cash flows with relevant interest rates and then converting the discounted cash flows to the base currency using spot rates. Fair values of electricity forwards are determined by discounting the base currency denominated future values with relevant interest rates. The fair value of currency, interest rate and metal options is determined by utilizing commonly applied option valuation models. Optionalities included in electricity derivatives are measured at fair value with own valuation models.

Part of derivatives and other financial instruments may be designated as hedging instruments, in which case hedge accounting is applied. If hedge accounting is not applied, fair value changes of derivatives are recognized in other income and expenses. However, if the derivative is assigned to financing activities, the fair value changes are recognized in financial income and expenses. In the case hedge accounting is applied, the accounting for hedging instruments is dependent on the particular nature of the hedging relationship.

Hedging programs are documented according to the requirement of IAS 39 and designated hedging instruments are subject to prospective and retrospective testing of effectiveness. Fair value changes of derivatives, which are assigned to hedge forecast transactions (cash flow hedging), are recognized in equity to the extent that the hedge is effective. Such accumulated fair value changes are released into income as adjustments to sales or purchases in the period when the hedged cash flow affects income. The ineffective portion of the gain or loss of the hedging instrument is recognized immediately in income.

Fair value changes of financial instruments, which are assigned to hedge translation risk related to net investments in foreign operations, are recognized in equity to the extent that the hedge is effective. Accumulated gains and losses from hedges are recognized as income only if the hedged subsidiary is sold or liquidated. The ineffective portion of the gain or loss of the hedging instrument is recognized in income.

All recognized fair value changes to equity are net of tax.

Emission allowances
EU emission trading system (ETS) started on January 1, 2005. Outokumpu's sites covered by EU emissions trading are the stainless steel production plants in Tornio, Finland as well as in Avesta and Degerfors, Sweden. Accounting for carbon dioxide (CO_2) allowances is based on current IFRS standards. Emission allowances are intangible assets. Purchased CO_2 allowances are recognized at cost, whereas allowances received free of charge are recognized at nominal value, i.e. at zero. A provision to cover the obligation to return emission allowances is recognized provided that emission allowances received free of charge will not cover the actual emissions. Consequently the possible effect in operating profit will reflect the difference between what has been emitted and the received emission allowances.
Emission allowances are not reflected in Outokumpu's balance sheet because actual emissions do not exceed the amount of allowances received free of charge and no allowances have been purchased from the market.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads, but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade receivables

Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance for impairment of these receivables. A valuation allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Investments in highly liquid fixed income funds are included in cash equivalents. Bank overdrafts are included within borrowings in current liabilities in the balance sheet

Treasury shares

Where the company or its subsidiaries purchases the company's own shares, the consideration paid, including any attributable transaction costs net of income taxes, is deducted from equity as treasury shares until they are cancelled. When such shares are subsequently sold or reissued, any consideration received is included in equity.

Provisions

Provisions are recognized in the balance sheet when Outokumpu has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions can arise from restructuring plans, onerous contracts and from environmental, litigation or tax risks.

Employee benefits

Group companies in different countries have various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation of defined benefit plans is determined using the projected unit credit method and the plan assets are measured at fair value at the measurement date.

In calculating the Group's obligation with respect to a plan, the extent to which the cumulative unrecognized actuarial gain or loss exceeds the greater of the present value of the defined benefit obligation and the fair value of plan assets by more than 10% is identified. That excess portion is recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized

Share-based payment transactions

Outokumpu has applied IFRS 2 Share-based payments standard to the 2003 option program in which the stock options have been granted after November 7, 2002 and to the share-based incentive program for 2006–2010. The stock options are valued at fair value on the grant date and recognized as an expense in the income statement during the vesting period. The expense of the stock options determined at the grant date reflects the Group's estimate of the number of stock options that will ultimately vest. The fair value is determined at the grant date using the Black-Scholes-Merton option pricing model and relevant statistical methods. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest. Outokumpu updates at each annual and interim closing the estimate of the final amount of the options that will vest.

The share-based incentive program is accounted partly as equity-settled and partly as cash-settled. The equity and cash settled parts both include market and non-market based vesting criteria. In determining the fair value of the earning periods at the grant dates, and also at later dates in relation to the cash-settled part of the program, statistical models have been applied in addition to market prices. The impact of non-market based vesting criteria is assessed at each annual and interim closing. The program includes a mechanism to limit the payout in certain situations. These conditions have also been taken into account in the valuation.

The estimated expenses and changes in the value estimates of all share based incentive schemes are accrued and recognized in the income statement according to IFRS 2. When the options are exercised, the proceeds received, net of any transaction costs, are credited to share capital and the share premium reserve.

Dividends

The dividend proposed by the Board of Directors is not deducted from distributable equity until approved by the Annual General Meeting of Shareholders.

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the equity holders of the company by the weighted average number of shares in issue during the year, excluding shares purchased by Outokumpu and held as treasury shares. Diluted earnings per share are calculated as if the warrants and options were exercised at the beginning of the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options.

The assumption of exercise is not reflected in earnings per share when the exercise price of the warrants and options exceeds the average market price of the shares during the period. The warrants and options have a diluting effect only when the average market price of the share during the period exceeds the exercise price of the warrants and options.

3. Segment information

Outokumpu's business activities were organized into two strategic primary segments in 2007: General Stainless and Specialty Stainless. Activities outside the segments are reported under Other operations. Outokumpu Copper Tube and Brass is reported as discontinued operations.

Demand and consumption of stainless steel grow faster than any other metal in the world. Outokumpu is one of the largest producers of stainless steel and widely recognized as a leader in technical support as well as research and development. The excellent properties of stainless steel make it an ideal choice in various demanding industrial and end-use applications such as food processing and chemicals industries, oil platforms, construction, automotive industries, cutlery and razor blades.

General Stainless

General Stainless comprises two business units: Tornio Works and Sheffield Primary Products. The main products are hot and cold rolled coil and sheet. Tornio Works is the largest stainless steel integrate in the world, including also the Kemi chromite mine and the ferrochrome smelter in Tornio. Sheffield Primary Products consists of a melt shop in Sheffield, Britain, and a hot rolling mill for long products in Degerfors, Sweden.

Specialty Stainless

Specialty Stainless comprises five business units: Avesta Works, Thin Strip, Hot Rolled Plate, Long Products and Outokumpu Stainless Tubular Products. The main products are hot and cold rolled sheet, quarto plate, wire rod and bar, precision strip, tubes and various fittings. Steel used by the Specialty Stainless units comes mostly from the meltshops in Avesta, Sweden and Sheffield, Britain, the latter being a part of the General Stainless segment.

Specialty Stainless is strong in tailored solutions and demanding customer applications in flat and long stainless as well as tubular products. Specialty Stainless serves customers with high requirements on the stainless steel properties such as steel grade, shape, thickness, surface finish or other specific needs.

Other operations

Other operations consists of activities outside the primary segments as well as industrial holdings. Business development and Corporate Management expenses that are not allocated to the businesses are also reported under Other operations.

3.1 Business segments

2007 € million	General Stainless	Specialty Stainless	Other operations	Discontinued operations	Eliminations	Group
External sales	4 006	2 851	56	-	-	6 913
Inter-segment sales	1 315	605	181	-	-2 101	-
Sales	5 321	3 456	237	-	-2 101	6 913
Operating profit	220	337	21	-	11	589
Share of results of associated companies	-	-	4	-	-	4
Financial income and expenses	-	-	-	-	-	206
Profit before taxes	-	-	-	-	-	798
Income taxes	-	-	-	-	-	-138
Discontinued operations	-	-	-	-18	-	-18
Net profit for the financial year	-	-	-	-	-	641
Depreciation	-131	-57	-2	-	-	-190
Amortization	-2	-6	-6	-	-	-15
Impairments	-	3	-	-	-	3
Non interest-bearing assets	3 338	1 923	301	-	-451	5 110
Investments in associated companies	-	-	163	-	-	163
Other interest-bearing assets	-	-	-	-	-	426
Deferred tax assets	-	-	-	-	-	26
Assets held for sale	-	-	-	184	-	184
Total assets	-	-	-	-	-	5 910
Non interest-bearing liabilities	731	411	65	-	-436	771
Interest-bearing liabilities	-	-	-	-	-	1 509
Deferred tax liabilities	-	-	-	-	-	241
Liabilities held for sale	-	-	-	52	-	52
Total liabilities	-	-	-	-	-	2 573
Operating capital	2 607	1 513	236	-	-16	4 340
Net deferred tax liability	-	-	-	-	-	-215
Capital employed	-	-	-	-	-	4 125
Capital expenditure	57	69	64	-	-	190

3.1 Business segments

2006 € million	General Stainless	Specialty Stainless	Other operations	Discontinued operations	Elimi-nations	Group
External sales	3 626	2 326	202	-	-	6 154
Inter-segment sales	1 144	397	159	-	-1 700	-
Sales	4 770	2 723	361	-	-1 700	6 154
Operating profit	536	338	-35	-	-15	824
Share of results of associated companies	-	-	8	-	-	8
Financial income and expenses	-	-	-	-	-	-48
Profit before taxes	-	-	-	-	-	784
Income taxes	-	-	-	-	-	-178
Discontinued operations	-	-	-	357	-	357
Net profit for the financial year	-	-	-	-	-	963
Depreciation	-129	-73	-2	-	-	-204
Amortization	-2	-7	-8	-	-	-17
Impairments	-0	-3	-	-	-	-3
Non interest-bearing assets	3 781	2 160	290	-	-613	5 619
Investments in associated companies	-	-	47	-	-	47
Other interest-bearing assets	-	-	-	-	-	468
Deferred tax assets	-	-	-	-	-	45
Assets held for sale	-	-	-	235	-	235
Total assets	-	-	-	-	-	6 414
Non interest-bearing liabilities	934	566	152	-	-587	1 066
Interest-bearing liabilities	-	-	-	-	-	1 977
Deferred tax liabilities	-	-	-	-	-	226
Liabilities held for sale	-	-	-	73	-	73
Total liabilities	-	-	-	-	-	3 342
Operating capital	2 847	1 594	138	-	-25	4 553
Net deferred tax liability	-	-	-	-	-	-182
Capital employed	-	-	-	-	-	4 371
Capital expenditure	83	95	9	-	-	187

3.2 Geographical segments

2007 € million	Finland	Sweden	Britain	Other Europe	North America	Asia and Australia	Other countries	Inter area	Group area
Sales by destination 1)	336	470	335	3 924	770	960	118	-	6 913
Sales by origin 2)	3 666	3 058	1 422	1 109	676	233	17	-3 267	6 913
Operating profit 2)	179	308	17	39	58	6	1	-19	589
Non interest-bearing assets 2)	2 884	1 514	448	367	189	65	7	-363	5 110
Operating capital 2)	2 531	1 224	284	199	93	24	2	-17	4 340
Capital expenditure 2)	90	79	8	9	4	0	-	-	190

2006 € million	Finland	Sweden	Britain	Other Europe	North America	Asia and Australia	Other countries	Inter area	Group area
Sales by destination 1)	344	316	319	3 713	605	781	77	-	6 154
Sales by origin 2)	3 623	2 347	1 147	1 056	488	172	15	-2 693	6 154
Operating profit 2)	408	266	29	98	53	5	1	-35	824
Non interest-bearing assets 2)	3 225	1 691	509	461	210	55	3	-535	5 619
Operating capital 2)	2 750	1 284	247	228	86	3	1	-46	4 553
Capital expenditure 2)	89	82	6	4	4	1	-	-	187

1) Sales by destination is presented for external sales.

2) Sales, operating profit, non interest-bearing assets, operating capital and capital expenditure are presented by the locations of the Group companies.

4. Discontinued operations

Outokumpu Copper Tube and Brass

The assets and liabilities of Outokumpu Copper Tube and Brass are presented as held for sale. Outokumpu Copper Tube and Brass business comprises European sanitary and industrial tubes, including air-conditioning and refrigeration tubes in Europe, as well as brass rod. Outokumpu is implementing a vigorous improvement project in this business and it is Outokumpu's intention to divest the tube and brass business.

Outotec

Outokumpu Oyj sold 88% of Outotec (former Outokumpu Technology) by a sale of shares through an Initial Public Offering (IPO) in September 2006. In April 2007, Outokumpu sold its remaining 12% shareholding in Outotec Oyj to institutional investors. The net proceeds from the sale totaled EUR 158 million and a tax-free non-recurring gain of EUR 142 million was recognized in financial income. See also note 10. Financial income and expenses.

In the following tables Outokumpu Copper Tube and Brass is referred as TB and Outotec as OT.

Specification of discontinued operations and assets held for sale

Income statement

€ million	2007 TB	Total	2006 OT	TB
Sales	599	1 178	501	678
Expenses	-607	-1 124	-470	-654
Operating profit	-8	54	31	23
Net financial expenses	-6	-2	5	-7
Profit before taxes	-15	53	36	17
Income taxes	-1	-17	-14	-3
Profit after taxes	-15	35	22	14
Gain on the sale of Outotec	-	328	328	-
Impairment loss recognized on the fair valuation of the Outokumpu Copper Tube and Brass division's assets and liabilities	-3	-6	-	-6
Taxes	-	-	-	-
After-tax result from the disposal and impairment loss	-18	322	328	-6
Minority interest	-	0	0	-
Net profit for the financial year from discontinued operations	-18	357	349	8

Balance sheet

€ million	2007	2006
Assets		
Intangible and tangible assets	6	6
Other non-current assets	4	4
Inventories	91	122
Other current, non interest-bearing assets	83	104
	184	235
Liabilities		
Provisions	4	3
Other non-current, non interest-bearing liabilities	5	6
Trade payables	32	46
Other current, non interest-bearing liabilities	11	18
	52	73

Cash flows

€ million	2007	2006
Operating cash flow	18	-13
Investing cash flow	-3	-145
Financing cash flow	-19	80
	-4	-77

5. Acquisitions and disposals

Acquisitions in 2007 and 2006

In May, Outokumpu acquired from Swedish Sandvik its 11.6% minority shareholding in OSTP AB (Outokumpu Stainless Tubular Products) for EUR 22 million. Goodwill of EUR 1 million was recognized from the acquisition. Full ownership in OSTP enables Outokumpu to develop the business further in line with its strategy to increase the share of the more value-added special products.

