

” NOW WE FOCUS...

OUTO
KUMPU

Annual Report 2006



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OUTOKUMPU 2006

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2006 IN BRIEF

GROUP KEY FIGURES

		2006	2005
Sales	€ million	6 154	5 016
Operating profit	€ million	824	57
Non-recurring items in operating profit	€ million	1	(129)
Profit before taxes	€ million	784	(8)
Net profit/(loss) for the period from continuing operations	€ million	606	(24)
Net profit/(loss) for the period from discontinued operations	€ million	357	(339)
Net profit/(loss) for the period	€ million	963	(363)
Capital employed on Dec. 31	€ million	4 371	3 599
Return on capital employed	%	20.7	1.3
Net cash generated from operating activities	€ million	(35)	459
Capital expenditure	€ million	187	164
Net interest-bearing debt on Dec. 31	€ million	1 300	1 537
Equity-to-assets ratio	%	47.9	38.2
Debt-to-equity ratio	%	42.3	74.5
Earnings per share	€	5.31	(2.01)
Earnings per share from continuing operations	€	3.34	(0.14)
Earnings per share from discontinued operations	€	1.97	(1.87)
Equity per share	€	16.87	11.31
Dividend per share	€	1.10 ¹⁾	0.45
Share price on Dec. 31	€	29.66	12.55
Market capitalization on Dec. 31	€ million	5 369	2 272
Stainless steel deliveries	1 000 tons	1 815	1 647
Stainless steel base price ²⁾	€/ton	1 470	1 174
Personnel on Dec. 31, continuing operations		8 159	8 963

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

²⁾ Stainless steel: CRU – German base price (2 mm cold rolled 304 sheet)



OUTOKUMPU IS an international stainless steel company. Our vision is to be the undisputed number one in stainless, with success based on operational excellence. Customers in a wide range of industries – from the process industry and industrial machinery to building, construction and transportation, electronics and information technology, as well as catering and households – use our stainless steel and services worldwide. We are dedicated to helping our customers gain competitive advantage.

OUTOKUMPU OPERATES in some 30 countries and employs more than 8 000 people. In 2006, the Group's sales were 6.2 billion euro, of which some 95 per cent was generated outside Finland. The Group's headquarters is located in Espoo, Finland. Outokumpu Oyj has been listed on the Helsinki Stock Exchange since 1988.

www.outokumpu.com.

SOLID EXPERIENCE IN METALS

Outokumpu's path to stainless

Outokumpu's decision to focus on stainless steel is based on two fundamental reasons. Firstly, the global consumption of stainless steel is growing faster than that of other metals, offering the best earnings potential for the company. Secondly, the state-of-the-art integrated stainless production facility for volume products in Tornio, together with special grades producing facilities, form a solid base to take advantage of the market potential.



2005–

- Divestiture of the fabricated copper products business
- Expansion of Tornio Works completed
- Performance improvement initiatives started
- Sale of shares and listing of Outokumpu Technology

INTERNATIONAL METALS & MINING HOUSE

~1990–2000



~1990–2000

- Build-up of fabricated copper products operations through acquisitions
- Build-up of the Technology business
- Exit from metals chemicals and nickel
- Start of exiting mining
- Establishing base for a focused European stainless player



TRANSITION FROM MULTI-METALS TO STAINLESS COMPANY

2001–2004



2001–2004

- Formation of AvestaPolarit
- Start of Tornio expansion
- Acquisition of full ownership in AvestaPolarit
- Acquisitions to strengthen Technology
- Formation of new Boliden
- New strategy based on leadership in stainless steel



TOWARDS GLOBAL LEADERSHIP IN STAINLESS

2005–

OUTOKUMPU'S MARKET POSITION IN STAINLESS STEEL

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

Main products and customers

Outokumpu's main products are cold and hot rolled stainless steel coil, sheet and plate. Other products include precision strip, hot rolled plate, long products as well as tubes and fittings.

The products are mainly used in the process industries such as pulp and paper, oil and gas, chemicals, the automotive industry as well as building and construction and also catering and households. Outokumpu also produces specialty stainless products e.g. for the electronics and IT industries.

Outokumpu's market position

The global market totals 28 million tons or some EUR 75 billion. During the last twenty years, consumption has grown at a rate of 5–7% per annum. In Europe, the Group's main market area, the market totals 4.7 million tons and consumption has grown by 3% annually. In recent years, the largest growth has occurred in China with a growth rate of some 20% annually.

Outokumpu is one of the world's largest producers of stainless steel with main pro-

duction facilities located in Finland, Sweden, Britain and the US. Melting capacity totals 2.55 million tons and the capacity for cold rolled material and white hot strip is 1.6 million tons. Outokumpu also produces 0.3 million tons of long products and plate annually. In global terms, Tornio Works is one of the world's most cost-efficient and the most integrated single-site stainless steel production facility. In addition to Outokumpu's main product, austenitic stainless steel, Outokumpu has started production of ferritic stainless (60 000 tons annual capacity) at Tornio Works in 2007.

Outokumpu has a 24% share of the stainless steel coil market in Europe and an 8% share worldwide. Main markets are Europe (76% of sales in 2006), Asia (11%) and North and South America (10%).

Raw materials and energy

Recycled stainless and carbon steel as well as ferrochrome and nickel are the main raw materials used in producing stainless steel. Outokumpu operates its own chromite mine at Kemi and a ferrochrome smelter at Tornio, both in Finland. Recycled stainless and carbon steel as well as nickel and some of the ferrochrome are purchased on the open market. Nickel accounted for 69 percent of all raw material costs in Outokumpu's production of stainless steel in 2006.

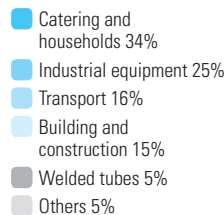
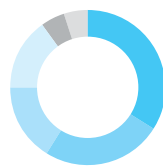
Electrical energy accounts for some 5% of total costs. The largest consumers of electrical energy in the Group are the Tornio ferrochrome smelter and the stainless steel melt shops in Tornio, Avesta in Sweden and Sheffield in Britain.

MAJOR PRODUCERS

Estimated slab capacity million tons	2006	2008
ThyssenKrupp, Germany	2.84	3.14
Arcelor Mittal, The Netherlands	2.82	3.22
Acerinox, Spain	2.73	3.08
Outokumpu, Finland	2.55	2.55
POSCO, South Korea	2.10	2.60
TISCO, China	1.50	3.00
Baosteel, China	1.44	1.44

Source: CRU and Outokumpu

END-USES OF STAINLESS STEEL



Source: CRU. Global consumption of cold rolled flat products 2006.



VISION AND STRATEGIC DIRECTION



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

one in stainless means:

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

Strategic objectives

We have defined two key strategic objectives:

- Value creation through building superior production and distribution capabilities in all the world's major markets
- Value realization through commercial and production excellence



Being the undisputed number one in stainless means:

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

We aim to be the undisputed number one in stainless steel

Outokumpu's future success will be achieved by building and reinforcing operational excellence in both the commercial and production sectors. This operational excellence will be leveraged first in Europe and later on outside Europe to achieve global leadership: becoming the undisputed number one in stainless steel over ten years.

In the light of Outokumpu's target of continuing to grow faster than the market, the operational excellence efforts will be supported by further development of the Group's current asset base, value chain and product offering.

Financial objectives

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

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

Dividend policy

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

Ethical principles

- Outokumpu honors human dignity and diversity, and condemns discrimination and intolerance of all kinds.
- Outokumpu strives to achieve sustainable human, economic, social and ecological development in all its operations.
- Outokumpu observes the laws and other regulations of the countries it operates in, and complies with agreements and commitments it has made. Furthermore, Outokumpu condemns corruption and bribery and complies strictly with competition legislation.
- A healthy and positive workplace is a source of strength for all employees and benefits families, friends and colleagues as well.

Leadership principles

Outokumpu has during 2006 defined leadership principles, which cover the whole organization. The main principles are:

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

” ... ON STRONG CUSTOMER PROMISE ...



Outokumpu's key strengths:

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



CEO'S REVIEW



I am very pleased to report that 2006 was an excellent year for Outokumpu in many respects.

Financially we recorded the best year ever in the company's history. The return on capital employed of 20.7% clearly exceeds our target of a minimum of 13%. The great results achieved are partly due to the very strong stainless markets experienced in 2006. Coming from a weak situation in 2005, last year showed strong growth in both the European and global stainless steel markets driven by strong end-user demand. Especially sectors related to process industries and energy showed healthy growth.

Our good financial performance was not only market-related. Also the various improvement initiatives started in the Group in 2005 contributed to our improved performance.

Operationally, last year was successful as well. Both sales and production performed well and our benchmark Tornio facility ran at full load, demonstrating the potential of its increased capacity.

Short-term cost-related improvement programs progressed according to plan. The closure of the Sheffield coil products unit was completed during the spring of 2006 resulting in EUR 50 million annual improvement of profitability. The separate fixed-cost reduction program targeting at EUR 100 million cost reduction was completed during the latter part of the reporting year.

Our long-term Excellence programs also accelerated last year. Both the Commercial and Production Excellence initiatives are progressing very well and will significantly improve both our operations and our financial results in the coming years.

From a strategic perspective, our main achievement in 2006 was the successful listing of Outokumpu Technology. This allows both the parent company Outokumpu as well as Outokumpu Technology to fully focus on their respective markets and industries to strengthen their positions. The listing also resulted in a significant strengthening of our balance sheet – and at year-end with the gearing of 42.3% we are well below our target level (75%).

Key priorities going forward

Based on the progress so far, I believe we are well on our way towards our vision of becoming the “Undisputed Number 1 in Stainless”. Our key priorities for this year are: increased customer focus, strengthening the competitiveness of our operations, and growth.

In line with our vision, we have stated that we want to become the industry's benchmark in managing customer relationships. The ongoing Commercial Excellence program, known within the Group as K2, is working towards that end. Within the program, we are currently improving our pricing discipline as well as introducing a key account management approach to serve our most important customers. Overall, we want to act more as “one company” when serving our customers. Improving delivery reliability and the joint development of new products are examples of items high on our agenda. In order to better serve the customers, we will strengthen our service center capabilities in the key markets.

We have an excellent starting point for securing the competitiveness of our operations. Our main production facility, Tornio, is regarded as the benchmark in stainless industry in terms of both cost and efficiency. The role of Tornio is to focus on standard grades. We will put increased effort on de-

veloping the specialty features of our Swedish, British and US production operations.

The reduction of fixed costs will significantly improve the competitiveness of our operations, especially in possible weak market scenarios. Also the Production Excellence program (OK-1) will strengthen the competitiveness by improving material yield and equipment efficiency. Both of the Excellence initiatives require new ways of working, where people's involvement is a key factor. To support this, leadership skills will have an increased focus. We are rolling out in the organization Outokumpu's leadership principles, which are a set of behaviours that we expect our leaders at all levels to practice.

The development agenda launched in early 2005 characterized the most immediate years to be those with internal development as first priority. I believe that towards the end of 2007 we start to be financially and managerially ready to begin targeting growth in the years thereafter. During 2007, we are mapping the various growth alternatives both structural and organic as well as diverse in geographic scope and product focus. However, when driving for growth, we will have our financial targets as guidelines, and we will not compromise on them.

Finally, I would like to thank all our stakeholders for their continued support. A special word of thanks I would like to extend to Outokumpu personnel for their great efforts in making 2006 the best year ever in the company's history.

Juha Rantanen
CEO

...TO BECOME THE
UNDISPUTED NUMBER ONE.

Our key priorities
for this year
are: increased
customer focus,
strengthening the
competitiveness
of our operations,
and growth



HIGHLIGHTS OF THE YEAR

€
30

January 2006

Stainless steel markets started to recover after a difficult year 2005. Heavy de-stocking phase was over and CRU quoted base prices started to increase from the lowest ever level of 1 030 EUR/ton. The price of nickel, the main alloying material of stainless, was high at around 15 000 USD/ton. Market sentiment was cautiously optimistic.

