OUTOKUMPU ANNUAL ACCOUNTS BULLETIN 2008 – OPERATING LOSS IN DIFFICULT MARKET CONDITIONS

Year 2008 highlights

- Operating profit was EUR -63 million, underlying operational result was some EUR 305 million positive (2007: EUR 800 million)
- Strong operating cash flow of EUR 656 million (2007: EUR 676 million), gearing 38%
- Excellence programs delivering benefits of some EUR 86 million in 2008 (2007: EUR 45 million)
- The Board of Directors is proposing a dividend of EUR 0.50 per share (2007: EUR 1.20)

Fourth quarter 2008 highlights

- Operating profit of EUR -271 million including raw material-related inventory losses of about EUR 185 million, underlying operational result some EUR -69 million (III/08: EUR 60 million)
- Stainless steel deliveries at 261 000 tons as a result of weak demand and significant production cuts
- Good operating cash flow at EUR 205 million
- Decision to postpone investments of some EUR 1.5 billion for at least 12 months
- Group-wide cost saving actions taken, targeting fixed cost savings in the range of EUR 100 million in 2009

Group key figures

		IV/08	III/08	IV/07	**2008**	2007
Sales	EUR million	**966**	1 270	1 465	**5 474**	6 913
Operating profit	EUR million	**-271**	-66	15	**-63**	589
Non-recurring items in operating profit	EUR million	**-17**	-66	-	**-83**	14
Profit before taxes	EUR million	**-298**	-82	7	**-134**	798
Non-recurring items in financial income and expenses	EUR million	**-9**	-	-	**-21**	252
Net profit for the period from continuing operations	EUR million	**-228**	-73	7	**-110**	660
Net profit for the period	EUR million	**-233**	-74	-16	**-189**	641
Earnings per share from continuing operations	EUR	**-1.27**	-0.41	0.04	**-0.61**	3.63
Earnings per share	EUR	**-1.30**	-0.41	-0.09	**-1.05**	3.52
Return on capital employed	%	**-26.8**	-6.3	1.4	**-1.6**	13.9
Net cash generated from operating activities	EUR million	**205**	242	299	**656**	676
Capital expenditure, continuing operations	EUR million	**129**	317	43	**544**	190
Net interest-bearing debt at end of period	EUR million	**1 072**	1 096	788	**1 072**	788
Debt-to-equity ratio at end of period	%	**38.4**	35.0	23.6	**38.4**	23.6
Stainless steel deliveries	1 000 tons	**261**	323	352	**1 423**	1 419
Stainless steel base price [1)]	EUR/ton	**1 045**	1 143	1 058	**1 185**	1 304
Personnel at the end of period, continuing operations		**8 471**	8 711	8 108	**8 471**	8 108

[1)] Stainless steel: CRU - German base price (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).

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Corporate Management

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SHORT-TERM OUTLOOK

Visibility regarding the stainless steel markets is currently very short. The deepening of the global financial crisis has a clear impact on stainless steel demand, and Outokumpu expects stainless markets to remain very weak in the first quarter of 2009. Base prices have declined further in early 2009. Current order intake represents about 50 percent of the Group's full production capacity.

For the first quarter of 2009, Outokumpu's operating profit continues to be significantly negative due to the low base price level, low delivery volumes and raw material-related inventory losses that mainly result from the decline in the ferrochrome price. However, Outokumpu's financial and liquidity position remains strong.

CEO Juha Rantanen:

"In late 2008, the global financial crisis hit the stainless steel markets with speed and power. As we did not reach our profitability target, we cannot be satisfied with our financial performance in 2008. Actions have been taken to decrease working capital, postpone investments and reduce costs. Unfortunately, this also means that personnel adjustments are necessary. A challenging year lies ahead, but we are prepared to take decisive action and move quickly, when this is called for. Maximizing cash flow remains high on our agenda."

The attachments present the Management analysis of the fourth quarter 2008 operating result and a summary of the Review by the Board of Directors for January-December 2008 as well as extracts from the financial statements. All full year figures are audited.

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News conference and live webcast today at 3.00 pm

A combined news conference, conference call and live webcast concerning the 2008 annual accounts will be held on February 3, 2009 at 3.00 pm Finnish time (8.00 am US EST, 1.00 pm UK time, 2.00 pm CET) at Hotel Kämp, Akseli Gallen-Kallela conference 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 3043 2436
US & Canada:	+1 866 458 40 87
Sweden:	+46 8 505 598 53
Password	Outokumpu

The news conference can be viewed live via Internet at www.outokumpu.com.
Stock exchange release and presentation material will be available before the news conference at www.outokumpu.com/Investors.

An on-demand webcast of the news conference will be available at www.outokumpu.com as of February 3, 2009 at around 6.00 pm.

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MANAGEMENT ANALYSIS – FOURTH QUARTER 2008 OPERATING RESULT

Group key figures

EUR million	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Sales										
General Stainless	1 700	1 670	879	1 073	5 321	1 304	1 222	933	**687**	**4 147**
Specialty Stainless	1 003	1 028	687	738	3 456	786	778	630	**512**	**2 705**
Other operations	64	63	53	57	237	64	63	69	**62**	**258**
Intra-group sales	-638	-669	-391	-403	-2 101	-465	-514	-362	**-295**	**-1 636**
The Group	2 129	2 092	1 227	1 465	6 913	1 689	1 549	1 270	**966**	**5 474**
Operating profit										
General Stainless	245	188	-224	11	220	81	125	-35	**-177**	**-6**
Specialty Stainless	182	196	-51	9	337	42	44	-63	**-123**	**-101**
Other operations	1	19	8	-6	21	-20	4	29	**25**	**38**
Intra-group items	-4	2	11	2	11	-3	1	3	**4**	**6**
The Group	424	406	-256	15	589	100	174	-66	**-271**	**-63**

Stainless steel deliveries

1 000 tons	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Cold rolled	220	186	117	180	703	228	192	177	**141**	**739**
White hot strip	94	94	49	78	314	120	94	64	**51**	**330**
Quarto plate	39	41	30	36	146	33	35	27	**25**	**120**
Tubular products	20	17	13	15	65	19	19	16	**16**	**70**
Long products	16	15	10	12	54	15	15	15	**11**	**55**
Semi-finished products	40	46	21	31	137	34	35	25	**16**	**109**
Total deliveries	430	399	238	352	1 419	449	391	323	**261**	**1 423**

Market prices and exchange rates

		I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Market prices [1]											
Stainless steel											
Base price	EUR/t	1 930	1 518	710	1 058	1 304	1 243	1 307	1 143	**1 045**	**1 185**
Alloy surcharge	EUR/t	2 277	2 913	2 967	1 939	2 524	1 702	1 888	1 582	**1 293**	**1 616**
Transaction price	EUR/t	4 207	4 432	3 677	2 997	3 828	2 945	3 195	2 725	**2 338**	**2 801**
Nickel	USD/t	41 440	48 055	30 205	29 219	37 230	28 957	25 682	18 961	**10 843**	**21 111**
	EUR/t	31 619	35 646	21 983	20 175	27 161	19 335	16 440	12 599	**8 227**	**14 353**
Ferrochrome (Cr-content)	USD/lb	0.77	0.82	1.00	1.05	0.91	1.21	1.92	2.05	**1.85**	**1.76**
	EUR/kg	1.30	1.34	1.60	1.60	1.46	1.78	2.71	3.00	**3.09**	**2.63**
Molybdenum	USD/lb	26.69	30.97	31.97	32.66	30.57	33.81	33.40	33.75	**17.29**	**29.56**
	EUR/kg	44.90	50.65	51.30	49.71	49.17	49.77	47.14	49.45	**28.92**	**44.31**
Recycled steel	USD/t	278	287	271	283	280	393	565	465	**181**	**401**
	EUR/t	212	213	197	195	204	262	361	309	**138**	**273**
Exchange rates											
EUR/USD		1.311	1.348	1.374	1.448	1.371	1.498	1.562	1.505	**1.318**	**1.471**
EUR/SEK		9.189	9.257	9.264	9.288	9.250	9.400	9.352	9.474	**10.234**	**9.615**
EUR/GBP		0.671	0.679	0.680	0.708	0.684	0.757	0.793	0.795	**0.839**	**0.796**

[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.
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 - Quarterly contract price, Ferrochrome lumpy chrome charge, basis 52% chrome
Molybdenum: Metal Bulletin - Molybdenum oxide - Europe
Recycled steel: Metal Bulletin - Steel scrap HMS 1&2 fob Rotterdam

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Further weakening stainless steel markets with declining metal prices

Global demand for stainless steel continued to weaken dramatically during the fourth quarter of 2008 and markets remained oversupplied. The whole business environment was affected by the significant weakening of financial markets. Compared to the seasonally weak third quarter 2008, apparent consumption of stainless steel in the fourth quarter is estimated to have fallen by 27% globally and by 24% in Europe. Due to the sudden and very significant drop in demand in the last quarter, all stainless producers cut production levels. Global melting production was cut by 28%, and production in Europe was 21% down on the previous quarter. In addition to end-demand weakness, the slowdown was also a result of the distribution sector postponing purchases due to the falling nickel price. Tight credit conditions resulting from general economic uncertainty also had an impact on the overall demand situation. Demand softened in all end-use segments, especially in construction and the automotive industry. Also investment activity was adversely affected by the difficult global financial situation.

The average base price for 2mm cold rolled 304 stainless steel sheet in Germany in the fourth quarter declined to 1 045 EUR/ton (III/2008: 1 143 EUR/ton). As a result of the declining nickel price, the average alloy surcharge for the fourth quarter fell to 1 293 EUR/ton (III/2008: 1 582 EUR/ton). The average transaction price in the period was 2 338 EUR/ton (III/2008: 2 725 EUR/ton). (CRU)

Prices of most alloying materials declined in the fourth quarter compared to the third quarter. The nickel price fell from around 17 000 USD/ton to below 10 000 USD/ton. According to CRU, the very weak demand for stainless steel resulted in a cutback of some 20% in nickel production in the fourth quarter compared to the third quarter. After the year-end, the nickel price has been 10 000 - 12 000 USD/t. Ferrochrome markets continued to be very oversupplied during the last quarter as a result of weak demand for stainless steel and global production was cut back significantly. The quarterly contract price for ferrochrome for the fourth quarter was 1.85 USD/lb (III/2008: 2.05 USD/lb). The quarterly contract price for the first quarter of 2009 has preliminary been settled at 0.79 USD/lb. The average price of molybdenum declined by some 49% to 17.29 USD/lb (III/2008: 33.75 USD/lb). The price of recycled steel fell dramatically from 465 USD/ton in the third quarter to 181 USD/ton in the fourth quarter (a decline of 61%).