Outokumpu divested the Talvivaara exploration project in 2004 and held an option to subscribe shares with a 20% discount in a possible Initial Public Offering (IPO), representing up to 5% ownership in the company. The IPO of Talvivaara Mining Company Ltd. was carried out and the listing of the shares started on the London Stock Exchange on May 30, 2007. Outokumpu participated in the IPO by subscribing 10.9 million shares, resulting in a 4.9% ownership in the company on a fully diluted basis, with a total consideration of EUR 32 million. Outokumpu also exercised its option, part of the divestment agreement, to acquire a 20% stake in the Talvivaara nickel mining project company (Talvivaara Project Ltd.) owned by Talvivaara Mining Company Ltd., for a total consideration of one euro.

Talvivaara Project Ltd. is consolidated in the Group's income statement as an associated company reflecting Outokumpu's 20% holding. The fair valuation of Outokumpu's 20% stake resulted in a tax-free non-recurring gain of EUR 110 million, which has been recognized in financial income. The shareholding in the listed Talvivaara Mining Company Ltd. has been classified as an available-for-sale financial asset with changes in fair value recognized directly in equity.

In the purchase price allocation the majority of the excess value was allocated to the nickel ore reserves according to the fair value and it will be amortized using the units-of-production method based on the depletion of ore reserves in Talvivaara. A goodwill amounting to EUR 9 million was recognized. Goodwill is not amortized, but tested annually for impairment. The Talvivaara mine is estimated to start production of nickel and other metals at the end of 2008. Its target is to gradually ramp up its nickel output to some 33 000 tons annually.

In 2006 Outokumpu had no acquisitions.

Disposals in 2007 and 2006

Year 2007

In March, OSTP (Outokumpu Stainless Tubular Products) sold its flange business in order to focus on pipes, tubes, butt-welded and threaded fittings. The purchaser is a subsidiary of Shree Ganesh Forgings Ltd, an Indian company. The sale had no significant impact on Group's results.

In February, Outokumpu agreed to sell the Hitura nickel mine in Finland to Belvedere Resources Ltd. of Canada. The Hitura mine was the last remaining asset in Outokumpu's Exit Mining program. Hitura produces some 2 200 tons of nickel in concentrate annually and employs 90 people. The transaction was completed in June and the total consideration of EUR 25 million, is in Belvedere shares and warrants entitling to subscribe for additional Belvedere shares, resulting in a maximum 19.2% ownership in Belvedere, on a fully-diluted basis. Outokumpu recognized a non-recurring gain of EUR 25 million on the transaction, which has been included in the operating profit. The shareholding in Belvedere is classified as an available-for-sale financial asset with changes in fair value recognized directly in equity. The warrants are classified as derivative instruments with changes in fair value recognized in financial income and expenses.

Net assets of these disposed businesses were EUR 6 million. Net gain on the disposals was EUR 23 million and net cash flow was EUR 1 million.

Year 2006

On September 25, 2006, the Board decided to commence the offering of shares in Outokumpu Technology. The offering structure was a sale of shares through an Initial Public Offering (IPO). The offering commenced on September 26, 2006 and ended on October 9, 2006. In the offering Outokumpu Oyj sold 36 960 001 shares at EUR 12.50 per share and Outokumpu Oyj's remaining holding in Outokumpu Technology Oyj is 12%. Net proceeds from the sale amounted to some EUR 449 million and the capital gain from the sale to EUR 328 million. For more details, see note 4. Discontinued operations.

On February 27, 2006 Outokumpu sold its brass rod mill, Outokumpu Copper MKM Ltd, located in Aldridge in the UK, to The Meade Corporation. The total consideration of the transaction was some EUR 20 million. In July and October 2006 Outokumpu sold three minor companies with insignificant effect on Outokumpu Copper Tube and Brass' result.

Net assets of the disposed subsidiaries and businesses

€ million	2007	2006
Intangible assets	0	80
Property, plant and equipment	1	31
Other long-term assets	0	19
Derivative financial instruments	-	0
Inventories	6	79
Receivables, interest-bearing	-	1
Receivables, non interest-bearing	9	314
Provisions	0	33
Liabilities, interest-bearing	0	6
Liabilities, non interest-bearing	9	335
	6	150
Gains on disposals	23	334
Total consideration	29	483
Received in cash	4	484
Direct costs related to the disposals	-0	-13
Cash and cash equivalents in disposed subsidiaries and units	-3	-133
Net cash flow from disposals	1	338

6. Other operating income

€ million	2007	2006
Gain on the sale of the Hitura mine	25	-
Gain on the sale of the Okmetic shares	-	4
Gains on sale of other intangible and tangible assets	8	18
Other income items	49	12
Market price gains and losses from derivative financial instruments	-	10
	82	44

7. Other operating expenses

€ million	2007	2006
Losses on sale of intangible and tangible assets	-9	-3
Impairment of intangible and tangible assets	3	-3
Other expense items	-10	-5
Market price gains and losses from derivative financial instruments	-27	-
	-43	-11

8. Function expenses by nature

€ million	2007	2006
Raw materials and merchandise	-4 518	-4 008
Fuels and supplies	-325	-325
Energy expenses	-189	-239
Freights	-187	-227
Maintenance	-106	-111
Employee benefit expenses	-499	-506
Rents and leases	-24	-26
Hire processing	-48	-44
Depreciation and amortization	-204	-221
Production for own use	1	1
Change in inventories	-38	542
Other expenses	-229	-199
	-6 364	-5 364

Expenses by function include cost of sales, selling and marketing, administrative as well as research and development expenses.

Operating income and expenses comprise following non-recurring items, which have affected financial performance for the financial year:

Non-recurring items in operating profit

€ million	2007	2006
Gain on the sale of Hitura mine in Finland	25	-
Thin Strip restructuring in Britain	-11	-
Gain on the sale of real estate in Britain	-	9
OSTP Fagersta closure	-	-8
	14	1

9. Employee benefit expenses

€ million	2007	2006
Wages and salaries	-350	-346
Termination benefits	-5	-15
Social security costs	-56	-58
Pension and other long-term employee benefits		
Defined benefit plans	-9	-11
Defined contribution plans	-50	-47
Other long-term employee benefits	-10	-3
Expenses from share-based payments	-5	-4
Other personnel expenses [1)]	-12	-22
	-499	-506

[1)] Includes EUR 4 million (2006: EUR 10 million) of profit-sharing bonuses based on the Finnish Personnel Funds Act.

10. Financial income and expenses

€ million	2007	2006
Dividend income on available-for-sale financial assets	11	6
Interest income on loans and receivables	25	26
Gains on the sale of		
Available-for-sale financial assets	145	-
Investments at fair value through profit and loss	1	-
Other financial income	110	2
Total financial income	292	34
Interest expenses		
Financial liabilities at amortized cost	-82	-85
Finance lease arrangements	-3	-3
Capitalized interests	0	-
Derivatives	3	-1
Impairment losses on available-for-sale financial assets	-1	-
Other financial expenses	-3	-5
Total financial expenses	-87	-94
Exchange gains and losses		
Derivatives	33	-13
Other	-31	18
Other market price gains and losses		
Derivatives	-1	8
Other	0	0
Total market price gains and losses	0	12
Total financial income and expenses	206	-48

Non-recurring items in financial income

€ million	2007	2006
Gain on the sale of Outotec shares	142	-
Gain on the Talvivaara transaction	110	-
	252	-

Exchange gains and losses in the income statement

€ million	2007	2006
In sales	2	-51
In purchases	5	38
In other income	-27	-8
In financial income and expenses	1	5
	-19	-16

Exchange gains and losses comprise EUR 5 million net exchange gains on derivative financial instruments (2006: EUR 21 million net losses). Exchange gains and losses on derivatives, which are related to financing activities and the inefective portion from hedges of net investment in foreign operations (2007: EUR 0.4 million gain, 2006: EUR 0.3 million loss) are included in financial income and expences. Derivative gains and losses recognized in operating profit are presented in notes 6. Other operating income and 7. Other operating expenses.

11. Income taxes

Income taxes in the income statement

€ million	2007	2006
Current taxes	-107	-156
Deferred taxes	-31	-22
	-138	-178

11. Income taxes

The difference between income taxes at the statutory tax rate in Finland 26% and income taxes recognized in the consolidated income statement is reconciled as follows:

€ million	2007	2006
Hypothetical income taxes at Finnish tax rate on consolidated profit before tax	-207	-204
Effect of different tax rates outside Finland	-17	-20
Tax effect of non-deductible expenses and tax exempt income	78	4
Tax effect of losses for which no deferred tax benefit is recognized	-0	-0
Changes in the carrying amounts of deferred tax assets from prior years	3	41
Taxes for prior years	5	3
Impact of the changes in the tax rates on deferred tax balances	-0	0
Tax effect of net results of associated companies	1	1
Effects of consolidation and eliminations	-0	-3
Other items	-2	-1
Income taxes in the consolidated income statement	-138	-178

Deferred income taxes in the balance sheet

€ million	2007	2006
Deferred tax assets	26	45
Deferred tax liabilities	-241	-226
Net deferred tax liability	-215	-182

Deferred taxes have been reported as a net balance of those group companies that file a consolidated tax return or that may otherwise be consolidated for current tax purposes.

The gross movements of the deferred income tax balances

€ million	2007	2006
Net deferred tax liability on Jan. 1	-182	-158
Income statement charge	-31	-22
Translation differences	2	-4
Acquisitions and disposals of subsidiaries	-	0
Taxes recognized in equity	-4	1
Discontinued operations	-	1
Net deferred tax liability on Dec. 31	-215	-182

Movement in deferred tax assets and liabilities during the financial year

€ million **2007**	Jan.1	Recognized in the income statement	Recognized in equity	Translation differences	Dec. 31
Deferred tax liabilities					
Depreciation difference and other untaxed reserves	-210	-24	-	4	-230
Fair value adjustments	-5	1	-4	-	-8
Effects of consolidation and eliminations	-3	2	-	-	-1
Other taxable temporary differences	-47	-15	-	0	-62
	-264	-37	-4	4	-301
Deferred tax assets					
Tax losses carried forward	18	3	-	-1	20
Fair value adjustments	0	0	-	0	0
Pension obligations	8	0	-	-1	7
Effects of consolidation and eliminations	20	-10	-	-	10
Other tax deductible temporary differences	36	14	-	-0	50
	82	6	-	-2	86
Net deferred tax liability	-182	-31	-4	2	-215

11. Income taxes

€ million 2006	Jan.1	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions/ disposals of subsi-diaries	Discontinued operations	Dec. 31
Deferred tax liabilities							
Depreciation difference and other untaxed reserves	-204	-4	-	-2	0	1	-210
Fair value adjustments	-6	-2	1	0	-	2	-5
Effects of consolidation and eliminations	-7	4	-	0	-	-	-3
Other taxable temporary differences	-57	-0	-	-0	-	11	-47
	-275	-2	1	-3	0	14	-264
Deferred tax assets							
Tax losses carried forward	55	-29	-	-0	-	-8	18
Fair value adjustments	4	-4	-	0	-	-	0
Pension obligations	4	6	-	-0	-	-2	8
Effects of consolidation and eliminations	14	6	-	0	-	-	20
Other tax deductible temporary differences	41	-1	-	-1	-	-3	36
	118	-21	-	-1	-	-13	82
Net deferred tax liability	-158	-22	1	-4	0	1	-182

Aggregate deferred taxes recognized directly in equity

€ million	2007	2006
Cashflow hedging	-1	-0
Available-for-sale financial assets	-3	-0
	-4	-0

Deferred tax assets of EUR 42 million (2006: EUR 72 million) have not been recognized in the consolidated financial statements because the realization of the tax benefit included in these assets is not probable. Majority of these unrecognized deferred tax assets relate to tax losses amounting to EUR 144 million (2006: EUR 198 million), which can be carried forward in the future. None of these tax losses (2006: EUR - million) will expire within next four years, but in 2011 the earliest. The consolidated balance sheet includes deferred tax assets of EUR 3 million (Dec. 31, 2006: EUR 2 million) in subsidiaries, which have generated losses in current or in prior year. The recognition of these assets is based on result estimates, which indicate that the realization of these deferred tax assets is probable. Deferred tax liability has not been recognized on all undistributed earnings of subsidiaries because distribution of the earnings is in the control of the Group and such distribution is not probable within foreseeable future. There was not any such undistributed earnings at the end of the year (Dec. 31, 2006: EUR - million).

12. Earnings per share

	2007	2006
Result attributable to the equity holders of the Company, € million	638	962
Weighted average number of shares, in thousands	180 922	181 033
Earnings per share for result attributable to the equity holders of the Company, €	3.52	5.31
Earnings per share, €		
from continuing operations	3.63	3.34
from discontinued operations	-0.10	1.97

Diluted earnings per share is calculated by adjusting average number of shares outstanding to assume conversion of all diluting potential shares. The Group has diluting options (2003 option program). The options have a diluting effect, when the exercise price with an option is lower than the market value of the Company share. The diluting effect is the number of shares that the Company has to issue gratuitously because the received funds from the exercised options do not cover the fair value of the shares. The fair value of the Company's share is determined as the average market price of the shares during the period.

12. Earnings per share

	2007	2006
Result attributable to the equity holders of the Company, € million	638	962
Weighted average number of shares, in thousands	180 922	181 033
Effect of 2003A share options, in thousands	398	324
Effect of 2003B share options, in thousands	546	373
Effect of 2003C share options, in thousands	53	29
Diluted average number of shares, in thousands	181 920	181 758
Diluted earnings per share, €	3.50	5.29
from continuing operations	3.61	3.33
from discontinued operations	-0.10	1.97

13. Dividend per share

The dividends paid in 2007 were 1.10 per share and in 2006 EUR 0.45 per share. At the Annual General Meeting on March 27, 2008, a dividend of EUR 1.20 per share is proposed, corresponding to total dividends of EUR 216 million for 2007. This dividend payable is not reflected in the financial statements.