Q2

Q2

Operating profit for Q2 improved substantially to EUR 149 million due to strong demand and higher base prices (end of Q2: 1 435 EUR/ton). Several production records were achieved. Nickel markets continued to be tight and volatile. Nickel price exceeded 29 000 USD/ton in July. The closure of Coil Products Sheffield was completed. Order backlog was record high.

Q1

20

Q1

Solid upturn in the stainless steel markets, a strong increase in end-user demand, and increased deliveries improved the Group's operating profit to EUR 67 million. Base prices were at 1 180 EUR/ton at the end of Q1. Outokumpu's fixed-cost reduction and Operational Excellence programs proceeded well. Order backlog was firm and all mills ran at full load.

10

Q1

Q2

Outokumpu share price 2006

Outokumpu Technology IPO

Outokumpu carried out the sale of shares of Outokumpu Technology through an IPO and Outokumpu Technology Oyj was listed on the Helsinki Stock Exchange on October 10. After the sale of shares, Outokumpu holds a 12% stake in Outokumpu Technology.

Q4

The base prices reached 1 980 EUR/ton and transaction prices 4 136 EUR/ton at the end of 2006. Outokumpu's mills ran at full load and order backlog was strong. The Group's cost-cutting initiatives and Excellence programs started to contribute to profits. Outokumpu made its best-ever quarterly operating profit of EUR 378 million.

Q3

Demand for stainless continued very strong. Stainless steel base prices reached 1 640 EUR/ton at the end of Q3. Outokumpu gave a positive profit warning due to the soaring base prices and nickel-related inventory gains. The Group reported a strong operating profit of EUR 231 million for Q3 in spite of lower deliveries due to the annual maintenance breaks. Nickel price rose to a level of 34 000 USD/ton resulting in extraordinary high alloy surcharges and transaction prices of stainless steel. The nickel price had a negative impact on the Group's working capital and cash flow.

January 2007

Global economic growth is expected to remain solid in 2007. Confidence in the European manufacturing sector is at a high level indicating good demand for stainless steel.

Q3

Q4

MARKET REVIEW



Good economic development supported stainless steel demand and prices

Following growth of 3.3% in 2005, global GDP increased at the faster pace of 3.8% in 2006. Economic growth on an annual level in the US was good at 3.3%. In Japan, the recovery continued and the economy grew by 2.4%. Chinese GDP again expanded aggressively, growing at a rate of 10.7%. After several years of rather sluggish economic development, the economies of the European Union registered markedly better growth during 2006. GDP in the European Union rose by 2.8%, a clear improvement over 1.7% in 2005. Both corporate investment and household consumption developed positively.

In the main markets for stainless steel in Europe, especially in Germany and Italy, GDP and industrial production grew at their fastest pace for many years, creating a positive environment for stainless steel demand. In Germany, GDP grew by 2.5% while industrial production accelerated by 5.4%. In Italy, GDP increased by 1.8% and industrial production, following five consecutive years of decline, grew by 1.9%.

Global economic growth is expected to slow down somewhat but to remain solid in 2007 following the good pace of development in 2006. Economic activity in the US has been slowing through the course of 2006 and this downward trend is expected to continue into 2007, due to the ongoing correction in the housing market and current weakness in the goods producing sector. In Europe, leading indicators and business confidence suggest that the currently buoyant economic environment will spill over into 2007 and keep growth rates at relatively good levels, albeit below those experienced in 2006.

Strong year for stainless demand

2006 was an excellent year in stainless markets, underpinned by strong demand from

end-use industries and a significant recovery in demand from the stainless distribution sector. In many ways, 2006 was the complete opposite of 2005. Oversupply and a sustained period of de-stocking by the stainless distribution sector in 2005 caused apparent consumption of stainless steel flat products to decline in both Europe and the US. These market conditions caused significant temporary and permanent production cutbacks to be implemented throughout the industry. According to CRU (Commodities Research Unit), European stainless cold rolled 304 base prices declined throughout 2005, from a level of 1 400 EUR/ton at the start of the year to 1 030 EUR/ton in December. However, 2005 proved to be the lowest point of the cyclical downturn and stainless demand mounted a strong recovery in 2006. At the start of 2006, stocks of stainless steel throughout the supply chain had declined to very low levels. With stainless steel transaction prices at their lowest for two years and with clear signs of an improving economic and industrial environment, stainless steel end-users returned to the market. This prompted stainless steel distributors, fabricators and other actors in the supply chain to begin ordering new material. Stainless producers, after enforcing production cutbacks during 2005, struggled for many months to adapt to the sudden increase in demand. During the first half of 2006, in particular, stainless steel demand exceeded supply and mill leadtimes lengthened, despite the fact that producers in Europe were operating at full capacity. As a result, stainless steel base prices rose throughout the year. According to CRU, cold rolled 304 base prices in Germany rose from a level of 1 070 EUR/ton in January, to 1 980 EUR/ton in December. The average cold rolled 304 base price in Germany increased to 1 470 EUR/ton in 2006, up from 1 174 EUR/ton in 2005.

Worldwide demand for stainless steel flat products increased by 15% in 2006. There were, however, significant regional variances from the overall global level. After several years of slower growth, overshadowed by rapid

increase in demand in developing countries in Asia, demand in Western Europe and the US increased strongly. Apparent consumption of stainless steel flat products in Western Europe increased by 17% in 2006 and by 14% in the US. Demand also continued to grow strongly in China and the rest of Asia, increasing by 9% and 16% respectively.

**2006 was
an excellent year
in the stainless
markets, under-
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end-use industries
and a significant
recovery of demand
from the stainless
distribution sector**

Demand from all the main end-use sectors was strong. According to CRU, annual growth in demand for cold rolled stainless steel was particularly strong in the catering and household (+21%), industrial equipment (+13%), transport (+12%) and construction (+11%) sectors.

The strong economic environment during 2006 ensured positive development in demand from key end-use sectors involved in the production of oil and gas, liquid natural gas (LNG), bio-fuels, pulp and paper, chemical tankers and water desalination plants. The ever-increasing global need for both energy and water will ensure that demand from these

segments remains healthy. Also, the low life-cycle costs of stainless steel in construction applications is attracting increasing use of stainless steel in the architecture, building and construction related segments.

Demand and prices for all forms of stainless steel products developed positively in 2006. Demand for plate products benefited from investments in industrial equipment and energy related sectors and prices increased during the year. Demand for tubular products increased markedly. Tubular demand benefited from re-stocking by the distribution sector and continued investments in oil and gas production. Tubular prices improved significantly in 2006. Demand for stainless steel long products also improved. While prices developed positively, the scale of increases did not match those for flat products, because of the more fragmented nature of production in the long products industry.

Nickel prices surpass all expectations

The price of stainless steel consists of two elements: the base price, which is determined on an individual basis by stainless steel producers, and the alloy surcharge, which is directly related to the cost of the alloying elements contained in the particular stainless steel grade. The main raw material components of the alloy surcharge are nickel, ferrochrome, molybdenum, and recycled steel (iron). In 2006, the cost of all alloying elements either increased further or remained at high levels, by historical standards.

During the year, the price of nickel rose to set a succession of new all-time highs. From a level of 14 500 USD/ton in January, LME nickel prices had reached around 35 000 USD/ton at the year-end. The average yearly price increased to 24 254 USD/ton in 2006, up from 14 744 USD/ton in 2005. The strong recovery in stainless steel markets also resulted in an upturn in demand for nickel. The supply of nickel was also affected by a number of issues that reduced production, from mechanical failures to industrial action and protests by local residents at some mines. CRU estimate that approximately 40 000 tons





of planned nickel production was lost in 2006 as a result of problems that affected production. In the context of world-wide annual nickel production of 1.3 million tons, the loss to supply was significant. These production losses, when combined with strong demand from the stainless sector, the main user of nickel, led to a significant reduction in nickel stocks and a tight physical market. Nickel prices began a strong upward rally in early 2006 and reached 34 000 USD/ton in August. Nickel prices then remained in the 30 000–36 000 USD/ton range during the rest of the year. While both good demand and supply issues undoubtedly add-

ed to the upward momentum of the nickel price, which is determined by open trading on the London Metal Exchange, many argue that the surge in nickel prices can be largely attributed to increased speculative activity of investment funds. The scale of investment by the funds and their increasing role in determining nickel prices, makes the forecasting of nickel price developments extremely difficult. Nickel prices are expected to remain high and volatile in 2007.

Ferrochrome prices climbed to a yearly average of 0.74 USD/lb in 2005, the highest level since 1989. By the beginning of 2006, however, ferrochrome prices had slipped to a two-year low of 0.63 USD/lb because of reduced demand from the stainless industry caused by cuts in production. As demand for stainless steel increased through 2006,

so did demand for ferrochrome and prices rose accordingly. By the end of 2006, ferrochrome prices had appreciated to 0.78 USD/lb with an annual average of 0.72 USD/lb being recorded.

Molybdenum prices were at very high levels during the course of 2005 and despite moderating in 2006 remained high by historical standards. The average price of molybdenum oxide delivered in Europe in 2006 was 25.10 USD/lb, down from 32.51 USD/lb in 2005, but still significantly higher than the average of 14.50 USD/lb during 2002–2005.

The price of recycled steel (iron) appreciated during the first half of 2006 but fell back somewhat during the second half of the year. Despite this the annual average price increased from 204 USD/ton in 2005 to 230 USD/ton in 2006.

Prices for recycled stainless steel rose during 2006. When demand for both stainless steel and nickel is strong, prices for recycled stainless steel increase as availability tightens. According to CRU, the annual average European recycled stainless steel price increased by 50% from 1 478 USD/ton in 2005 to 2 221 USD/ton in 2006.

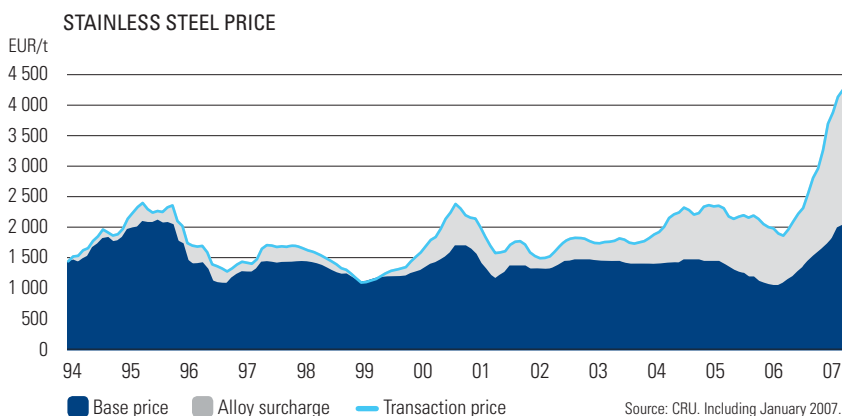
The dramatic appreciation of nickel prices, in particular during the last two years, has led to concern that the demand for 300-series austenitic stainless steels will be negatively influenced. Despite higher nickel prices, demand for 300-series stainless steels increased in 2006. According to CRU, the share of total world stainless steel production for 300-series stainless steels increased to 66%, up from 65% in 2005. However, during the next couple of years, increasing production of ferritic (400-series) and chrome manganese (200-series) stainless steels is expected to bring the 300-series production ratio down into the 64–65% range. Worldwide consumption of special grades continues to grow and during 2006 there was excellent demand for Outokumpu's extensive range of special grades (e.g. Duplex and Lean Duplex stainless steels). Demand prospects for these special grades remain excellent.