Operating profit turned negative in the fourth quarter of 2008

Group sales for the fourth quarter were down by 24% to EUR 966 million (III/2008: EUR 1 270 million). Deliveries totalled 261 000 tons, a decline by 19% compared to the preceding quarter. The accelerating global financial crisis led to demand of stainless steel from both distributors and end-users being clearly weaker towards the end of the year and delivery volumes were some 55-60% of full production capacity.

Operating profit in the fourth quarter totaled EUR -271 million (III/2008: EUR -66 million) including some EUR 185 million (III/2008: EUR 60 million) of raw material-related inventory losses, mainly resulting from nickel and molybdenum. Excluding inventory losses and non-recurring provisions, Outokumpu's underlying operational result in the fourth quarter was EUR -69 million (III/2008: EUR 60 million). Main reasons for this negative result were very low base prices and extremely low delivery volumes. Net non-recurring costs of EUR 17 million, comprising provisions related to reductions in personnel numbers in Sweden, are included in the fourth quarter operating loss (III/2008: EUR 66 million for closure of Thin Strip business in Sheffield).

Raw material-related inventory losses comprise losses related to timing differences between the alloy surcharge and inventory turnover and also write-downs on inventories. A small proportion of these losses is related to products temporarily sold at a base price plus forward alloy surcharge.

As a result of the weak demand for stainless steel and declining raw material prices, delivery volumes in both the third and the fourth quarter were low. Consequently, raw material and process inventory turnover has slowed. The raw material tied up in inventory has been and will be sold as part of deliveries with a lower value. To the extent that the selling price of these deliveries is not expected to cover corresponding total production costs, a write-down to net realizable value was made at the end of the fourth quarter.

Return on capital employed was -26.8% (III/2008: -6.3%). Earnings per share totaled EUR -1.30 (III/2008: EUR -0.41).

Net working capital declined by EUR 424 million to EUR 1 434 million mainly as a result of lower raw material prices and reduced raw material purchase. Consequently, net cash from operating activities was strong at EUR 205 million (III/2008: EUR 242 million).

Sales by General Stainless totaled EUR 687 million (III/2008: EUR 933 million) in the fourth quarter, and deliveries were 22% lower than in the third quarter at 223 000 tons (III/2008: 285 000 tons). Operating profit totaled EUR -177 million (III/2008: EUR -35 million) of which Tornio posted a EUR 93 million loss (III/2008: EUR -22 million). Majority of the raw material-related inventory losses are related to General Stainless.

Sales by Specialty Stainless totaled EUR 512 million (III/2008: EUR 630 million) in the fourth quarter, and deliveries were 12% lower than in the third quarter at 106 000 tons (III/2008: 121 000 tons). Operating profit totaled EUR -123 million (III/2008: EUR -63 million). The operating loss includes non-recurring costs of EUR 17 million that are related to personnel reductions in Sweden.

Operating profit in Other operations totaled EUR 25 million (III/2008: EUR 29 million). This was mainly attributable to gains from nickel and foreign currency derivatives.

Investment program postponed almost entirely

In October, Outokumpu decided to review its investment program because of the global financial crisis and the sudden weakening in stainless steel demand. In December, the decision was made to postpone the Group’s investment program almost entirely for at least 12 months. Continuing any of the projects would be subject to a separate decision based on an updated feasibility study.

The investments in high-purity ferritic and bright-annealing in Tornio, Finland, special grades in Avesta, Sweden and quarto plate in Degerfors, Sweden have been postponed. The investment to expand quarto plate production capacity at New Castle (IN), in the US, will proceed according to plan. Synergy benefits resulting from the acquisition of the SoGePar Group, an Italian independent distributor, allowed the investment program in service centers in Europe to be streamlined and optimized. Only the investment in the service center in Willich, Germany, will proceed as planned. All other service center investments in Europe (Poland, France and southern Germany) have either been reduced in scope or postponed. The service center investment in India has also been postponed. The plate service center in China will however proceed as planned. The investment in doubling ferrochrome production capacity in Tornio has also been postponed for at least 12 months.

Postponed investments total some EUR 1.5 billion and capital expenditure in 2009 is estimated to be some EUR 300 million (the original plans EUR 850 million). Most spending in 2009 will be related to expansion projects that are close to being finalized and some mandatory components in started projects. EUR 100 million of the Group’s capital expenditure in 2009 is maintenance related.

Actions taken to adjust to the weak market for stainless steel

As a result of the impact of the global financial crisis on the stainless steel market, Outokumpu started preparations for a scenario in which the markets do not improve in 2009. Several cost reducing actions were taken in the fourth quarter.

In November, Outokumpu began statutory negotiations on temporary layoffs at the Tornio plant in Finland. These negotiations concerned full or part-time layoffs of a total of 1 500 employees regarding selected production lines, maintenance operations and some office work. An agreement reached in December based on cost savings resulting from cutting expensive weekend shifts, freezing the production bonus system and a general cost-cutting program allowed temporary layoffs to be avoided in the short term.

In December, Outokumpu began negotiations with personnel representatives aimed at reducing some 450 jobs at the Group's Swedish production sites. Negotiations with personnel representatives to reduce costs at Outokumpu head office functions in different countries were also initiated. The negotiations in Finland resulted in about 20 job reductions and temporary lay-offs of two weeks for all employees based at the Finnish head office. Outokumpu employs some 350 people in head office functions globally, some 200 of them in Finland.

Events after the review period

Due to the very weak stainless steel demand Outokumpu continues to cut production and starts negotiations with personnel regarding temporary and permanent layoffs in several of its operating countries. The planned actions are expected to result in temporary layoffs for over 2000 people and reduction of about 250 jobs.

At Tornio Works Outokumpu plans to temporarily cease its ferrochrome production (the Kemi mine and Ferrochrome Works), temporarily idle one of its melt-shops and reduce shifts at almost all steel production lines. Due to these production cuts the company will start new statutory negotiations on temporary layoffs at Tornio Works in Finland. The negotiations concern about 2000 people, also office and maintenance employees.

In OSTP (Outokumpu Stainless Tubular Products) the total of 150 job reductions are planned in Sweden, Finland, Estonia and Canada. In Finland the negotiations concern both temporary and permanent layoffs.

In Outokumpu Group Sales & Marketing organization the target is to reduce approximately 50 jobs with layoffs and voluntary arrangements. Additionally about 80 employees are planned to be temporarily laid-off.

In the UK approximately 90 jobs are planned to be reduced in the coming months as a result of reduced shifts in the Sheffield melt-shop and the cost-saving measures in Outokumpu's Alloy Steel Rods (ASR) and the sales company's integration of the former SoGePar activities into its Sheffield based operation.

Outokumpu is through its current actions – Group-wide general cost saving programs and personnel reductions – targeting fixed cost savings in the range of EUR 100 million in 2009.

SUMMARY OF THE REVIEW BY THE BOARD OF DIRECTORS FOR 2008

The global economic crisis hit the stainless steel industry, forcing Outokumpu to take action

2008 was an exceptional year for the stainless steel industry in many ways. It started with recovering demand and rising prices for stainless steel. Towards the summer some softening in demand was visible and demand for stainless weakened further as metal prices started to fall. In the autumn, stainless steel markets were significantly affected by the accelerating global financial crisis in all end-use segments.

Outokumpu's strategy is aiming at achieving a more stable and profitable business model by increasing the share of sales to end-user and project customers as well as increasing the share of value-added special products and non-nickel containing grades. The very difficult market conditions in 2008 limited progress towards these strategic targets. In late 2008, Outokumpu decided to postpone almost its entire investment program that was designed to increase production capacity for special grades and products and to expand the Group's service center network. Steps that are less capital-intensive will now be taken to implement the Group's strategy, with profitability and cash flow given the priority in the short-term. Several cost-cutting actions including personnel adjustments have been taken.

Group sales for 2008 totaled EUR 5 474 million (down by 21% from the previous year) and stainless steel deliveries totaled 1 423 000 tons, almost the same level as in 2007. Operating profit totaled EUR -63 million (2007: EUR 589 million). Underlying operational result, however, was EUR 305 million (2007: EUR 800 million). Net cash from operating activities was strong at EUR 656 million (2007: EUR 676 million).

Return on capital employed was -1.6% and gearing was 38.4%. Although Outokumpu's financial target of a return on capital employed higher than 13% was not reached, the target for gearing of below 75% was achieved. Earnings per share totaled EUR -1.05, and earnings per share from continuing operations totaled EUR -0.61. The Board of Directors is proposing to the Annual General Meeting 2009 that a dividend of EUR 0.50 per share be paid for 2008 (2007: EUR 1.20).

Turbulence in stainless steel markets

Demand for stainless steel was at a good level during the first half of 2008, but began to weaken in June as global economic growth slowed. The nickel price began to decline in May, which resulted in distributors postponing orders, and the collapse of the global financial market in the autumn led to further weakening in stainless steel demand. Following the seasonally low third quarter, demand continued to weaken in the fourth quarter with both distributors and end-use segments postponing purchases. Compared to 2007, apparent consumption of stainless steel in 2008 is estimated to have decreased by 4% in Europe and by 6% globally. The average German base price for 2mm 304 cold rolled sheet in 2008 was 1 185 EUR/ton, 9% lower than in 2007. The transaction price for stainless steel averaged 2 801 EUR/ton in 2008, 27% lower than the previous year because of the much higher nickel price in 2007. (CRU)

Sales and deliveries

Sales

EUR million	**2008**	2007	2006
General Stainless	**4 147**	5 321	4 770
Specialty Stainless	**2 705**	3 456	2 723
Other operations	**258**	237	361
Intra-group sales	**-1 636**	-2 101	-1 700
The Group	**5 474**	6 913	6 154

Stainless steel deliveries

1 000 tons	**2008**	2007	2006
Cold rolled	**739**	703	936
White hot strip	**330**	314	390
Quarto plate	**120**	146	162
Tubular products	**70**	65	74
Long products	**55**	54	59
Semi-finished products	**109**	137	195
Total deliveries	**1 423**	1 419	1 815

Group sales for 2008 declined to EUR 5 474 million (2007: EUR 6 913 million) due to lower transaction prices for stainless steel in 2008 and stainless steel deliveries totaled 1 423 000 tons, almost at the same level as the previous year (2007: 1 419 000 tons). Sales by General Stainless were down by 22%, sales by Specialty Stainless were down by 22%.

