

February 1, 2007 at 1.00 pm

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## OUTOKUMPU ANNUAL ACCOUNTS BULLETIN 2006 – RECORD FINANCIAL PERFORMANCE

Outokumpu's sales in 2006 rose by 23% to EUR 6 154 million. The Group's operating profit improved quarter-on-quarter throughout the year and totaled EUR 378 million in the fourth quarter and EUR 824 million for the whole year. Net profit for the financial year totaled EUR 963 million resulting in EUR 5.31 earnings per share. Earnings per share from continuing operations totaled EUR 3.34. Due to extremely high nickel prices in 2006, net cash generated from operating activities was EUR 35 million negative as EUR 975 million was tied up in working capital. The Board is proposing a dividend of EUR 1.10 per share (2005: EUR 0.45 per share).

Group key figures		Oct-Dec 2006	July-Sept 2006	Oct-Dec 2005	Jan-Dec 2006	Jan-Dec 2005
Sales	EUR million	<b>1 907</b>	1 447	1 117	<b>6 154</b>	5 016
Operating profit	EUR million	<b>378</b>	231	(202)	<b>824</b>	57
Non-recurring items in operating profit	EUR million	<b>1</b>	-	(164)	<b>1</b>	(129)
Profit before taxes	EUR million	<b>369</b>	214	(215)	<b>784</b>	(8)
Net profit/(loss) for the period from continuing operations	EUR million	<b>286</b>	166	(184)	<b>606</b>	(24)
Net profit/(loss) for the period	EUR million	<b>603</b>	172	(180)	<b>963</b>	(363)
Earnings per share from continuing operations	EUR	<b>1.58</b>	0.91	(1.01)	<b>3.34</b>	(0.14)
Earnings per share	EUR	<b>3.33</b>	0.94	(0.99)	<b>5.31</b>	(2.01)
Net cash generated from operating activities	EUR million	<b>(82)</b>	(24)	206	<b>(35)</b>	459
Net interest-bearing debt at end of period	EUR million	<b>1 300</b>	1 560	1 537	<b>1 300</b>	1 537
Debt-to-equity ratio at end of period	%	<b>42.3</b>	66.4	74.5	<b>42.3</b>	74.5
Return on capital employed	%	<b>36.5</b>	24.3	(21.4)	<b>20.7</b>	1.3
Capital expenditure, continuing operations	EUR million	<b>74</b>	45	53	<b>187</b>	164
Stainless steel deliveries	1 000 tons	<b>445</b>	393	370	<b>1 815</b>	1 647
Average personnel for the period, continuing operations		<b>8 187</b>	8 665	9 186	<b>8 505</b>	9 579

### YEAR 2006 IN BRIEF

- 2006 was an excellent year in the stainless steel market, particularly in Europe, driven by strong demand from end-use industries and a significant recovery in the stainless distribution sector. After the heavy de-stocking phase in the latter part of 2005, the markets turned into a rapid rise in the beginning of 2006. Global market for stainless steel is estimated to have increased by 15% in 2006.
- Stainless steel base prices soared throughout the year as a result of strong demand and supply constraints. According to CRU, the German base price for CR 304 sheet almost doubled from its lowest-ever level of 1 030 EUR/ton at the end of 2005 to 1 980 EUR/ton in December 2006, averaging 1470 EUR/ton for the year. Transaction prices were boosted by extremely high nickel prices. The price of nickel, the main alloying element in stainless steel, rose strongly from 13 380 USD/ton at the end of 2005 to 34 205 USD/ton by the end of 2006.
- In addition to strong markets, the internal improvement initiatives started in 2005 contributed to the Group's financial performance. The Sheffield coil products unit was closed in April and the

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Group's fixed-cost reduction program was completed as planned by the end of 2006. The longer-term Commercial and Production Excellence programs progressed well and will significantly improve both the operations and financial results of the Group in future years.

- Outokumpu's sales increased by 23% from the previous year to EUR 6 154 million. Stainless steel deliveries increased by 10% to 1 815 000 tons, which together with high transaction prices boosted sales.
- Operating profit totaled EUR 824 million, the highest ever in the Group's history. The main driver was soaring base prices. Higher deliveries, significant nickel-related inventory gains and the internal performance improvement initiatives also contributed to increased profits.
- Net cash generated from operating activities was EUR 35 million negative. Mainly due to extremely high nickel prices, EUR 975 million was tied up in working capital. Capital expenditure during the year totaled EUR 187 million.
- As a result of the strong financial performance and the sale of the shares in Outokumpu Technology, the Group's financial position improved significantly. Targets for profitability and financial strength were clearly achieved. The return on capital employed rose to 20.7% and gearing improved to 42.3%.

#### **THE FOURTH QUARTER IN BRIEF**

- Demand for stainless steel was strong in Europe and base prices continued to rise. According to CRU, the German base price for cold rolled 304 sheet increased by 340 EUR from September to 1 980 EUR/ton in December.
- The Group's sales for October-December rose to EUR 1 907 million, an increase of 32% over the previous quarter. Deliveries were up by 13% to 445 000 tons. Operating profit reached a new quarterly record of EUR 378 million. Higher deliveries after the third-quarter maintenance breaks, the solid increase in base prices, somewhat higher nickel-related inventory gains and support from internal performance improvement initiatives all contributed to the outstanding financial performance.
- The Group's vision of becoming the undisputed number one in stainless steel was reinforced when 88% of the shares in Outokumpu Technology were sold and the company was listed on the Helsinki Stock Exchange in October. Following the sale, Outokumpu is practically a pure stainless steel player. Net proceeds from the sale of shares totaled EUR 449 million and the gain from the sale was EUR 328 million. The transaction resulted in Outokumpu Technology being classified as a discontinued operation in the Group's third quarter interim report.

#### **SHORT-TERM OUTLOOK**

Global economic growth is expected to remain solid in 2007. Confidence in the European manufacturing sector remains at a high level indicating good demand for stainless steel. Following the extremely strong demand, increasing prices and tight supply of stainless steel in 2006, the year 2007 in Europe has started with slightly increased price levels but better stainless steel availability and distributor inventories approaching normal levels.

The underlying demand for stainless steel is expected to continue firm. As to the standard volume products, the market with the European distributors is currently somewhat more cautious than in the previous quarters due to the high transaction prices and increased imports from Asia attracted by better price levels in Europe. However, the markets within the key end-use industries, special grades and

project deliveries remain strong. In addition, high nickel price and volatility are risks to a balanced development of stainless market. The nickel prices have been on a new upward rally in early 2007. The high transaction prices of stainless steel and uncertainty about the nickel price development appear to be making further stock build-up unlikely.

Outokumpu has achieved small base price increases for deliveries during the first two months of 2007 leading to 100-150 EUR/ton higher average base prices in Europe for the first quarter deliveries compared to the fourth quarter in 2006. All the Group's units are fully booked for the first quarter, but order backlogs for standard grades are currently somewhat lower than during the previous months and lead times closer to normal levels. The Group's operational profitability will improve in the first quarter whereas nickel-related inventory gains are likely to be smaller than during the preceding two quarters. Outokumpu's first quarter operating profit is estimated to be at the record fourth quarter 2006 level.

**CEO Juha Rantanen:**

"I am very pleased and proud of our performance last year. We made a record financial result and met our key financial goals on profitability and financial strength. We also delivered the short-term performance improvement actions – fixed cost reduction by EUR 100 million and the closure of the Sheffield coil products unit – in line with the demanding targets we set ourselves at the end of 2005. We still have a way to go towards our vision of becoming "the undisputed number one in stainless" and thus our key priorities for 2007 are increased customer focus, strengthening of the competitiveness of our operations and starting to seek growth opportunities."