ANNUAL AVERAGE METAL MARKET PRICES

		2002	2003	2004	2005	2006	Change % 2006/2005
Stainless steel							
Base price	EUR/t	1 403	1 397	1 424	1 174	1 470	25.2
Alloy surcharge	EUR/t	312	396	828	942	1 341	42.4
Transaction price	EUR/t	1 715	1 793	2 252	2 116	2 811	32.8
Nickel							
	USD/t	6 772	9 641	13 852	14 744	24 254	64.5
	EUR/t	7 561	10 196	12 245	11 851	19 317	63.0
Ferrochrome (Cr-content)							
	USD/lb	0.31	0.43	0.69	0.74	0.72	(2.7)
	EUR/kg	0.73	0.84	1.22	1.32	1.26	(4.5)
Molybdenum							
	USD/lb	3.94	5.40	16.39	32.51	25.10	(22.8)
	EUR/kg	9.18	10.52	29.05	57.61	44.08	(23.5)
Recycled steel							
	USD/t	102	147	219	204	230	12.7
	EUR/t	107	130	176	164	183	11.6

Sources:
 Stainless steel: CRU – German base price, alloy surcharge and transaction price (2 mm cold rolled 304 sheet), estimates for deliveries during the period
 Nickel: London Metal Exchange (LME) cash quotation
 Ferrochrome: Metal Bulletin – Ferrochrome lumpy chrome charge, basis 52% chrome
 Molybdenum: Metal Bulletin – Molybdenum oxide, Europe
 Recycled steel: Metal Bulletin – Steel scrap HMS 1&2 fob Rotterdam

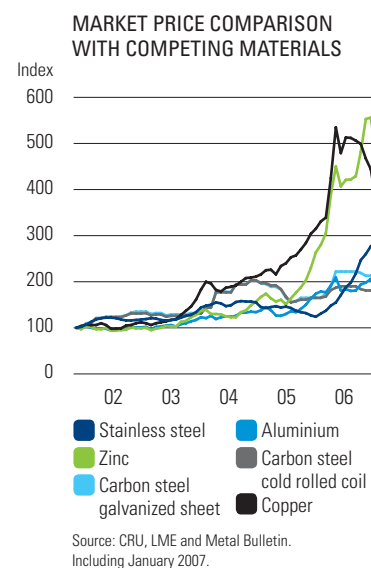
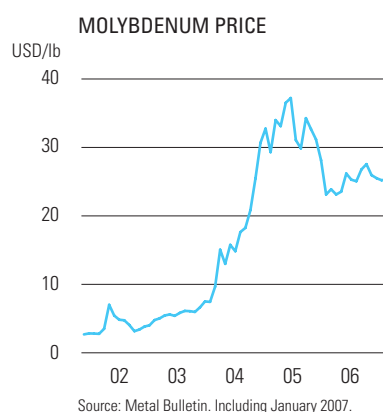
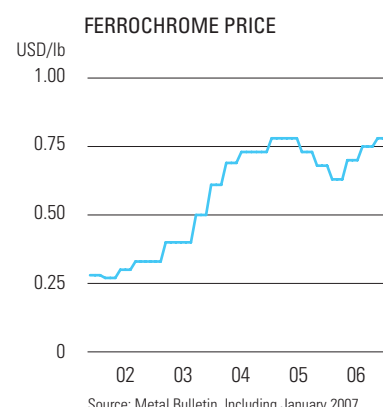
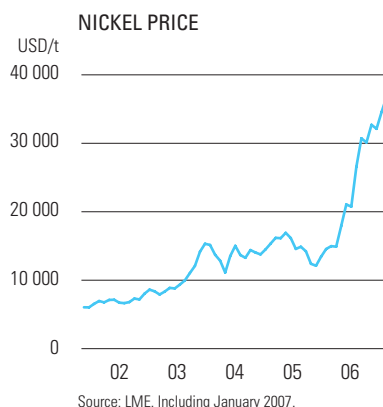
Underlying demand from key end-use industries is expected to continue firm in 2007



Good outlook for underlying demand

Following an extremely strong year for stainless steel demand in 2006, slower growth can be expected in 2007. Demand from key end-use industries will continue to be firm, but on the supply side the impact of increasing stainless steel production in China will continue to affect global supply patterns. Both capacity and domestic production are expected to increase further in China in 2007. During the second half of 2006, Asian exports of stainless steel to Europe increased as a result of higher prices and strong demand in the European market. These imports led to increased availability of stainless steel and eased the supply/demand situation. 2007 has begun with high stainless prices and greater availability of stainless steel. Underlying demand from key end-use industries is expected to continue firm. With nickel prices climbing to new record highs in January, the distributor sector seems more cautious.

Generally, growth in demand for stainless steel in Western Europe is expected to slow to trend, but the strong expansion of demand in China, other developing economies in Asia, in Eastern Europe and South America will continue.



MANAGEMENT DISCUSSION ON STRATEGY AND FINANCIAL PERFORMANCE



Major steps and excellent financial performance on the path towards the vision

In 2006, Outokumpu delivered record profits and took a major step in the transformation from a multi-metals group to a pure stainless steel player with the sale of shares and listing of Outokumpu Technology. The foundation for pursuing the undisputed number one position in stainless steel has now been established from both financial flexibility and management focus point of view. In operational terms, the Group focused on implementing the Operational Excellence programs in both production and commercial activities during 2006.

Focus on stainless steel

In Tornio, Outokumpu has one of the world's most cost-efficient and most integrated production sites producing standard grade stainless steel. Furthermore, the Group's innovative approach and thorough knowledge of stainless steel technology means that it also has a strong position in specialized stainless products. By being a significant player in the rapidly growing stainless steel market, Outokumpu is well positioned to meet its financial objective of generating the maximum sustainable economic value added on the capital that the shareholders have invested in the company.

Outokumpu's current priorities on the path towards the vision of becoming the undisputed number one in stainless steel are ensuring the competitiveness of the Group's European asset base, increased focus on managing the customer interface, readiness and steps towards growth and global consolidation, and improving stability over the business cycle. These priorities are being implemented consistently throughout the Group via a strong one-company management approach and mindset.

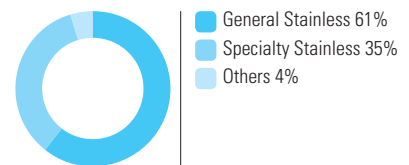
In 2005, Outokumpu launched several measures to ensure the competitiveness of its operations. The fixed-cost reduction program targeting annual savings of EUR 100 million and the closure of Coil Products Sheffield, improving annual operating



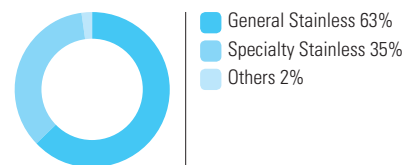
Outokumpu's financial objective is to generate maximum sustainable economic value added on the capital that the shareholders have invested in the company. The Group's financial objectives aligned with the vision of becoming number one in stainless in terms of growth, profitability and financial strength are:

- Continue to grow faster than the market
- Return on capital employed of more than 13% and always the best amongst peers
- Gearing below 75%

SALES, 6 154 € MILLION



OPERATING CAPITAL, 4 553 € MILLION



PERSONNEL AT YEAR-END, 8 159



profit by EUR 50 million, were both completed in 2006. Combined benefits from the longer-term Commercial and Production Excellence programs are expected to total EUR 40 million in 2007, EUR 80 million in 2008 and EUR 160 million on an annual basis thereafter. Excellence is also the aspiration in safety performance and leadership, both of which are core elements in competitiveness.

Outokumpu's aim is to become the industry benchmark in managing customer relationships and in satisfying customer needs with the products and services provided. Currently, Outokumpu is building a key account management concept and harmonizing pricing policies and practices. Customers are being segmented on the basis of their needs and sales models. In order to satisfy customer expectations, there will be a strong emphasis on delivery reliability which was not satisfactory in 2006.

As preparation for taking steps in global growth and consolidation, the Group's capital structure is also under strong focus. Tight management of working capital continued in 2006. However, working capital increased significantly by EUR 975 million to EUR 1 990 million mainly as a result of the nickel price more than doubling during the year. The Group's short-term profitability improvement program also included tight capital expenditure discipline with an annual maximum on operational going-concern capital expenditure of EUR 175 million in both 2006 and 2007. In 2006, however, capital expenditure was, as expected, slightly higher at EUR 187 million due to delayed phasing and rollovers from 2005, but it was still below the depreciation level of EUR 221 million. Capital expenditure for possible growth opportunities will be considered separately. Outokumpu continuously monitors the Group's business portfolio and maps a variety

of structural and organic growth alternatives, which are diverse in their geographic scope and product focus. In the drive for growth, Outokumpu will, however, ensure that the businesses fit the Group's strategy and meet defined profitability and performance targets.

To improve stability through business cycles, Outokumpu is focusing on steel grades and products for which demand and prices are less volatile. The Group will continue to develop its successful duplex grades and explore the rapidly growing market opportunities. While duplex grades include smaller amounts of nickel and are thus less affected by changes in the price of this alloying element, ferritic grades do not include any nickel. The EUR 13 million investment in ferritic stainless steel production at Tornio coming on stream in early 2007 will therefore reduce cyclicity even further. Traditionally, especially in standard grades, stockists in-



crease demand volatility between stainless steel producers and end-users. Focus on customer relationships and expansion of the Group's own distribution network are key tools in Outokumpu's target of selling more to the end-users in the future.

Factors affecting Outokumpu's profitability

The stainless steel business is cyclical. In addition to the company's own actions, Outokumpu's profitability depends on the economic cycle in the world economy and especially on the level of industrial investment. Over the long term, demand for stainless steel has been growing at an annual rate of 5–7%. Changes in regional or global capacity can sometimes have an adverse effect on stainless markets if they result in a temporary imbalance

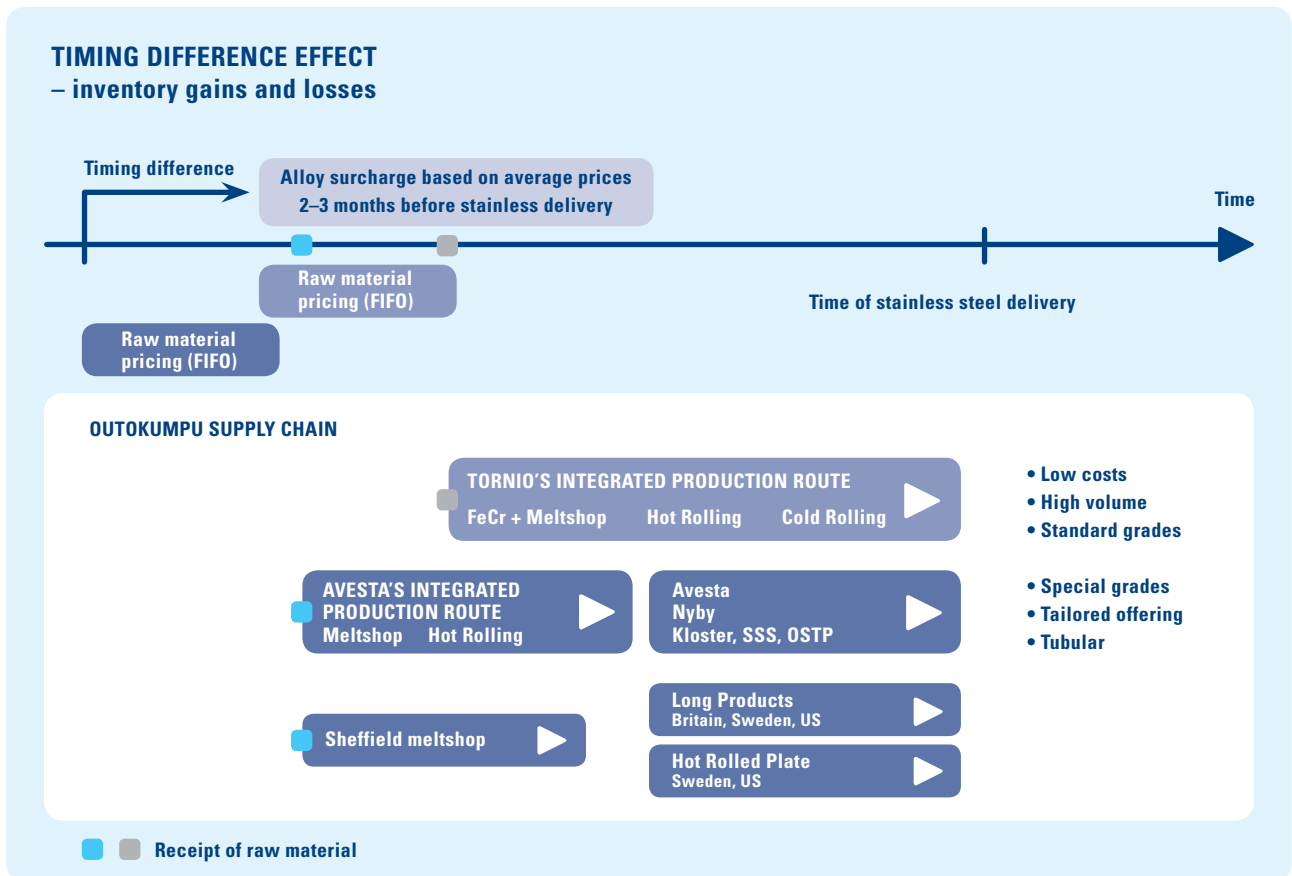
between supply and demand. Increasing stainless steel production capacity in China will continue to affect global supply in the coming years.