The European share of Group sales was 78% in 2008 (2007: 73%). Asia and the Americas accounted for 8% (2007: 12%) and 11% (2007: 12%), respectively.

Operating profit

EUR million	**2008**	2007	2006
Operating profit			
General Stainless	**-6**	220	536
Specialty Stainless	**-101**	337	338
Other operations	**38**	21	-35
Intra-group items	**6**	11	-15
Operating profit	**-63**	589	824
Share of results in associated companies	**-2**	4	8
Financial income and expenses	**-69**	206	-48
Profit before taxes	**-134**	798	784
Income taxes	**24**	-138	-178
Net profit, continuing operations	**-110**	660	606
Net profit, discontinued operations	**-79**	-18	357
Net profit for the financial year	**-189**	641	963
Operating profit in relation to sales, %	**-1.2**	8.5	13.4
Return on capital employed, %	**-1.6**	13.9	20.7
Earnings per share from continuing operations, EUR	**-0.61**	3.63	3.34
Earnings per share, EUR	**-1.05**	3.52	5.31

Operating profit in 2008 totaled EUR -63 million (2007: EUR 589 million). In 2008, net non-recurring costs of some EUR 83 million are included in the operating loss (EUR 66 million of provisions and write-downs related to the closure of the thin strip business in Sheffield and some EUR 17 million of provisions related to personnel reductions mainly in Sweden). In 2007, operating profit included net non-recurring gains of EUR 14 million (EUR 11 million of costs related to restructuring at Thin Strip in the UK and EUR 25 million gains on the sale of the Hitura mine in Finland). Raw material-related inventory losses of some EUR 285 million are included in the 2008 operating profit (2007: some EUR 230 million). Underlying operational result for 2008 was some EUR 305 million (2007: EUR 800 million). The primary reason for the decline in operating profit was clearly lower base prices and somewhat higher variable costs in 2008. In addition, there were less financial benefits from optimising raw material use and pricing because of clearly lower metal prices in 2008. Profit before taxes totaled EUR -134 million (2007: EUR 798 million).

Excluding non-recurring items, net financial income and expenses in 2008 were EUR 47 million negative (2007: EUR 46 million negative). In 2008, an impairment loss of EUR 21 million (EUR 12 million in I/2008 and EUR 9 million in IV/2008) was booked in Other financial expenses due to the decline in the share price of Belvedere Resources Ltd which is classified as an available-for-sale financial asset. Financial income in 2007 included a EUR 142 million non-recurring gain from the sale of the remaining 12% holding in Outotec Oyj and a EUR 110 million non-recurring gain from the Talvivaara transaction. Net profit in 2008 totaled EUR -189 million (2007: EUR 641 million) and the net profit from continuing operations totaled EUR -110 million (2007: EUR 660 million). The net loss includes a capital loss of EUR 66 million from the sale of the Group's remaining copper tube assets (Discontinued operations) to the Cupori Group in June 2008. Earnings per share totaled EUR -1.05 (2007: EUR 3.52) and earnings per share from continuing operations totaled EUR -0.61 (2007: EUR 3.63). Return on capital employed in 2008 was -1.6% (2007: 13.9%).

Capital structure

Key financial indicators on financial position

EUR million	**2008**	2007	2006
Net interest-bearing debt			
Long-term debt	**1 219**	1 046	1 293
Current debt	**581**	464	685
Total interest-bearing debt	**1 800**	1 510	1 977
Interest-bearing assets	**-711**	-589	-515
Net assets held for sale	**-16**	-132	-162
Net interest-bearing debt	**1 072**	788	1 300
Shareholders' equity	**2 794**	3 337	3 054
Return on equity, %	**-6.2**	20.0	37.5
Debt-to-equity ratio, %	**38.4**	23.6	42.3
Equity-to-assets ratio, %	**52.4**	56.5	47.9
Net cash generated from operating activities	**656**	676	-35
Net interest expenses	**54**	58	62

During 2008, Outokumpu's net interest-bearing debt increased by EUR 284 million and totaled EUR 1 072 million at the end of December (December 31, 2007: EUR 788 million). Outokumpu's gearing at the end of December was 38.4% (December 31, 2007: 23.6%), well below the Group's target of below 75%. At the end of 2008, the Group's equity-to-assets ratio stood at 52.4%. Most of Outokumpu's debt maturities extend to the 2009-2013 period. The Group has committed undrawn credit facilities totaling some EUR 1 billion.

Net cash generated from operating activities in 2008 was good and totaled EUR 656 million (2007: EUR 676 million) through the release of EUR 370 million from working capital mainly as a result of declined metal prices. Cash and cash equivalents totaled EUR 224 million (2007: EUR 86 million) at the end of the year.

Capital expenditure

Capital expenditure EUR million	**2008**	2007	2006
General Stainless	**332**	57	83
Specialty Stainless	**170**	69	95
Other operations	**42**	64	9
The Group	**544**	190	187
Depreciation	**206**	204	221

Capital expenditure totaled EUR 544 million. The largest investment in 2008 was the acquisition of the Italian distributor SoGePar Group for EUR 224 million. Other major investments during 2008 were the replacement of the No. 2 annealing and pickling line in Tornio and the started expansion in quarto plate production capacity.

Investment program

After moving to the next phase in its strategy in September 2007, Outokumpu launched an investment program totaling some EUR 2 billion. In October 2008, as a result of the global financial crisis and a sudden weakening in stainless steel demand, Outokumpu decided to review the program. In December, a decision was made to postpone the investment program almost entirely for at least 12 months. Continuing any of the projects would be subject to a separate decision based on an updated feasibility study.

Investments worth some EUR 1.5 billion were postponed and capital expenditure in 2009 is expected to total some EUR 300 million (the original plans EUR 850 million). Most spending in 2009 will be related to expansion projects that are close to being finalized and some mandatory components in started projects. EUR 100 million of the Group's capital expenditure in 2009 is maintenance related.

The investments in high-purity ferritic and bright-annealing in Tornio, Finland, special grades in Avesta, Sweden and quarto plate in Degerfors, Sweden have been postponed. The investment to expand quarto plate production capacity at New Castle (IN), in the US, will proceed according to plan. Synergy benefits resulting from the acquisition of the SoGePar Group, an Italian independent distributor, allowed the investment program in service centers in Europe to be streamlined and optimized. Only the investment in the service center in Willich, Germany, will proceed as planned. All other service center investments in Europe (Poland, France and southern Germany) have either been reduced in scope or postponed. The service center investment in India has also been postponed. The plate service center in China will however proceed as planned. The investment in doubling ferrochrome production capacity at Tornio has also been postponed for at least 12 months.

The EUR 90 million investment project, announced on February 1, 2007, to replace the No. 2 annealing and pickling line in Tornio has been completed. The old line was decommissioned in September. Ramp-up of the new line started in December and full production capacity will be available by the end of 2009. The shutdown and ramp-up of production will not have a significant impact on the total capacity of the cold rolling plant in 2008 or 2009. The new annealing and pickling line has an annual capacity of 300 000 tons and is capable of producing both austenitic and ferritic products with minimum set-up times.

In February, Outokumpu OSTP and the Saudi Arabian tube manufacturer Armetal, a company in the Al-Hejailan Group, agreed to form Outokumpu Armetal Stainless Pipe Co., Ltd., a 51/49 stainless steel tubular joint venture located in Riyadh. The joint venture began operating on October 1, 2008.

In June, Outokumpu announced an investment of some 10 million in Long Products' finishing facilities in Sheffield in the UK. The new equipment is scheduled to be operational in mid 2009. This investment is creating an integrated manufacturing route for small bar and rebar, complementing the existing melt shop and wire rod mill, located in Sheffield.

Closure of the Thin Strip business in Sheffield

In September, Outokumpu announced its intention to close the Group's thin strip business at Meadowhall in Sheffield in the UK. The Meadowhall plant produces specialized, very thin forms of stainless steel strip products and deliveries in 2007 totaled 12 000 tons. Overcapacity in the stainless precision strip market has meant that this business has been loss-making for several years. The closure is part of performance improvement actions taken by Outokumpu to ensure the Group's global competitiveness. Closure of the Sheffield Thin Strip business is expected to take place in the first quarter of 2009. Transfer of the Group's precision strip business is proceeding according to plan and part of the business has already been transferred to the Outokumpu Kloster unit in Långshyttan, Sweden.

The closure will result in some 230 job losses at the Meadowhall site and is expected to result in a reduction of EUR 16 million in annual fixed costs from the second quarter of 2009 onwards. Write-downs and provisions of EUR 66 million, of which EUR 28 million are cash, were recorded in the third quarter of 2008.

Acquisitions and divestments

In April, Outokumpu signed an agreement to acquire the SoGePar Group, an Italian distributor of stainless steel from the Borromeo family. The transaction was completed at the end of July. The final consideration was EUR 224 million in cash and EUR 87 million in debt. The SoGePar Group was consolidated into Outokumpu's accounts with effect from August 1, 2008.

The former SoGePar units consist of stainless steel service centers in Castelleone in Italy and in Rotherham in the UK. It also has stock operations in Italy, the UK, Belgium, Finland, France and Ireland, as well as a commercial office in Germany and a representative office in Turkey. Sales by the SoGePar Group in 2007 totaled EUR 560 million, with an operating profit of EUR 44 million and deliveries totaling 134 000 tons.