## MANAGEMENT ANALYSIS OF THE FOURTH-QUARTER OPERATING RESULT

### Group key figures

EUR million	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
<b>Sales</b>										
General Stainless	1 286	1 158	813	816	4 073	1 013	1 066	1 130	<b>1 561</b>	<b>4 770</b>
Specialty Stainless	785	819	584	552	2 739	650	638	614	<b>821</b>	<b>2 723</b>
Other operations	55	71	70	76	272	87	93	96	<b>85</b>	<b>361</b>
Intra-group sales	(732)	(605)	(404)	(328)	(2 068)	(342)	(405)	(394)	<b>(560)</b>	<b>(1 700)</b>
The Group	1 394	1 442	1 063	1 117	5 016	1 408	1 392	1 447	<b>1 907</b>	<b>6 154</b>
<b>Operating profit</b>										
General Stainless	71	93	(55)	(170)	(62)	43	91	166	<b>236</b>	<b>536</b>
Specialty Stainless	55	65	14	(23)	110	22	65	81	<b>171</b>	<b>338</b>
Other operations	9	(3)	10	(8)	8	2	(8)	(13)	<b>(16)</b>	<b>(35)</b>
Intra-group items	(6)	3	5	(1)	1	(0)	1	(3)	<b>(13)</b>	<b>(15)</b>
The Group	129	157	(26)	(202)	57	67	149	231	<b>378</b>	<b>824</b>

### Stainless steel deliveries

1 000 tons	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
Cold rolled	233	226	195	212	867	286	239	200	<b>211</b>	<b>936</b>
White hot strip	135	126	61	68	391	104	103	80	<b>103</b>	<b>390</b>
Other	117	106	77	89	390	121	125	113	<b>131</b>	<b>490</b>
Total deliveries	485	459	333	370	1 647	510	467	393	<b>445</b>	<b>1 815</b>

### Market prices and exchange rates

		I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
<b>Market prices <sup>1)</sup></b>											
Stainless steel											
Base price	EUR/t	1 332	1 217	1 113	1 035	1 174	1 127	1 342	1 572	<b>1 840</b>	<b>1 470</b>
Alloy surcharge	EUR/t	875	956	1 012	923	942	844	1 020	1 437	<b>2 064</b>	<b>1 341</b>
Transaction price	EUR/t	2 207	2 173	2 125	1 958	2 116	1 971	2 362	3 009	<b>3 904</b>	<b>2 811</b>
Nickel	USD/t	15 348	16 411	14 567	12 649	14 744	14 810	19 925	29 154	<b>33 129</b>	<b>24 254</b>
	EUR/t	11 704	13 031	11 941	10 644	11 851	12 318	15 836	22 878	<b>25 707</b>	<b>19 317</b>
Ferrochrome (Cr-content)	USD/lb	0.78	0.78	0.73	0.68	0.74	0.63	0.70	0.75	<b>0.78</b>	<b>0.72</b>
	EUR/kg	1.31	1.37	1.32	1.26	1.32	1.16	1.23	1.30	<b>1.33</b>	<b>1.26</b>
Molybdenum	USD/lb	32.02	35.62	31.74	30.66	32.51	23.38	25.01	26.47	<b>25.56</b>	<b>25.10</b>
	EUR/kg	53.84	62.35	57.37	56.89	57.61	42.86	43.82	45.79	<b>43.73</b>	<b>44.08</b>
Recycled steel	USD/t	221	193	208	193	204	200	238	243	<b>239</b>	<b>230</b>
	EUR/t	169	153	170	162	164	167	189	191	<b>185</b>	<b>183</b>
<b>Exchange rates</b>											
EUR/USD		1.311	1.259	1.220	1.188	1.244	1.202	1.258	1.274	<b>1.289</b>	<b>1.256</b>
EUR/SEK		9.074	9.208	9.366	9.473	9.282	9.352	9.298	9.230	<b>9.135</b>	<b>9.254</b>
EUR/GBP		0.694	0.679	0.683	0.680	0.684	0.686	0.688	0.680	<b>0.673</b>	<b>0.682</b>

1) Sources of market prices:

Stainless steel: CRU - German base price, alloy surcharge and transaction price (2 mm cold rolled 304 sheet), estimates for deliveries during the period

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

### **Steep upward trend in base prices**

Good development in stainless steel markets continued in the fourth quarter. Demand for stainless steel was strong in Europe and prices rose even though Asian exports of stainless steel to Europe increased. Global apparent consumption of stainless steel flat products increased by some 9% from the previous quarter and was 22% higher than in the fourth quarter in 2005, respective figures for Europe being 13% and 32%. The supply of stainless steel in Europe continued to be affected by production constraints. According to CRU, the base price for 304 cold rolled stainless steel sheet in Germany rose strongly from 1 640 EUR/ton in September to 1 980 EUR/ton in December. The average German base price during the quarter was 1 840 EUR/ton, up by 17% from the level in the previous quarter.

Prices for the main alloying materials used in the production of stainless steel continued high. The price of nickel reached a high for the year at 35 455 USD/ton in mid-December, and the average price in the fourth quarter was 33 129 USD/ton, 14% up on the previous quarter. In the beginning of 2007, the nickel price set successive new records and exceeded 41 000 USD/ton in late January. The average price of ferrochrome was 0.78 USD/lb, up by 4% from the previous quarter. The price of molybdenum fell by 3% to 25.56 USD/lb, but was still at a historically high level. The price of recycled steel fell by 2%. The alloy surcharge has increased month-on-month throughout 2006. According to CRU, the alloy surcharge for 304 cold rolled stainless steel sheet in Germany was 2 156 EUR/ton in December, 33% up on the 1 620 EUR/ton it was in September. Together with soaring base prices, this resulted in the highest-ever stainless steel transaction prices during the fourth quarter.

### **Good progress in performance improvement initiatives**

The improvement programs targeting operational excellence are progressing well and have already achieved tangible results.

A total of eighteen plants are currently involved in implementation of the Production Excellence program. Each plant is running several improvement projects of varying size. To date, some 220 improvement teams have either completed or have a project ongoing, with a total of nearly 1 000 people involved.

In the Commercial Excellence program, a common pricing methodology and associated tools are being developed. Training of key account managers continued. To date, 167 members of Outokumpu's sales staff have participated in training and the number of training days now totals 786.

Benefit follow-up procedures have been established and the combined benefits from the Operational Excellence programs are expected to total EUR 40 million in 2007, EUR 80 million in 2008 and EUR 160 million on an annual basis thereafter.

The fixed-cost reduction program, with targeted annual savings of EUR 100 million, was completed as planned by the end of 2006. The reduced fixed cost running rate has materialized gradually during the latter part of 2006 and will be in full effect in 2007. The Sheffield coil products unit was closed in April and the resulting annual profit improvement of EUR 50 million started to realize during the second half of 2006.

### **Highest-ever quarterly operating profit**

The Group's sales in the fourth quarter totaled EUR 1 907 million, 32% up on the previous quarter. Deliveries of stainless steel increased by 13% to 445 000 tons. Sales rose as a result of higher transaction prices and deliveries, and the Group recorded its highest-ever quarterly operating profit of EUR 378 million, an increase of 64% compared to the previous quarter. The solid rise in base prices, higher deliveries, nickel-related inventory gains and the internal profit improvement measures all

contributed to this outstanding result. The amount of inventory gains exceeded somewhat the respective gains in the third quarter.

### General Stainless – soaring base prices and increased deliveries boosted profits

#### General Stainless

EUR million	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
Sales	1 286	1 158	813	816	4 073	1 013	1 066	1 130	1 561	4 770
of which Tornio Works	699	657	476	467	2 299	652	740	781	1 142	3 316
Operating profit	71	93	(55)	(170)	(62)	43	91	166	236	536
of which Tornio Works	59	74	(36)	(48)	49	37	70	120	213	440
Operating capital at the end of period	2 920	2 901	2 820	2 484	2 484	2 397	2 404	2 602	2 847	2 847
Deliveries of main products (1 000 tons)										
Cold rolled	210	183	162	179	734	246	206	172	180	805
White hot strip	102	89	41	53	284	74	85	62	84	305
Other	238	192	105	97	631	128	144	126	154	551
Total deliveries of the division	550	463	307	329	1 649	448	434	360	419	1 661

Sales by General Stainless increased by 38% and deliveries were 16% up on the previous quarter. Operating profit rose to EUR 236 million, an increase of 42%. The significant improvement in profit resulted from both increased deliveries and higher base prices. Operating profit included a non-recurring gain of EUR 9 million from the sale of real estate in Britain. Tornio Works posted an excellent operating profit of EUR 213 million. Inventory gains due to the timing differences between the alloy surcharge and inventory turnover were quite moderate.