14. Intangible assets

	Intangible asset, internally generated			Intangible asset, acquired		Goodwill	Total
€ million	Licenses	Other	Patents	Software	Other		
Historical cost on Jan. 1, 2007	-	0	4	43	124	404	576
Translation differences	-	-	-	-1	-4	0	-4
Additions	-	-	0	0	0	-	0
Disposal of subsidiaries	-	-	-	-	-0	-	-0
Disposals	-	-0	-	-4	-2	-	-6
Reclassifications	-	-	-	-0	0	-	-
Historical cost on Dec. 31, 2007	**-**	**-**	**4**	**39**	**118**	**405**	**566**
Accumulated amortization and impairment on Jan. 1, 2007	-	-0	-1	-34	-48	-	-82
Translation differences	-	-	-	0	1	-	2
Disposal of subsidiaries	-	-	-	-	-	-	-
Disposals	-	0	-	4	1	-	5
Reclassifications	-	-	-	-	-	-	-
Amortization	-	-	-0	-3	-11	-	-15
Impairments	-	-	-	-	-	-	-
Accumulated amortization and impairment on Dec. 31, 2007	**-**	**-**	**-2**	**-33**	**-56**	**-**	**-91**
Carrying value on Dec. 31, 2007	**-**	**-**	**2**	**6**	**62**	**405**	**475**
Carrying value on Jan. 1, 2007	-	0	2	10	76	404	493
Historical cost on Jan. 1, 2006	1	1	13	53	133	451	652
Translation differences	-	-	-	0	0	0	1
Additions	-	-	0	1	1	-	2
Disposals	-	-	-	-2	-4	-	-6
Reclassifications	-	1	-	0	-1	-	1
Discontinued operations	-1	-2	-9	-9	-6	-47	-74
Historical cost on Dec. 31, 2006	-	0	4	43	124	404	576
Accumulated amortization and impairment on Jan. 1, 2006	-0	-1	-3	-30	-40	-	-75
Translation differences	-	-	-	-0	-1	-	-1
Disposals	-	-	-	1	1	-	2
Reclassifications	-	-	-	-0	-	-	-0
Amortization	-	-	0	-6	-11	-	-17
Impairments	-	-	-	-	-	-	-
Discontinued operations	0	1	2	2	3	-	9
Accumulated amortization and impairment on Dec. 31, 2006	-	-0	-1	-34	-48	-	-82
Carrying value on Dec. 31, 2006	-	0	2	10	76	404	493
Carrying value on Jan. 1, 2006	1	0	10	23	93	451	578

14. Intangible assets

Amortization by function

€ million	2007	2006
Cost of sales	-12	-14
Selling and marketing expenses	-0	-0
Administrative expenses	-3	-3
Research and development expenses	-0	-0
	-15	-17

Goodwill allocation to the segments and divisions

€ million	2007	2006
General Stainless	338	338
Specialty Stainless	67	66
	405	404

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the business organization. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations are based on the cash flow projections in the strategic plans approved by the management for 2008. Projections for 2009–2012 are derived from 2008 with the following adjustments: fixed costs are planned to stay constant as a result of current and planned efficiency improvement initiatives, the expected benefits from the Excellence Programs are realized and the change in working capital is driven by volume. Estimated nickel price is kept on a conservative flat level each year. The estimated production volumes are derived from the utilization of existing property, plant and equipment.

Cash flows beyond the five-year period are calculated using the terminal value method. Growth rate assumption in the terminal value calculation is zero.

Discount rate is the weighted average pre-tax cost of capital (WACC) as defined for Outokumpu. The components of WACC are risk-free yield rate, market risk premium, industry specific beta, cost of debt and targeted capital structure. The WACC used in the calculations was 9% in 2007 (2006: 8%).

Sensitivity analyses was carried out by changing the underlying assumptions in the valuations of the stainless steel base price, delivery volumes and discount factor. According to the performed sensitivity analysis it does not appear that any reasonable long-term change in the key assumptions, on which Outokumpu's recoverable amounts are based, would cause their respective values to fall short of their carrying amounts at December 31, 2007. As a result of the performed impairment tests, no impairment losses have been recognized.

Emission allowances

As of January 1, 2005 Emissions Trading System (ETS) started in the European Union. Outokumpu's stainless steel plants in Finland and Sweden belong to the Greenhouse Gas emission trading system. Carbon dioxide allowances for the first three-year period 2005–2007 were granted to the Tornio site in Finland and the steel making and casting plants at Avesta and Degerfors in Sweden. Purchased CO_2 allowances are accounted for as intangible assets at cost, whereas CO_2 emission allowances received free of charge are accounted for at nominal value, i.e. at zero. A provision to cover the obligation to return emission allowances is recognized provided that emission allowances received free of charge will not cover the actual emissions. Consequently the possible effect in operating profit will reflect the difference between what has been emitted and the received emission allowances. On December 31, 2007, emission allowances are not reflected in Outokumpu's balance sheet because no allowances have been purchased and because actual emissions did not exceed the amount of received allowances in 2007. Actual CO_2 emissions in units, which belong to the Greenhouse Gas emission trading system, were about 680 000 tons in 2007 (2006: 780 000 tons). The Group sold emission allowances for EUR 0.6 million in 2007 (2006: 6.5 million). At the end of 2007 the Group had 24 000 tons unused emission allowances permitted for the period 2005–2007 and the fair value was close to zero. Carbon dioxide allowances for the Kyoto period 2008–2012 will be granted in February 2008.

15. Property, plant and equipment

€ million	Land	Mine properties	Buildings	Machinery and equipment	Other tangible assets	Advances paid and construction work in progress	Total
Historical cost on Jan. 1, 2007	39	39	813	2 896	84	138	4 009
Translation differences	-1	-	-10	-60	-0	-4	-76
Additions	1	-	4	26	1	105	137
Disposal of subsidiaries	-0	-6	-2	-12	-	-	-20
Disposals	-0	-	-1	-63	-2	-1	-67
Reclassifications	0	-	25	104	15	-144	-
Historical cost on Dec. 31, 2007	**38**	**33**	**830**	**2 890**	**98**	**94**	**3 984**
Accumulated depreciation and impairment on Jan. 1, 2007	-2	-7	-321	-1 581	-28	-0	-1 939
Translation differences	0	-	7	40	0	-0	47
Disposal of subsidiaries	-	6	2	11	-	-	19
Disposals	-	-	1	55	1	-	56
Reclassifications	-	0	-0	-0	-	-	-
Depreciation	-	-1	-29	-154	-5	-	-190
Impairments	-	-	0	3	0	-	3
Accumulated depreciation and impairment on Dec. 31, 2007	**-2**	**-2**	**-341**	**-1 627**	**-32**	**-0**	**-2 004**
Carrying value on Dec. 31, 2007	**36**	**31**	**490**	**1 263**	**66**	**94**	**1 980**
Carrying value on Jan. 1, 2007	36	32	492	1 315	56	138	2 069
Historical cost on Jan. 1, 2006	41	37	852	3 088	79	92	4 188
Translation differences	0	-	5	31	0	2	37
Additions	-	1	2	51	1	124	179
Disposal of subsidiaries	-	-	-	-0	-	-	-0
Disposals	-1	-	-44	-254	-1	-0	-299
Reclassifications	-1	2	10	44	5	-69	-8
Discontinued operations	-1	-	-12	-64	-0	-10	-88
Historical cost on Dec. 31, 2006	39	39	813	2 896	84	138	4 009
Accumulated depreciation and impairment on Jan. 1, 2006	-3	-7	-341	-1 690	-22	-0	-2 063
Translation differences	0	-	-3	-18	-0	-	-21
Disposal of subsidiaries	-	-	-	0	-	-	0
Disposals	0	-	43	252	0	-	296
Reclassifications	0	-	4	4	-0	-	8
Depreciation	-	-1	-28	-170	-5	-	-204
Impairments	-	-	-0	-3	-0	-0	-3
Discontinued operations	-	-	4	44	0	-	48
Accumulated depreciation and impairment on Dec. 31, 2006	-2	-7	-321	-1 581	-28	-0	-1 939
Carrying value on Dec. 31, 2006	36	32	492	1 315	56	138	2 069
Carrying value on Jan. 1, 2006	38	30	511	1 398	57	92	2 125

15. Property, plant and equipment

Depreciation by function

€ million	2007	2006
Cost of sales	-182	-196
Selling and marketing expenses	-3	-3
Administrative expenses	-4	-4
Research and development expenses	-1	-1
	-190	-204

EUR 0 million was capitalized on investment projects during the financial year (2006: EUR - million). Total interest capitalized on Dec. 31, 2007 was EUR 47 million (Dec. 31, 2006: EUR 50 million).

Assets leased by finance lease agreements

2007 € million	Buildings	Machinery and equipment	Total
Historical cost	3	66	70
Accumulated depreciation	-1	-16	-17
Carrying value on Dec. 31, 2007	**2**	**51**	**53**

2006 € million	Buildings	Machinery and equipment	Total
Historical cost	4	70	74
Accumulated depreciation	-1	-12	-13
Carrying value on Dec. 31, 2006	2	58	61

16. Investments in associated companies

€ million	2007	2006
Investments in associated companies at cost		
Historical cost on Jan. 1	23	33
Translation differences	-0	0
Additions	116	-
Transfer from investments in associated companies	-	-4
Disposals	-	-4
Discontinued operations	-	-3
Historical cost on Dec. 31	139	23
Equity adjustment to investments in associated companies on Jan. 1	23	17
Change in translation differences	-1	-1
Dividends received during financial year	-2	-1
Disposals and other changes	-	-1
Share of results of associated companies	4	8
Discontinued operations	-	1
Equity adjustment to investments in associated companies on Dec. 31	24	23
Carrying value of investments in associated companies on Dec. 31	163	47

Associated companies

	Domicile	Ownership, %
ABB Industriunderhåll AB	Sweden	49
Fagersta Stainless AB	Sweden	50
Kopparlunden Development AB	Sweden	50
Outokumpu Nordic Brass AB	Sweden	50
Rapid Power Oy	Finland	33
Talvivaara Project Ltd.	Finland	20

16. Investments in associated companies

Principal associated companies

2007 € million	Domicile	Assets	Liabilities	Sales	Profit	Ownership, %
Fagersta Stainless AB	Sweden	95	38	280	7	50
Rapid Power Oy	Finland	229	177	28	-0	33
Talvivaara Project Ltd.[1)]	Finland	59	30	0	-1	20

2006 € million	Domicile	Assets	Liabilities	Sales	Profit	Ownership, %
Fagersta Stainless AB	Sweden	141	85	211	15	50
Rapid Power Oy	Finland	262	207	40	1	33

[1)] Talvivaara Project Ltd's figures for 2007 are based on the information at June 30, 2007. These figures are included in Talvivaara Mining Ltd's consolidated accounts published for the period ending June 30, 2007. Outokumpu's share of Talvivaara Project Ltd's result for 2007 are consolidated from the six months period ending at the end of June.

17. Carrying values of financial assets and liabilities by measurement category

		Measured at					
2007 € million	Category in accordance with IAS 39	Amortised cost	Cost	Fair value recognised in equity	Fair value recognised through profit or loss	Net carrying amount Dec 31, 2007	Fair value Dec 31, 2007
Non-current financial assets							
Available-for-sale financial assets	a)	-	13	112	-	125	125
Trade and other receivables							
Interest-bearing	b), c)	126	-	-	2	128	111
Non interest-bearing	b)	51	-	-	-	51	51
Hedging derivatives	e)	-	-	5	-	5	5
Derivatives held for trading	d)	-	-	-	32	32	32
Current financial assets							
Available-for-sale financial assets	a)	-	3	11	-	14	14
Trade and other receivables							
Interest-bearing	b)	10	-	-	-	10	10
Non interest-bearing	b)	930	-	-	-	930	930
Cash and cash equivalents	b), c)	67	-	-	19	86	86
Hedging derivatives	e)	-	-	3	-	3	3
Derivatives held for trading	d)	-	-	-	23	23	23
		1 184	16	131	76	1 407	1 390
Non-current financial liabilities							
Long-term debt	f)	1 036	-	-	-	1 036	1 023
Trade and other payables	f)	2	-	-	-	2	2
Derivatives held for trading	d)	-	-	-	10	10	10
Current financial liabilities							
Current debt	f)	420	-	-	-	420	420
Trade and other payables							
Interest-bearing	f)	26	-	-	-	26	26
Non interest-bearing	f)	609	-	-	-	609	609
Derivatives held for trading	d)	-	-	-	18	18	18
		2 093	-	-	28	2 121	2 108

17. Carrying values of financial assets and liabilities by measurement category

2006 € million	Category in accordance with IAS 39	Measured at Amortised cost	 Cost	 Fair value recognised in equity	 Fair value recognised through profit or loss	Net carrying amount Dec 31, 2006	Fair value Dec 31, 2006
Non-current financial assets							
Available-for-sale financial assets	a)	-	11	160	-	171	171
Trade and other receivables							
Interest-bearing	b), c)	130	-	-	3	133	114
Non interest-bearing	b)	32	-	-	-	32	32
Hedging derivatives	e)	-	-	1	-	1	1
Derivatives held for trading	d)	-	-	-	23	23	23
Current financial assets							
Available-for-sale financial assets	a)	-	3	14	-	17	17
Trade and other receivables							
Interest-bearing	b)	14	-	-	-	14	14
Non interest-bearing	b)	1 312	-	-	-	1 312	1 312
Cash and cash equivalents	b), c)	65	-	-	19	85	85
Derivatives held for trading	d)	-	-	-	24	24	24
		1 553	14	175	69	1 812	1 793
Non-current financial liabilities							
Long-term debt	f)	1 287	-	-	-	1 287	1 295
Trade and other payables	f)	2	-	-	-	2	2
Derivatives held for trading	d)	-	-	-	6	6	6
Current financial liabilities							
Current debt	f)	632	-	-	-	632	632
Trade and other payables							
Interest-bearing	f)	27	-	-	-	27	27
Non interest-bearing	f)	814	-	-	-	814	814
Hedging derivatives	e)	-	-	2	-	2	2
Derivatives held for trading	d)	-	-	-	23	23	23
		2 762	-	2	29	2 793	2 801

Categories in accordance with IAS 39:

a) Available-for-sale financial assets
b) Loans and receivables
c) Financial assets at fair value through profit and loss
d) Derivatives held for trading
e) Hedging derivatives
f) Other financial liabilities

18. Available-for-sale financial assets

€ million	2007	2006
Carrying value on Jan. 1	189	41
Translation differences	-2	1
Additions	56	5
Disposals	-162	0
Transfer from investments in subsidiaries	-	16
Transfer from investments in associated companies	-	4
Fair value changes	-87	124
Impairment losses	-1	-
Gains and losses on disposals in the income statement	146	0
Discontinued operations	-	-1
Carrying value on Dec. 31	139	189
Listed equity securities	72	127
Unlisted equity securities	67	62
Less:		
Non-current listed equity securities	-61	-114
Non-current unlisted equity securities	-64	-57
Current available-for-sale financial assets	14	17
Fair value	139	189
Acquisition value	-83	-46
Fair value changes	56	143
Deferred tax liability	-3	0
Fair value reserve in equity	53	143

Available-for-sale financial assets comprise listed and unlisted equity securities, which are recognized at fair value. The significant and prolonged decline in the fair value will lead to impairment if the fair value has been below the acquisition value by more than predefined percentage during last three quarters. The assets include unlisted equity securities with carrying value of EUR 16 million, for which the fair value cannot be reliably determined. These securities are measured at cost less possible impairment. Valuation methods used for unlisted equity securities have been chosen by company so that information available for the valuation and the characteristics of the company's business can be adequately taken into account.