In June, Outokumpu signed an agreement to acquire the operations of Avesta Klippcenter AB in Avesta, Sweden. The transfer of ownership in connection with this transaction took place on July 1, 2008.

Discontinued operations

In April, Outokumpu signed an agreement under which the Group's remaining copper tube assets were sold to Cupori Group Oy. This transaction was closed on June 3, 2008 and the total purchase price was EUR 52 million. A capital loss of EUR 66 million was booked on the transaction. Assets divested comprise the copper plumbing installation and industrial tube manufacturing companies in Pori (Finland), Zaratamo (Spain), Västerås (Sweden) and Liège (Belgium), as well as copper tube sales companies in France, Germany and Italy. In 2007, these businesses generated sales totaling EUR 510 million, recorded a net loss of EUR 5 million and employed 730 people.

Operational Excellence programs

In 2007, the Operational Excellence programs, launched in 2005 and originally comprising Production and Commercial Excellence, were expanded to include Supply Chain Excellence. Targeted benefits have been achieved in both 2007 and 2008. The target was to improve the Group's performance by EUR 40 million in 2007 and by EUR 80 million in 2008 compared to 2005. In 2008, the Production and Commercial Excellence programs delivered benefits totaling some EUR 86 million (EUR 25 million in 2006 and EUR 45 million in 2007). The benefit target of EUR 200 million for 2009 from the programs (including Supply Chain Excellence) will not be reached with the current market outlook as benefits are highly depending on delivery volumes and raw material prices. In the short-term, the Operational Excellence program will focus on working capital reduction, raw material and other cost saving-related projects instead of on capacity enhancement. Outokumpu will continue the Excellence programs even with a stronger effort and aims at reaching the targeted benefits but with a delay.

Claims 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 one individual damage claim for ACR Tubes under US antitrust laws. Outokumpu believes that the allegations in this case are groundless and will defend itself in any 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 this claim.

Customs investigation of exports to Russia by Outokumpu Tornio Works

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 forward 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 Tornio Works in the preparation of defective and/or forged invoices by the forwarding agency in question. 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 2007, after carrying out its investigation, a 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 risk management policy approved by its Board of Directors. This policy defines the objectives, approaches and areas of responsibility in risk management. Risk management supports the Group's strategy and also helps in defining 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 as being anything that could have an adverse impact on activities that the company has undertaken to achieve its objectives. Risks can thus be threats, uncertainties or lost opportunities relating to present or future operations.

The Group's Executive Committee reviewed and updated key risks to the Group at a workshop held during the second half of 2008. The results of this review were presented to both the Audit Committee and to the Board of Directors in the fourth quarter. In 2008, the realized, most significant risks were related to structural issues in stainless steel markets and to the global financial turmoil, which had an impact on steel markets, the availability of finance and also on the Group's ability to implement its planned investment projects. There were no significant fires, other damage to property or business interruption in 2008, which had a major impact on Outokumpu's operations.

Strategic and business risks

The most important strategic and business risks to Outokumpu's operations have been identified as structural overcapacity in stainless steel production, competition in stainless steel markets and Eurocentricity. New stainless steel production capacity being built in China has led to overcapacity in cold rolled stainless production. To mitigate risks related to structural overcapacity and fierce competition in stainless steel markets, Outokumpu aims to maintain the cost efficiency of its operations, broaden the Group's product offering and increase sales to end-users by, for example, developing distribution channels. This strategy is supported by the Group's new organization which ensures that customers are served in an optimal way. Eurocentricity in Group operations and sales is considered a risk to Outokumpu's growth and success. To mitigate any possible impacts, Outokumpu is also aiming to grow outside Europe.

Operational risks

Operational risks arise as a consequence of inadequate or failed internal processes, employee actions, systematic or other events such as natural catastrophes, misconduct or crime. Key operational risks include a major fire or accident, variations in production performance, failures in project implementation and the inability to achieve a strong corporate culture and a one-company approach.

To minimize damage to property and business interruptions that could be caused by fire at some of the Group's major production sites, Outokumpu has systematic fire and security audit programs in place. Part of this type of risk is covered by insurance. Some 40 security and fire safety audits were carried out in 2008 with the Group's own resources, often jointly with technical experts provided by our insurers. A large part of the Group-wide instructions on security and crisis management were reviewed and updated during the year.

While Outokumpu has been systematically developing the Group's operational performance through excellence initiatives, risks associated with excessive variations in performance between different production processes can have a serious impact on the business. Outokumpu is mitigating these types of risk by expanding its Operational Excellence programs and building on strong Group-level functions such as Supply Chain Management and Group Sales and Marketing, thus enhancing strategy implementation.

Outokumpu's aim is to achieve a strong and unified corporate culture throughout its organization. The approach for all personnel is the creation of "One Outokumpu", but significant cultural change can take time. The Group has taken some actions to strengthen leadership skills and the sharing of common values to create a unified corporate culture.

The Group's planned and announced major investment program was postponed almost entirely because of the financial market turmoil and the weakened stainless steel market at the end of the year. Some investments such as service center expansion in Willich, Germany and the establishment of a new plate service center in China are however being finalized. In preparation for the years ahead, Outokumpu is aiming to support the implementation of future investment projects and manage risks related to the Group's project portfolio by further developing our methods of project management.

Financial risks

Financial risks of the Group include exposure to market prices, the ability to maintain adequate liquidity and exposure to the risk of default. The most important financial risks are variations in the price of nickel, variations in the exchange rate between the Swedish krona and the euro, and the value of the US dollar. Outokumpu also has significant exposure to equity and loan security prices. Part of the Group's market risk is mitigated through the use of financial derivative contracts. In 2008, Outokumpu changed its approach to the management of nickel price risk and consequent hedging of nickel in the supply chain led to a significant positive impact on earnings in the second half of the year.

Liquidity and refinancing risks are taken into account in capital management decisions and, when necessary, in making investment and other business decisions. Outokumpu's aim is to mitigate a significant proportion of the Group's credit risk through insurance and other arrangements and in 2008 most commercial receivables were either insured or secured in other ways. In addition to commercial receivables, Outokumpu is exposed to credit risk in connection with loan receivables, which may be subject to negative impact if the turmoil in the financial markets continues. It is not typical for loan receivables to be insured or otherwise secured.

Environment, Health and Safety

In the European Union, a new emissions trading period started in 2008. During this Kyoto-period 2008-2012 the scope of emissions trading was extended to cover also Outokumpu's heat treatment installations in Sweden and Sheffield melt shop in the UK. Outokumpu will receive 1.3 million tons emission allowances annually until 2012, which is estimated to be enough for the current production capacity within the Group's European production sites. Emission trading is expected to continue after 2012 and Outokumpu follows the development of the EU Climate and Energy package, and the renewal of the Emissions Trading Scheme.

Mainly as a result of lower production volumes, the Group's carbon dioxide emissions decreased in 2008 and totaled approximately 900 000 tons. Approximately 820 000 tons were covered by emissions trading scope. During the year, the Group sold 1 022 000 tons of carbon dioxide allowances for EUR 22 million euros.

Emissions to air and discharges to water-courses remained mostly within permitted limits at Outokumpu sites, but some incidents took place in 2008. 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 an adverse material effect on the Group's financial position.

Outokumpu's work on long-term development for improving material efficiency was successful during 2008. Total amount of landfilled waste decreased by 40% mainly due to excellent results in utilization of by-products.

In 2008, the lost-time injury rate (i.e. lost-time accidents per million working hours) improved to 9 (2007: 11), slightly above the Group's 2008 annual target of less than 8.

Corporate Responsibility

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 in the Dow Jones Sustainability World Index (DJSI World). In January 2008, Outokumpu was given the title of "SAM 2008 Sector Mover" for having shown the greatest relative improvement in its sustainability performance and for its outstanding achievements in the area of sustainability. Outokumpu was also included in SAM's Sustainability Yearbook 2009. Outokumpu also retained its position in Storebrand SRI: “Best in Class: Environmental and Social performance”, ASPI Eurozone® index, and the Ethibel Sustainability Indexes (ESI): Ethibel Excellence Europe and Global.

In the Carbon Disclosure Project (CDP), published in November, Outokumpu’s score was good at 61/100.

Outokumpu also received an award for being Finland's best corporate responsibility reporter in 2008.

The year 2008 was named Outokumpu's corporate responsibility theme year to raise the awareness of and the attitude towards environmental and social responsibility issues among the Outokumpu personnel. Concrete, measurable targets were set for both plants and offices to improve energy and materials efficiency, reducing accidents and improving the employees’ well-being. There was a clear improvement in all these areas. Targets set for Outokumpu sites were reached but in the offices, with some exceptions, targets were not fully achieved.

Outokumpu has signed the ten principles of the United Nations Global Compact to show its commitment to sustainability and corporate citizenship. The principles cover human rights, labor standards, protection of the environment and the prevention of corruption.

Outokumpu’s corporate responsibility report – Outokumpu and our environment 2008 – is based on the Global Reporting Initiative (GRI) G3 guidelines. The report will be published together with the annual report.

Research and Development

Group expenditure on research and development in 2008 totaled EUR 20 million or 0.4% of sales (2007: EUR 18 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 employed almost 200 professionals in 2008. Outokumpu also conducts research in collaboration with its customers, research institutes and universities.

In 2008, the main focus was on the further development of new low-nickel and nickel-free stainless steels, such as of reducing the dependence of the steel price on volatile nickel prices. A lot of effort has been put into developing duplex grades, which offer a good combination of strength and corrosion resistance. The ideal application for duplex grades is large, heavy-wall tanks, where weight savings of up to 20% can be achieved. Customers have shown growing interest in LDX 2101®, Outokumpu’s own development of Lean Duplex and license agreements on producing this grade were made with some new partners. New applications for LDX 2101® are continually being developed and the production technology has been improved.

Ferritics represent another opportunity to reduce the influence of the nickel price on raw material costs. Optimum process parameters and product properties for standard ferritic grades have been studied intensively at production scale. The primary focus has been on surface quality, formability and corrosion resistance. Four different grades have been launched commercially and the volume sold are increasing. These grades are mostly used for indoor applications, in kitchen utensils, domestic appliances and the transportation sector.