### Specialty Stainless – good performance and further inventory gains

#### Specialty Stainless

EUR million	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
Sales	785	819	584	552	2 739	650	638	614	821	2 723
Operating profit	55	65	14	(23)	110	22	65	81	171	338
Operating capital at the end of period	1 248	1 358	1 310	1 161	1 161	1 173	1 240	1 350	1 594	1 594
Deliveries of main products (1 000 tons)										
Cold rolled	44	54	43	47	188	56	54	39	47	196
White hot strip	57	43	30	30	160	49	41	33	42	166
Other	148	148	89	71	455	76	79	67	73	294
Total deliveries of the division	249	245	162	148	803	182	173	139	162	656

Sales by Specialty Stainless increased by 34% and deliveries were 17% higher than in the third quarter. Operating profit more than doubled to EUR 171 million, including EUR 8 million of write-downs and non-recurring costs connected with the planned closure of OSTP's (Outokumpu Stainless Tubular Products) unit in Fagersta, Sweden. Main contributors to the improved profit were higher prices and deliveries and also significant nickel-related inventory gains. Even though prices for project-related and special products are generally more stable than those for standard products, the rate of price increases in project-related and special products clearly accelerated during the latter part of 2006. In Specialty Stainless, inventory turnover is slower than in big volume standard products due to the more specialized production process with longer lead times. Units in Specialty Stainless are therefore more sensitive to inventory gains and losses.

## Other operations

### Other operations

EUR million	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
Sales	55	71	70	76	272	87	93	96	85	361
Operating profit	9	(3)	10	(8)	8	2	(8)	(13)	(16)	(35)
Operating capital at the end of period	34	43	37	139	139	133	239	188	138	138

Other operations consists of activities outside the Group's primary businesses as well as industrial holdings. Business development costs and expenses associated with Group functions that are not allocated to business units are also reported under Other operations.

The result posted by Other operations in the fourth quarter included net market price losses of EUR 16 million (III/2006: net market price gains EUR 4 million).

The attachments present a summary of the Review by the Board of Directors for 2006 as well as extracts from the financial statements.

This report is unaudited.

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**News conference and live web cast today at 3.00 pm**

A combined news conference, conference call and live webcast concerning the 2006 financial statements will be held on **February 1, 2007 at 3.00 pm Finnish time** (8.00 am US EST, 1.00 pm UK time, 2.00 pm CET) at Hotel Kämp, conference room Mirror Room, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

To participate via a conference call, please dial in 5-10 minutes before the beginning of the event:

UK	+44 20 7162 0025
US & Canada	+1 334 323 6201
Password:	Outokumpu

The news conference can be viewed live via Internet at [www.outokumpu.com](http://www.outokumpu.com).

Stock exchange release and presentation material will be available before the news conference at [www.outokumpu.com](http://www.outokumpu.com) -> Investors -> Downloads

An on-demand webcast of the news conference will be available at [www.outokumpu.com](http://www.outokumpu.com) as of February 1, 2007 at around 6.00 pm.

An instant replay service of the conference call will be available until Monday February 5, 2007 on the following numbers:

UK replay number	+44 20 7031 4064, access code: 734 956
US & Canada replay number	+1 954 334 0342, access code: 734 956

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## **SUMMARY OF THE REVIEW BY THE BOARD OF DIRECTORS FOR 2006**

### **Record profits and successful Outokumpu Technology IPO**

A major step towards the Group's vision of becoming the undisputed number one in stainless steel was taken when Outokumpu sold 88% of the shares in Outokumpu Technology and the company was listed on the Helsinki Stock Exchange in October. Following the sale, Outokumpu is practically a pure stainless steel player. The transaction strengthened the Group's financial position. The short-term internal profitability improvement initiatives were completed as planned and good progress was achieved in the longer-term Operational Excellence programs. Outokumpu's financial performance in 2006 was best-ever in the company's history.

The Group's sales rose by 23% from the previous year to EUR 6 154 million. Stainless steel deliveries were up by 10% to 1 815 000 tons and transaction prices reached a record high, boosting sales. Operating profit totaled EUR 824 million. Contributors to this excellent profit were increased base prices, higher deliveries, significant nickel-related inventory gains and the Group's internal profitability improvement measures.

In 2006, mainly as a result of nickel prices increasing throughout the year, EUR 975 million was tied up in working capital and the Group's working capital almost doubled to EUR 1 990 million. Net cash generated from operating activities was therefore EUR 35 million negative in spite of the excellent profit.

Return on capital employed improved to 20.7% and gearing to 42.3%, achieving the targets set. Earnings per share totaled EUR 5.31 and earnings per share from continuing operations totaled EUR 3.34. The Board of Directors is proposing to the Annual General Meeting that a dividend of EUR 1.10 per share be paid for 2006 (2005: EUR 0.45).

### **2006 characterized by strong demand for stainless steel**

2006 was an excellent year in the stainless steel market, supported by strong demand from end-use industries, especially process industry and energy sector, and a significant recovery in the stainless distribution sector. After the heavy de-stocking phase in the latter part of 2005, markets turned into a rapid rise in the beginning of 2006. Global markets for stainless steel increased by an estimated 15% during the year. According to CRU estimates, apparent consumption rose by 17% in Europe, by 14% in the US and by 9% in China. Demand for special grade and project-related products also strengthened during 2006.

Base prices for stainless steel soared throughout 2006 as a result of strong demand and supply constraints. According to CRU, the German base price for CR 304 sheet almost doubled from 1 030 EUR/ton in December 2005 to 1 980 EUR/ton in December 2006. Transaction prices were further boosted by extremely high nickel prices.

The strong recovery in stainless steel markets in 2006 resulted in an upturn in demand for the main alloying elements used in the production of stainless steel: nickel, ferrochrome and molybdenum. The supply of nickel was also constrained because production volumes were lower than planned. As a consequence, the price of nickel set successive records during the year, rising from 13 380 USD/ton at the end of 2005 to 34 205 USD/ton by the end of 2006. The average price in 2006, 24 254 USD/ton, was 65% higher than the corresponding figure for 2005. In the beginning of 2006, ferrochrome prices declined as a result of production cuts in the stainless industry implemented in the latter part of 2005. As 2006 progressed, markets turned to undersupply as demand from stainless steel producers accelerated. The average price of ferrochrome for the year was 0.72 USD/lb, 3% lower than in 2005. Despite decreasing by 23% in 2006, molybdenum prices remained at a historically high level,

averaging 25.10 USD/lb. The average price of recycled steel in 2006 was 230 USD/ton, 13% higher compared to 2005.

### Higher transaction prices and deliveries increased sales

#### Sales

EUR million	2006	2005	Change, %
General Stainless	4 770	4 073	17
Specialty Stainless	2 723	2 739	(1)
Other operations	361	272	33
Intra-group sales	(1 700)	(2 068)	(18)
<b>The Group</b>	<b>6 154</b>	<b>5 016</b>	<b>23</b>

#### Stainless steel deliveries

1 000 tons	2006	2005	Change, %
Cold rolled	936	867	8
White hot strip	390	391	(0)
Other	490	390	26
<b>Total deliveries</b>	<b>1 815</b>	<b>1 647</b>	<b>10</b>

The Group's sales increased by 23% to EUR 6 154 million in 2006. In 2005, sales by Specialty Stainless included some EUR 400 million of intra-group semi-products delivered by Avesta to the Sheffield coil products unit, which until the closure was part of General Stainless. The Group's stainless steel deliveries rose by 10%. Deliveries of both quarto plate and tubular products increased by some 10% and black hot coil deliveries by 50 000 tons. In addition to higher deliveries, the increase in transaction prices throughout 2006 contributed to the rise in sales.

Europe's share of the Group's sales increased to 76% in 2006 (2005: 69%). Asia's and the Americas' share declined to 11% (2005: 16%) and 10% (2005:12%), respectively.