A key factor that directly affects Outokumpu's profitability is the development of the base price of stainless steel. This price level is linked to the economic cycle, and especially to the level of industrial investment in the main customer segments. Changes in the base price are also attributable to the strong fluctuations in demand during de-stocking and re-stocking phases of the cycle.

The prices of alloying materials for stainless steel – nickel, chrome, molybdenum, iron and titanium – do not have a major impact on Outokumpu's financial results. Nonetheless, they do feed through into the amount of capital tied up in operations as working capital. The

transaction price of stainless steel is the base price plus an alloy surcharge. Applied in Europe and North America, the alloy surcharge includes the cost of alloying materials when the price of these exceeds pre-defined trigger levels. While this alloy surcharge mechanism in longer term hedges Outokumpu's profitability from changes in the price of alloying metals, price changes may, however, have a short-term impact on profitability because of timing difference. Outokumpu's average throughput time is longer than the time period applied in the alloy surcharge mechanism. In this respect, Specialty Stainless is more affected as its production chain is longer and thus more value added, as illustrated in the picture below.

Stainless steel is fully recyclable. In most cases, alloying materials can be purchased at



a discount when sourced in recycled stainless and Outokumpu therefore constantly maximizes usage of recycled stainless in its production processes.

Outokumpu's operating profit is affected not only by changes in base prices but also by unit costs, delivery volumes and product mix. In stainless steel production, the capac-

ity utilization rate has a major impact on operating profit. Production volumes depend on demand, and products are mainly manufactured to fulfill orders. The product mix also affects profitability because margins for products vary with the value-added component.

As a rule, currencies used for pricing stainless steel products are determined by market area: euros in Europe and US dollars in the US and Asia. Price levels in Europe, the US and Asia may vary. Outokumpu's exposure to foreign exchange rate fluctuations is reduced because most of Outokumpu's stainless steel is sold in Europe. Outokumpu's production costs are incurred for the most part in euros, Swedish crowns and British pounds. Prices of raw materials are determined primarily in US dollars, but the alloy surcharge mechanism transfers changes in the exchange rate to a euro price in Europe.

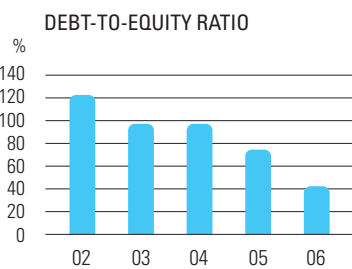
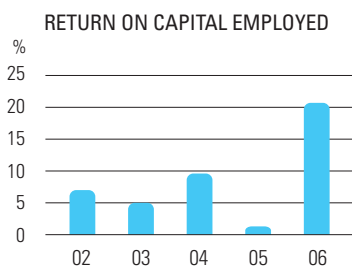
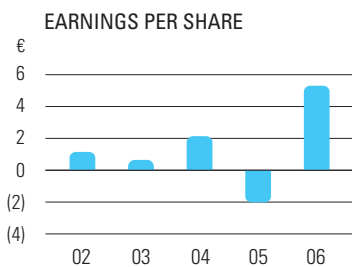
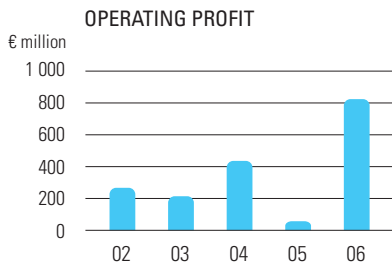
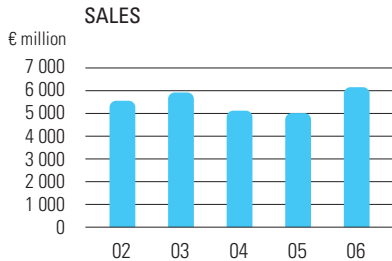
The table below shows an estimation for the sensitivity of Outokumpu's operating profit in 2007 to changes in stainless steel base prices, ferrochrome prices and exchange rates between the main currencies and the euro.

FINANCIAL DEVELOPMENT		
€ million	2006	2005
Sales		
General Stainless	4 770	4 073
Specialty Stainless	2 723	2 739
Other operations	361	272
Intra-group sales	(1 700)	(2 068)
The Group	6 154	5 016
1 000 tons		
Stainless steel deliveries		
Cold rolled	936	867
White hot strip	390	391
Other	490	390
Total deliveries	1 815	1 647
€ million		
Operating profit		
General Stainless	536	(62)
Specialty Stainless	338	110
Other operations	(35)	8
Intra-group items	(15)	1
The Group	824	57
€ million		
Major non-recurring items in operating profit		
General Stainless		
Gain on the sale of real estate in Britain	9	-
Closure of Coil Products Sheffield	-	(127)
Costs related to fixed-cost reduction program	-	(11)
Specialty Stainless		
Closure of OSTP Fagersta	(8)	-
Costs related to fixed-cost reduction program	-	(21)
Other operations		
Gain on the sale of Boliden shares	-	35
Costs related to fixed-cost reduction program	-	(3)
Closure of Coil Products Sheffield	-	(3)
Total non-recurring items	1	(129)

EFFECT OF SUSTAINED CHANGE ON ANNUAL OPERATING PROFIT

€ million	
Stainless steel base price, +100 EUR/ton	200
Ferrochrome price, +5 US\$/lb	10
USD/EUR, +10%	40
SEK/EUR, +10%	(60)
GBP/EUR, +10%	(20)

The figures are estimates and they do not take into account the impact of hedging. They have been calculated on the basis of the average exchange rates in 2006 and projected 2007 production volumes.



Excellent financial performance in 2006

2006 was a very good year in the stainless steel market with high base prices. Alloy surcharges reached new highs. Demand increased in all regions. According to CRU estimates, apparent consumption of flat products rose by 17% in Europe, 14% in the US and 9% in China.

Base prices started at a low level but increased throughout the year. The German base price for CR 304 sheet rose from 1 030 EUR/ton in December 2005 to 1 980 EUR/ton at the end of 2006. The average price was EUR 1 470/ton. Demand for special grades and project-related products was also strong.

Outokumpu's stainless steel deliveries increased by 10% to 1 815 000 tons in 2006. While the Tornio Works' integrated site has been expanded heavily, aggressive rationalization has reduced output elsewhere in the Group.

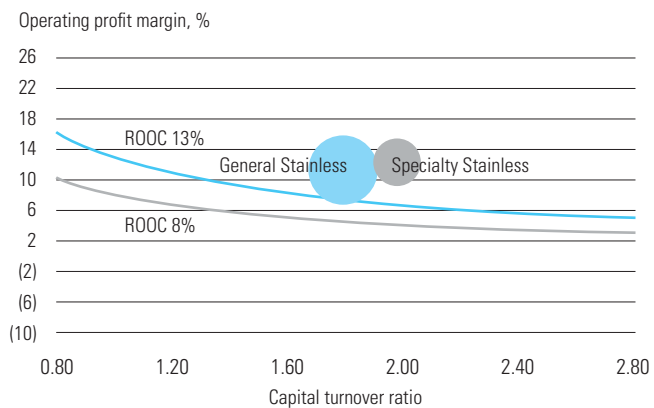
The operating profit was all-time high at EUR 824 million. High base prices and increased deliveries were the main contributors

to the significant profit improvement. Price changes of General Stainless' more standard products are more rapid than those of the more specialized products supplied by Specialty Stainless. Nickel-related inventory gains resulting from timing differences between the alloy surcharge and inventory turnover boosted profitability further in 2006.

Savings from the fixed-cost reduction program total some EUR 100 million on an annual basis and the reduced fixed-cost running rate has been in place in full since the end of 2006. The closure of Coil Products Sheffield and adjustment of capacity at the Sheffield melt shop and the Avesta hot rolling mill accordingly have resulted in an annual profit improvement of some EUR 50 million starting from the second half of 2006. The Commercial and Production Excellence programs were expected to yield net benefits from 2007 onwards, but positive financial impact was already visible in 2006.

Following the sale of shares and listing of Outokumpu Technology, its operations were classified as discontinued operations and are reported separately from the Group's continuing

OPERATING CAPITAL AND RETURN ON OPERATING CAPITAL IN 2006



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

operations. After the listing, Outokumpu's holding in Outokumpu Technology is 12% and this stake is included in available-for-sale financial assets. The total consideration received from the sale of shares was EUR 449 million. The EUR 357 million net profit from discontinued operations in the 2006 income statement primarily consists of the EUR 328 million capital gain from the sale of shares in Outokumpu Technology.

Excellent result from stainless steel operations and proceeds from the sale of Outokumpu Technology shares contributed to achievement of the Group's financial targets. Return on capital employed rose to 20.7% and the target of over 13% for return on capital employed was clearly exceeded. Gearing at 42.3% is better than the target level of below 75%, offering a solid basis for taking major steps along the path towards the vision. Net cash generated from operating activities was EUR 35 million negative. During the year, EUR 975 million was tied up in working capital mainly as a result of high nickel prices. Currently, more than EUR 1 billion extra is tied up in working capital because of the exceptionally high nickel price (34 000 USD/ton compared to the longer-term average of 10 000 USD/ton). Capital expenditure totaled EUR 187 million. At the end of the year, the Group's net interest-bearing debt stood at EUR 1 300 million.

Towards the end of 2006 the tight supply situation of stainless steel, especially in Europe, began to normalize. However, year 2007 started at very healthy base price levels. In the short-term, Outokumpu's profitability will be good.

Strong increase in total shareholder return

Earnings per share totaled EUR 5.31, consisting of EUR 3.34 from continuing operations and EUR 1.97 from discontinued operations. Total shareholder return (TSR) skyrocketed to 139.9% in 2006 (2005: negative 0.8%, 2004: 19.5%). TSR is calculated as the annual change in share price

plus dividend, divided by the starting share price for each year.

During 2006, Outokumpu's market capitalization more than doubled to EUR 5 369 million (Dec. 31, 2005: EUR 2 272 million). In 2006, the year-high share price of EUR 30.39 was reached on December 28. Outokumpu paid dividends of EUR 81 million (EUR 0.45 per share) in 2006.

According to the dividend policy established by the Board of Directors, the dividend payout ratio over a business cycle should be at least one third of the company's net profit for the period. The dividend proposed for 2006 is EUR 1.10 per share. The dividend yield is thus 3.7% (2005: 3.6%). Outokumpu's average dividend payout ratio over the past five years has been 36.7%.

Economic value added improved markedly

Outokumpu's overall financial objective is to generate the maximum sustainable economic value added for capital invested by shareholders. Outokumpu uses the weighted average cost of capital (WACC) when defining the capital charge for economic value added, and applies this when estimating the profitability of investment projects and defining the economic and commercial value of its business operations. In 2006, Outokumpu's WACC after taxes was approximately 6%. This figure was obtained using a target capital structure in which the weight of equity was 60% and the weight of debt 40%. The cost of equity was 7.5% and the after-tax cost of debt was 3.5%. In 2006, Outokumpu's economic value added from the continuing operations was EUR 366 million (2005: EUR 255 million negative).