Cr-Mn-Ni grades (200 series), a third opportunity to reduce the use of nickel, also represent an interesting alternative in many applications. The Group is now capable of producing and selling these grades. The most common grade is 201, the chemistry of which has been modified by Outokumpu. While the corrosion resistance of this grade is almost equal to that of standard Cr-Ni austenitic 304, it has higher strength.

In addition to new products and new applications for stainless steel, the Group's R&D operations focus on innovative manufacturing processes that reduce costs, result in lower emissions, shorten lead times and improve quality levels. In application development, R&D experts work in close co-operation with the Group's commercial organization and provide advice for both sales personnel and customers about product properties and material selection. They also receive valuable direct feedback concerning customer needs that serves as input for further product development activity.

The main subject of environmental research in 2008 was slag utilization. Studies on the properties of different slag products and the development of applications are continuing.

Personnel

Personnel

Dec. 31	**2008**	2007	2006
General Stainless	**3 938**	3 571	3 498
Specialty Stainless	**4 006**	4 099	4 200
Other operations	**527**	439	462
The Group	**8 471**	8 108	8 159

In 2008, the Group's continuing operations employed an average of 8 551 people (2007: 8 270) in some 30 countries. At the end of 2008, the number of personnel employed by the Group was 8 471 (2007: 8 108). The net increase in the number of personnel employed in 2008 was 363 (2007: 51) and resulted from the acquisition of the SoGePar Group and establishment of Outokumpu's new Group Sales and Marketing function. Personnel expenses totaled EUR 520 million (2007: EUR 499 million).

Outokumpu's development programs, including management development programs and the Production Excellence training program, continued during 2008. Seven new graduates started the Stainless Pro graduate program in September 2008.

Almost all Group employees participated in performance and development dialogues in 2008.

The Outokumpu Personnel Forum held its 17^{th} annual meeting in Cremona, Italy. The Group Working Committee, a forum for continuous dialogue between personnel and management, met seven times during 2008.

The fourth O'People personnel survey was conducted in 2008 as follow-up to the survey carried out in 2007. The purpose was to assess whether actions taken in 2008 had been successful. The results indicated an improvement compared to 2007.

Organizational change and appointments

As part of the second phase in its strategy development, Outokumpu realigned the organization into an integrated model that emphasizes the 'one-company' approach to customers. The new organizational structure became fully operational during 2008.

Outokumpu expanded its operations in the Middle East by opening a sales company in Dubai, United Arab Emirates and will represent the complete range of Outokumpu products and services.

Pii Kotilainen was appointed Executive Vice President - Human Resources and member of the Group Executive Committee as of March 1, 2009. She joined Outokumpu on January 1, 2009 and reports to CEO Juha Rantanen. Ms Kotilainen succeeds Timo Vuorio who will retire at the end of April 2009.

Shares and shareholders

According to the Nordic Central Securities Depository, Outokumpu's largest shareholders by group at the end of 2008 were Solidium Oy (31.1%), foreign investors (33.8%), Finnish public sector institutions (15.3%), Finnish private households (9.6%), Finnish financial and insurance institutions (4.9%), Finnish corporations (2.8%) and Finnish non-for-profit organizations (2.5%). In December 2008, The Finnish State transferred its 31.1% holding in Outokumpu to its wholly-owned company Solidium Oy.

Shareholders that have more than 5% of the shares and votes in Outokumpu Oyj are Solidium Oy (31.1%) and the Finnish Social Insurance Institution (8.1%).

At the year-end, Outokumpu's closing share price was EUR 8.28 (2007: EUR 21.21), down 61%. The average share price during the year was EUR 18.99 (2007: EUR 24.94) with EUR 33.99 (2007: EUR 31.65) as the year's highest price and EUR 6.33 (2007: EUR 18.48) as the year's lowest price. At the year-end, the market capitalization of Outokumpu Oyj shares totaled EUR 1 502 million (2007: EUR 3 845 million). Share turnover in 2008 was at almost the same level as it was in 2007, with 511.1 million (2007: 516.4 million) shares being traded on the Nasdaq OMX Helsinki Ltd exchange. The total value of share turnover in 2008 was EUR 9 693 million (2007: EUR 12 882 million).

Outokumpu's fully paid share capital at the year-end totaled EUR 308.5 million and consisted of 181 451 883 shares. The average number of shares outstanding during 2008 was 180 184 845.

Annual General Meeting 2008

The Annual General Meeting (AGM) on March 27, 2008 approved a dividend of EUR 1.20 per share for 2007. Dividends totaling EUR 216 million were paid on April 8, 2008.

The AGM also authorized the Board of Directors to decide to repurchase the Company's own shares as follows the maximum number of shares to be repurchased is 18 000 000, currently representing 9.92% of the Company's total number of registered shares. Based on earlier authorizations, the Company currently holds 1 218 603 of its own shares. The AGM authorized the Board of Directors to decide to issue shares and grant special rights entitling to shares. The maximum number of new shares to be issued through the share issue and/or by granting special rights entitling to shares is 18 000 000, and, in addition, the maximum number of treasury shares to be transferred is 18 000 000. The authorization includes the right to resolve upon a directed share issue. These authorizations are valid until the next Annual General Meeting, however no longer than May 31, 2009. To date the authorizations have not been used.

The AGM decided on the number of the Board members, including the Chairman and Vice Chairman, to be eight. Evert Henkes, Ole Johansson, Victoire de Margerie, Anna Nilsson-Ehle, Leo Oksanen and Leena Saarinen were re-elected as members to the Board of Directors, and Jarmo Kilpelä and Anssi Soila were elected as new members. The Annual General Meeting elected Ole Johansson as Chairman and Anssi Soila as Vice Chairman of the Board. 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 re-elected as the Company's auditor for the term ending at the close of the next AGM.

At its first meeting, the Board of Directors of Outokumpu appointed two permanent committees consisting of Board members. Leena Saarinen (Chairman), Jarmo Kilpelä, Victoire de Margerie and Anssi Soila were elected as members of the Board Audit Committee. Ole Johansson (Chairman), Evert Henkes and Anna Nilsson-Ehle were elected as members of the Board Nomination and Compensation Committee.

Shareholders' Nomination Committee

Outokumpu's Annual General Meeting of March 27, 2008 decided to establish a Shareholders' Nomination Committee to prepare proposals on the composition of the Board of Directors and 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 3, 2008, 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 (Harri Sailas, Chief Executive Officer) and the OP-Delta Fund (Reijo Karhinen, Executive Chairman, OP-Pohjola Group). Jarmo Väisänen acts as Chairman of the Committee. Ole Johansson, the Chairman of Outokumpu's Board of Directors, serves as an expert member. The Shareholders' Nomination Committee is required to submit its proposals to the company's Board of Directors by February 2, 2009.

Events after the review period

Due to the very weak stainless steel demand Outokumpu continues to cut production and starts negotiations with personnel regarding temporary and permanent layoffs in several of its operating countries. The planned actions are expected to result in temporary layoffs for over 2000 people and reduction of about 250 jobs.

At Tornio Works Outokumpu plans to temporarily cease its ferrochrome production (the Kemi mine and Ferrochrome Works), temporarily idle one of its melt-shops and reduce shifts at almost all steel production lines. Due to these production cuts the company will start new statutory negotiations on temporary layoffs at Tornio Works in Finland. The negotiations concern about 2000 people, also office and maintenance employees.

In OSTP (Outokumpu Stainless Tubular Products) the total of 150 job reductions are planned in Sweden, Finland, Estonia and Canada. In Finland the negotiations concern both temporary and permanent layoffs.

In Outokumpu Group Sales & Marketing organization the target is to reduce approximately 50 jobs with layoffs and voluntary arrangements. Additionally about 80 employees are planned to be temporarily laid-off.

In the UK approximately 90 jobs are planned to be reduced in the coming months as a result of reduced shifts in the Sheffield melt-shop and the cost-saving measures in Outokumpu's Alloy Steel Rods (ASR) and the sales company's integration of the former SoGePar activities into its Sheffield based operation.

Outokumpu is through its current actions – Group-wide general cost saving programs and personnel reductions – targeting fixed cost savings in the range of EUR 100 million in 2009.

Short-term outlook

Visibility regarding the stainless steel markets is currently very short. The deepening of the global financial crisis has a clear impact on stainless steel demand, and Outokumpu expects stainless markets to remain very weak in the first quarter of 2009. Base prices have declined further in early 2009. Current order intake represents about 50 percent of the Group's full production capacity.

For the first quarter of 2009, Outokumpu's operating profit continues to be significantly negative due to the low base price level, low delivery volumes and raw material-related inventory losses that mainly result from the decline in the ferrochrome price. However, Outokumpu's financial and liquidity position remains strong.

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 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 developing needs.