### Record operating profit

#### Operating profit

EUR million	2006	2005	Change
General Stainless	536	(62)	597
Specialty Stainless	338	110	228
Other operations	(35)	8	(44)
Intra-group items	(15)	1	(16)
<b>Operating profit</b>	<b>824</b>	<b>57</b>	<b>766</b>
Share of results in associated companies	8	1	7
Financial income and expenses	(48)	(67)	19
<b>Profit/(loss) before taxes</b>	<b>784</b>	<b>(8)</b>	<b>792</b>
Income taxes	(178)	(16)	(162)
Net profit/(loss), continuing operations	606	(24)	630
Net profit/(loss), discontinued operations	357	(339)	696
<b>Net profit/(loss) for the period</b>	<b>963</b>	<b>(363)</b>	<b>1 326</b>
Return on capital employed, %	20.7	1.3	19.4
Earnings per share from continuing operations, EUR	3.34	(0.14)	3.48
Earnings per share, EUR	5.31	(2.01)	7.32

The record operating profit of EUR 824 million was a result of the solid rise in base prices throughout the year, higher deliveries, significant nickel-related inventory gains and internal profit-improvement measures. Operating profit included a non-recurring gain of EUR 9 million from the sale of real estate in Britain as well as write-downs and non-recurring costs of EUR 8 million related to the planned closure of OSTP's (Outokumpu Stainless Tubular Products) unit in Fagersta, Sweden. In 2005, the Group's operating profit included the negative net impact of EUR 164 million from non-recurring costs related to the closure of Sheffield coil products unit and measures taken as part of the fixed-cost reduction program, as well as the EUR 35 million gain from the sale of Boliden shares.

As a result of strong demand, all Outokumpu's units ran at full load during 2006. Rising base prices for stainless steel were realized more rapidly in prices for Outokumpu's standard grade volume products than in the prices of more specialized and project-related products. General Stainless posted an operating profit of EUR 536 million and Specialty Stainless EUR 338 million.

Return on capital employed was 20.7%, clearly exceeding the Group's target of more than 13%.

The Group's share of results in associated companies rose to EUR 8 million as a result of good performance by Fagersta Stainless AB, a Swedish producer of stainless steel long products. Net financial expenses declined to EUR 48 million, including EUR 12 million net gains (2005: EUR 1 million net losses) related to exchange rate gains and losses on financial instruments and changes in fair values of interest rate derivatives. Net interest expenses fell slightly to EUR 62 million as a result of the reduction in net interest-bearing debt. Due to the good result, taxes increased to EUR 178 million and the Group's effective tax rate was 23%. Net profit for the period from continuing operations totaled EUR 606 million and from discontinued operations EUR 357 million. The Group's earnings per share was EUR 5.31, with earnings per share from continuing operations EUR 3.34 and from discontinued operations EUR 1.97.

### Capital structure strengthened

Key indicators on financial position		
EUR million	2006	2005
Net interest-bearing debt		
Long-term debt	1 293	1 624
Current debt	685	556
Total interest-bearing debt	1 977	2 179
Interest-bearing assets	(515)	(511)
Net assets held for sale	(162)	(132)
Net interest-bearing debt	1 300	1 537
Shareholders' equity	3 054	2 047
Debt-to-equity ratio, %	42.3	74.5
Equity-to-assets ratio, %	47.9	38.2
Net cash generated from operating activities	(35)	459
Net interest expenses	62	65

Excellent financial performance and the sale of shares in Outokumpu Technology resulted in a significant strengthening of the Group's financial position. Net interest-bearing debt declined by EUR 237 million to EUR 1 300 million. At the end of 2006, the Group's equity-to-assets ratio stood at 47.9%. Gearing improved further to 42.3%, distinctly better than the target of below 75%.

The Group's net cash generated from operating activities was, however, EUR 35 million negative. Inventory volumes are under tight control and average throughput time was reduced during 2006.

However, working capital increased by EUR 975 million to EUR 1 990 million, mainly because of fast increasing nickel prices.

### Capital expenditure within limits

Capital expenditure EUR million	2006	2005
General Stainless	83	94
Specialty Stainless	95	58
Other operations	9	13
The Group	187	164
Depreciation	221	207

The Group's short-term profitability improvement program includes tight capital expenditure discipline. The operational going concern capital expenditure limit was set at EUR 175 million annually for 2006-2007. In 2006, capital expenditure was, as expected, slightly higher due to delayed phasing and rollovers from 2005. It was, however, clearly below the annual depreciation level. Capital expenditure on possible growth opportunities will be assessed separately.

Capital expenditure totaled EUR 187 million in 2006. The biggest investments were the Kloster expansion and Tornio Works' investment in the production of ferritic stainless steel.

The EUR 55 million investment at the Kloster Thin Strip in Sweden has been completed. The investment expands the mill's annual production capacity from 25 000 tons to 45 000 tons and enables the production of thinner (0.12 mm) and wider (1 050 mm) products. The investment comprises a new cold rolling mill, a bright annealing line and a slitting line. Deliveries will start during the first quarter of 2007.

To expand Outokumpu's product offering, an investment of EUR 13 million in batch annealing furnaces for the production of ferritic stainless steel in Tornio was started in 2005. Ferritic stainless steel normally includes some 12-17% chromium, with the remainder being iron. The price of ferritics, which do not contain any nickel, has traditionally been less volatile than that of austenitic stainless steel, Outokumpu's main product. Tornio Works has a competitive cost advantage in ferritics production as utilizing liquid ferrochrome from its own smelter reduces melting costs. Annual production capacity will be 60 000 tons of ferritic stainless steel, and production will come on stream during the first quarter 2007. Deliveries are scheduled to begin in the second quarter of 2007.

### Discontinued operations – Sale of Outokumpu Technology shares

In June 2006, the Board of Directors of Outokumpu Oyj decided to start evaluating the possibility of listing Outokumpu Technology on the Helsinki Stock Exchange. Outokumpu Technology is a global leader in designing, developing and supplying tailored plants, processes and equipment for the minerals and metals processing industries worldwide. Outokumpu Technology has 1 800 employees and generated sales of EUR 556 million in 2005.

In September, the Board decided to commence the offering of shares in Outokumpu Technology. The transaction was sale of shares through an Initial Public Offering (IPO), which commenced on September 26, 2006 and ended on October 9, 2006. Outokumpu Technology was listed on the Helsinki Stock Exchange on October 10, 2006. In the offering, Outokumpu Oyj sold 36 960 001 shares at EUR 12.50 per share and Outokumpu's remaining holding in Outokumpu Technology is 12%. Outokumpu has agreed that it will not sell shares in Outokumpu Technology Oyj without the consent of the global coordinator of the offering until April 7, 2007. Outokumpu Technology was classified as a discontinued operation in the third quarter interim report. Net proceeds from the sale amounted to EUR 449 million and the capital gain totaled EUR 328 million. Until disposal, the remaining holding in

Outokumpu Technology is an available-for-sale financial asset, valued at fair value recognized directly in equity. On December 31, 2006, the fair value of Outokumpu's 12% holding in Outokumpu Technology Oyj totaled EUR 114 million.

In 2005, Outokumpu divested the Group's fabricated copper products business, excluding the copper tube and brass rod business in Europe. It is Outokumpu's intention to restructure and divest also this business. In February 2006, Outokumpu sold Outokumpu Copper MKM Ltd, a brass rod mill located in Aldridge in the UK, to The Meade Corporation. In 2006, sales by the tube and brass businesses totaled EUR 678 million with an operating profit of EUR 23 million. Operating capital at the end of December totaled EUR 162 million.

The divested fabricated copper products business 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.

The EUR 357 million net profit from discontinued operations in the Group's income statement in 2006 comprises the operating result of Outokumpu Technology for January-September, the operating result of Outokumpu Copper Tube and Brass for the whole year, and the EUR 328 million gain on the sale of shares in Outokumpu Technology. In 2005, the EUR 339 million loss recorded for discontinued operations comprised the result of the fabricated copper products business until disposal, the result of Outokumpu Technology and Tube and Brass for the whole year, the EUR 252 million loss on the sale of the fabricated copper products business, and the impairment loss of EUR 86 million recognized in the tube and brass business.

### **Short-term profitability improvement initiatives completed as planned**

In the autumn of 2005, Outokumpu initiated decisive actions to counter the then difficult market conditions and to improve profitability and cash flow.

The Sheffield coil products unit in Britain was closed in April 2006 and capacity at the Sheffield melt shop and the Avesta hot rolling mill was adjusted accordingly. Realization of the estimated annual profit improvement totaling EUR 50 million began during the second half of 2006.

The fixed-cost reduction program covers all business units and group functions. The targeted annual savings are EUR 100 million, and the program was completed as planned by the end of 2006. The reduced fixed-cost running rate started to materialize gradually during the latter part of 2006 and will be in full effect in 2007.

### **Good progress in the Commercial and Production Excellence programs**

Operational excellence comprises the Commercial and Production Excellence programs launched in April 2005. These programs are progressing well and have already achieved tangible results.