19. Share-based payment plans

The Annual General Meeting held in 2003 passed a resolution on a stock option program for management. Stock options are part of the Group's incentive and commitment-building system for key employees, and the objective is to encourage recipients to work in the long term to increase shareholder value. The reward system is based on both earnings and the Company's relative performance, with rewards geared to accomplishments.

Outokumpu's Board of Directors confirmed on February 2, 2006 a share-based incentive program as part of the key employee incentive and commitment system of the company. The share incentive program will last five years, comprising three earning periods of three calendar years each. The earning periods commence on January 1, 2006, January 1, 2007 and January 1, 2008. The objective of the share-based incentive program is to reward for good performance, which supports the Company's strategy and at the same time to direct the management's attention to increasing the company's shareholder value over a longer period of time. The program offers a possibility to receive Outokumpu shares and cash (equaling approximately to the amount of taxes) as an incentive reward, if the targets set by the Board for each earning period are achieved.

IFRS 2 Share-based payments standard has been applied for the 2003 stock option program and for the share-based incentive program for 2006–2010. The total estimated value of the programs is EUR 20 million. This value is recognized as an expense in the income statement during the vesting periods.

19. Share-based payment plans

General terms and conditions of the option program:

	2003A	2003B_I	2003B_II	2003C_I	2003C_II
Grant date	June 12, 2003	Feb. 10, 2004	Sep. 15, 2004	March 22, 2005	April 1- Oct. 10, 2007
The number of options granted	742 988	1 088 820	60 000	1 190 000	15 000
The maximum number of granted on Dec. 31	602 440	945 441	60 000	87 500	15 000
Exercise price, € [1]	8.45	11.51	11.51	12.14	12.14
Term of contract	June 12, 2003 - March 1, 2009	Feb. 10, 2004 - March 1, 2010	Sep. 15, 2004 - March 1, 2010	March 22, 2005 - March 1, 2011	April 1- Oct. 10,2007- March 1, 2011
Vesting period	June 12, 2003 - Aug. 31, 2006	Feb. 10, 2004 - Aug. 31, 2007	Sep. 15, 2004 - Aug. 31, 2007	March 22, 2005 - Aug. 31, 2008	April 1- Oct. 1, 2007 - Aug. 31, 2008
Conditions of the agreement	The Group's earnings per share in 2003 and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing.	The Group's earnings per share in 2004 and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing.	The Group's earnings per share in 2004 and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing.	The development of the Group's operating profit (EBIT), and development of the Group's total shareholder return (TSR) compared to a peer group. The additional criterion for Group Executive Committee members was the Group's gearing.	-

[1] Paid dividends have been deducted.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2007 was 1.9 years (2006: 2.9 years).

15 000 new options were granted during the financial year 2007, and the average fair value of options granted was EUR 15.76. In 2006 no new options were granted.

The fair value of equity-settled share options granted is estimated at the grant date using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted.

Inputs of the model:

	2003A	2003B_I	2003B_II	2003C_I	2003C_II
Risk-free interest rate, % p.a.	3.05	3.79	3.64	3.38	4.38
Expected life of options at the grant date, years	5.7	6.1	5.5	6.0	3.8
Share price at the grant date, €	7.75	10.35	13.49	13.46	25.76
Volatility at the grant date, % p.a.	35.2	29.0	27.8	20.1	31.3
Fair value of the option at the grant date, €	2.99	3.78	4.48	3.79	15.76
Estimated forfeit ratio at the grant date, % p.a.	2.2	2.2	2.2	2.2	10.0
Estimated forfeit ratio at the balance sheet date, % p.a.	10.0	10.0	10.0	8.0	8.0
Actual forfeit ratio, % p.a.	0.0	0.0	0.0	0.0	0.0
Estimated outcome of non-market based criteria at the grant date, %	- [1]	- [1]	- [1]	37.0	-
Estimated outcome of market based criteria at the grant date, %	- [1]	- [1]	- [1]	6.8	-

[1] The actual value have been used on the transition date to IFRS 2 standard (January 1, 2005).

Number of options and weighted average exercise prices of, and movements in, share options during the year:

	2007 Options	2007 Weighted average exercise price €/share	2006 Options	2006 Weighted average exercise price €/share
Outstanding at the beginning of the year	1 742 299	11.54	2 951 761	12.60
Granted during the year	15 000	12.14	-	-
Forfeited during the year	-	-	-113 639	12.00
Exercised during the year	-37 918	9.61	-33 323	9.55
Expired during the year	-	-	-1 062 500	13.24
Outstanding at the end of the year	1 719 381	10.48	1 742 299	11.54
Exercisable at the end of the year	1 616 881	10.37	625 979	9.55

19. Share-based payment plans

The general terms and conditions of the share-based incentive program:

	Share-based incentive program, 2006–2008	Share-based incentive program, 2007–2009
Grant date	Feb. 2, 2006	Feb. 1, 2007
Vesting period	Jan. 1, 2006– Dec. 31, 2008	Jan. 1, 2007– Dec. 31, 2009
Vesting conditions:		
Market	Share price performance outperforming share price trend of peer companies	Share price performance outperforming share prices trend of peer companies
Non-market	Achieving targets set for the Excellence programs	Achieving targets set for the Excellence programs
Other relevant conditions	A limit, based on salary, has been set the received benefit from the program	A limit, based on salary, has been set the received benefit from the program

The fair value of share-based incentive program is determined using statistical model.

Inputs of the model:

	Share-based incentive program, 2006–2008	Share-based incentive program, 2007–2009
Share price at the grant date, €	14.90	28.10
Share price at the balance sheet date, €	21.21	21.21
Reference ratio annualized volatility at the grant date, % p.a.	25.0	25.9
Reference ratio annualized volatility at the balance sheet date, % p.a.	27.1	27.2
Estimated forfeit ratio at the grant date, % p.a.	5.0	10.0
Estimated forfeit ratio at the balance sheet date, % p.a.	8.0	8.0
Actual forfeit ratio, % p.a.	5.7	3.8
Estimated outcome of market criteria at the grant date, %	39.4	41.1
Estimated outcome of non-market criteria at the grant date, %	50.0	100.0
Estimated outcome of market criteria at the balance sheet date, %	10.0	10.5
Estimated outcome of non-market criteria at the balance sheet date, %	100.0	50.0

Share-based payments included in employee benefit expenses:

€ million	2007	2006
Equity-settled share-based payment transactions	-3	-2
Cash-settled share-based payment transactions	-2	-2
	-5	-4
Total carrying amount of liabilities for cash-settled arrangements on Dec. 31	5	2

20. Financial risk management, capital management and insurances

The main objective of the Group's financial risk management is to reduce the impacts of price fluctuations in financial markets and other factors of uncertainty on earnings, cash flows and balance sheet, as well as to ensure sufficient liquidity. The main objectives for insurance management are to provide protection against insurable catastrophe risk and to reduce earnings variation caused by other hazards.

The Board has approved the risk management policy, which defines responsibilities, risk management process and other risk management guidelines for the Group. The Board oversees the Group's risk management framework. CEO and the Group Executive Committee have approved more detailed operating procedures for financial risk management. CEO and the Group Executive Committee approve risk limits based on Group's risk tolerance and monitor financial risks and implementation of risk management procedures. The Chief Financial Officer is responsible for implementation and development of financial risk management.

Financial risks consist of market, default and liquidity risks. The Business units hedge their market risks against Treasury and Risk Management function, which does most of the financial contracts with banks, other financial institutions and brokers. The function is also responsible for managing certain group-level risks, such as interest rate risk and foreign currency translation risk. Group's Raw Material function is responsible for nickel derivatives trading and Energy function for electricity derivatives trading.

Treasury and Risk Management purchases substantial part of Group's insurances. The most important insurance lines are property damage/business interruption, liability, transport and credit. Group's captive insurance company underwrites part of the risks.

Market risk
Market risks are caused by changes in foreign exchange and interest rates, as well as commodity, energy and security prices. These changes may have a significant impact on the Group's earnings, cash flows and balance sheet. Sensitivity of financial instruments to market risk is described on note 24.

In order to mitigate adverse impacts of market price changes Outokumpu uses derivative contracts. Hedge accounting is applied to hedges of forecasted electricity purchases of the Finnish production facilities and to hedges of net investment in the foreign subsidiaries. Derivatives, for which hedge accounting is not applied, have been entered into for the purpose of reducing adverse impacts of market price changes on earnings and cash flows related to business and financing activities. In this description of financial risk management the term hedging has been used in its broadest sense and therefore it also includes usage of non-hedge-accounted derivatives. Nominal amounts and fair values of derivatives are presented on note 25.

Non-hedge-accounted electricity and interest rate derivatives cause timing differences between derivative gains/losses and electricity purchases/interest expenses. Currency and metal forwards made to hedge sales and purchase orders cause similar type of timing differences between derivative gains/losses and sales/purchases.

Exchange rate risk
Major part of the Group's sales is in euros and US dollars. A significant part of expenses arise in euros, US dollars, Swedish kronas and British pounds. The Group hedges most of its fair value risk. Cash flow risk related to firm commitments is hedged to large extent and forecasted cash flows are hedged selectively, based on separate decisions. Currency fair-value position is presented on a more detailed level on note 21.

Outokumpu does not currently hedge its income statement translation risk and translation of equity is hedged selectively. The total non-euro-denominated equity of the Group's foreign subsidiaries was EUR 1 423 million on December 31, 2007 (2006: EUR 1 378 million). Some 65% of the total net investment exposure is denominated in Swedish krona and 17% in British pounds. Approximately 7.0% (2006: 7.9%) of the net investment exposure was hedged and on December 31, 2007 all such hedges were related to the exposure in Swedish krona.

Interest rate risk
The Group's interest rate risk is monitored as cash flow and fair value risks. In order to manage the balance between risk and cost in an optimal way, significant part of the loans and financial investments have short-term interest rate as a reference rate. In order to reduce cash flow risk the Group has interest rate swaps, where Outokumpu pays fixed rate and receives variable rate.

Euro and Swedish krona have substantial contribution to overall interest rate risk. Approximately 83% of the Group's interest-bearing liabilities have interest period of less than one year. Interest rate position is presented on a more detailed level on note 22.

Commodity and energy price risk
Outokumpu uses substantial amount of raw materials and energy, for which prices are determined in regulated markets, such as London Metal Exchange and Nord Pool ASA. Timing differences between raw material purchase and pricing of products, changes in inventory levels and the capability to pass on increases in raw material and energy prices to end-product prices, all affect hedging requirements and activities.

The most important commodity price risks are caused by nickel and also to certain extent molybdenum and copper price fluctuations. Majority of stainless steel sales contracts include an alloy surcharge, with the aim of reducing the risk arising from the time difference between raw material purchase and product delivery. In the end of 2007 Outokumpu decided to change the definition of alloy surcharge to be applied as from January 2008 in most markets. The change is expected to reduce variation of product demand and to widen the pricing time difference between raw material purchase and product sale.

Outokumpu uses metal derivatives to reduce the impacts of nickel and copper price changes on earnings and cash flows. Nickel price changes also have a major impact on the Group's working capital and cash flow before financing. This cash flow risk is not hedged with derivatives.

Tornio, Avesta and Degerfors sites have participated the EU Emission Trading Scheme. Realized carbon dioxide emissions, granted emission allowances and forecasted emissions are monitored and assessed centrally. Emission allowance trading is centralized to Treasury and Risk Management.

Outokumpu has energy intensive production processes utilizing mainly electrical energy but also natural gas, liquefied petroleum gas and some other fuels. Spot and forward prices of many energy products are relatively volatile. Electrical energy utilized by the Group's Nordic production facilities is purchased and managed centrally. In other facilities, electrical energy is purchased locally. Electricity price risk is reduced with fixed price supply contracts and derivatives. Outokumpu also has partial ownerships in energy producing companies to secure competitive pricing of electricity. Hedge accounting is applied to part of the electricity derivatives. The Group has not used derivatives to reduce the risk caused by changes in fuel prices.

On December 31, 2007 the Group had electricity derivatives of 2.3 TWh (Dec. 31, 2006: 4.1 TWh). The electricity consumption of the Group's Nordic production facilities was 2.8 TWh (2006: 3.0 TWh).

Securities price risk
Outokumpu has investments in equity securities and the portfolio also includes debt notes. On December 31, 2007 the biggest shareholding in listed equity securities was in Talvivaara Mining Company Ltd. The most significant debt investment was the loan receivable from Luvata International Oy. Apart from currency risk related to loan receivables, securities have not been hedged with derivatives.

Default risk
Default risk consists of country risk and credit risk. Credit risk related to trade receivables is managed according to principles defined in Credit Control Policy, which has been reviewed and revised in 2007. All external sales must be covered by approved credit limits or secured payment terms. Significant portion of trade receivables are insured and part of the credit risk related to trade receivables is managed through bank guarantees, letters of credit and cash in advance.

As of the reporting date the maximum exposure to credit risk of trade receivables is EUR 832 (2006: EUR 1 209 million). Some 96 % of trade receivables are covered by insurance or secured payment terms (2006: 96%). The Group's trade receivables are generated by a large number of customers; however there have been some single customer credit risk concentrations in 2007. Age analysis of accounts receivables is on note 27.

Credit risk related to receivables, including derivative transactions, from financial institutions is managed by Treasury and Risk Management. Outokumpu seeks to reduce these risks by limiting the counterparties to banks, other financial institutions and brokers, which have good credit standing. For the derivative transactions Outokumpu prefers to have ISDA framework agreements in place. Investments related to liquidity management are made in short-term deposits and liquid instruments with, as far as possible, low credit risk.