The Board of Directors is proposing to the Annual General Meeting to be held on March 24, 2009 a dividend of EUR 0.50 per share to be paid from the parent company's distributable funds on December 31, 2008 and that any remaining distributable funds be allocated to retained earnings. The suggested dividend record date is March 27, 2009 and the dividend will be paid on April 3, 2009.
According to the financial statements at December 31, 2008, distributable funds of the parent company totaled EUR 924 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, February 3, 2009

Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS (all full year figures are audited)

Income statement

EUR million	**Jan-Dec 2008**	Jan-Dec 2007	**Oct-Dec 2008**	Oct-Dec 2007
Continuing operations:				
Sales	**5 474**	6 913	**966**	1 465
Other operating income	**57**	82	**37**	18
Costs and expenses	**-5 552**	-6 364	**-1 267**	-1 447
Other operating expenses	**-42**	-43	**-8**	-21
Operating profit	**-63**	589	**-271**	15
Share of results in associated companies	**-2**	4	**-1**	-1
Financial income and expenses				
Interest income	**20**	25	**5**	6
Interest expenses	**-74**	-82	**-21**	-19
Market price gains and losses	**-2**	0	**-0**	2
Other financial income	**11**	268	**0**	4
Other financial expenses	**-24**	-5	**-10**	-1
Profit before taxes	**-134**	798	**-298**	7
Income taxes	**24**	-138	**71**	-0
Net profit for the period from continuing operations	**-110**	660	**-228**	7
Discontinued operations:				
Net profit for the period from discontinued operations	**-79**	-18	**-5**	-23
Net profit for the period	**-189**	641	**-233**	-16
Attributable to:				
Equity holders of the Company	**-189**	638	**-233**	-16
Minority interest	**-0**	4	**-0**	-0
Earnings per share for profit attributable to the equity holders of the Company:				
Earnings per share, EUR	**-1.05**	3.52	**-1.30**	-0.09
Diluted earnings per share, EUR	**-1.04**	3.50	**-1.29**	-0.09
Earnings per share from continuing operations attributable to the equity holders of the Company:				
Earnings per share, EUR	**-0.61**	3.63	**-1.27**	0.04
Earnings per share from discontinued operations attributable to the equity holders of the Company:				
Earnings per share, EUR	**-0.44**	-0.10	**-0.03**	-0.13

Balance sheet

EUR million	Dec 31 2008	Dec 31 2007
ASSETS		
Non-current assets		
Intangible assets	**584**	475
Property, plant and equipment	**2 027**	1 980
Investments in associated companies [1)]	**156**	163
Available-for-sale financial assets [1)]	**67**	125
Derivative financial instruments [1)]	**9**	37
Deferred tax assets	**37**	26
Trade and other receivables		
Interest-bearing [1)]	**132**	128
Non interest-bearing	**55**	51
Total non-current assets	**3 067**	2 986
Current assets		
Inventories	**1 204**	1 630
Available-for-sale financial assets [1)]	**8**	14
Derivative financial instruments [1)]	**92**	26
Trade and other receivables		
Interest-bearing [1)]	**25**	10
Non interest-bearing	**701**	975
Cash and cash equivalents [1)]	**224**	86
Total current assets	**2 252**	2 740
Receivables related to assets held for sale [1)]	**22**	184
TOTAL ASSETS	**5 341**	5 910
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Company		
Share capital	**308**	308
Premium fund	**702**	701
Other reserves	**-13**	72
Retained earnings	**1 984**	1 617
Net profit for the financial year	**-189**	638
	2 794	3 337
Minority interest	**1**	-
Total equity	**2 795**	3 337
Non-current liabilities		
Long-term debt [1)]	**1 170**	1 036
Derivative financial instruments [1)]	**48**	10
Deferred tax liabilities	**216**	241
Pension obligations	**64**	58
Provisions	**28**	36
Trade and other payables	**2**	2
Total non-current liabilities	**1 529**	1 382
Current liabilities		
Current debt [1)]	**501**	420
Derivative financial instruments [1)]	**54**	18
Income tax liabilities	**5**	22
Provisions	**48**	45
Trade and other payables		
Interest-bearing [1)]	**26**	26
Non interest-bearing	**378**	609
Total current liabilities	**1 012**	1 139
Liabilities related to assets held for sale [1)]	**6**	52
TOTAL EQUITY AND LIABILITIES	**5 341**	5 910

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

Consolidated statement of changes in equity

	Attributable to the equity holders of the Company									
EUR million	Share capital	Unregistered share capital	Share premium fund	Other reserves	Fair value reserves	Treasury shares	Cumulative translation differences	Retained earnings	Minority interest	Total equity
Equity on December 31, 2006	**308**	**0**	**701**	**11**	**144**	**-2**	**-35**	**1 927**	**17**	**3 071**
Cash flow hedges, net of tax	-	-	-	-	3	-	-	-	-	3
Fair value changes on available-for-sale financial assets, net of tax	-	-	-	-	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 recognised directly in equity	-	-	-	-	-86	-	-48	-	0	-134
Net profit for the period	-	-	-	-	-	-	-	638	4	642
Total recognised income and expenses	-	-	-	-	-86	-	-48	638	4	508
Transfers within equity	0	-0	-	5	-	-	-	-5	-	-
Dividends	-	-	-	-	-	-	-	-199	-	-199
Treasury shares	-	-	-	-	-	-25	-	-	-	-25
Share-based payments	-	-	-	-	-	-	-	3	-	3
Share options exercised	0	-	0	-	-	-	-	-	-	0
Acquisition of minority in OSTP	-	-	-	-	-	-	-	-	-21	-21
Equity on December 31, 2007	**308**	**-**	**701**	**16**	**57**	**-27**	**-82**	**2 364**	**-**	**3 337**
Cash flow hedges, net of tax	-	-	-	-	-52	-	-	-	-	-52
Fair value changes on available-for-sale financial assets, net of tax	-	-	-	-	-32	-	-	-	-	-32
Available-for-sale financial assets recognized through P&L	-	-	-	-	5	-	-	-	-	5
Net investment hedges	-	-	-	-	-	-	10	-	-	10
Companies acquired	-	-	-	-	-	-	-	-	1	1
Change in translation differences	-	-	-	-0	-6	-	-66	-	-	-72
Items recognised directly in equity	-	-	-	-	-85	-	-56	-	1	-140
Net profit for the period	-	-	-	-	-	-	-	-189	-0	-189
Total recognised income and expenses	-	-	-	-	-85	-	-56	-189	1	-329
Transfers within equity	-	-	-	0	-	-	-	-0	-	-
Dividends	-	-	-	-	-	-	-	-216	-	-216
Share-based payments	-	-	-	-	-	-	-	2	-	2
Share options exercised	0	-	1	-	-	-	-	-	-	1
Equity on December 31, 2008	**308**	**-**	**702**	**15**	**-28**	**-27**	**-138**	**1 961**	**1**	**2 795**

Condensed statement of cash flows

EUR million	**Jan-Dec 2008**	Jan-Dec 2007
Net profit for the period	**-189**	641
Adjustments		
Depreciation and amortization	**206**	204
Impairments	**36**	1
Loss on the sale of copper tube business	**66**	-
Gain on the sale of Outotec shares	**-**	-142
Gain on the Talvivaara transaction	**-**	-110
Other adjustments	**255**	199
Change in working capital	**370**	181
Dividends received	**12**	13
Interests received	**5**	10
Interests paid	**-76**	-83
Income taxes paid	**-30**	-239
Net cash from operating activities	**656**	676
Purchases of assets	**-325**	-163
Purchase of SoGePar shares	**-200**	-
Purchase of other subsidiaries	**-4**	-
Purchase of Talvivaara shares	**-**	-32
Acquisition of the minority in OSTP	**-**	-22
Proceeds from the sale of copper tube business	**49**	-
Proceeds from the sale of subsidiaries	**-**	1
Proceeds from the sale of other assets	**31**	15
Net cash from other investing activities	**0**	4
Net cash from investing activities	**-449**	-197
Cash flow before financing activities	**207**	479
Purchase of treasury shares	**-**	-25
Borrowings of long-term debt	**341**	151
Repayment of long-term debt	**-236**	-388
Change in current debt	**47**	-180
Dividends paid	**-216**	-199
Proceeds from the sale of Outotec shares	**-**	158
Proceeds from the sale of other financial assets	**0**	6
Other financing cash flow	**-1**	1
Net cash from financing activities	**-64**	-477
Net change in cash and cash equivalents	**143**	2
Cash and cash equivalents at the beginning of the period	**86**	85
Foreign exchange rate effect	**-5**	-1
Net change in cash and cash equivalents	**143**	2
Cash and cash equivalents at the end of the period	**224**	86

Key figures

EUR million	**Jan-Dec 2008**	Jan-Dec 2007
Operating profit margin, %	**-1.2**	8.5
Return on capital employed, %	**-1.6**	13.9
Return on equity, %	**-6.2**	20.0
Return on equity from continuing operations, %	**-3.6**	20.6
Capital employed at end of period	**3 867**	4 125
Net interest-bearing debt at end of period	**1 072**	788
Equity-to-assets ratio at end of period, %	**52.4**	56.5
Debt-to-equity ratio at end of period, %	**38.4**	23.6
Earnings per share, EUR	**-1.05**	3.52
Earnings per share from continuing operations, EUR	**-0.61**	3.63
Earnings per share from discontinued operations, EUR	**-0.44**	-0.10
Average number of shares outstanding, in thousands [1)]	**180 185**	180 922
Fully diluted earnings per share, EUR	**-1.04**	3.50
Fully diluted average number of shares, in thousands [1)]	**181 190**	181 920
Equity per share at end of period, EUR	**15.50**	18.53
Number of shares outstanding at end of period, in thousands [1)]	**180 233**	180 103
Capital expenditure, continuing operations	**544**	190
Depreciation, continuing operations	**206**	204
Average personnel for the period, continuing operations	**8 551**	8 270

[1)] The number of own shares repurchased is excluded.

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

This annual accounts bulletin is prepared in accordance with IAS 34 (Interim Financial Reporting). Mainly the same accounting policies and methods of computation have been followed in the interim financial statements as in the annual financial statements for 2007.

Inventories are stated at the lower of cost or net realizable value. Outokumpu changed its calculation method for the cost of inventories from first-in, first-out (FIFO) method to weighted average method in 2008. Also, Outokumpu adopted amended standard IAS 23 Borrowing Costs in 2008. These changes have not had any material impact on the interim financial statements.

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.

Shares and share capital

The total number of Outokumpu Oyj shares was 181 451 883 and the share capital amounted to EUR 308.5 million on December 31, 2008. Outokumpu Oyj held 1 218 603 treasury shares on December 31, 2008. This corresponded to 0.7% of the share capital and the total voting rights of the Company on December 31, 2008.