Benefit follow-up systems have been established to identify the costs, increased revenue and savings derived from the programs. The expected benefits are included in targets for the Group's incentive schemes and the realized benefits will be audited. The combined profit improvements from the Commercial Excellence and Production Excellence programs are expected to total EUR 40 million in 2007, EUR 80 million in 2008 and EUR 160 million on an annual basis thereafter.

## Risk management

The review and monitoring of key risks for each business unit was further developed. The status of key risks and actions for risk mitigation will be addressed regularly in performance management meetings.

Outokumpu has classified risks that affect its operations into three categories: risks relating to strategy and business, operational risks and financial risks. Risks are assessed based on their estimated impact and likelihood of occurrence. Key risks are further described and addressed through more detailed analysis. This analysis also involves definitions of risk mitigating actions and responsibilities.

## Environment, health and safety

Outokumpu's stainless steel plants in Finland, Sweden and Britain belong to the Greenhouse Gas emission trading system that started in the European Union in 2005. Carbon dioxide allowances and associated permits for the 2005-2007 period were granted free of charge to the Tornio site in Finland and to the steel-making and casting plants at Avesta and Degerfors in Sweden. The Sheffield melt shop in Britain utilized the opt-out possibility provided by the British Climate Change Levy system. Lower production volumes in 2005 and better-than-estimated energy efficiency have resulted in the Group's plants in Finland and Sweden having surplus allowances. During 2006, Outokumpu sold 415 000 tons of excess allowances for a total of EUR 7 million. Preparations to apply for allowances in the 2008-2012 Kyoto period are underway.

Emissions to air and discharges to water remained mostly within permitted limits during 2006. All Outokumpu's sites have valid environmental permits in place. Sheffield Special Strip at Meadowhall in Britain will complete external certification for its ISO 14 001 environmental management systems in the spring of 2007. After this, all the Group's major production sites will have a certified environmental management system. 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.

In 2006, the lost-time injury frequency rate (i.e. lost time accidents per million working hours) in Outokumpu's continuing operations was 17 (2005: 18). Unsatisfactory safety performance during the latter part of 2006 meant that the Group's target of less than 14 lost-time accidents per million working hours in 2006 was not achieved. No fatal accidents at the Group's facilities were reported during 2006.

Outokumpu's corporate responsibility report – Outokumpu and the Environment 2006 – will be published together with the annual report. The corporate responsibility report is based on the Global Reporting Initiative (GRI).

## Research and development

The Group's expenditure on research and development in 2006 totaled EUR 17 million or 0.3% of sales (2005: EUR 20 million and 0.4%). The R&D function employed almost 200 professionals. 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. These initiatives are closely linked to the Production Excellence program.

Optimum process parameters and product properties for standard ferritic grades have been studied intensively at production scale. Outokumpu is ready to start production of ferritics once the new batch annealing furnaces in Tornio are operational.

Launch of the semi-cold-rolled RAP<sup>TM</sup>2E product was successful, with a favorable reception amongst customers. Special grades are one of the Group's key focus areas, and include high-alloyed corrosion-resistant austenitic, duplex and heat-resistant alloys. Much effort has been put into the development of duplex grades with a low nickel content, since these offer a good combination of strength and corrosion

resistance. Demand for such materials has grown strongly as a response to high nickel prices. Customers have shown growing interest in LDX 2101®, Outokumpu's own development of Lean Duplex.

R&D efforts have continued in two new application segments - the transportation and automotive industries and the architecture, building and construction (AB&C) sector. The high strength and good formability of stainless steels has been the subject of further study in such applications. The lower structural weight and low life-cycle costs of stainless steel make it an excellent substitute for many other materials.

The main subject of environmental research in 2006 was slag utilization. Slag from steel melting shops can be transformed into a suitable material for roads and construction beds, replacing virgin materials. Development of the Hydroflux process to utilize processed pickling sludge in steel melting shops continued.

## Personnel

Personnel	2006	2005	Change
Dec. 31			
General Stainless	3 496	4 123	(627)
Specialty Stainless	4 200	4 334	(135)
Other operations	464	506	(42)
The Group	8 159	8 963	(804)

During 2006, a Strategic Leadership Program (SLP) was initiated with some 60 global managers as participants. The main target of the program is to develop Outokumpu's leadership behavior in ways that support the execution of the Group's strategy. SLP is an action-learning program based on Outokumpu's new leadership principles in which the focus is on learning to lead people in ways that help, for example, the excellence programs succeed and achieve sustainable improvements.

An assessment of the Group's management resources was conducted during 2006. Harmonized performance appraisal and reward models for application in all Group units were developed and have been in use from the beginning of 2007.

The Outokumpu Personnel Forum held its 15<sup>th</sup> meeting in Terneuzen, the Netherlands. The Group Working Committee, a forum for continuous dialogue between personnel and management, met eight times during 2006.

At the end of the year, the Group's continuing operations employed 8 159 people in some 30 countries. The average number of personnel employed by the Group in 2006 was 8 505 (2005: 9 579). The net reduction in number of personnel since the profitability improvement measures were initiated in October 2005 is 1 250 employees. The reductions agreed were 670 employees as a result of the closure of Coil Products Sheffield and 800 employees as a consequence of the fixed-cost reduction program. There was however a slight increase in the number of personnel employed by the Group following the investment in expansion at Kloster, Sweden. The rapid increase in stainless steel demand also resulted in personnel reductions in some units being less than planned.

Personnel expenses totaled EUR 506 million (2005: EUR 556 million). EUR 13 million (2005: -) of profit-sharing bonuses in accordance with the Finnish Personnel Funds Act has been accrued.

## Annual General Meeting and Board of Directors

The Annual General Meeting (AGM) held on March 30, 2006 approved a dividend of EUR 0.45 per share for 2005. Dividends totaling EUR 81 million were paid on April 11, 2006.

The AGM authorized the Board of Directors for one year to increase the Company's share capital with a total maximum of EUR 30 800 000 by issuing new shares or convertible bonds. Accordingly, an aggregate maximum of 18 117 647 shares, having the account equivalent value of EUR 1.70 each, may be issued. The AGM authorized the Board of Directors for one year to repurchase and transfer the Company's own shares. The maximum number of shares to be repurchased and transferred is 18 000 000. The number of own shares in the Company's possession may not exceed 10% of the total amount of the Company's shares. By February 1, 2007, the authorizations had not been exercised.

The AGM decided on the number of Board members, including the Chairman and Vice Chairman, to be eight (previously ten). For the term expiring at the close of the following AGM, Mr. Evert Henkes, Mr. Jukka Härmälä, Mr. Ole Johansson, Mr. Juha Lohiniva, Ms. Anna Nilsson-Ehle, Ms. Leena Saarinen and Ms. Soili Suonoja were re-elected as members of the Board of Directors, and Mr. Taisto Turunen was elected as a new member. Mr. Jukka Härmälä was elected Chairman of the Board of Directors and Mr. Ole Johansson Vice Chairman. The AGM also resolved to form a Shareholders' Nomination Committee to prepare proposals on the composition and remuneration of the Board of Directors for presentation to the next AGM.

KPMG Oy Ab, Authorized Public Accountants, was elected as the Company's new auditor for the term ending at the close of the next AGM.

At its first meeting, the Board of Directors appointed two permanent committees consisting of board members. Mr. Ole Johansson (Chairman), Ms. Leena Saarinen and Mr. Taisto Turunen were elected as members of the Board Audit Committee. Mr. Jukka Härmälä (Chairman), Mr. Evert Henkes and Ms. Anna Nilsson-Ehle were elected as members of the Board Nomination and Compensation Committee.

### **Shareholders' Nomination Committee**

Outokumpu's AGM 2006 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 AGM. The members represent Outokumpu's four largest registered shareholders on November 1, 2006, which accepted the assignment. Members of the committee are: Mr. Markku Tapio (Chairman), representing the Finnish State, Mr. Jorma Huuhtanen, representing the Finnish Social Insurance Institution, Mr. Harri Saila, representing Ilmarinen Mutual Pension Insurance Company and Mr. Risto Murto, representing the Varma Mutual Pension Insurance Company. Mr. Jukka Härmälä, the Chairman of Outokumpu's Board of Directors, served as an expert member. The Shareholders' Nomination Committee submitted its proposals to the Board of Directors on February 1, 2007.