Liquidity risk
Outokumpu raises most of its interest-bearing debt centrally. The Group seeks to reduce liquidity and refinancing risks with balanced maturity profile of loans as well as by keeping sufficient amount of credit lines available. Efficient cash and liquidity management is also reducing liquidity risk.

In 2007 Outokumpu Oyj issued a five-year EUR 150 million bond, which was targeted to domestic institutional investors. The main funding programs and standby credit facilities include the Finnish Commercial Paper Program totaling EUR 650 million, the Euro-Commercial Paper Program totaling USD 250 million and the committed Revolving Credit Facility of EUR 1000 million. On December 31, 2007, Outokumpu had committed and available credit facilities and other agreed and undrawn loans totaling EUR 1 000 million.

Capital management
The Group's objective when managing capital is to secure the ability to continue as going concern and at the same time to optimize the cost of capital in order to enhance value to shareholders. As part of these objectives the Group seeks to maintain access to loan and capital markets at all times despite the volatile nature of the industry in which Outokumpu operates. The Board of Directors reviews the capital structure of the Group on a regular basis.

Capital structure and debt capacity are taken into account when deciding new investments. Practical tools to manage capital include application of dividend policy, share buybacks and share issues. Debt capital is managed considering the requirement for securing Group's liquidity and the capability to refinance maturing debt in the longer run as well. The Group seeks to avoid having financial covenants in its debt and currently there are none.

The management also reviews Group's internal capital structure on a regular basis and seeks to optimize the structure by e.g. internal dividends and equity adjustments. In the end of 2007 Outokumpu Treasury Belgium SA/NV was established and the new company has an active role in subsidiary financing and finance planning. Net investment in foreign entities is monitored and the Group has ongoing hedging activities to manage related translation risk.

Group's captive insurance company, Visenta Försäkrings Ab, has to comply with externally imposed capital requirements. During the reporting period Visenta has been well capitalized to meet all externally imposed requirements.

The Group monitors capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings, including all interest-bearing liabilities, marked with [1)], in the consolidated balance sheet less interest-bearing assets, marked with [1)], in the consolidated balance sheet. Other definitions can be found in page 117.

The Group's financial target is to maintain the gearing ratio below 75 percent. Financial objectives include also return on capital employed of over 13% and always the best among peers. Weighted average cost of capital (WACC) is defined and applied to monitor efficiency of capital use and to provide market driven guidance for capital structure and capital allocation decisions.

On Dec. 31, 2007 net interest-bearing debt was EUR 788 million (2006: EUR 1 300 million), total equity EUR 3 337 million (2006: EUR 3 071 million) and debt-to-equity ratio 23.6% (2006: 42.3%). The decrease in net interest-bearing debt and the debt-to-equity ratio during 2007 resulted primarily from earnings and reduction of working capital.

Insurances
Outokumpu's business is capital intensive and key production processes are rather tightly integrated and have other interdependences as well. Property damage and business interruption is the most important insurance line and substantial part of the insurance premiums paid relates to these types of risks. Other significant insurance lines include transport, credit and liability.

Visenta Försäkrings AB can act as direct insurer or as reinsurer. The company is registered in Sweden and it has assets worth close to EUR 40 million. Visenta issues insurance policies e.g. to cover the differences between internal and external deductibles.

21. Foreign exchange exposure

Fair value exposures to currency risk of EUR reporting companies:

	2007			2006		
€ million	SEK	USD	GBP	SEK	USD	GBP
Trade receivables and payables	9	15	35	16	18	60
Loans and bank accounts [1]	549	52	7	471	59	-18
Derivatives	-550	103	-33	-488	291	-57
Net exposure	8	170	9	-1	368	-15

Fair value exposures to currency risk of SEK reporting companies:

	2007			2006		
€ million	EUR	USD	GBP	EUR	USD	GBP
Trade receivables and payables	226	91	-14	216	98	27
Loans and bank accounts [1]	26	7	4	28	7	3
Derivatives	-364	-80	-1	-306	-89	-9
Net exposure	-112	18	-11	-62	16	21

[1] Includes cash, interest-bearing borrowings and receivables.

22. Currency distribution and repricing of outstanding net debt [1]

	Dec. 31, 2007				Dec. 31, 2006		
€ million Currency	Net debt	Average, rate, %	Duration, year	Rate sensitivity [2]	Net debt	Average rate, %	Rate sensitivity [2]
EUR	1 024	4.5	1.3	4.3	1 310	4.1	4.0
SEK	268	4.7	0.6	2.1	412	3.6	3.2
USD	-83	10.2	9.3	0.2	-62	11.8	0.5
Others	25	3.1	0.1	0.2	27	4.7	0.4
	1 233			6.8	1 688		8.1

[1] Includes cash and cash equivalents, interest-bearing borrowings and receivables and interest rate derivatives.
[2] The effect of one percentage point increase in interest rates on the Group's net interest expenses over the following year.

23. Liquidity and refinancing risk

2007	Balance sheet	Contractual cash flows					
€ million	Dec. 31	2008	2009	2010	2011	2012	2013 -
Bonds and debentures	314	89	-	-	75	150	-
Loans from financial institutions	797	172	133	82	99	90	221
Pension loans	161	30	30	29	27	14	32
Finance lease liabilities	57	6	4	4	4	4	35
Other loans	126	124	2	-	-	-	-
Interest payments	26	72	44	38	33	19	15
Interest rate derivatives	-10	-5	-3	-2	-	-	-
Trade payables	444	444	-	-	-	-	-
Other derivative financial instruments	2	2	-	-	-	-	-
		934	211	151	238	277	303

The Group had cash and money market investments amounting to EUR 86 million and available long-term credit facilities amounting to EUR 1 000 million on Dec. 31, 2007.

2006	Balance sheet	Contractual cash flows					
€ million	Dec. 31	2007	2008	2009	2010	2011	2012 -
Bonds and debentures	311	147	89	-	-	75	-
Loans from financial institutions	993	93	98	135	239	103	325
Pension loans	185	25	30	29	29	27	46
Finance lease liabilities	63	5	7	4	4	4	40
Other loans	366	361	4	2	-	-	-
Interest payments	27	78	58	41	32	25	30
Interest rate derivatives	-10	-2	-2	-1	-1	-	-
Trade payables	612	612	0	-	-	-	-
		1 319	283	209	303	233	441

The Group had cash and money market investments amounting to EUR 85 million and available long-term credit facilities amounting to EUR 846 million on Dec. 31, 2006.

24. Sensitivity to market risks

	2007		2006	
€ million	Income statement	Equity	Income statement	Equity
+/-10% change in EUR/USD exchange rate	-11/+14	-	-25/+30	-
+/-10% change in EUR/SEK exchange rate	-8/+10	+7/-8	-4/+5	+7/-8
+/-10% change in EUR/GBP exchange rate	-1/+1	-	+1/-1	-1/+1
+/-10% change in nickel price	+2/-2	-	+4/-4	-
+/-10% change in electricity price	+3/-3	+2/-2	+4/-4	+2/-2
+/-10% change in share prices	+0/-0	+11/-11	-	+17/-17
+/-1% parallel shift in interest rates	-7/+7	-	-8/+8	-

Sensitivity analyses have been made to financial instruments only. Other assets, liabilities and off-balance sheet items such as sales and purchase orders, are not in the scope of these analyses. The flat price variation for nickel, electricity, currency and share prices are assumed to be 10 percent. The variation of interest rates is assumed to be one percent parallel shift of interest rate curve.

25. Fair values and nominal amounts of derivative instruments

	2007	2007	2007	2006	2007	2006
€ million	Positive fair value	Negative fair value	Net fair value	Net fair value	Nominal amounts	Nominal amounts
Currency and interest rate derivatives						
Currency forwards	19	12	8	-9	1 992	2 139
Interest rate swaps	10	-	10	10	282	283
					Number of shares, million	Number of shares, million
Stock options						
Belvedere Resources Ltd.	3	-	3	-	3.7	-
					Tons	Tons
Metal derivatives						
Forward and futures nickel contracts	4	4	0	9	3 114	3 636
Forward and futures copper contracts	0	3	-2	-1	11 775	6 000
Forward and futures zinc contracts	0	0	-0	0	1 100	2 150
Forward molybdenum contracts	-	0	-0	-	5	-
Nickel options	0	-	0	-	24	-
Emission allowance derivatives	0	-	0	-	80 000	-
					TWh	TWh
Electricity derivatives	26	10	16	8	2.3	4.1
Total derivatives	63	28	35	16		
Less long-term derivatives						
Interest rate derivatives	8	-	8	10		
Stock options	3	-	3	-		
Emission allowance derivatives	0	-	0	-		
Electricity derivatives	26	10	16	8		
Short-term derivatives	26	18	8	-1		

Fair values are estimated based on market rates and prices, discounted future cash flows and, in respect of options, on evaluation models.

25. Fair values and nominal amounts of derivative instruments

Net investment hedges on Dec. 31

	2007			2006		
Currency	Nominal value	Fair value	Cumulative translation difference in equity 2007	Nominal value	Fair value	Cumulative translation difference in equity 2007
SEK million	922	2	5	917	-2	2
GBP million	-	-	0	7	-0	0

Net investment in foreign subsidiaries is hedged with currency forwards. The effective portion of gains and losses on the hedging instruments, net of tax is recognized in equity. The ineffective portion is recognized in income.

Electricity purchase hedges

	2007			2006		
€ million	Nominal amounts, TWh	Fair value	In fair value reserve in equity	Nominal amounts, TWh	Fair value	In fair value reserve in equity
Remaining maturity < 1 year	0.1	1	0	0.4	0	0
Remaining maturity 1-2 years	0.3	5	4	0.2	1	1
Fair value changes		6			2	
Deferred tax liability		-1			0	
Fair value reserve in equity on Dec. 31		4			2	

Forecast purchases of electricity for the Finnish production facilities are hedged with electricity forwards. The effective portion of unrealized gains and losses on hedges, net of tax is recognized in equity. Other fair value changes are recognized in income. The effective portion of realized gains and losses on hedges is recognized in income as adjustment to purchases in the period when the hedged cash flow affects income. Other realized gains and losses are recognized in other operating income and expenses.

26. Inventories

€ million	2007	2006
Raw materials and consumables	369	410
Work in progress	640	698
Finished goods and merchandise	621	600
Advance payments	0	2
	1 630	1 710

At the end of 2007, EUR 33 million (Dec. 31, 2006: EUR 3 million) was recognized as expense, with which the carrying value of the inventories was written down to reflect its net realizable value.

27. Trade and other receivables

€ million	2007	2006
Non-current		
Interest-bearing		
Loans receivable	126	130
Financial assets at fair value through profit and loss	2	3
	128	133
Non interest-bearing		
Trade receivables	0	0
Defined benefit pension assets	51	32
Other receivables	0	0
	51	32
Current		
Interest-bearing		
Loans receivable	10	13
Prepaid interest expenses	-	0
Accrued interest income	0	1
	10	14
Non interest-bearing		
Trade receivables	832	1 209
Income tax receivable	45	2
Prepaid insurance expenses	6	5
VAT receivable	59	81
Grants and subsidies receivable	1	1
Other accruals	16	8
Other receivables	16	7
	975	1 314
Doubtful receivables deducted from trade receivables		
Doubtful trade receivables on Jan. 1	6	9
Additions	1	0
Deductions	-0	-1
Recovery of doubtful receivables	-0	-1
Discontinued operations	-	-1
Doubtful trade receivables on Dec. 31	6	6

Age analysis of trade receivables

€ million	2007	2006
Neither impaired, nor past due	551	1 044
Past due 1-30 days	254	139
Past due 31-60 days	16	19
More than 60 days	11	7
	832	1 209

27. Trade and other receivables

Fair value of interest-bearing non-current loan receivables is estimated to be EUR 109 million (2006: EUR 111 million). Substantial part of the difference between fair value and carrying amount relate to one loan receivable. In determing the fair value of the receivable, the priority position versus other financing, partial capitalization of interest, market credit spreds and level of market interest rates have been considered. Also the scenario of premature repayment according to agreed terms and conditions has been taken into account in the valuation. Carrying amount on current receivables is reasonable approximation of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan and trade receivables.

28. Cash and cash equivalents

€ million	2007	2006
Cash at bank and in hand	66	65
Short term bank deposits	1	0
Cash equivalent marketable securities	19	19
	86	85

Fair value of cash and cash equivalents does not significantly differ from the carrying value. The effective interest rate of cash equivalent marketable securities at the end of 2007 was 4.18% and the average maturity was 1 day. Fixed income funds are included in the cash equivalent marketable securities.

29. Equity

Share capital and premium fund

€ million	Number of shares 1 000	Share capital	Unregistered share capital	Premium fund	Total
On Jan. 1, 2006	181 032	308	-	701	1 009
Shares subscribed with 2003A option rights	33	-	0	0	0
On Dec. 31, 2006	181 065	308	0	701	1 009
Transfers from unregistered share capital	33	0	-0	-	-
Shares subscribed with 2003A option rights	24	0	-	0	0
Shares subscribed with 2003B option rights	14	0	-	0	0
Purchase of treasury shares	-1 000	-	-	-	-
On Dec. 31, 2007	**180 103**	**308**	**-**	**701**	**1 010**
Treasury shares	1 219				
Total number of shares on Dec. 31, 2007	181 322				

According to the Articles of Association, the maximum number of Outokumpu Oyj shares is 706 million. Account equivalent value of a share is EUR 1.70, and the maximum share capital is EUR 1.2 billion.

Fair value reserves

€ million	2007	2006
Available-for-sale financial assets reserve	53	143
Cash flow hedge reserve	4	1
	57	144

Fair value reserves include movements in the fair values of available-for-sale financial assets and derivative instruments used for cash flow hedging.

Other reserves

€ million	2007	2006
Reserve fund	15	10
Other reserves	1	1
	16	11

Reserve fund includes amounts transferred from the distributable equity under the Articles of Association or by a decision by General Meeting of Shareholders. Other reserves include other items based on the local regulations of the group companies.

Distributable funds

On December 31, 2007 the distributable funds of the parent company totaled EUR 807 million.