Outokumpu and the stainless steel market going forward

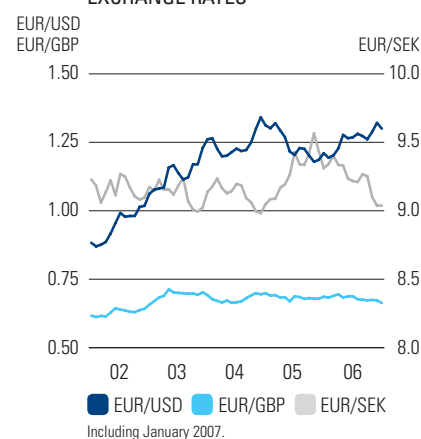
Global demand for stainless steel is expected to remain healthy and long-term annual growth in consumption is forecast to continue at a rate of 5–7%. New stainless steel production capacity being built in China is expected to primarily meet the local de-

SHARE-RELATED KEY FIGURES

€	2006	2005
Earnings per share	5.31	(2.01)
– from continuing operations	3.34	(0.14)
– from discontinued operations	1.97	(1.87)
Equity per share	16.87	11.31
Dividend per share	1.10 ¹⁾	0.45
Share price on Dec. 31	29.66	12.55
Market capitalization on Dec. 31, € million	5 369	2 272

¹⁾ Board's proposal to the Annual General Meeting

EXCHANGE RATES



mand. On the other hand, there may be periods of imbalance when this supply exceeds demand in China and has an impact on the global market situation, including Europe. As a result of the decisive actions taken over the last few years and excellent profitability in 2006, Outokumpu is now well positioned to face competition profitably, to pursue for growth and fulfill its vision. Operational improvements are creating an excellent platform for multiplication and the rapidly strengthening balance sheet is providing the financial strength to take the steps required to become the undisputed number one in stainless steel.

THE GROUP'S BUSINESS AND BUSINESS UNITS



Demand for stainless steel is growing more rapidly than demand for any other metal and its use is strongly tied to rising standard of

living. Over the past twenty years, global demand has, on average, increased by 5.5% annually. In the last ten years, even higher annual growth of 7% has been experienced, peaking in 2006 at 15%. Since 2003, China has taken the leading position as the largest and clearly the fastest growing market for stainless steel.

In recent years, production capacity has been growing strongly, especially in China. One result of this development is that European stainless producers are losing their current position as exporters to China. In overall terms, the growth in global production capacity is fairly well balanced with demand growing as forecast.

Stainless steel is corrosion resistant, strong, hygienic and recyclable. These properties make it an ideal choice for a variety of demanding

industrial and consumer applications. Several life-cycle studies indicate that in many applications the total cost of stainless steel is lower than that of competing materials. Consumption of stainless steel increases with economic growth as both its properties and its aesthetic image are highly competitive.

The stainless business covers both austenitic (300-series) and ferritic (400-series) grades. The 300-series stainless steel accounts for some two thirds of the global stainless steel market. To date, Outokumpu has mainly focused on austenitic grades. Since late 2003, the fact that nickel prices have been at historical highs has somewhat slowed the growth of demand for nickel-bearing austenitic stainless steel. Current users have searched for substitutes in alternative stainless steel grades, ferritic grades for example, and examined competing materials for some applications. Stainless steel's unique properties, however, make it difficult to find substitutes and competing materials are also currently expensive.

There has been a dramatic change in stainless steel market sentiment since the end of 2005. Heavy de-stocking and falling base

OUTOKUMPU'S STAINLESS STEEL DELIVERIES

1 000 tons	2006	2005
Cold rolled	936	867
White hot strip	390	391
Other	490	390
Total	1 815	1 647

prices characterized the latter part of 2005. At the end of the year, base prices had fallen to historically low levels and inventories were low. From the beginning of 2006, strong demand, especially from the end-use segments, resulted in increasing base prices and because of the record high nickel price, alloy surcharge also reached all-time highs and the highest-ever transaction prices were recorded at the end of 2006.

Outokumpu is one of the top players in the global stainless steel market. Outokumpu's main product is stainless steel coil, in which it has a market share of about 24% in Europe

OUTOKUMPU'S PRODUCTION STRUCTURE

– capacity for finished products ~ 1.9 million tons

FLAT PRODUCTS

2.2 million tons

2.2 million tons

1.6 million tons

TORNIO'S INTEGRATED PRODUCTION ROUTE

FeCr smelter

Stainless meltshop

Hot Rolling

Cold Rolling

AVESTA'S INTEGRATED PRODUCTION ROUTE

Stainless meltshop

Hot Rolling

Avesta

Nyby

Kloster, SSS, OSTP

- Low costs
- High volume
- Standard grades
- Special grades
- Tailored offering
- Tubular

LONG PRODUCTS & PLATE

0.4 million tons

Sheffield meltshop

0.3 million tons

Long Products

Britain, Sweden, US

Hot Rolled Plate

Sweden, US

Consumption of stainless steel increases with economic growth as both its properties and aesthetic image are highly competitive

and 8% worldwide. The Group's product range covers standard as well as special grades and products. Outokumpu's main production facilities are two efficient integrated stainless steel mills – Tornio in Finland and Avesta in Sweden – as well as a production route from the Sheffield melt shop in Britain to the long products and plate units. The Group has a comprehensive network of sales companies, service centers and sales agents in more than 60 countries.

Outokumpu's businesses are organized into business units, which co-operate closely with Production and Commercial Operations. These units form two divisions based on the type of product produced: General Stainless and Specialty Stainless. These divisions are described in more detail in the following sections.





GENERAL STAINLESS

General Stainless serves the markets for high-quality standard stainless steel in the form of

coil and sheet. The main market is Europe. Cost efficiency, high quality and delivery reliability are the key competitive advantages required for success in this standard, high volume market segment. By exploiting the advantages offered by the recently expanded Tornio facility, one of the world's largest and the most integrated stainless steel plant, the Group's operational excellence programs and reduced fixed costs, General Stainless aims to maintain its solid market position.

The main product applications of General Stainless are currently in industrial segments such as pulp and paper, chemicals, construc-

General Stainless focuses on producing standard high-volume stainless steel products

tion and energy-related industries as well as catering and households. Customers comprise both end-users and distributors which also stock and process stainless steel to serve end-customer needs.

Following the closure of the cold rolling unit in Sheffield, Britain in 2006, General Stainless consists of Tornio Works and Sheffield Primary Products. The majority of the Group's stock and processing units as well as the sales companies are reported under General Stainless.

Tornio Works

Tornio Works in Finland is one of the world's largest stainless steel mills and the most integrated single-site operation in the world. The main products from Tornio are cold rolled and hot rolled austenitic stainless steel coils and sheets.

Tornio's integrated production process starts at the neighboring Kemi chromite mine, continues in the Tornio ferrochrome smelter and processes through two stainless steel melt shops, a hot rolling mill and cold rolling lines. This high level of integration offers significant advantages, for example it allows the usage of molten ferrochrome in the steel melt shop. To provide customers in the Group's main markets with even better service, a significant proportion of finishing operations are carried out at Terneuzen in The Netherlands. Tornio's annual production capacities are: 1.65 million tons of melting,

1.6 million tons of hot rolling and 1.2 million tons of finished products from the cold rolling mills. Tornio also delivers some black hot band material to both internal and external customers.

Sheffield Primary Products

The main production asset of Sheffield Primary Products in Britain is the melt shop with an annual operational capacity of about 400 000 tons at current manning levels. The melt shop produces both slabs for flat stainless steel production and billets and blooms for the use of long products. The hot rolling mill in Degerfors in Sweden produces rolled billets and heavy bars from blooms cast in Sheffield. The annual operational rolling capacity is some 50 000 tons.

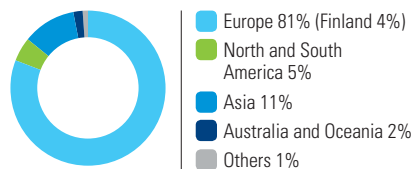
Tornio Works' expansion in full use

An extensive expansion project at Tornio Works, the Group's biggest unit, was carried out in 2000–2005. The new capacity has been technically available since the second half of 2005 and has been in full use in 2006. It is one of the world's most cost-efficient stainless steel operations. The innovative new rolling, annealing and pickling line (RAP) enables additional flexibility in production. Production on the RAP line can be shifted between

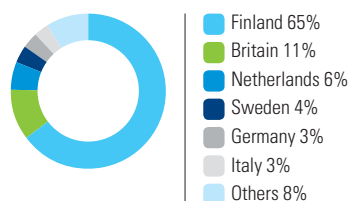
GENERAL STAINLESS KEY FIGURES

€ million	2006	2005
Sales	4 770	4 073
of which Tornio Works	3 316	2 299
Operating profit	536	(62)
of which Tornio Works	440	49
Non-recurring items in operating profit	9	(138)
Operating capital on Dec. 31	2 847	2 484
Return on operating capital, %	20.1	(2.3)
Capital expenditure	83	94
Depreciation	131	133
Personnel on Dec. 31	3 496	4 123
1 000 tons		
Deliveries of main products		
Cold rolled	805	734
White hot strip	305	284
Other	551	631
Total deliveries of the division	1 661	1 649

GENERAL STAINLESS SALES BY MARKET AREA



GENERAL STAINLESS PERSONNEL BY COUNTRY



hot rolled (white hot strip) and cold rolled products depending on market demand. As an integrated cold rolling line, the RAP line also has a clear cost advantage compared to traditional cold rolling processes in which annealing and pickling is carried out on separate process lines. Integrating these two process steps into the RAP line yields in both lower costs and reduced working capital. The RAP line can also be used to produce RAP™2E, a new semi-cold rolled product. This product has been well received especially by the stainless steel tube industry, where it can be used to replace cold rolled stainless steel in a variety of applications.

To expand the Group's product offering, an investment to begin production of 400-series ferritic stainless steel in Tornio is currently under construction. Ferritic stainless steel normally includes some 12–17% chromium with the remainder being mainly iron.

As it does not contain any nickel, prices for 400-series products have traditionally been less volatile than those of Outokumpu's main product, 300-series austenitic stainless steel. Tornio has a competitive cost advantage in the production of the 400-series as liquid ferrochrome can be utilized in the manufacturing process reducing melting costs. An

investment of EUR 13 million is being made in batch annealing furnaces at Tornio, and the target for annual production of ferritics is 60 000 tons. Production has come on stream during the first quarter and deliveries are scheduled to start in the second quarter of 2007. In February 2007, a decision was made to invest EUR 90 million in the re-

Andritz and Outokumpu in a long-term business relationship

Andritz's priorities when selecting a supplier are quality, competitive price and reliable deliveries. The company's co-operation with Outokumpu goes back several decades. "Using stainless steel in products is an investment extending far into the future", says Hannu Korjus, Andritz's Director of Purchasing.



ANDRITZ GROUP is a global market leader in demanding and sophisticated production systems. Its operating sectors include pulp and paper technologies, rolling mills and strip processing lines technology, environment and process technology, feed and biofuel technology and hydro power.

"We supply equipment, processes and maintenance services for the pulp and paper industry. We use lots of corrosion resistant materials, primarily austenitic steel and duplex steel", says Mr Korjus.

"We are in a long-term business partnership with Outokumpu. We expect our materials supplier to guarantee not only quality, competitive prices and reliable deliveries, but also flexibility in deliveries in rapidly changing situations."

"GLOBAL OPERATIONS dictate certain material standards. We collaborate closely with Outokumpu to identify the most appropriate materials for our customer processes. Together, Andritz and Outokumpu have successfully developed procedures that adapt to Andritz's customer projects and the corresponding supply needs", says Mr Korjus.

KEMI MINE AND TORNIO FERROCHROME SMELTER

Production	2006	2005
Ore excavated, million tons	1.2	1.1
Chromite concentrates, 1 000 tons	549	572
Ferrochrome, 1 000 tons	243	235

Ore reserves and mineral resources

	Million tons	Grade
Dec. 31, 2006		
Ore reserves		
Proven	39	26% Cr ₂ O ₃
Mineral resources		
Indicated	13	29% Cr ₂ O ₃
Inferred	72	29% Cr ₂ O ₃

A mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. An ore reserve is the economically mineable part of the measured and/or indicated mineral resource. Ore reserves are not included in the mineral resources. Cr₂O₃ = chromium oxide.

placement of the annealing and pickling line number 2 in Tornio. This will increase the cold rolling mill capacity by 75 000 tons by the end of 2009.