### **Short-term outlook**

Global economic growth is expected to remain solid in 2007. Confidence in the European manufacturing sector remains at a high level indicating good demand for stainless steel. Following the extremely strong demand, increasing prices and tight supply of stainless steel in 2006, the year 2007 in Europe has started with slightly increased price levels but better stainless steel availability and distributor inventories approaching normal levels.

The underlying demand for stainless steel is expected to continue firm. As to the standard volume products, the market with the European distributors is currently somewhat more cautious than in the previous quarters due to the high transaction prices and increased imports from Asia attracted by better price levels in Europe. However, the markets within the key end-use industries, special grades and project deliveries remain strong. In addition, high nickel price and volatility are risks to a balanced development of stainless market. The nickel prices have been on a new upward rally in early 2007. The high transaction prices of stainless steel and uncertainty about the nickel price development appear to be making further stock build-up unlikely.

Outokumpu has achieved small base price increases for deliveries during the first two months of 2007 leading to 100-150 EUR/ton higher average base prices in Europe for the first quarter deliveries compared to the fourth quarter in 2006. All the Group's units are fully booked for the first quarter, but order backlogs for standard grades are currently somewhat lower than during the previous months and lead times closer to normal levels. The Group's operational profitability will improve in the first quarter whereas nickel-related inventory gains are likely to be smaller than during the preceding two quarters. Outokumpu's first quarter operating profit is estimated to be at the record fourth quarter 2006 level.

### **Board of Directors' proposal for profit distribution**

In accordance with the Board of Directors' established dividend policy, the payout ratio over a business cycle should be at least one-third of the company's profit for the period. In its annual dividend proposal to the Annual General Meeting, the Board of Directors will, in addition to the Group's financial results, take into consideration the company's investment and development needs.

The Board of Directors is proposing to the Annual General Meeting to be held on March 28, 2007 that a dividend of EUR 1.10 per share be paid from the parent company's distributable funds on December 31, 2006 and that any remaining distributable funds be allocated to retained earnings. The suggested dividend record date is April 2, 2007 and the dividend will be paid on April 11, 2007.

According to the financial statements at December 31, 2006, distributable funds of the parent company totaled EUR 731 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.

Espoo, February 1, 2007

Board of Directors

**CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

**Condensed income statement**

EUR million	Jan-Dec 2006	Jan-Dec 2005
<b>Continuing operations:</b>		
<b>Sales</b>	<b>6 154</b>	5 016
Other operating income	44	83
Costs and expenses	<b>(5 364)</b>	(4 947)
Other operating expenses	<b>(11)</b>	(94)
<b>Operating profit</b>	<b>824</b>	57
Share of results in associated companies	8	1
Financial income and expenses		
Net interest expenses	<b>(62)</b>	(65)
Market price gains and losses	12	(1)
Other financial income and expenses	<b>3</b>	0
<b>Profit before taxes</b>	<b>784</b>	(8)
Income taxes	<b>(178)</b>	(16)
<b>Net profit/(loss) for the period from continuing operations</b>	<b>606</b>	(24)
<b>Discontinued operations:</b>		
<b>Net profit/(loss) for the period from discontinued operations</b>	<b>357</b>	(339)
<b>Net profit/(loss) for the period</b>	<b>963</b>	(363)
<b>Attributable to:</b>		
Equity holders of the Company	<b>962</b>	(364)
Minority interest	<b>2</b>	1
<b>Earnings per share for profit attributable to the equity holders of the Company:</b>		
Earnings per share, EUR	<b>5.31</b>	(2.01)
Diluted earnings per share, EUR	<b>5.29</b>	(2.01)
<b>Earnings per share from continuing operations attributable to the equity holders of the Company:</b>		
Earnings per share, EUR	<b>3.34</b>	(0.14)
<b>Earnings per share from discontinued operations attributable to the equity holders of the Company:</b>		
Earnings per share, EUR	<b>1.97</b>	(1.87)

All figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

**Condensed balance sheet**

EUR million	Dec 31 2006	Dec 31 2005
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	493	578
Property, plant and equipment	2 069	2 125
Non-current financial assets		
Interest-bearing	375	262
Non interest-bearing	77	45
	<u>3 014</u>	<u>3 009</u>
<b>Current assets</b>		
Inventories	1 710	1 186
Current financial assets		
Interest-bearing	55	37
Non interest-bearing	1 314	841
Cash and cash equivalents	85	212
	<u>3 164</u>	<u>2 277</u>
<b>Assets held for sale</b>	235	221
<b>Total assets</b>	<u><u>6 414</u></u>	<u><u>5 507</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Equity attributable to the equity holders of the Company	3 054	2 047
Minority interest	17	15
	<u>3 071</u>	<u>2 062</u>
<b>Non-current liabilities</b>		
Interest-bearing	1 293	1 624
Non interest-bearing	337	319
	<u>1 630</u>	<u>1 943</u>
<b>Current liabilities</b>		
Interest-bearing	685	556
Non interest-bearing	955	857
	<u>1 640</u>	<u>1 413</u>
<b>Liabilities related to assets held for sale</b>	73	89
<b>Total equity and liabilities</b>	<u><u>6 414</u></u>	<u><u>5 507</u></u>

**Consolidated statement of changes in equity**

	Attributable to the equity holders of the Company									Total equity
	Share capital	Un-registered share capital	Share premium fund	Other reserves	Fair value reserves	Treasury shares	Cumulative translation differences	Retained earnings	Minority interest	
EUR million										
<b>Equity on December 31, 2004</b>	<b>308</b>	<b>-</b>	<b>700</b>	<b>13</b>	<b>15</b>	<b>(5)</b>	<b>(59)</b>	<b>1 496</b>	<b>38</b>	<b>2 506</b>
Cash flow hedges	-	-	-	-	6	-	-	-	-	6
Fair value gains on available-for-sale financial assets	-	-	-	-	3	-	-	-	-	3
Net investment hedges	-	-	-	-	-	-	1	-	-	1
Change in translation differences	-	-	-	-	-	-	19	-	0	19
Items recognised directly in equity	-	-	-	-	9	-	20	-	0	29
Net loss for the period	-	-	-	-	-	-	-	(364)	1	(363)
<b>Total recognised income and expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>20</b>	<b>(364)</b>	<b>1</b>	<b>(334)</b>
Dividend distribution	-	-	-	-	-	-	-	(91)	-	(91)
Management stock option program: value of received services	-	-	-	-	-	-	-	3	-	3
Transfer of treasury shares	-	-	1	-	-	3	-	-	-	4
Effect of the sale of the fabricated copper products business	-	-	-	-	-	-	-	-	(24)	(24)
Other changes	-	-	-	(1)	-	-	-	-	-	(1)
<b>Equity on December 31, 2005</b>	<b>308</b>	<b>-</b>	<b>701</b>	<b>11</b>	<b>23</b>	<b>(2)</b>	<b>(38)</b>	<b>1 044</b>	<b>15</b>	<b>2 062</b>
Cash flow hedges	-	-	-	-	(3)	-	-	-	-	(3)
Fair value gains on available-for-sale financial assets	-	-	-	-	123	-	-	-	-	123
Net investment hedges	-	-	-	-	-	-	(2)	-	-	(2)
Change in translation differences	-	-	-	-	-	-	6	-	0	6
Items recognised directly in equity	-	-	-	-	121	-	4	-	0	125
Net profit for the period	-	-	-	-	-	-	-	962	2	963
<b>Total recognised income and expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>121</b>	<b>-</b>	<b>4</b>	<b>962</b>	<b>2</b>	<b>1 088</b>
Unregistered share capital	-	0	-	-	-	-	-	-	-	0
Dividend distribution	-	-	-	-	-	-	-	(81)	-	(81)
Management stock option program: value of received services	-	-	-	-	-	-	-	2	-	2
<b>Equity on December 31, 2006</b>	<b>308</b>	<b>0</b>	<b>701</b>	<b>11</b>	<b>144</b>	<b>(2)</b>	<b>(35)</b>	<b>1 927</b>	<b>17</b>	<b>3 071</b>