30. Employee benefit obligations

Outokumpu has established several defined benefit and defined contribution pension plans in various countries. The most significant defined benefit plans are in Britain, Germany and in the US.

ITP-pension plans operated by Alecta in Sweden and plans operated by Stichting Bedrijfspensioenfonds voor de metaalindustrie in the Netherlands are multi-employer defined benefit pension plans. It has, however, not been possible to get sufficient information for the calculation of obligations and assets by employer from the plan operators, and therefore these plans have been accounted for as defined contribution plans in the financial statements.

Other long-term employee benefits relate to retirement medical arrangements in the US and on long-term employment benefits in Finland.

Pension and other long-term employee benefits

Amounts recognized in the income statement

€ million	2007	2006
Defined benefit pension expenses	-9	-11
Defined contribution pension expenses	-50	-47
Other long-term employee benefits	-10	-3
	-70	-61

By function	Defined benefit pension plans		Other long-term employee benefits	
€ million	2007	2006	2007	2006
Cost of sales	-9	-5	-9	-2
Selling and marketing expenses	-2	-3	-0	-0
Administrative expenses	2	-3	-1	-0
Research and development expenses	-	-0	-	-
	-9	-11	-10	-3

Pension cost in employee benefit expenses	Defined benefit pension plans		Other long-term employee benefits	
€ million	2007	2006	2007	2006
Current service cost	-10	-12	-1	-1
Interest cost	-22	-21	-1	-2
Expected return on plan assets	25	23	-	-
Recognized net actuarial gains and losses	-1	-2	-0	0
Employee contributions	2	2	-	-
Past service cost	-0	-0	-8	-0
Gains and losses on curtailments and settlements	-5	-1	-	-
	-9	-11	-10	-3
Actual return on plan assets	5	17	-	-

Amounts recognized in the balance sheet	Defined benefit pension plans		Other long-term employee benefits	
€ million	2007	2006	2007	2006
Present value of funded obligations	367	427	-	-
Fair value of plan assets	-398	-413	-	-
Present value of unfunded obligations	26	31	32	27
Unrecognized actuarial gains and losses	-16	-45	-4	-7
Unrecognized past service cost	-0	0	1	3
Net liability	-21	0	29	22

30. Employee benefit obligations

Balance sheet reconciliation	Defined benefit pension plans		Other long-term employee benefits	
€ million	2007	2006	2007	2006
Net liability on Jan. 1	0	34	22	26
Net periodic pension cost in income statement	9	11	10	3
Contributions paid into the plans	-29	-29	-1	-1
Translation differences	1	-1	-2	-3
Disposal of subsidiaries	0	-	-	-
Curtailments and settlements	-2	-	-	-
Discontinued operations	-	-15	-	-3
Net liability on Dec. 31	-21	0	29	22

€ million	2007	2006
Defined benefit pension and other long-term employee benefits	58	54
Defined benefit pension assets	-51	-32
Net liability	7	22

Movement in plan assets

€ million	2007	2006
Fair value of plan assets at Jan. 1.	414	375
Contributions paid into the plans	30	29
Benefits paid by the plans	-16	-22
Expected return on plan assets	24	24
Actuarial gains and losses	-21	4
Translation differences	-29	4
Disposal of subsidiaries	-0	-
Curtailments and settlements	-3	-
Fair value of plan assets at Dec. 31	398	414

The expected contributions to be paid to the plans in 2008 are EUR 19 million.

Allocation of plan assets

%	2007	2006
Equity securities	45	54
Debt securities	43	29
Real estate	0	0
Cash	1	0
Other (insured plans)	11	16
	100	100

Principal actuarial assumptions

%	2007	2006
Discount rate	4.30 - 5.80	4.00 - 5.50
Expected return on plan assets	5.00 - 8.50	4.50 - 6.50
Future salary increase expectation	2.00 - 4.65	2.50 - 3.30
Future benefit increase expectation	2.00 - 3.40	2.00 - 3.00

31. Provisions

€ million	Restructuring provisions	Environmental provisions	Other provisions
Provisions on Jan. 1, 2007	45	29	11
Translation differences	-3	-1	-0
Increases in provisions	22	2	10
Utilized during the financial year	-14	-6	-2
Unused amounts reversed	-7	-1	-0
Disposal of subsidiaries	-	-0	-4
Provisions on Dec. 31, 2007	**43**	**23**	**15**
Provisions on Jan. 1, 2006	85	32	17
Translation differences	2	0	0
Increases in provisions	13	1	2
Utilized during the financial year	-51	-1	-1
Unused amounts reversed	-2	-3	-1
Other changes	0	0	0
Discontinued operations	-	-	-6
Provisions on Dec. 31, 2006	45	29	11

€ million	2007	2006
Non-current provisions	36	55
Current provisions	45	30
	80	85

Provisions are based on best estimates on the balance sheet date. Restructuring provisions relate to the closure of Coil Products Sheffield in Britain, the planned cessation of operations at the Stocksbridge site of Sheffield Special Strip in Britain and to the costs from the fixed cost reduction program. Majority of environmental provisions are for closing costs of landfill areas and removal of problem waste in facilities in Finland and in Britain. Other provisions comprise mainly provisions for onerous contracts and claims as well as litigations. The outflow of economic benefits related to long-term provisions is expected to take place mainly within 2 to 3 years.

32. Interest-bearing liabilities

€ million	2007	2006
Non-current		
Bonds	225	164
Loans from financial institutions	625	900
Pension loans	132	160
Finance lease liabilities	52	58
Other long-term loans	2	5
	1 036	1 287
Current		
Bonds	89	147
Loans from financial institutions	172	93
Pension loans	30	25
Finance lease liabilities	5	5
Other current loans	124	361
	420	632

The fair value of non-current interest bearing liabilities is EUR 1 023 million (2006: EUR 1 295 million). The fair values are determinated by using discounted cash flow method taken into consideration market credit spread. Carrying amount on current interest bearing liabilities is reasonable approximation of their fair value.

32. Interest-bearing liabilities

Finance lease liabilities

Minimum lease payments

€ million	2007	2006
Not later than 1 year	9	9
1 - 2 years	6	9
2 - 3 years	6	6
3 - 4 years	6	6
4 - 5 years	6	5
Later than 5 years	39	43
Future finance charges	-15	-15
Present value of minimum lease payments	57	63

Present value of minimum lease payments

€ million	2007	2006
Not later than 1 year	7	7
1 - 2 years	4	7
2 - 3 years	4	4
3 - 4 years	4	4
4 - 5 years	4	4
Later than 5 years	35	38
Present value of minimum lease payments	57	63

Bonds

€ million	Interest rate, %	In currency	2007	2006
Fixed interest rate				
2002 - 2007	7.05	SEK 200 million	-	22
2002 - 2008	6.90	EUR 89 million	89	89
2004 - 2011	5.00	EUR 75 million	75	75
			164	186
Floating interest rate				
2007 - 2012	5.02	EUR 150 million	150	-
2004 - 2007	4.19	EUR 125 million	-	125
			314	311

33. Trade and other payables

€ million	2007	2006
Non-current		
Non interest-bearing		
Trade payables	-	0
Other long-term liabilities	2	2
	2	2
Current		
Interest-bearing		
Accrued interest expenses	26	27
Non interest-bearing		
Trade payables	444	612
Advances received	5	2
Accrued employee-related expenses	69	80
VAT payable	9	18
Withholding tax and social security liabilities	12	15
Other accruals	56	75
Other payables	13	12
	609	814

34. Commitments and contingent liabilities

	Group		Parent company	
€ million	2007	2006	2007	2006
Mortgages and pledges on Dec. 31				
Mortgages on land	122	126	-	-
Other pledges	0	0	-	-
Guarantees on Dec. 31				
On behalf of subsidiaries				
For financing	-	-	24	24
For commercial and other guarantees	41	95	32	84
On behalf of associated companies				
For financing	5	5	5	5
On behalf of discontinued operations				
For financing	-	-	6	5
For commercial guarantees	-	2	-	-
Other commitments	64	59	64	59

The Group has pledged real estate mortgages created in the Tornio production plant for a value of EUR 114 million as security for its pension loans.

Commercial and other guarantees include a guarantee exposure of EUR 25 million related to a deficit recovery plan engagement in favour of Outokumpu's British subsidiary's pension trust.

Outokumpu Oyj is, in relation to its shareholding in Kymppivoima Tuotanto Oy and Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Rapid Power Oy.

The net debt of Rapid Power Oy at the year end 2007 amounted to approximately EUR 161 million, out of which Outokumpu is liable for one third. Outokumpu Oyj is, in relation to its shareholding in Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Tornion Voima Oy. The net debt of Tornion Voima Oy at the year end 2007 amounted to approximately EUR 53 million, out of which Outokumpu is liable for under one fifth. These liabilities are reported under other commitments.

34. Commitments and contingent liabilities

Present value of minimum lease payments on operating leases

€ million	2007	2006
Not later than 1 year	13	19
1 - 2 years	10	16
2 - 3 years	7	10
3 - 4 years	5	8
4 - 5 years	4	6
Later than 5 years	18	34
Present value of minimum lease payments	56	93

Outokumpu Oyj sold to the Mutual Pension Insurance Company Varma-Sampo part of its real estate located in Espoo, Finland in 2002. Outokumpu Oyj sold five office buildings and parcels of totaling approximately three hectares. In connection with the sale, Outokumpu Oyj concluded operating lease agreements with Varma-Sampo for 10–15 years.

The Group has entered into long-term (15 years) supply agreements of industrial gases for the production facilities in Tornio, Avesta and Sheffield. These agreements do not qualify as finance lease agreements.

Major off-balance sheet investment commitments on Dec. 31

€ million	2007	2006
Tornio Works	37	9
Kloster	-	6

35. Disputes and litigations

In March 2001, the European Commission initiated an investigation concerning alleged participation by Outokumpu Oyj and Outokumpu Copper Products Oy in a price and market-sharing cartel with respect to copper tubes in the European Union. Outokumpu has cooperated fully with the European Commission in connection with the investigation. The investigation involving Outokumpu was subsequently divided into two separate proceedings: investigation into alleged price fixing and market sharing in the industrial copper tubes sector and investigation into alleged price fixing and market sharing in the sanitary copper tube sector.

Pursuant to its investigations the European Commission has in its decision dated December 16, 2003, found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed the applicable EU competition laws by participating in agreements and concerted practices consisting of price fixing and market sharing in the industrial copper tubes sector during a period between May 3, 1988 and March 22, 2001. As a result, the European Commission imposed an aggregate fine of EUR 18 million on Outokumpu Oyj and Outokumpu Copper Products Oy. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter and the appeal is currently pending.

Furthermore, pursuant to its investigations the European Commission has in its decision dated 3 September 2004 found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed applicable EU competition laws for participation in agreements and concerted practices consisting of price fixing and market sharing in the sanitary copper tube sector during a period between June 1988 and March 2001 and imposed an aggregate fine of EUR 36 million on Outokumpu Oyj and Outokumpu Copper Products Oy. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter and the appeal is currently pending.

Related to the above investigations of the European Commission, Outokumpu Oyj, Outokumpu Copper Products Oy and Outokumpu Copper (USA), Inc. have been served and are defendants in consolidated cases filed in the federal district court in Memphis, Tennessee, (USA) which alleges claims and damages under the US antitrust laws and purports to be a class action on behalf of all direct purchasers of copper plumbing tubes in the US from 1988 to March 31, 2001. In addition, there are purported class actions pending against these same companies in the state courts of California, Tennessee and Massachusetts, on behalf of so-called indirect purchasers of copper plumbing tube. Outokumpu believes that the allegations in all these proceedings lack merit and will vigorously defend itself. In connection with the sale of the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to these class actions.

Carrier Corporation filed a lawsuit against Outokumpu Oyj and Outokumpu Copper Franklin, Inc., among others, in April 2006. The complaint alleges a worldwide price fixing and market allocation cartel with respect to copper tubing for air conditioning and related applications (ACR Tube) for at least the period from 1989 to 2001. The complaint requests damages due to alleged overcharges (without specifying a particular amount of damages). There have also been three class action cases filed in federal district court (Memphis) alleging a price fixing cartel in ACR Tube. These cases have been filed on behalf of an alleged class of all direct purchasers of ACR Tube in the United States, and the complaint names Outokumpu Oyj, together with other European and American companies that were the subject of the European Commission's industrial tubes cartel proceeding. Outokumpu believes that the allegations in all these proceedings lack merit and will vigorously defend itself. In connection with the sale of the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to these proceedings.

In April 2007 Outokumpu Oyj has been served a Statement of Objections given by the European Commission, in which is it alleged that a former Outokumpu subsidiary has been participating in cartel activities at the turn of the century. The investigations are still pending. Outokumpu management does not believe that these investigations would lead to significant consequences for Outokumpu.

In March 2007, Finnish Customs authorities initiated a criminal investigation into the Group's Tornio Works' export practices to Russia. The preliminary investigation is connected with another preliminary investigation concerning a forwarding agency based in South-eastern Finland. It is suspected that defective and/or forged invoices have been prepared at the forwarding agency as regards export of stainless steel to Russia. The preliminary investigation is focusing on possible complicity by Outokumpu Stainless Oy in the preparation of defective and/or forged invoices by the forwarding agency in question. The investigation is expected to last until the summer of 2008.

Directly after the Finnish Customs authorities started their investigations, Outokumpu initiated its own investigation into the trade practices connected with stainless steel exports from Tornio to Russia. In June, after carrying out its investigation, the leading Finnish law firm Roschier Attorneys Ltd., concluded that it had not found evidence that any employees of Tornio Works or the company had committed any of the crimes alleged by the Finnish Customs.

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

36. Related party transactions

Transactions and balances with associated companies

€ million	2007	2006
Sales	0	0
Purchases	-9	-9
Dividends received	2	1
Interest income	0	0
Long-term receivables		
Loans receivable	0	0
Subordinated loans receivable	-	0
Current receivables		
Loans receivable	9	9
Trade receivables	-	0
Current trade payables	0	1
Loans receivable from associated companies [1]		
Loans receivable on Jan. 1	9	8
Withdrawals	0	3
Other movement [2]	-	-2
Loans receivable on Dec. 31	9	9

[1] Loans to associated companies include both current and non-current receivables.
[2] Outokumpu's ownership in Okmetic has decreased to 16% in 2006.

The interest rates of loans granted to associated companies are based on market rates. EUR 9 million of the loans is expected to mature by the end of 2008.