The chromite ore mined at Kemi and converted into ferrochrome at Tornio is used

in the stainless steel production. Owning a supply of ferrochrome, the alloy that gives stainless steel its corrosion resistance, is both a significant cost competitive advantage and a risk mitigation factor for Outokumpu. The majority of global ferrochrome production

takes place in South Africa and Kazakhstan. Open-pit mining in Kemi ceased at the end of 2005 and a more cost-efficient underground mine now feeds the Group's ferrochrome smelter.

Duplex, the stainless solution for Hong Kong

Stainless steels have been widely used in building and construction for many years, mainly for architectural rather than structural applications where use is made of the high corrosion resistance and wide range of available, stainless finishes. However, where structures are required to have very long design lives and lives to first maintenance, then stainless steels are increasingly being considered as an option.



ARUP, A GLOBAL FIRM of designers, engineers, planners and business consultants, designed the Stonecutters Bridge in Hong Kong using duplex stainless steel on the outer, structural skin of the main pylons of this cable stayed bridge. The plates were supplied by Outokumpu. The 300m high pylons support the main span of the 1km long bridge and the duplex steel skins are used on the upper 120m section. Arup are now also using duplex steels for two other bridge projects. The tonnage of duplex steels used in bridges is currently small, but it has the potential to grow to a significant market.

GRAHAM GEDGE, ARUP: "We (designers, materials specialists and producers) need to work together to better understand how to exploit the very obvious benefits of duplex stainless steels for bridge applications, benefiting the infrastructure owners and users who would be provided with durable, minimum maintenance and cost effective structures on highway and railway networks. Attitudes still tend to be driven by initial investment cost and steel price per tonne rather than considering whole life costs or the total cost of the construction."

Fixed-cost reduction and profitability improvement programs progressed well

The closure of Coil Products Sheffield in Britain was completed in April. The positive effect on Outokumpu's operating profit is some EUR 50 million annually from the second half of 2006 onwards. The closure of the cold rolling operations in Sheffield required a reduction in the Sheffield melt shop's operational capacity. Most deliveries by the Sheffield melt shop go to the plate and long products units in Specialty Stainless.

A 10% reduction in fixed costs at the Tornio Works and Sheffield Primary Products has been achieved and the new lower fixed-cost running rate has been effective from the second half of 2006. To meet the long-term challenges for profitability and growth, Outokumpu initiated Group-wide Operational Excellence programs in 2005. Both the Tornio Works and Sheffield Primary Products have participated in the Production and Commercial Excellence projects with encouraging results.

Clear turnaround in profitability and significant profit improvement

2006 was a very successful year for General Stainless. As demand picked up, base prices soared and continued to move upwards throughout the year. Stainless steel deliveries increased only marginally from previous year to 1 661 000 tons. Sales, however, increased by 17% to EUR 4 770 million as a result of higher transaction prices. Operating profit (excluding non-recurring items) was EUR 527 million compared to EUR 76 million in 2005. The strong profit improvement is attributable to higher base prices for stainless steel. In General Stainless, no major inventory gains were included in the operating profit for 2006 because only minor timing differences exist between the alloy surcharge and inventory turnover that can result in inventory gains or losses.



SPECIALTY STAINLESS

Specialty Stainless is strong in tailored solutions and demanding customer applications in

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

Growth in these high-performance segments and applications is expected to con-

tinue buoyant. Strategy in Specialty Stainless is based on both differentiation and further specialization, offering improved protection from continually increasing competition in the market for standard stainless steel grades.

The main products produced by Specialty Stainless are hot and cold rolled sheet, quarto plate, tubes and various fittings, precision strip, wire rod and bar. Stainless steel is supplied to Specialty Stainless units mainly from the division's own melt shop in Avesta in Sweden and from Sheffield melt shop in Britain. The finished products capacity of Specialty Stainless' units is some 500 000 tons of cold rolled and white hot strip and plate, 170 000 tons of quarto plate, 80 000 tons of long products and 100 000 tons of tubular products.

An increasing proportion of sales by Specialty Stainless consists of a variety of special grades developed in response to specific customer requirements. Lean Duplex, LDX 2101*, a low-nickel high-strength stainless steel with good corrosion resistance properties that correspond to those of austenitic grades is a good example of Outokumpu's steel grade developments. The excellent properties and competitive pricing of both Lean Duplex and Duplex grades are resulting in increased market share compared to more traditional grades in applications such as chemical tanks, building and construction, and desalination plants.

The EUR 55 million investment in Thin Strip production at Kloster in Sweden has been completed and deliveries will start during the first quarter of 2007. The mill's total annual production capacity has been expanded from 25 000 tons to 45 000 tons, and products that are both thinner (0.12mm) and wider (1 050mm) can now be produced. The investment includes a new cold rolling mill, a bright annealing line and a slitting line.

While the Group's business units are pursuing further specialization and an increasing focus on value-adding solutions, which provide higher returns, a very important area of attention is maintaining a competitive cost structure. Fixed-cost reduction actions have

Specialty Stainless is well positioned for increased competition through specialization and differentiation

been implemented and have been in full effect since the end of 2006. The Production and Commercial Excellence programs are being implemented in all units.

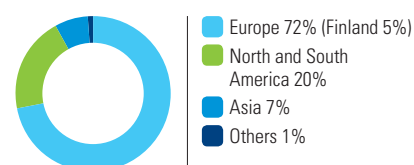
Research and development activity, especially work at the Avesta Research Center, focuses on identifying new applications and solutions for customers.

Outokumpu's stainless tubular products', OSTP, Fagersta unit in Sweden is scheduled for closure in mid 2007. The Nyby unit in

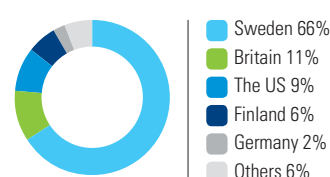
SPECIALTY STAINLESS KEY FIGURES

€ million	2006	2005
Sales	2 723	2 739
Operating profit	338	110
Non-recurring items in operating profit	(8)	(21)
Operating capital on Dec. 31	1 594	1 161
Return on operating capital, %	24.5	9.1
Capital expenditure	95	58
Depreciation	80	61
Personnel on Dec. 31	4 200	4 334
1 000 tons		
Deliveries of main products		
Cold rolled	196	188
White hot strip	166	160
Others	294	455
Total deliveries of the division	656	803

SPECIALTY STAINLESS SALES BY MARKET AREA



SPECIALTY STAINLESS PERSONNEL BY COUNTRY



Sweden will invest in a second LAP line (Laser welding-Annealing-Pickling) with the total investment being some EUR 8 million, and production scheduled to start in the third quarter of 2008. The two heat-exchange tube

production lines currently located in the Fagersta unit will be transferred to Nyby during 2007. The large-diameter tube production line at Nyby will be transferred to Storfors during 2008.

A winning solution for tank storage

Emypro S.A. and Outokumpu built liquid storage tanks for Relisa S.A. at the port of Barcelona in Spain using Outokumpu's proprietary Lean Duplex (LDX 2101®) stainless steel. The grade brought significant savings in both material weight and investment costs by replacing the conventional tank material – austenitic stainless steel.



EMYPRO IS a stainless steel tank specialist with 25 years of experience and a reference list that represents more than three million cubic meters of storage space in Europe and the Americas. Emypro's co-operation with Outokumpu goes back 15 years.

THE TANK MAKER took the pioneering decision for LDX 2101® with confidence, based on both Outokumpu's expertise in storage tank engineering and grade expertise. Using LDX 2101®, Emypro needed 200 tons less material compared with austenitic stainless, because the higher strength of duplex allows for considerably thinner walls in the tanks.

MR ALBERTO MARTI, Managing Director of Emypro: "Even if there are some difficulties in introducing new materials in this sector, the experience of Outokumpu's Lean Duplex grade has been very good. In addition to the good experience of Outokumpu delivering the material, also the collaboration of the technical service has been good."

Research and development focuses on identifying new applications and solutions for customers

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

Avesta Works

Avesta Works in Sweden is a world-class supplier of 2 meter wide, thick cold rolled and white hot rolled products and continuously produced plate to the process industry. The integrated Avesta production facility covers the entire process chain from melt shop through hot rolling to cold rolling. Annual operational production capacities at Avesta total approximately 500 000 tons for melting with the current mix, 450 000 tons for hot rolling and 300 000 tons for finished products. Avesta supplies the Nyby and Kloster cold rolling mills with black hot band material and hot rolled plate operations with slabs and steckel hot rolled plate.

Hot Rolled Plate

With a 50% share of the market, Outokumpu is the market leader in quarto plates used in demanding segments such as pulp and paper, oil and gas, power plants and chemical tankers. Outokumpu produces quarto plate at Degerfors in Sweden and New Castle in the US. European plate service centers complement these facilities. The Group's annual delivery capacity for hot rolled plate and quarto plate totals some 170 000 tons.



Thin Strip

Outokumpu's Thin Strip operations comprise the cold rolling mills at Nyby and Kloster in Sweden and Sheffield in Britain.

These three mills have a current combined annual delivery capacity of approximately 195 000 tons. Thin strip products are mainly used in plate heat exchangers, heating elements, flexible tubes, head gaskets and telecom applications. The investment program at Kloster is increasing annual production capacity by 20 000 tons to 45 000 tons and allowing the production of thinner and wider products.

Based in Britain, Sheffield Special Strip (SSS) focuses on precision strip rolling. The main products are stainless precision strip, stainless razor and scalpel strip as well as carbon spring steel strip, with the ability to produce material down to 0.035 mm gauge. Approximately 50% of production is destined for the automotive market in the form of springs and deep drawn components, other end-uses include chimney liners, razor blades and filtration media.

OSTP (Outokumpu Stainless Tubular Products)

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

Long Products

Outokumpu's Long Products operations consist of wire rod production in Europe and bar and rod production in the US. Manufacturing units for long products are located in Sheffield in Britain and in Richburg, S.C. in the US. Annual delivery capacity for long products totals some 80 000 tons. The Group is also involved in a long products company

(50% ownership), Fagersta Stainless in Sweden, which manufactures and sells stainless steel wire rod and wire products.

Markedly improved profits despite lower deliveries

Specialty Stainless' deliveries fell by 18% to 656 000 tons despite growing demand. The decrease is attributable to the scheduled downsizing of hot rolling capacity at Avesta after the closure of Coil Products Sheffield in April 2006. Sales was almost unchanged at EUR 2 723 million. Operating profit (excluding non-recurring items) almost tripled from the previous year to EUR 346 million. Main contributors to the improved profit were higher stainless steel prices and nickel-related inventory gains. As prices for project-related and special products are more stable than those for standard products, the improved profits that follow from increases in base prices materialize somewhat more slowly in Specialty Stainless than in General Stainless. In Specialty Stainless, inventory turnover is also slower than in large volume standard products as the more specialized production has longer lead-times and further processing is often required. Consequently, Specialty Stainless' units are more sensitive to inventory gains and losses than those for standard products.

OTHER OPERATIONS

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

Outokumpu's most significant industrial holding is a 33% stake in Rapid Power, a company providing hydro power from Norway. Major available-for-sale financial assets at the end of 2006 were a 12% stake in Outokumpu Technology Oyj, listed on the Helsinki Stock Exchange on October 10, 2006, a 16% stake in the silicon wafers

manufacturer Okmetic Oyj and a 15% stake in the Swedish steel distributor Tibnor AB. During 2006, Outokumpu reduced its holding in Okmetic from 32% to 16%.

At the end of 2006, the market value of Outokumpu's holdings in Outokumpu Technology and Okmetic, both listed in the Helsinki Stock Exchange, were EUR 114 million and EUR 10 million respectively.

Other operations' negative operating profit of EUR 35 million includes net market price losses of EUR 7 million (2005: net market price gains EUR 26 million). In 2005, the Group's operating profit included a EUR 35 million capital gain on the sale of Boliden shares and EUR 6 million of non-recurring costs related to the fixed-cost reduction program.