Outokumpu has 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. The option program has three parts 2003A, 2003B and 2003C. On December 31, 2008 a total of 108 498 Outokumpu Oyj shares had been subscribed for on the basis of 2003A stock option program and a total of 82 830 Outokumpu Oyj shares had been subscribed for on the basis of 2003B stock option program. An aggregate maximum of 550 804 Outokumpu Oyj shares can be subscribed for with the remaining 2003A stock options and 945 990 with the remaining 2003B stock options. In accordance with the terms and conditions of the option program, the dividend adjusted share price for a stock option 2003A was EUR 7.25 and for stock option 2003B EUR 10.31 on December 31, 2008. Trading with Outokumpu Oyj's stock options 2003C commenced on the Main List of the Nasdaq OMX Helsinki as of September 1, 2008. On December 31, 2008 a total of 10 000 Outokumpu Oyj shares had been subscribed for on the basis of 2003C stock option program. An aggregate maximum of 90 500 Outokumpu Oyj shares can be subscribed for with the remaining 2003C stock options. In accordance with the terms and conditions of the option program, the dividend adjusted share price for a stock option was EUR 10.94 on December 31, 2008. The share subscription period for the 2003C stock options is 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 2 698 400 and the number of shares by a maximum of 1 587 294 shares. This corresponds to 0.9% of the Company's shares and voting rights.

Outokumpu has also a share-based incentive program for years 2006-2010 as part of the key employee incentive and commitment system of the Company. If persons covered by the program were to receive the number of shares in accordance with the maximum reward, currently a total of 823 760 shares, their shareholding obtained via the program would amount to 0.5% 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 of Outokumpu.

Acquisitions

SoGePar

In July, Outokumpu acquired all the shares in SoGePar Group with final purchase price of EUR 224 million. Outokumpu also took on debt in the company with amount of EUR 87 million. SoGePar has been consolidated into Outokumpu's accounts with effect from August 1, 2008.

SoGePar is an Italian distributor of stainless steel. It operates stainless steel service centers in Castelleone in Italy and in Rotherham in the UK. SoGePar also has stock operations in Italy, the UK, Belgium, Finland, France and Ireland, as well as a commercial office in Germany and a representative office in Turkey.

The purchase price has been allocated to the assets, liabilities and contingent liabilities at their fair value. The purchase price has been allocated to customer relationships, which are amortized during their estimated lifetime of four years. The goodwill recognised on the acquisition is attributable mainly to the skills and market knowledge of the acquired business's work force and the synergies are expected to be achieved from integrating the company into the Group's existing sales and marketing organisation. Also synergy benefits are expected when utilising Outokumpu's own production facilities to supply material to the acquired units. The purchase price allocation is provisional.

Between August 1 and December 31, 2008, SoGePar sales was EUR 143 million and result for the period was EUR 37 million negative.

Acquisitions

Preliminary purchase price allocation

EUR million	
Purchase price	224
Acquisition related costs	4
Fair value of acquired assets and liabilities	-148
Goodwill	79
Acquired cash and cash equivalents	-27
Cash impact of the acquisition	200

Acquired assets, liabilities and contingent liabilities

EUR million	Seller's book values	Fair values
Non-current assets		
Intangible assets	0	47
Property, plant and equipment	33	33
Non-current financial assets	11	11
Current assets		
Inventories	168	168
Current financial assets		
Interest-bearing	6	6
Non interest-bearing	156	156
Cash and cash equivalents	27	27
Non-current liabilities		
Interest-bearing	-25	-25
Non interest-bearing	-21	-33
Current liabilities		
Interest-bearing	-95	-95
Non interest-bearing	-147	-147
Total	114	148

Avesta Klippcenter

In July, Outokumpu acquired the operations of Avesta Klippcenter AB in Avesta, Sweden. Avesta Klippcenter's main business is to process stainless steel material from Outokumpu's mills in Sweden for remelting in Avesta's melt shop. Through the acquisition Outokumpu's raw material handling capacity will increase, and it will secure competitive supply for the Avesta stainless steel melt shop. The total consideration is some EUR 8 million. The purchase price allocation is preliminary and is subject to finalization of the fair valuation of the acquired assets. The preliminary assumption is that the excess value will be allocated partly to intangible assets and partly to property, plant and equipment. The company has been consolidated into Outokumpu's accounts with effect from July 1, 2008.

Between July 1 and December 31, 2008, Avesta Klippcenter sales was EUR 2 million and result for the period was EUR 1 million.

Outokumpu Armetal Stainless Pipe Co., Ltd

In February, Outokumpu OSTP and Saudi Arabian tube manufacturer Armetal, a company in the Al-Hejailan Group, agreed to form Outokumpu Armetal Stainless Pipe Co., Ltd, a 51/49 stainless steel tubular joint venture located in Riyadh, Saudi Arabia. The joint venture company was founded and has been consolidated into Outokumpu's accounts with effect from October 1, 2008. Minority interest of 49% is presented separately from the net profit and disclosed as a separate item in the equity. Outokumpu has invested in the company EUR 1 million as equity and granted loans amounting to EUR 7 million. Based on the preliminary assumption, the excess value of the acquisition of Armetal business will be allocated partly to intangible assets. The purchase price allocation is preliminary.

If all the above mentioned acquisitions had occurred on January 1, 2008, management estimates that Outokumpu Group consolidated sales for the period would have been EUR 5 718 million and consolidated profit EUR -182 million. This estimate is based on the actual transactions of the acquired companies with Outokumpu and third parties.

Non-current assets held for sale and discontinued operations

In June, 2008 Outokumpu sold its remaining copper tube assets to Cupori Group Oy. Outokumpu received EUR 52 million as consideration of the sale. A capital loss of EUR 66 million was booked on the transaction.

The assets sold comprise the copper plumbing installation and industrial tube manufacturing companies in Pori in Finland, Zaratamo in Spain, Västerås in Sweden and Liège in Belgium, as well as the copper tube sales companies in France, Germany and Italy. In 2007, these businesses generated sales of some EUR 510 million with a net loss of some EUR 5 million with a number of personnel of some 730.

The remaining brass rod business produces brass rods for applications in the construction, electrical and automotive industries. The brass rod plant is located in Drünen in the Netherlands and the unit also has a 50% stake in a brass rod company in Gusum, Sweden. Outokumpu Brass employs some 170 employees. The assets and liabilities of brass rod business are presented as held for sale. Outokumpu intends to divest also the brass rod business.

Disputes and litigations

In April 2007, Outokumpu was served a Statement of Objection in which it was alleged that a former Outokumpu subsidiary has been participating in cartel activities at the turn of the century. The investigations have been concluded and Outokumpu was fully released from all allegations with respect to this case.

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

Income statement

EUR million	**Jan-Dec 2008**	Jan-Dec 2007
Sales	**267**	599
Expenses	**-269**	-607
Operating profit	**-2**	-8
Net financial items	**-4**	-6
Profit before taxes	**-6**	-15
Taxes	**-0**	-1
Profit after taxes	**-6**	-15
Impairment loss recognized on the fair valuation of the Outokumpu Copper Tube and Brass division's assets and liabilities	**-6**	-3
Loss on the sale of copper tube business	**-66**	-
Taxes	**-**	-
After-tax result from the disposal and impairment loss	**-73**	-3
Minority interest	**-**	-
Net profit for the period from discontinued operations	**-79**	-18

Balance sheet

EUR million	**Dec 31 2008**	Dec 31 2007
Assets		
Intangible and tangible assets	**2**	6
Other non-current assets	**3**	4
Inventories	**9**	91
Other current non interest-bearing assets	**8**	83
	22	184
Liabilities		
Provisions	**2**	4
Other non-current non interest-bearing liabilities	**1**	5
Trade payables	**2**	32
Other current non interest-bearing liabilities	**1**	11
	6	52

Cash flows

EUR million	**Jan-Dec 2008**	Jan-Dec 2007
Operating cash flows	**-8**	18
Investing cash flows	**-16**	-3
Financing cash flows	**19**	-19
Total cash flows	**-5**	-4

Major non-recurring items in operating profit

EUR million	**Jan-Dec 2008**	Jan-Dec 2007
Thin Strip restructuring in Britain	**-66**	-11
Redundancy provisions	**-17**	-
Gain on the sale of Hitura mine in Finland	**-**	25
	-83	14

Major non-recurring items in financial income and expenses

EUR million	**Jan-Dec 2008**	Jan-Dec 2007
Impairment of Belvedere shares	**-21**	-
Gain on the sale of Outotec shares	**-**	142
Gain on the Talvivaara transaction	**-**	110
	-21	252

Income taxes

EUR million	**Jan-Dec 2008**	Jan-Dec 2007
Current taxes	**-6**	-107
Deferred taxes	**30**	-31
	24	-138

Property, plant and equipment

EUR million	**Jan 1, 2008 - Dec 31, 2008**	Jan 1, 2007 - Dec 31, 2007
Historical cost at the beginning of the period	**3 984**	4 009
Translation differences	**-190**	-76
Additions	**301**	137
Acquisition of subsidiaries	**36**	-
Disposal of subsidiaries	**-**	-20
Disposals	**-108**	-67
Reclassifications	**-2**	0
Historical cost at the end of the period	**4 021**	3 984
Accumulated depreciation at the beginning of the period	**-2 004**	-1 939
Translation differences	**115**	47
Disposal of subsidiaries	**-**	19
Disposals	**83**	56
Reclassifications	**-0**	-0
Depreciation	**-188**	-190
Impairments	**-**	3
Accumulated depreciation at the end of the period	**-1 994**	-2 004
Carrying value at the end of the period	**2 027**	1 980
Carrying value at the beginning of the period	1 980	2 069

Commitments

EUR million	Dec 31 2008	Dec 31 2007
Mortgages and pledges		
Mortgages on land	**189**	122
Other pledges	**5**	0
Guarantees		
On behalf of subsidiaries for commercial commitments	**55**	41
On behalf of associated companies for financing	**5**	5
Other commitments	**59**	64
Minimum future lease payments on operating leases	**52**	56

Group's off-balance sheet investment commitments totaled EUR 93 million on Dec 31, 2008 (Dec 31, 2007: EUR 37 million). On July 3, 2008 Outokumpu signed a deal with Vattenfall on electricity deliveries amounting to around fifteen terawatt hours (TWh) during a ten-year period in Finland and Sweden.