Employee benefits for key management

€ million	2007	2006
Short-term employee benefits	3	3
Termination benefits	-	-
Post-employment benefits	1	3
Other long-term benefits	-	-
Share-based payments	1	1
	5	7

Key management consists of the members of the Board of Directors, CEO and other members of the Group Executive Committee. There were no outstanding loans receivable from key management on Dec. 31, 2007 (Dec. 31, 2006: EUR - million).

37. Events after the balance sheet date

Outokumpu management does not have knowledge of any significant events after the balance sheet date, which would have had an impact on the financial statements.

38. Subsidiaries on Dec. 31, 2007

	Country	Group holding, %
General Stainless		
Outokumpu AS	Norway	100
Outokumpu A/S	Denmark	100
Outokumpu Asia Pacific Ltd	China	100
Outokumpu Baltic Oü	Estonia	100
Outokumpu Benelux B.V.	The Netherlands	100
Outokumpu B.V. [1)]	The Netherlands	100
Outokumpu Chrome Oy	Finland	100
Outokumpu Distribution Oy	Finland	100
Outokumpu Gebouwen B.V.	The Netherlands	100
Outokumpu Ges.m.b.H	Austria	100
Outokumpu GmbH	Germany	100
Outokumpu India Private Limited	India	100
Outokumpu Istanbul Dis Ticaret Limited Sirketi [*)]	Turkey	100
Outokumpu Kft	Hungary	100
Outokumpu K.K.	Japan	100
Outokumpu, Lda. [*)]	Portugal	100
Outokumpu Ltd	Ireland	100
Outokumpu Nordic AB	Sweden	100
Outokumpu N.V.	Belgium	100
Outokumpu Pty Ltd	Australia	100
Outokumpu (Pty) Ltd	South Africa	100
Outokumpu Rossija Oy [*)]	Finland	100
Outokumpu S A	France	100
Outokumpu S.A.	Spain	100
Outokumpu (S.E.A.) Pte. Ltd.	Singapore	100
Outokumpu Shipping Oy	Finland	100
Outokumpu S.p.A.	Italy	100
Outokumpu Sp. z o.o.	Poland	100
Outokumpu s.r.o.	Czech Republic	100
Outokumpu Stainless B.V.	The Netherlands	100
Outokumpu Stainless Coil, Inc.	The United States	100
Outokumpu Stainless Holding GmbH	Germany	100
Outokumpu Stainless Ltd	Britain	100
Outokumpu Stainless Oy	Finland	100
Outokumpu UAB	Lithuania	100
ZAO Outokumpu	Russia	100
Specialty Stainless		
AvestaPolarit ABE, S.A. de C.V. [3)]	Mexico	100
Outokumpu Prefab AB	Sweden	100
Outokumpu Press Plate AB	Sweden	100
Outokumpu PSC Benelux B.V.	The Netherlands	100
Outokumpu PSC Germany GmbH	Germany	100
Outokumpu Stainless AB	Sweden	100
Outokumpu Stainless Bar, Inc.	The United States	100
Outokumpu Stainless Pipe, Inc.	The United States	100
Outokumpu Stainless Plate, Inc.	The United States	100
Outokumpu Stainless Trading (Shanghai) Co Ltd	China	100
AS Outokumpu Stainless Tubular Products [3)]	Estonia	100
Outokumpu Stainless Tubular Products AB [3)]	Sweden	100
Outokumpu Stainless Tubular Products Ltd. [3)]	Canada	100
Outokumpu Stainless Tubular Products Oy Ab [3)]	Finland	100
Polarit Welding, Inc.	The United States	100
SH-Trade Oy [3)]	Finland	100
AB Örnsköldsviks Mekaniska Verkstad [3)]	Sweden	100

	Country	Group holding, %
Other operations		
2843617 Canada Inc.	Canada	100
AvestaPolarit Pension Trustees Ltd [*)]	Britain	100
Granefors Bruk AB	Sweden	100
Kopparlunden AB [*)]	Sweden	100
Norsulfid A/S [*)]	Norway	100
Orijärvi Oy [*)]	Finland	100
Outokumpu Alueverkko Oy [*)]	Finland	100
Outokumpu Engineering Enterprises, Inc.	The United States	100
Outokumpu Exploration Ventures Pty. Ltd. [*)]	Australia	100
Outokumpu Metals Off-Take Oy	Finland	100
Outokumpu Minera Española S.A. [*)]	Spain	100
Outokumpu Mines Inc.	Canada	100
Outokumpu Mining Australia Pty. Ltd.	Australia	100
Outokumpu Mining Oy	Finland	100
Outokumpu Nickel Resources B.V.	The Netherlands	100
Outokumpu Rawmet, S.A.	Spain	100
Outokumpu Stainless Holdings Ltd	Britain	100
Outokumpu Stainless, Inc. [*)]	The United States	100
Outokumpu Stainless Steel Oy [*)]	Finland	100
Outokumpu Treasury Belgium N.V./SA [2)]	Belgium	100
Outokumpu Zinc Australia Pty. Ltd. [*)]	Australia	100
Outokumpu Zinc B.V. [*)]	The Netherlands	100
Pancarelian Ltd. [3)]	Bermuda	100
Princeton Gamma-Tech, Inc. [*)]	The United States	100
Viscaria AB	Sweden	100
Visent Invest AB	Sweden	100
Visenta Försäkrings AB	Sweden	100
Discontinued operations		
Outokumpu Copper BCZ Espana S.A. [1)]	Spain	100
Outokumpu Copper BCZ (France) Eurl	France	100
Outokumpu Copper BCZ GmbH	Germany	100
Outokumpu Copper BCZ SA	Belgium	100
Outokumpu Copper Brass SA	France	100
Outokumpu Copper CDC SA	Belgium	100
Outokumpu Copper Fabrication AB [*)]	Sweden	100
Outokumpu Copper Gusum AB	Sweden	100
Outokumpu Copper HME B.V.	The Netherlands	100
Outokumpu Copper LDM B.V.	The Netherlands	100
Outokumpu Copper Nonferro Metal GmbH	Germany	100
Outokumpu Copper Products AB	Sweden	100
Outokumpu Copper Tube Hungary Kereskedelmi Kft.	Hungary	100
Outokumpu Copper Tubes, S.A. [*)]	Spain	100
Outokumpu Holding UK Limited	Britain	100
Outokumpu Pori Tube Oy	Finland	100
Outokumpu Tube Italia S.r.l.	Italy	100

Foreign branches

- Outokumpu Asia Pacific Ltd., branch office in Rep. of Korea
- Outokumpu Asia Pacific Ltd., agencies in China and Taiwan
- Outokumpu Baltic Oü, branch office in Latvia
- Outokumpu Mining Oy, branch office in Spain
- Outokumpu (S.E.A.) Pte. Ltd., agency in Vietnam
- Outokumpu Pori Tube Oy, representative offices in Poland and Russia

[1)] Name change
[2)] Founded
[3)] Group holding change
[*)] Shares and stock held by the parent company

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

Key financial figures of the Group

		2003 1)	2004	2005	2006	2007
Scope of activity						
Sales	€ million	5 922	5 122	5 016	6 154	6 913
- change in sales	%	6.6	n/a	-2.1	22.7	12.3
- exports from and sales outside Finland, of total sales	%	93.4	94.0	94.2	94.4	95.1
Capital employed on Dec. 31	€ million	4 108	4 941	3 599	4 371	4 125
Operating capital on Dec. 31	€ million	4 287	5 151	3 756	4 553	4 340
Capital expenditure	€ million	622	414	164	187	190
- in relation to sales	%	10.5	8.1	3.3	3.0	2.8
Depreciation and amortization	€ million	304	191	207	221	204
Research and development costs	€ million	48	31	22	17	18
- in relation to sales	%	0.8	0.6	0.4	0.3	0.3
Personnel on Dec. 31		19 359	11 514	8 963	8 159	8 108
- average for the year		21 442	11 787	9 579	8 505	8 270
Profitability						
Operating profit	€ million	214	436	57	824	589
- in relation to sales	%	3.6	8.5	1.1	13.4	8.5
Share of results of associated companies	€ million	-15	78	1	8	4
Profit before taxes	€ million	108	440	-8	784	798
- in relation to sales	%	1.8	8.6	-0.2	12.7	11.5
Net profit for the period from continuing operations 1)	€ million	-	379	-24	606	660
Net profit for the period from discontinued operations 1)	€ million	-	7	-339	357	-18
Net profit for the financial year	€ million	112	386	-363	963	641
- in relation to sales	%	1.9	7.5	-7.2	15.7	9.3
Return on equity	%	5.4	16.8	-15.9	37.5	20.0
Return on capital employed	%	5.0	9.6	1.3	20.7	13.9
Return on operating capital	%	4.8	9.2	1.3	19.8	13.2
Financing and financial position						
Liabilities	€ million	4 314	4 571	3 355	3 270	2 521
Net interest-bearing debt	€ million	2 025	2 435	1 537	1 300	788
- in relation to sales	%	34.2	47.5	30.6	21.1	11.4
Net financial expenses	€ million	91	75	67	48	-206
- in relation to sales	%	1.5	1.5	1.3	0.8	-3.0
Net interest expenses	€ million	98	66	65	62	58
- in relation to sales	%	1.7	1.3	1.3	1.0	0.8
Interest cover		2.1	7.6	0.9	13.6	14.9
Share capital 2)	€ million	304	308	308	308	308
Other equity	€ million	1 779	2 198	1 754	2 763	3 029
Equity-to-assets ratio	%	33.0	35.8	38.2	47.9	56.5
Debt-to-equity ratio	%	97.2	97.2	74.5	42.3	23.6
Net cash generated from operating activities	€ million	194	-128	459	-35	676
Dividends	€ million	36	91	81	199	216 3)

1) Figures for 2003 have not been divided into continuing and discontinued operations.
2) Figures for 2003 and 2006 include unregistered share capital.
3) The Board of Directors' proposal to the Annual General Meeting.

Quarterly information

Income statement by quarter

€ million	I/06	II/06	III/06	IV/06	2006	I/07	II/07	III/07	IV/07	2007
Continuing operations										
Sales										
General Stainless	1 013	1 066	1 130	1 561	4 770	1 700	1 670	879	1 073	5 321
- of which intersegment sales	205	277	273	389	1 144	421	430	230	234	1 315
Specialty Stainless	650	638	614	821	2 723	1 003	1 028	687	738	3 456
- of which intersegment sales	94	92	82	129	397	169	193	119	124	605
Other operations	87	93	97	85	361	64	63	53	57	237
- of which intersegment sales	44	36	38	41	159	48	45	43	45	181
Intra-group sales	-342	-405	-394	-560	-1 700	-638	-669	-391	-403	-2 101
The Group	1 408	1 392	1 447	1 907	6 154	2 129	2 092	1 227	1 465	6 913
Operating profit										
General Stainless	43	91	166	236	536	245	188	-224	11	220
Specialty Stainless	22	65	81	171	338	182	196	-51	9	337
Other operations	2	-8	-13	-16	-35	1	19	8	-6	21
Intra-group items	-0	1	-3	-13	-15	-4	2	11	2	11
The Group	67	149	231	378	824	424	406	-256	15	589
Share of results in associated companies	0	2	1	4	8	2	4	-2	-1	4
Financial income and expenses	-7	-10	-18	-13	-48	-10	242	-19	-7	206
Profit before taxes	60	141	214	369	784	416	652	-277	7	798
Income taxes	-18	-29	-48	-83	-178	-105	-100	67	-0	-138
Net profit for the period from continuing operations	41	112	166	286	606	311	553	-210	7	660
Net profit for the period from discontinued operations	15	20	6	317	357	-4	12	-4	-23	-18
Net profit for the period	56	133	172	603	963	307	565	-214	-16	641
Attributable to:										
Equity holders of the Company	56	132	171	603	962	305	563	-214	-16	638
Minority interest	-0	0	1	1	2	2	2	-0	-0	4

Stainless steel deliveries by quarter

1 000 tons	I/06	II/06	III/06	IV/06	2006	I/07	II/07	III/07	IV/07	2007
Cold rolled	286	239	200	211	936	220	186	117	180	703
White hot strip	104	103	80	103	390	94	94	49	78	314
Quarto plate	44	44	35	39	162	39	41	30	36	146
Tubular products	20	20	16	18	74	20	17	13	15	65
Long products	14	15	14	16	59	16	15	10	12	54
Semi-finished products	43	47	47	58	195	40	46	21	31	137
Total deliveries	510	467	393	445	1 815	430	399	238	352	1 419

Share-related key figures

		2003	2004	2005	2006	2007
Earnings per share	€	0.65	2.12	-2.01	5.31	3.52
Cash flow per share	€	1.13	-0.71	2.54	-0.19	3.74
Equity per share	€	11.54	13.65	11.31	16.87	18.53
Dividend per share	€	0.20	0.50	0.45	1.10	1.20 [1]
Dividend payout ratio	%	32.1	23.6	neg.	20.7	33.9
Dividend yield	%	1.9	3.8	3.6	3.7	5.7
Price/earnings ratio		16.7	6.2	neg.	5.6	6.0
Development of share price						
Average trading price	€	8.75	12.52	11.89	19.77	24.94
Lowest trading price	€	6.87	9.93	9.63	12.60	18.48
Highest trading price	€	11.41	14.46	14.72	30.39	31.65
Trading price at the end of the period	€	10.77	13.15	12.55	29.66	21.21
Change during the period	%	29.8	22.1	-4.6	136.3	-28.5
Change in the OMXH index during the period	%	4.4	3.3	31.1	17.9	20.5
Market capitalization at the end of the period [2]	€ million	1 911	2 377	2 272	5 369	3 820
Development in trading volume						
Trading volume	1 000 shares	75 574	123 832	179 289	319 345	516 489
In relation to weighted average number of shares	%	44.0	68.8	99.0	176.4	285.5
Adjusted average number of shares [2]		171 623 035	180 056 920	181 031 415	181 033 168	180 922 336 [3]
Number of shares at the end of the period [2]		177 450 725	180 752 022	181 031 952	181 031 952	180 103 193

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

2) Excluding treasury shares.

3) The average number of shares for 2007 diluted with the 2003A, 2003B and 2003C options was 181 919 553. These have a diluting effect of 0.02 euro on earnings per share in 2007.