**Condensed statement of cash flows**

EUR million	Jan-Dec 2006	Jan-Dec 2005
Net profit/(loss) for the period	963	(363)
Adjustments		
Depreciation and amortization	229	232
Impairments	12	165
Gain on the sale of Outokumpu Technology shares	(328)	-
Loss on the sale of the fabricated copper products business	-	252
Other adjustments	215	95
(Increase)/decrease in working capital	(975)	202
Dividends received	7	7
Interests received	17	21
Interests paid	(89)	(93)
Income taxes paid	(87)	(58)
<b>Net cash from operating activities</b>	<b>(35)</b>	<b>459</b>
Purchases of assets	(183)	(245)
Proceeds from the sale of subsidiaries	338	489
Proceeds from the sale of shares in associated companies	9	290
Proceeds from the sale of other assets	20	13
Net cash from other investing activities	14	18
<b>Net cash from investing activities</b>	<b>198</b>	<b>565</b>
<b>Cash flow before financing activities</b>	<b>163</b>	<b>1 024</b>
Borrowings of long-term debt	174	136
Repayment of long-term debt	(380)	(454)
Increase/(decrease) in current debt	3	(600)
Dividends paid	(81)	(91)
Other financing cash flow	(2)	(22)
<b>Net cash from financing activities</b>	<b>(286)</b>	<b>(1 032)</b>
Adjustments	0	2
<b>Net change in cash and cash equivalents</b>	<b>(123)</b>	<b>(6)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>212</b>	<b>211</b>
Foreign exchange rate effect	(5)	7
Net change in cash and cash equivalents	(123)	(6)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>85</b>	<b>212</b>

**Key figures**

EUR million	<b>Jan-Dec 2006</b>	Jan-Dec 2005
Operating profit margin, %	<b>13.4</b>	1.1
Return on capital employed, %	<b>20.7</b>	1.3
Return on equity, %	<b>37.5</b>	(15.9)
Return on equity from continuing operations, %	<b>23.6</b>	(1.1)
Capital employed at end of period	<b>4 371</b>	3 599
Net interest-bearing debt at end of period	<b>1 300</b>	1 537
Equity-to-assets ratio at end of period, %	<b>47.9</b>	38.2
Debt-to-equity ratio at end of period, %	<b>42.3</b>	74.5
Earnings per share, EUR	<b>5.31</b>	(2.01)
Earnings per share from continuing operations, EUR	<b>3.34</b>	(0.14)
Earnings per share from discontinued operations, EUR	<b>1.97</b>	(1.87)
Average number of shares outstanding, in thousands <sup>1)</sup>	<b>181 033</b>	181 031
Fully diluted earnings per share, EUR	<b>5.29</b>	(2.01)
Fully diluted average number of shares, in thousands <sup>1)</sup>	<b>181 758</b>	181 140
Equity per share at end of period, EUR	<b>16.87</b>	11.31
Number of shares outstanding at end of period, in thousands <sup>1)</sup>	<b>181 032</b>	181 032
Capital expenditure, continuing operations	<b>187</b>	164
Depreciation, continuing operations	<b>221</b>	207
<b>Average personnel for the period, continuing operations</b>	<b>8 505</b>	9 579

<sup>1)</sup> The number of own shares repurchased is excluded.

## NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

### 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, provisions, pension obligations, impairment of goodwill and other items. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

### Amended and new International Financial Reporting Standards (IFRS) as of January 1, 2006

Outokumpu has adopted the following amended and new standards as of January 1, 2006:

IAS 39 Financial Instruments: Recognition and Measurement: Amendments after March 31, 2004:

- Cash flow hedges of forecast intra group transactions, issued on April 14, 2005, effective date January 1, 2006.
- Fair value option, issued on June 16, 2005, effective date January 1, 2006.
- Financial guarantee contracts, issued on August 18, 2005, effective date January 1, 2006.

The adoption of these amendments has not had material effect on the Group's financial statements.

Amendment to IAS 19 Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures, issued on December 16, 2004, effective date January 1, 2006. The amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts.

IFRIC 4 Interpretation: Determining whether an Arrangement contains a Lease, issued on December 2, 2004, effective date January 1, 2006. The adoption of this interpretation has not had material effect on the Group's financial statements.

### Shares and share capital

The total number of Outokumpu Oyj shares was 181 250 555 and the share capital amounted to EUR 308.1 million on December 31, 2006. Outokumpu Oyj held 218 603 treasury shares on December 31, 2006 with a total account equivalent value of EUR 0.4 million. This corresponded to 0.1% of the share capital and the total voting rights of the Company on December 31, 2006.

The Annual General Meeting held in 2003 passed a resolution on a stock option program for management (2003 option program). The stock options have been allocated as part of the Group's incentive programs to key personnel of Outokumpu. Trading with Outokumpu Oyj's stock options 2003A has commenced on the Main List of the Helsinki Stock Exchange as of September 1, 2006. By the end of year 2006 a total of 33 323 Outokumpu Oyj shares had been subscribed for on the basis of 2003A stock option program. An aggregate maximum of 625 979 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 price for a stock option was EUR 9,55 at the end of 2006. The share subscription period for the 2003A stock options is September 1, 2006 - March 1, 2009.

The current amounts that Outokumpu Oyj shares could be subscribed for with the 2003B and 2003C stock options are as follows: 2003B 1 028 820 shares and 2003C 87 500 shares. The subscription period for shares with stock option 2003B is from September 1, 2007 to March 1, 2010 and with stock option 2003C it is from September 1, 2008 to March 1, 2011. As a result of the share subscriptions with the 2003 stock options, Outokumpu Oyj's share capital may be increased by a maximum of EUR 2 961 908 and the number of shares by a maximum of 1 742 299 shares. This corresponds to 1.0% of the Company's shares and voting rights.

Outokumpu's Board of Directors confirmed on February 2, 2006 a share-based incentive program for years 2006-2010 as part of the key employee incentive and commitment system of the Company. If persons to be covered by

the first earning period 2006-2008 of the program were to receive the number of shares in accordance with the maximum reward, currently a total of 394 600 shares, their shareholding obtained via the program would amount to 0.2% of the Company's shares and voting rights.

The detailed information of the 2003 option program and of the share-based incentive program for 2006-2010 can be found in the annual report.

### **Non-current assets held for sale and discontinued operations**

#### Outokumpu Technology

In June 2006, the Board of Directors of Outokumpu Oyj decided to start evaluating the possibility of listing Outokumpu Technology on the Helsinki Stock Exchange. Outokumpu Technology is a global leader in designing, developing and supplying tailored plants, processes and equipment for the minerals and metals processing industries worldwide. Outokumpu Technology has 1800 employees and generated sales of EUR 556 million in 2005.

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 is 12%. Outokumpu Technology was classified as a discontinued operation at the end of September. Net proceeds from the sale amounted to some EUR 449 million and the capital gain from the sale to EUR 328 million. Until disposal, the remaining holding in Outokumpu Technology is an available-for-sale financial asset, valued at fair value recognized directly in equity. On December 31, 2006 the fair value of Outokumpu's 12% holding in Outokumpu Technology totaled EUR 114 million.

#### Outokumpu Copper Tube and Brass

On April 5, 2005 Outokumpu and Nordic Capital signed a sales and purchase agreement according to which Outokumpu sold its fabricated copper products business to Nordic Capital. The sale was finalized on June 7, 2005. The scope of the transaction comprised the following businesses of the former Outokumpu Copper business area: Americas, Europe, Automotive Heat Exchangers, Appliance Heat Exchanger & Asia, including 100% of Outokumpu Heatcraft, and the Forming equipment businesses. Sales in 2004 by the divested businesses totaled EUR 1 684 million and the number of personnel was 6 400 at the year-end. Outokumpu Copper Tube and Brass business was excluded from the transaction and comprises European sanitary and industrial tubes, including air-conditioning and refrigeration tubes in Europe, as well as brass rod. The assets and liabilities of Outokumpu Copper Tube and Brass are presented as held for sale. Outokumpu is implementing a vigorous improvement project in its existing copper tube and brass business and it is Outokumpu's intention to divest the tube and brass business.

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. The production capacity of Outokumpu Copper MKM Ltd is some 40 000 tonnes of brass rod and its sales in 2005 amounted to some EUR 70 million. It employs 320 people.

In July and October 2006 Outokumpu sold three minor companies with insignificant effect on Outokumpu Copper Tube and Brass' result.

In the following tables Outokumpu Technology is referred to as OT, Outokumpu Tube and Brass as TB and Outokumpu Copper as OC.