OTHER OPERATIONS KEY FIGURES

€ million	2006	2005
Sales	361	272
Operating profit	(35)	8
Non-recurring items in operating profit	-	29
Operating capital on Dec. 31	138	139
Capital expenditure	9	13
Depreciation	10	13
Personnel on Dec. 31	464	506

COMMERCIAL OPERATIONS



The key to achieving Outokumpu's goal of becoming the undisputed number one in stainless is to become the industry benchmark in managing customer relations through total customer orientation at all levels of the organization. Achieving this ambitious goal requires that Outokumpu operates as one company, presenting one face to the customer. Outokumpu's commercial operations are steered by a comprehensive one-company approach, with initiatives planned and executed to implement any necessary transformation in corporate culture.

Outokumpu's commercial strategy has been formulated to support this approach. The strategy is based on customer needs and market information. It will be common to all the Group's business units and will steer all our operations.

Elements of the commercial strategy address Outokumpu's routes to market, price management, sales operations, product mix, customers and markets. Customer service will be improved via a strong network of service centers and a more focused sales organization. Outokumpu is seeking growth in special grades and through re-introducing ferritic grades into the product mix.

In line with this one-company approach, Outokumpu recognizes the importance of streamlining and simplifying each customer's purchasing process and other dealings with Outokumpu as much as possible. To further improve Outokumpu's response to varying customer needs, customers have been grouped into three categories and special strengths have been identified within the Group that serve each category. The categories are: end-user customers such as tank makers, catering, transportation, and the automotive industry; project customers in industrial sectors including architecture, building and construction, desalination, oil and gas, and energy; and large transactional customers including distributors, re-rollers and tube makers.

Responding to customer needs is the key

Outokumpu's commercial operations embrace Group-wide sales planning and co-ordination, as well as marketing development. These operations are carried out by two functions: Sales Operations and Group Marketing. These functions are managed centrally, but activities are implemented by business units and sales companies in a co-ordinated manner according to the one-company approach.

A sharp focus on customer needs and market trends lays the basis for commercial strategy

Outokumpu's sales force is in our business units and sales companies in some 20 countries. Service centers sell from stock and provide both local product services and logistic support. Accompanied by agents, the Group's extensive sales network covers more than 60 countries throughout the world. This extensive network ensures our presence in all key markets. It also provides the primary point of contact for customers in those markets.

The Group's customers are served from nearly 30 locations, most of which are in central Europe. Service centers process coil and plate products to meet customized needs, giving Outokumpu's customers the option to either buy directly from our mills or from

our service centers when customer requirements fall outside standard dimensions and finishes. The service centers bring customers the benefit of high levels of flexibility in both terms of delivery and sizes and dimensions. They ensure fast response, as well as the ability to make timely deliveries of small to medium-sized batches on a weekly or even daily basis. Coil service centers can cut products to any length from 400mm to 13.4m and slit material to widths as narrow as 9mm. They can also provide a wide variety of polished and brushed surface finishes. Plate service centers provide plasma cutting, laser and water-jet cutting, sawing, and press braking. Cutting equipment can process sections up to 16m in length, cut thicknesses from 2mm to 150mm, and produce complicated geometries.

Outokumpu's key markets are in Europe, mainly in Germany, Italy, France and Spain, as well as the Group's home markets in the Nordic countries and Britain. In Europe, the Group holds a combined market share of 24 percent in stainless steel coil. In special grades, Outokumpu enjoys a unique global position that is backed up by an exceptionally wide product range. Outokumpu is the world's leading producer of duplex stainless steels, and Outokumpu duplex products have made many breakthroughs in new applications, gaining market share. The low-nickel high-strength duplex grades have excellent corrosion resistance properties. Outokumpu's position in both duplex grades and the ferritic grades being introduced into our prod-

uct mix is strengthened by the recent trend of internal substitution among stainless steel grades favoring low or zero-nickel products. This is one consequence of the surge in nickel prices.

Outokumpu initiated a number of activities in 2006 to strengthen its market presence. Important strategic steps to that end were the opening of new sales companies in

India, Turkey and China, three markets of rapidly growing importance in the global stainless steel arena.

One-company approach as the common denominator

Areas of responsibility for the Group Marketing function are the development of global marketing efforts, marketing communications,

K2 improves customer focus



The Commercial Excellence program – K2 – is spearheading the effort to transform Outokumpu increasingly towards better customer orientation. The initial focus is on key account management and consistency in pricing management.

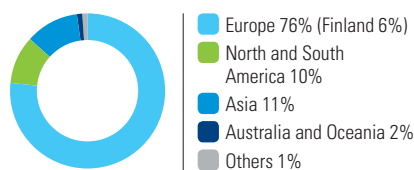
TODAY'S MARKET REALITIES necessitate new commercial strategies that go a long way beyond traditional production-oriented approaches to business. One of the main elements in Outokumpu's commercial strategy is key account management. This is a systematic approach to making a broader contribution to each customer's business in order to secure long-term business relations and significantly improve both the value Outokumpu offers its customers and the Group's own business performance.

PETER MEUTER, from Outokumpu's German sales company works with two key accounts. He liaises within dedicated account teams of experts from several Outokumpu business units, including R&D, production and sales, focusing on finding new and better ways to serve Outokumpu's

most important customers. The goal of coordinating actions by all the units serving a customer is to operate with "one face" towards that customer.

MR MEUTER AND HIS TEAMS focus on areas where the needs of large German stainless steel users and Outokumpu's goals coincide. For example, Outokumpu can reserve production capacity on the basis of customers' long-term purchasing schedules, building in the flexibility that secures them material with short lead times. Major customers can also be assisted in increasing their use of special grades, broadening the product range they offer. Ways of extending Outokumpu's product range to better match customer needs can also be explored. In all these ways, Outokumpu helps key customers win project orders while securing business for the Group.

THE GROUP'S SALES (EUR 6 154 MILL.) BY MARKET AREA 2006



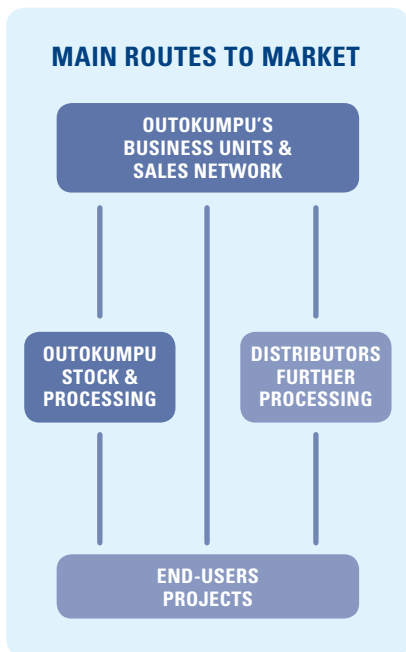


harmonized sales-related business processes including order-handling systems, and IT support systems.

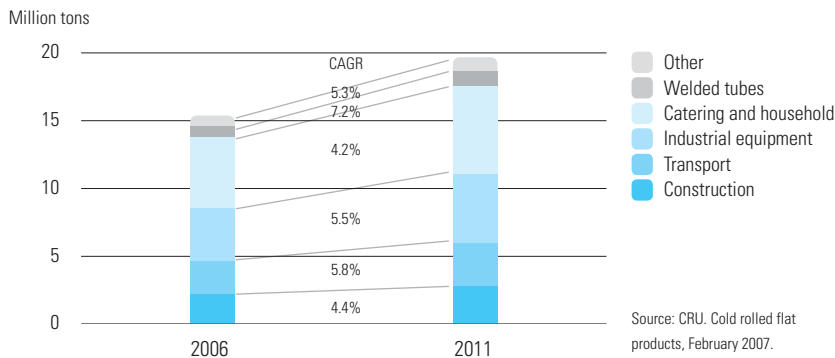
A major undertaking designed to implement the one-company approach is the Commercial Excellence program, known internally as K2. Launched in 2005, this program lays the basis for Outokumpu's leading position among the world's stainless steel producers.

The Commercial Excellence program seeks to achieve significant improvements in the value that Outokumpu provides for its customers, as well as in the Group's business performance. In essence, Commercial Excellence is a process turning the Group around so that customers, rather than the products offered, drive Outokumpu's business. The program will run in successive waves across all the Group's business units and sales companies until the first quarter of 2008.

The key to achieving the objectives of Commercial Excellence is a total focus on changes in the market and customer needs.



COLD ROLLED STAINLESS STEEL DEMAND OUTLOOK



This necessitates efforts to the creation of a customer-oriented culture and this requires intensive training of our sales force. Sales staff should be able to recognize market changes, emerging trends, and opportunities in our customers' businesses.

In 2006, a total of 167 members of the Outokumpu sales staff took part in training and 786 training days were completed. Over the entire program run, approximately 500 of our sales people will be involved in the program.

Commercial Excellence activities focused on two initiatives in 2006: key account management and pricing.

Key account management is a structured approach towards managing business with the Group's most important customers. The primary criteria for defining a key account are a customer's size and growth potential for Outokumpu, the strategic fit with Outokumpu's business and the number of Outokumpu units that serve that specific customer. In summary, key accounts are customers for whom Outokumpu has the best opportunities to add value. Some 50 of our customers have been identified as Group-wide key accounts.

The pricing initiative is aimed at standardizing Group pricing policies and practices, including payment terms, freight charges and packaging fees. The benefit to the customer is predictable service that makes dealing with Outokumpu increasingly straightforward.

In 2006, formulation of the Commercial Excellence program was backed up by an extensive customer survey, which involved approximately 160 accounts and one-on-one interviews with some 20 key customers. An additional customer survey on claim handling was carried out, and the information obtained was used to define Outokumpu's best practices in this area. Additional customer feedback is sought continuously on Outokumpu Internet site, and feedback received resulted in the launch of a new on-line Product Tool that makes it easier for customers to find information about the Outokumpu product range and product properties.

The Commercial Excellence program is ahead of target, showing the projected financial benefits.

Understanding trends and customer needs

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

PRODUCTION OPERATIONS



One of the main goals of Production operations is to coordinate and optimize production in the business units to achieve the

best possible performance at Group level. Production operations consist of the following functions: raw materials sourcing and general procurement, energy procurement, material flow optimization, research and development (R&D), Production Excellence, and environment, health and safety (EHS). EHS activities are described on pages 36–37.

Raw materials sourcing aims to maximize spread

The goal of the raw materials sourcing is to achieve competitive advantage by maximizing the spread between the raw material purchasing price and the slab price, to minimize supply risk, to optimize value in the use of raw materials and to ensure a cost-effective balance between primary and secondary supplies. Furthermore, in general procurement, the focus is on the continuous reduction of total cost while operating as one company working closely with selected suppliers.

Outokumpu sources raw materials mainly through external suppliers, apart from ferrochrome from its own production. The cost of raw materials and consumables is optimized by minimizing transport and storage costs, and by ensuring the availability of critical raw materials through long-term contracts. The continuous development of procurement processes and reporting tools has enabled a particular focus on both warehouse turnaround and lead-time optimization.

The share of nickel raw material as a production cost has grown significantly. The market price of nickel has risen strongly over the last years, and the share of nickel in raw material costs in 2006 was close to 70%. Due to this exceptional rise in the price of nickel, Outokumpu has striven to maximize the use of recycled stainless steel. One result

of the Production Excellence program is that the proportion of recycled stainless steel was as high as 70% during the last months of 2006. Recycled stainless steel is the most cost-efficient source of the alloying metals required for stainless steel production, i.e. nickel, chrome and molybdenum. Consequently, the use of recycled stainless steel has clearly lowered the total costs of raw material per melt. As with primary raw materials, the sourcing of recycled steel is mainly ensured through long-term contracts, and is purchased from Europe, Russia and the US. Nickel is purchased mainly from Russia, Canada and Finland, ferrochrome required in addition to our own production is sourced from South Africa and Kazakhstan, and molybdenum is sourced from South America.