Related party transactions

Transactions and balances with associated companies

€ million	Dec 31 2008	Dec 31 2007
Sales	**0**	0
Purchases	**-13**	-9
Financial income and expenses	**2**	2
Loans and other receivables	**7**	9
Trade and other payables	**0**	0

Fair values and nominal amounts of derivative instruments

EUR million	Dec 31 2008 Positive fair value	Dec 31 2008 Negative fair value	Dec 31 2008 Net fair value	Dec 31 2007 Net fair value	Dec 31 2008 Nominal amounts	Dec 31 2007 Nominal amounts
Currency and interest rate derivatives						
Currency forwards	**69**	**68**	**0**	8	**1 920**	1 992
Interest rate swaps	**2**	**-**	**2**	10	**200**	282
Cross-currency swaps	**7**	**-**	**7**	-	**46**	-
					Number of shares, million	Number of shares, million
Stock options						
Belvedere Resources Ltd.	**0**	**-**	**0**	3	**3.7**	3.7
					Tons	Tons
Metal derivatives						
Forward and futures nickel contracts	**5**	**5**	**-0**	0	**4 729**	3 114
Nickel options, bought	**14**	**-**	**14**	0	**16 758**	24
Nickel options, sold	**-**	**14**	**-14**	-	**11 478**	-
Forward molybdenum contracts	**-**	**-**	**-**	-0	**-**	5
Forward and futures copper contracts	**2**	**2**	**-0**	-2	**4 925**	11 775
Forward and futures zinc contracts	**0**	**0**	**-0**	-0	**1 025**	1 100
Emission allowance derivatives	**1**	**-**	**1**	0	**270 000**	80 000
					TWh	TWh
Electricity derivatives	**2**	**14**	**-11**	16	**1.3**	2.3
	101	**103**	**-1**	35		

Segment information

General Stainless

EUR million	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Sales	1 700	1 670	879	1 073	5 321	1 304	1 222	933	**687**	**4 147**
of which Tornio Works	1 206	1 038	516	708	3 468	905	833	567	**396**	**2 701**
Operating profit	245	188	-224	11	220	81	125	-35	**-177**	**-6**
of which Tornio Works	227	143	-195	3	178	67	114	-22	**-93**	**66**
Operating capital at the end of period	3 047	3 007	2 789	2 607	2 607	2 722	2 671	2 820	**2 663**	**2 663**
Average personnel for the period	3 506	3 794	3 807	3 549	3 682	3 578	4 000	4 163	**3 989**	**3 933**
Deliveries of main products (1 000 tons)										
Cold rolled	187	151	94	155	587	196	162	151	**121**	**628**
White hot strip	81	82	41	66	270	102	85	58	**51**	**297**
Semi-finished products	117	118	64	85	383	100	113	76	**51**	**340**
Total deliveries of the division	386	350	198	305	1 240	398	359	285	**223**	**1 265**

Specialty Stainless

EUR million	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Sales	1 003	1 028	687	738	3 456	786	778	630	**512**	**2 705**
Operating profit	182	196	-51	9	337	42	44	-63	**-123**	**-101**
Operating capital at the end of period	1 668	1 871	1 657	1 513	1 513	1 430	1 449	1 378	**1 174**	**1 174**
Average personnel for the period	4 146	4 188	4 185	4 107	4 135	4 115	4 096	4 192	**4 103**	**4 127**
Deliveries of main products (1 000 tons)										
Cold rolled	51	52	33	38	174	46	44	35	**29**	**154**
White hot strip	43	38	23	31	135	45	40	31	**27**	**142**
Quarto plate	41	43	30	38	151	35	37	28	**27**	**126**
Tubular products	20	17	12	15	63	19	18	14	**15**	**66**
Long products	16	15	11	11	52	14	14	14	**10**	**52**
Total deliveries of the division	170	164	109	133	574	161	153	121	**106**	**541**

Other operations

EUR million	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Sales	64	63	53	57	237	64	63	69	**62**	**258**
Operating profit	1	19	8	-6	21	-20	4	29	**25**	**38**
Operating capital at the end of period	-125	101	184	236	236	-20	283	266	**214**	**214**
Average personnel for the period	477	459	424	431	453	447	487	507	**525**	**492**

Income statement by quarter

EUR million	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Continuing operations:										
Sales										
General Stainless	1 700	1 670	879	1 073	5 321	1 304	1 222	933	**687**	**4 147**
of which intersegment sales	421	430	230	234	1 315	284	337	216	**157**	**993**
Specialty Stainless	1 003	1 028	687	738	3 456	786	778	630	**512**	**2 705**
of which intersegment sales	169	193	119	124	605	124	120	85	**78**	**407**
Other operations	64	63	53	57	237	64	63	69	**62**	**258**
of which intersegment sales	48	45	43	45	181	57	57	61	**61**	**235**
Intra-group sales	-638	-669	-391	-403	-2 101	-465	-514	-362	**-295**	**-1 636**
Total sales	2 129	2 092	1 227	1 465	6 913	1 689	1 549	1 270	**966**	**5 474**
Operating profit										
General Stainless	245	188	-224	11	220	81	125	-35	**-177**	**-6**
Specialty Stainless	182	196	-51	9	337	42	44	-63	**-123**	**-101**
Other operations	1	19	8	-6	21	-20	4	29	**25**	**38**
Intra-group items	-4	2	11	2	11	-3	1	3	**4**	**6**
Total operating profit	424	406	-256	15	589	100	174	-66	**-271**	**-63**
Share of results in associated companies	2	4	-2	-1	4	0	1	-2	**-1**	**-2**
Financial income and expenses	-10	242	-19	-7	206	-20	-8	-14	**-26**	**-69**
Profit before taxes	416	652	-277	7	798	80	166	-82	**-298**	**-134**
Income taxes	-105	-100	67	-0	-138	-19	-36	9	**71**	**24**
Net profit for the period from continuing operations	311	553	-210	7	660	61	130	-73	**-228**	**-110**
Net profit for the period from discontinued operations	-4	12	-4	-23	-18	2	-74	-1	**-5**	**-79**
Net profit for the period	307	565	-214	-16	641	63	56	-74	**-233**	**-189**
Attributable to:										
Equity holders of the Company	305	563	-214	-16	638	63	56	-74	**-233**	**-189**
Minority interest	2	2	-0	-0	4	-	-	-	**-0**	**-0**

Major non-recurring items in operating profit

EUR million	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Specialty Stainless										
Thin Strip restructuring in Britain	-	-	-11	-	-11	-	-	-66	**-**	**-66**
Redundancy provisions	-	-	-	-	-	-	-	-	**-17**	**-17**
Other operations										
Gain on sale of Hitura mine in Finland	-	25	-	-	25	-	-	-	**-**	**-**
	-	25	-11	-	14	-	-	-66	**-17**	**-83**

Major non-recurring items in financial income and expenses

EUR million	I/07	II/07	III/07	IV/07	2007	I/08	II/08	III/08	**IV/08**	**2008**
Impairment of Belvedere shares	-	-	-	-	-	-12	-	-	**-9**	**-21**
Gain on the sale of Outotec shares	-	142	-	-	142	-	-	-	**-**	**-**
Gain on the Talvivaara transaction	-	110	-	-	110	-	-	-	**-**	**-**
	-	252	-	-	252	-12	-	-	**-9**	**-21**

Key figures by quarter

EUR million	I/07	II/07	III/07	IV/07	I/08	II/08	III/08	**IV/08**
Operating profit margin, %	19.9	19.4	-20.9	1.0	5.9	11.2	-5.2	**-28.1**
Return on capital employed, %	38.8	35.5	-22.3	1.4	10.0	17.2	-6.3	**-26.8**
Return on equity, %	39.3	66.2	-24.3	-2.0	7.7	7.0	-9.3	**-31.5**
Return on equity, continuing operations, %	39.8	64.8	-23.9	0.8	7.5	16.3	-9.2	**-30.8**
Capital employed at end of period	4 377	4 753	4 421	4 125	3 899	4 166	4 228	**3 867**
Net interest-bearing debt at end of period	1 189	1 119	1 016	788	737	939	1 096	**1 072**
Equity-to-assets ratio at end of period, %	47.2	50.9	54.6	56.5	53.2	54.8	52.3	**52.4**
Debt-to-equity ratio at end of period, %	37.3	30.8	29.8	23.6	23.3	29.1	35.0	**38.4**
Earnings per share, EUR	1.69	3.11	-1.19	-0.09	0.35	0.31	-0.41	**-1.30**
Earnings per share from continuing operations, EUR	1.71	3.04	-1.17	0.04	0.34	0.72	-0.41	**-1.27**
Earnings per share from discontinued operations, EUR	-0.02	0.07	-0.02	-0.13	0.01	-0.41	-0.01	**-0.03**
Average number of shares outstanding, in thousands [1)]	181 067	181 082	181 084	180 680	180 112	180 172	180 223	**180 231**
Equity per share at end of period, EUR	17.51	20.07	18.81	18.53	17.56	17.91	17.38	**15.50**
Number of shares outstanding at end of period, in thousands [1)]	181 082	181 082	181 084	180 103	180 127	180 222	180 228	**180 233**
Capital expenditure, continuing operations	25	75	47	43	41	56	317	**129**
Depreciation, continuing operations	51	50	51	52	50	50	52	**54**
Average personnel for the period, continuing operations	8 129	8 441	8 416	8 086	8 140	8 583	8 862	**8 617**

[1)] The number of own shares repurchased is excluded.

Definitions of key financial figures

Capital employed = Total equity + net interest-bearing debt

Operating capital = Capital employed + net tax liability

Return on equity = $\dfrac{\text{Net profit for the financial year}}{\text{Total equity (average for the period)}} \times 100$

Return on capital employed (ROCE) = $\dfrac{\text{Operating profit}}{\text{Capital employed (average for the period)}} \times 100$

Net interest-bearing debt = Total interest-bearing debt – total interest-bearing assets

Equity-to-assets ratio = $\dfrac{\text{Total equity}}{\text{Total assets – advances received}} \times 100$

Debt-to-equity ratio = $\dfrac{\text{Net interest-bearing debt} \times 100}{\text{Total equity}}$

Earnings per share = $\dfrac{\text{Net profit for the financial year attributable to the equity holders}}{\text{Adjusted average number of shares during the period}}$

Equity per share = $\dfrac{\text{Equity attributable to the equity holders}}{\text{Adjusted number of shares at the end of the period}}$