**Specification of non-current assets held for sale and discontinued operations**
**Income statement**

EUR million	Jan-Dec 2006			Jan-Dec 2005		
	Total	OT	TB	Total	OT	OC
Sales	1 178	501	678	1 477	556	921
Expenses	(1 124)	(470)	(654)	(1 458)	(531)	(927)
Operating profit	54	31	23	19	25	(6)
Net financial items	(2)	5	(7)	(8)	3	(10)
Profit/(loss) before taxes	53	36	17	11	28	(16)
Taxes	(17)	(14)	(3)	(13)	(9)	(4)
Profit/(loss) after taxes	35	22	14	(1)	19	(20)
Gain on the sale of Outokumpu Technology	328	328	-	-	-	-
Impairment loss recognized on the fair valuation of the Tube and Brass division's assets and liabilities	(6)	-	(6)	(86)	-	(86)
Loss on the sale of the fabricated copper products business	-	-	-	(252)	-	(252)
Taxes	-	-	-	-	-	-
After-tax result from the disposal and impairment loss	322	328	(6)	(338)	-	(338)
Minority interest	0	0	-	(1)	(0)	(1)
Net profit/(loss) for the period from discontinued operations	357	349	8	(339)	19	(360)

**Balance sheet**

EUR million	Dec 31 2006	Dec 31 2005
<b>Assets</b>		
Intangible and tangible assets	6	9
Other non-current assets	4	4
Inventories	122	113
Other current non interest-bearing assets	104	95
	235	221
<b>Liabilities</b>		
Provisions	3	7
Other non-current non interest-bearing liabilities	6	17
Trade payables	46	49
Other current non interest-bearing liabilities	18	17
	73	89

**Cash flows**

EUR million	Jan-Dec 2006	Jan-Dec 2005
Operating cash flows	(13)	(6)
Investing cash flows	(145)	(83)
Financing cash flows	80	132
Total cash flows	(77)	42

**Major non-recurring items in operating profit**

EUR million	Jan-Dec 2006	Jan-Dec 2005
Gain on sale of real estate in Britain	9	-
OSTP Fagersta closure	(8)	-
Gain on the sale of the Boliden shares	-	35
Fixed cost reduction program	-	(34)
Coil Products Sheffield closure	-	(130)
	<b>1</b>	<b>(129)</b>

**Income taxes**

EUR million	Jan-Dec 2006	Jan-Dec 2005
Current taxes	(156)	(63)
Deferred taxes	(22)	47
	<b>(178)</b>	<b>(16)</b>

**Commitments**

EUR million	Dec 31 2006	Dec 31 2005
<b>Mortgages and pledges</b>		
Mortgages on land	126	94
Other pledges	0	8
<b>Guarantees</b>		
On behalf of subsidiaries		
For commercial commitments	97	77
On behalf of associated companies		
For financing	5	4
<b>Other commitments</b>	<b>59</b>	<b>65</b>
<b>Minimum future lease payments on operating leases</b>	<b>93</b>	<b>120</b>

**Fair values and nominal amounts of derivative instruments**

	Dec 31 2006	Dec 31 2006	Dec 31 2006	Dec 31 2005	Dec 2006	Dec 2005
EUR million	Positive fair value	Negative fair value	Net fair value	Net fair value	Contract amounts	Contract amounts
<b>Currency and interest rate derivatives</b>						
Currency forwards	10	19	(9)	(1)	2 139	1 796
Interest rate swaps	10	-	10	3	283	432
					<b>Tons</b>	<b>Tons</b>
<b>Metal derivatives</b>						
Forward and futures copper contracts	1	2	(1)	(1)	6 000	33 775
Forward and futures nickel contracts	9	0	9	1	3 636	1 608
Forward and futures zinc contracts	0	0	0	0	2 150	1 300
					<b>TWh</b>	<b>TWh</b>
<b>Electricity derivatives</b>						
Publicly traded electricity derivatives	0	0	0	1	0.0	0.1
Other electricity derivatives	17	9	8	13	4.1	4.6
	<b>48</b>	<b>31</b>	<b>16</b>	<b>15</b>		

**Income statement by quarter**

EUR million	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
<b>Continuing operations:</b>										
Sales	1 394	1 442	1 063	1 117	5 016	1 408	1 392	1 447	1 907	6 154
<b>Operating profit</b>	129	157	(26)	(202)	57	67	149	231	378	824
Share of results in associated companies	(1)	2	(0)	0	1	0	2	1	4	8
Financial income and expenses	(13)	(22)	(19)	(13)	(67)	(7)	(10)	(18)	(13)	(48)
<b>Profit/(loss) before taxes</b>	115	137	(45)	(215)	(8)	60	141	214	369	784
Income taxes	(19)	(37)	10	31	(16)	(18)	(29)	(48)	(83)	(178)
<b>Net profit/(loss) for the period from continuing operations</b>	96	99	(36)	(184)	(24)	41	112	166	286	606
<b>Net profit/(loss) for the period from discontinued operations</b>	(340)	(3)	(0)	4	(339)	15	20	6	317	357
<b>Net profit/(loss) for the period</b>	(244)	97	(36)	(180)	(363)	56	133	172	603	963
Attributable to:										
Equity holders of the Company	(245)	96	(36)	(179)	(364)	56	132	171	603	962
Minority interest	1	1	0	(1)	1	(0)	0	1	1	2

**Major non-recurring items in operating profit**

EUR million	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
General Stainless										
Gain on sale of real estate in Britain	-	-	-	-	-	-	-	-	9	9
Coil Products Sheffield closure	-	-	-	(127)	(127)	-	-	-	-	-
Fixed cost reduction program	-	-	-	(11)	(11)	-	-	-	-	-
Specialty Stainless										
OSTP Fagersta closure	-	-	-	-	-	-	-	-	(8)	(8)
Fixed cost reduction program	-	-	-	(21)	(21)	-	-	-	-	-
Other operations										
Coil Products Sheffield closure	-	-	-	(3)	(3)	-	-	-	-	-
Fixed cost reduction program	-	-	-	(3)	(3)	-	-	-	-	-
Gain on the sale of the Boliden shares	25	-	10	-	35	-	-	-	-	-
	25	-	10	(164)	(129)	-	-	-	1	1

**Key figures by quarter**

EUR million	I/05	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06
Operating profit margin, %	9.2	10.9	(2.4)	(18.1)	4.7	10.7	16.0	<b>19.8</b>
Return on capital employed, %	11.6	15.6	(2.6)	(21.4)	7.5	16.5	24.3	<b>36.5</b>
Return on equity, %	(41.0)	17.2	(6.4)	(33.5)	11.0	25.2	30.4	<b>89.0</b>
Return on equity, continuing operations, %	16.1	17.6	(6.3)	(34.2)	8.1	21.4	29.4	<b>42.3</b>
Capital employed at end of period	3 953	4 084	3 981	3 599	3 513	3 679	3 910	<b>4 371</b>
Net interest-bearing debt at end of period	1 695	1 822	1 744	1 537	1 483	1 509	1 560	<b>1 300</b>
Equity-to-assets ratio at end of period, %	35.5	37.2	38.7	38.2	37.4	38.4	37.7	<b>47.9</b>
Debt-to-equity ratio at end of period, %	75.0	80.6	77.9	74.5	73.0	69.5	66.4	<b>42.3</b>
Earnings per share, EUR	(1.35)	0.53	(0.20)	(0.99)	0.31	0.73	0.94	<b>3.33</b>
Earnings per share from continuing operations, EUR	0.53	0.54	(0.20)	(1.01)	0.23	0.62	0.91	<b>1.58</b>
Earnings per share from discontinued operations, EUR	(1.88)	(0.01)	(0.00)	0.02	0.08	0.11	0.03	<b>1.75</b>
Average number of shares outstanding, in thousands <sup>1)</sup>	180 901	181 032	181 032	181 032	181 032	181 032	181 032	<b>181 037</b>
Equity per share at end of period, EUR	12.39	12.41	12.27	11.31	11.14	11.91	12.89	<b>16.87</b>
Number of shares outstanding at end of period, in thousands <sup>1)</sup>	181 032	181 032	181 032	181 032	181 032	181 032	181 032	<b>181 032</b>
Capital expenditure, continuing operations	29	46	37	53	33	34	45	<b>74</b>
Depreciation, continuing operations	51	52	52	53	50	50	68	<b>52</b>
Average personnel for the period, continuing operations	9 645	9 973	9 877	9 186	8 746	8 822	8 665	<b>8 187</b>

<sup>1)</sup> The number of own shares repurchased is excluded.