Definitions of key financial figures

Capital employed	=	Total equity + net interest-bearing debt
Operating capital	=	Capital employed + net tax liability
Research and development costs	=	Research and development expenses in the income statement (including expenses covered by grants received)
Return on equity	=	$\frac{\text{Net profit for the financial year}}{\text{Total equity (average for the period)}} \times 100$
Return on capital employed (ROCE)	=	$\frac{\text{Operating profit}}{\text{Capital employed (average for the period)}} \times 100$
Return on operating capital (ROOC)	=	$\frac{\text{Operating profit}}{\text{Operating capital (average for the period)}} \times 100$
Net interest-bearing debt	=	Total interest-bearing debt – total interest-bearing assets
Interest cover	=	$\frac{\text{Profit before taxes + net interest expenses}}{\text{Net interest expenses}}$
Equity-to-assets ratio	=	$\frac{\text{Total equity}}{\text{Total assets – advances received}} \times 100$
Debt-to-equity ratio	=	$\frac{\text{Net interest-bearing debt}}{\text{Total equity}} \times 100$
Earnings per share	=	$\frac{\text{Net profit for the financial year attributable to the equity holders}}{\text{Adjusted average number of shares during the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Equity attributable to the equity holders}}{\text{Adjusted number of shares at the end of the period}}$
Dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{Adjusted number of shares at the end of the period}}$
Dividend payout ratio	=	$\frac{\text{Dividend for the financial year}}{\text{Net profit for the financial year attributable to the equity holders}} \times 100$
Dividend yield	=	$\frac{\text{Dividend per share}}{\text{Adjusted trading price at the end of the period}} \times 100$
Price/earnings ratio (P/E)	=	$\frac{\text{Adjusted trading price at the end of the period}}{\text{Earnings per share}}$
Average trading price	=	$\frac{\text{EUR amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$
Market capitalization at end of the period	=	Number of shares at the end of the period × trading price at the end of the period
Trading volume	=	Number of shares traded during the period, and in relation to the weighted average number of shares during the period

Income statement of the parent company

€ million	2007	2006
Sales	187	197
Cost of sales	-104	-140
Gross margin	83	57
Administrative expenses	-57	-56
Selling and marketing expenses	-35	-33
Research and development expenses	-3	-3
Other operating income	157	420
Other operating expenses	-28	-120
Operating profit	117	266
Financial income and expenses	69	-5
Profit before extraordinary items	186	261
Extraordinary items	135	284
Profit before appropriations and taxes	322	545
Appropriations		
Change in depreciation difference	1	1
Income taxes	-22	-51
Profit for the financial year	300	494

The parent company's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

Balance sheet of the parent company

€ million	2007	2006
ASSETS		
Non-current assets		
Intangible assets	24	31
Property, plant and equipment	26	19
Long-term financial assets		
Shares in Group companies	3 684	2 198
Long-term loan receivables from Group companies	661	438
Shares in associated companies	18	18
Other shares and holdings	20	25
Other long-term financial assets	114	122
	4 497	2 802
Total non-current assets	4 547	2 853
Current assets		
Current receivables		
Interest-bearing	73	1 846
Non interest-bearing	489	386
	562	2 232
Cash and cash equivalents	41	15
Total current assets	602	2 247
TOTAL ASSETS	5 149	5 100

€ million	2007	2006
EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	308	308
Unregistered share capital	-	0
Premium fund	708	708
Retained earnings	507	237
Profit for the financial year	300	494
	1 823	1 747
Untaxed reserves		
Accumulated depreciation difference	1	1
Liabilities		
Non-current liabilities		
Interest-bearing	1 305	1 444
Non interest-bearing	1	2
	1 306	1 447
Current liabilities		
Interest-bearing	1 916	1 757
Non interest-bearing	104	148
	2 020	1 905
Total liabilities	3 326	3 352
TOTAL EQUITY AND LIABILITIES	5 149	5 100

Cash flow statement of the parent company

€ million	2007	2006
Cash flow from operating activities		
Profit for the financial year	300	494
Adjustments for		
Taxes	22	51
Depreciation	7	9
Impairments	16	104
Profit/loss on sale of property, plant and equipment	-155	-0
Interest income	-115	-102
Dividend income	-112	-5
Interest expenses	141	122
Change in provisions	-2	-0
Group contributions	-135	-284
Exchange gains and losses	4	10
The gain of the sale of Outotec shares	-	-410
Other adjustments	16	3
	-313	-503
Change in working capital		
Change in trade and other receivables	-5	-18
Change in trade and other payables	-19	32
	-24	15
Dividend received	112	5
Interest received	124	84
Interest paid	-134	-121
Income tax paid	-99	-14
	4	-46
Net cash from operating activities	-34	-40
Cash flow from investing activities		
Acquisition of subsidiaries and other shares and holdings	-1 501	-7
Purchases of property, plant and equipment	0	-2
Purchases of intangible assets	-9	-7
Proceeds from disposal of subsidiaries	0	534
Proceeds from sale of shares in associated companies	-	9
Proceeds from sale of other shares and holdings	161	0
Disposals of intangible assets	1	7
Disposals of property, plant and equipment	0	2
Change in loan receivables	-234	80
Net cash from investing activities	-1 582	616
Cash flow before financing activities	-1 617	576
Cash flow from financing activities		
Borrowings of long-term debt	152	181
Repayments of long-term debt	-355	-361
Change in current debt	233	-131
Dividends paid	-199	-81
Cash flow from group contributions	63	-67
Purchase of treasury shares	-25	-
Shares subscribed with options	0	-
Other financing cash flow	1 773	-155
Net cash from financing activities	1 642	-614
Net change in cash and cash equivalents	26	-38
Net change in cash and cash equivalents in the balance sheet	26	-38

Statement of changes in equity of the parent company

€ million	2007	2006
Share capital on Jan. 1	308	308
Transfers from unregistered share capital	0	-
Shares subscribed with options	0	-
Share capital on Dec. 31	308	308
Unregistered share capital on Jan. 1	0	-
Transfers to share capital	-0	-
Shares subscribed with options	-	0
Unregistered share capital on Dec. 31	-	0
Premium fund on Jan. 1	708	708
Shares subscribed with options	0	0
Premium fund on Dec. 31	708	708
Retained earnings on Jan. 1	237	480
Previous year's profit	494	-161
Dividends paid	-199	-81
Purchase of treasury shares	-25	-
Retained earnings on Dec. 31	507	237
Profit for the financial year	300	494
Total shareholders' equity on Dec. 31	1 823	1 747

Distributable funds on Dec. 31

€ million	2007	2006
Retained earnings	507	237
Profit for the financial year	300	494
Distributable funds on Dec. 31	807	731

Investor information

The Annual General Meeting of Outokumpu Oyj will be held on Thursday, March 27, 2008 at 13.00 a.m. (Finnish time) at the Marina Congress Center, in Helsinki, Finland. In order to attend the Annual General Meeting a shareholder must be registered in the Company's shareholders' register maintained by the Finnish Central Securities Depository Ltd (Suomen Arvopaperikeskus Oy) on March 17, 2008.

Nominee-registered shareholders who wish to attend the Annual General Meeting should temporarily re-register the shares under their own name. Such re-registration must be made no later than March 17, 2008. In order to arrange a temporary re-registration, nominee registered shareholders should contact their bank or other custodian. Shareholders who wish to attend the Annual General Meeting must notify the Company by no later than March 18, 2008 at 4.00 pm (Finnish time). Notification can be made by e-mail to agm@outokumpu.com, on the Internet at www.outokumpu.com, by telephone to +358 9 421 5519 or by fax to +358 9 421 2223. Notification can also be made by a letter addressed to Outokumpu Oyj, Share Register, P.O. Box 140, 02201 Espoo, Finland. The letter must reach the Company on March 18, 2008 at the latest.

A shareholder may attend and vote at the meeting in person or by proxy. However, in accordance with Finnish practice, Outokumpu does not send proxy forms to its shareholders. Shareholders wishing to vote by proxy should submit their own proxy forms to the Company during the registration period.

Additional information on the Annual General Meeting is available at www.outokumpu.com.

Annual General Meeting and payment of dividends in 2008

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.20 per share be paid for the financial year 2007.

Financial reports in 2008

Investor information is available at the Group's English language website www.outokumpu.com. The website also covers annual reports, interim reports, as well as stock exchange and press releases, which are published in both Finnish and English. Alternatively financial reports can be obtained from Outokumpu Oyj/Corporate Communications, Riihitontuntie 7 B, P.O. Box 140, 02201 Espoo, Finland, tel. +358 9 421 2416, fax +358 9 421 2429 and email corporate.comms@outokumpu.com. Subscriptions to the emailing list for press releases and the mailing list for printed annual reports can be made via the same e-mail address.

Shareholder mailings are made on the basis of the contact information in the shareholders' register maintained by the Finnish Central Securities Depository Ltd. A shareholder should inform his/her account operator, or in case of a nominee-registered shareholder the relevant bank or other custodian, about changes in contact details.

Outokumpu share basics

Listing	OMX Nordic Exchange Helsinki
Trading symbol	OUT1V
Number of shares	181 323 196

Investor Relations

The main task of Outokumpu's Investor Relations function is to support the correct valuation of the Outokumpu share by providing information about the company's activities, financial position, goals and strategy, thus enabling the markets to form a true and fair view of Outokumpu as an investment prospect. Our aim is to communicate in open, timely and clear manner and to treat all parties equally.

Outokumpu observes a two-week closed period prior to the publication of financial statements and interim reports. During these periods, we do not arrange meetings with investors or comment on result forecasts. Should you require further information about Outokumpu, please contact one of the following:

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AGM AND DIVIDEND

Annual General Meeting	March 27
Ex-dividend date	March 28
Record date for dividend	April 1
Dividend payout	April 8

FINANCIAL CALENDAR 2008

Financial Statements Bulletin	January 31
Annual Report	week starting March 10
First-quarter interim report	April 23
Second-quarter interim report	July 24
Third-quarter interim report	October 23

Analysts covering Outokumpu

The following banks and brokers have prepared investment analysis on Outokumpu.
The banks/persons mentioned below cover Outokumpu on their own initiative.

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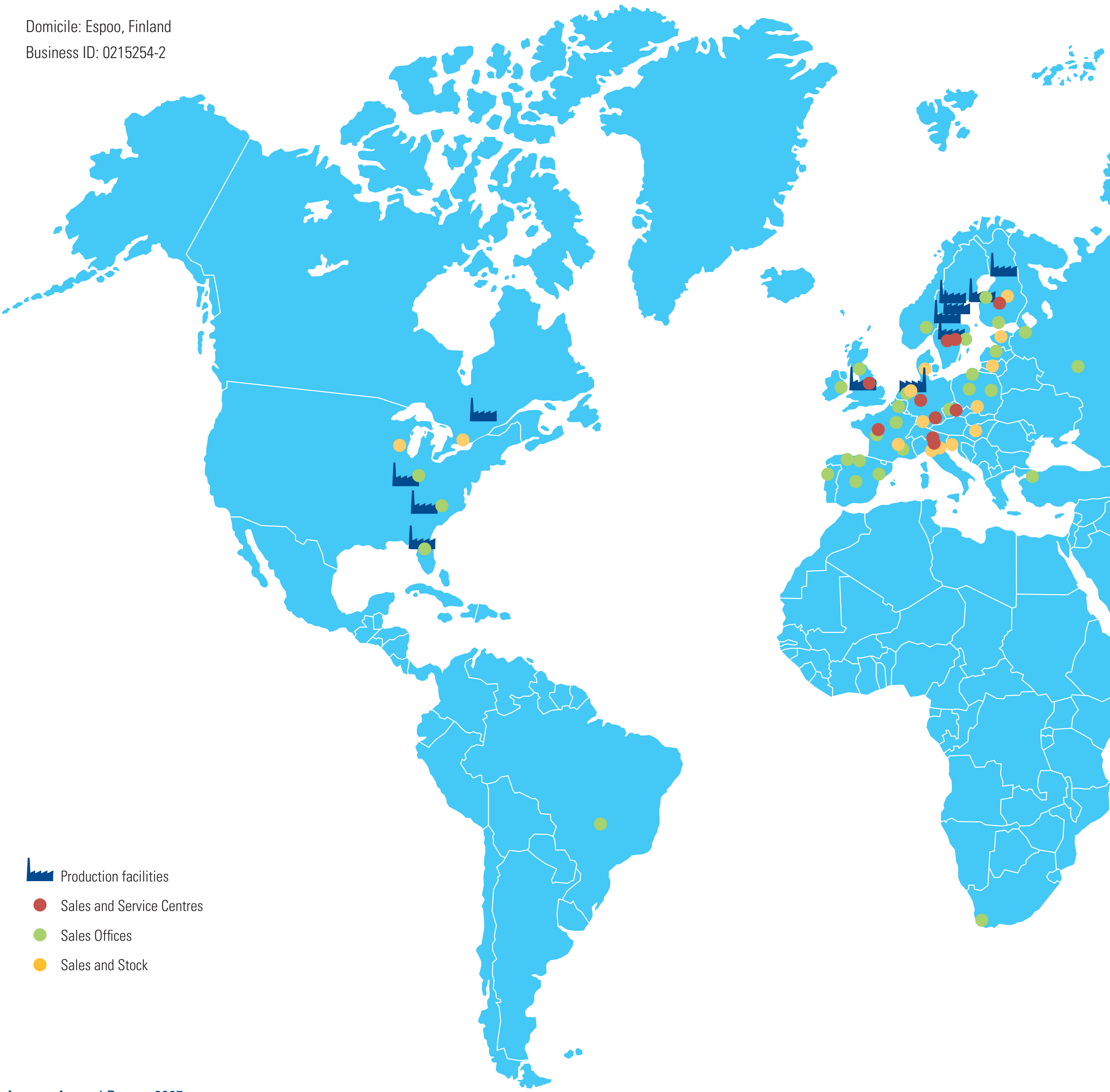
Business ID: 0215254-2



0013EN. Miltton/Libris, Helsinki, Finland. March 2008.

OUTO
KUMPU

Outokumpu is a global leader in stainless steel. Our vision is to be the undisputed number one in stainless, with success based on operational excellence. Customers in a wide range of industries use our stainless steel and services worldwide. Being fully recyclable, maintenance-free, as well as very strong and durable material, stainless steel is one of the key building blocks for sustainable future.

www.outokumpu.com