Category management is one part of harmonizing procurement operating models within the Group. New purchasing teams utilize the best contracts and purchasing processes. Procurement pilot projects have succeeded as planned, yielding more than EUR 5 million of annual savings in protective film cost and transport logistics, even though the cost of both plastic materials and transport rose in parallel with the rise in the price of oil.

Energy for Nordic plants procured centrally

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

The availability of electricity in the Nordic power system has been very good. No faults at national grid level had an impact on Outokumpu's sites. In the winter of 2005–2006, there were some hours during which levels of power consumption were very high. During these few hours, industrial companies, including Outokumpu, reduced their power consumption and sold power back to the market at a profit.





Outokumpu also has a long-term agreement with Fingrid, the Finnish transmission system operator, to reduce the Group's power consumption

when requested, usually during power system disturbances (load shedding). No such requests were received in 2006.

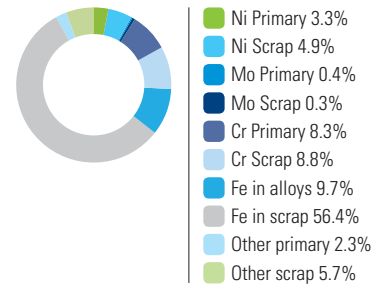
During 2006, prices in the Nordic electricity market increased and were very volatile. The long-term price trend has been on the rise. Outokumpu's policy is to price hedge electrical power for at least three to five years ahead so that at least 80% of expected consumption is covered. The indicative graph

below illustrates the types of energy sources on a time scale.

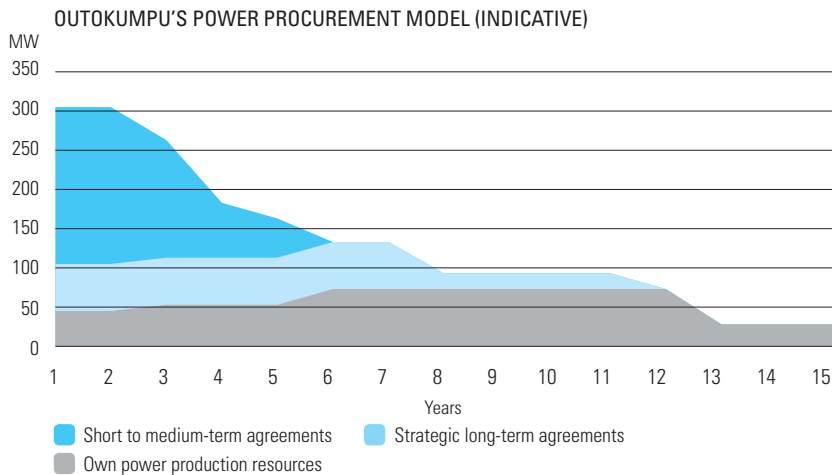
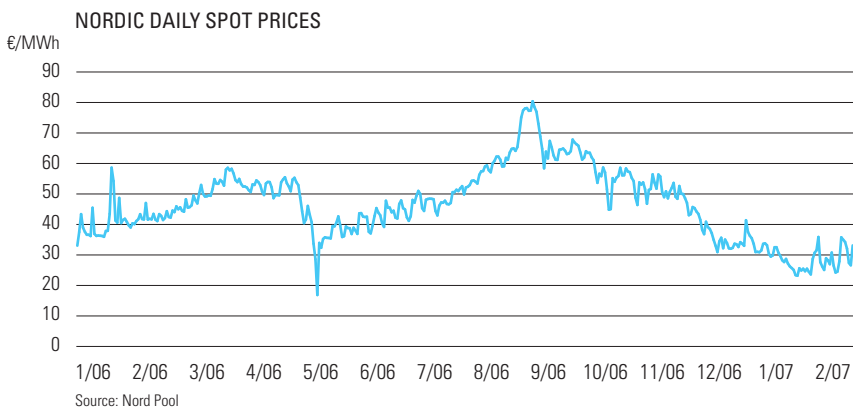
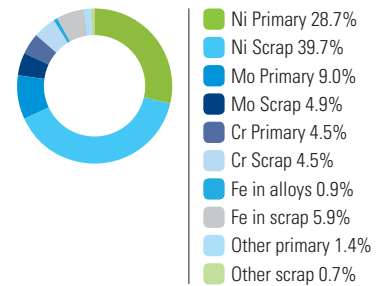
Due to the rising price trend and in order to secure the availability of electrical energy, Outokumpu is entering into long-term deals for electrical power and investing in some power production assets, i.e. a Norwegian hydropower lease (2005–), a share in the nuclear power plant that is currently under construction (start-up scheduled in 2010) and a share in the Tornio combined heat and power plant (expected to be in operation at the beginning of 2008).

In 2006, Outokumpu's total electrical power consumption was some 3.3 TWh, of which the Group's Nordic operations consumed some 3.0 TWh.

RAW MATERIAL USAGE BY VOLUME 2006



RAW MATERIAL USAGE BY VALUE 2006



Material flow optimization concentrates on the hot end of the stainless steel process

The aim is to optimize loading of the Group's melting and hot rolling capabilities. This includes both the monitoring of ongoing performance against expected capacity and also the capability to respond to changes in the balance between supply and demand. Thus, correct priorities are assigned during shortages and in times of melting surplus the most efficient production is utilized.

The main mechanism for allocating capacity is the "Steel Balance" method, implemented in conjunction with the Tactical Planning Team (chaired by the Executive Vice President – Production Operations). The aim is to further accelerate the decision-making and execution processes, especially during times of transition and/or rapid change.

During the year, further modeling of the internal hot-end flows within the Group has been carried out to increase the flexibility of internal supply routes. Following the closure of the Sheffield cold rolling unit there has

been significant changes to the internal supply routes to enable the lowest cost supply routes to be utilized.

Also as part of this optimization, the importance of reliable profitability information has been recognized and work is being carried out to improve understanding and harmonization of the calculation of raw material costs within the melt shops. For 2007, further initiatives will be undertaken to increase the efficiency of processes within hot-end material flows.

Research and development – fine-tuning new processes, and development of special grades and applications

Outokumpu Group has two research centers, in Tornio and in Avesta. Tornio Research Center concentrates mainly on process development and product quality improvement. At the Avesta Research Center, the focus is on product and application development. Some process and technology development work is also carried out in production units, and there are links between R&D operations and the Production Excellence program.

Research and development teams in Tornio have continued to work further on the fine tuning of new processes and equipment at the Tornio Works. Volume growth in the new steel melt shop, the unique Steckel-Tandem hot rolling mill and the RAP line progressed well in the prevailing very favorable market conditions. One example was an improvement in the availability of all critical process steps. The launch of the semi cold rolled RAP™2E product has been successful, and customers have given the product a favorable reception.

Optimum process parameters and product properties for standard ferritic grades have been studied intensively at production scale. The Tornio Works has started production of ferritics once new batch annealing furnaces were operational in the first quarter of 2007.

Special grades are one of key focus areas of Avesta Research Center including high-alloyed corrosion-resistant austenitic, duplex and heat-resistant alloys. Much effort has

been put into the development of duplex grades, which offer a good combination of strength and corrosion resistance. Demand for these has grown very strongly in response to the high price of nickel. Outokumpu has been able to increase the volumes of these products substantially, and customers have also shown growing interest in LDX 2101®, Outokumpu's own development of Lean Duplex. Production technology for this grade has been improved and new applications are continuously being developed.

Application development has traditionally been focused on the process industries, where stainless steel plays a dominant role in the manufacturing of industrial equip-

ment used in the pulp and paper, oil and gas, desalination and chemical industries. Outokumpu's R&D experts provide advice for both sales personnel and customers about product properties and material selection and receive valuable direct feedback concerning customer needs. This in turn serves as input for further product development activity.

R&D efforts have continued in two new application segments – the transportation and automotive industries and the architecture, building and construction (AB&C) segment. The high strength and good formability of stainless steels has been the subject of further study in these applications. Its lower weight and low life-cycle costs make stainless

OK-1 progressing



The OK-1 Program consists of numerous, even small subprojects. The subject of the project discussed here is the way of improving shot blasting on the new RAP cold rolling line.

SHOT BLASTING is a means of mechanically removing the layer of scale on the surface of black hot strip after annealing and before the pickling and cold rolling stages. The subject was chosen as a project because in the first part of the year (Jan.–Oct. 2006), about 1.3% of the hot strip products required corrective treatment due to scaling. This was attributable not only to shot blasting, but also to other process stages. However, we know from experience that shot blasting is the largest single factor. In addition, when scaling occurs, the speed of the line often has to be reduced, too.

WHEN THE PROJECT STARTED, the occurrence of defects was analyzed with dif-

ferent grades and dimensions in order to get a better grip on problem spots. Furthermore, present-state information was updated for defects and speed losses. Thereafter, the project has centered on ascertaining critical problem areas and on restoring the basic conditions to the required norms. The equipment has already been adjusted stage by stage for achieving an improved shot-blasting result. At present, the project is focusing on uncovering the underlying causes. The ultimate goal was to halve the amount of defects and speed losses by the beginning of February 2007, thereby stepping up the efficiency of the RAP line. When realized, the project is estimated to add up to EUR 2–3 million on annual earnings.

steel an excellent substitute for many other materials. Activities within the automotive segment have continued in the Next Generation Vehicle project, a co-operative project between some European stainless steel producers, car manufacturers and engineering companies. Components for passenger cars made of high-strength stainless steels have yielded very promising results in first crash tests. This over EUR 5 million project will be finalized in 2008.

Outokumpu's experts are actively engaged in many international associations such as ISSF and EuroInox, as well as in EU co-operation projects. In Finland, Outokumpu is participating with other steel companies and universities, in the New-Pro project, in which some sub-projects are handling new products and applications for stainless steel.

The main subject of environmental research in 2006 was slag utilization (including process development), studies of the properties of different slag products and the development of applications. When treated in an optimal manner, slag from steel melt shops is a suitable material for roads and construction beds where it replaces virgin material. Development of the Hydroflux process to utilize processed pickling sludge in steel melt shops was continued.

Outokumpu's R&D costs totaled EUR 17 million in 2006 and the R&D function employed nearly 200 professionals.

Production Excellence improves efficiency

The Production Excellence program, known internally as OK-1, is a practice-oriented approach in identifying and eliminating waste, losses, and inefficiencies in production and other operations. Under the program, a new, systematic and well-documented operational approach is being created for the entire Outokumpu production organization, and employees are being trained. The goal is to establish a set of operating procedures that ensure the maintenance and development of future competitiveness. The Production Excellence program concentrates in particular on occupational safety, production efficiency and quality, as well as on improving the reliability of production and making improvement work into an everyday routine in production operations.

With the support of the Production Excellence program, unnecessary costs are being eliminated, lead times shortened, and working capital reduced. Uniform operating procedures make it easier to identify best practices and transfer them between production units. The program includes a

“tool pack” in which the methods and tools required for continuous improvement can be found.

Implementation projects began in the melt shops at Tornio, Avesta and Sheffield in 2005, and have since been rolled out in to rolling mills and finishing facilities throughout the Group. A total of 18 production sites are currently involved in the implementation. Each site is running several improvement projects of varying size. To date, some 220 improvement teams have either completed a project or have an on-going project, with a total of nearly 1 000 people being involved. Furthermore, PECAT (Production Excellence Change Agent Training) is also continuing and members of the first course graduated in December 2006. Three more courses were started in 2006, bringing the number of change agents that are in training or have graduated to 50. In the next three years, some three courses will be started annually.

While the implementation is gradually expanded to all of the Group's production units, also the benefits are already starting to materialize. The benefit follow-up procedures have now been established and the combined benefits from the Operational Excellence programs are expected to total EUR 40 million in 2007, EUR 80 million in 2008 and EUR 160 million on an annual basis thereafter.

EXAMPLES OF OK-1 PROJECTS

Site	Project	Benefits
Tornio cold rolling mill	Improve shot blasting in RAP line	Reduced amount of defects and improved speed, EUR 2-3 million annually
Sheffield melt shop	Reduce excess usage of nickel and molybdenum	Some EUR 3 million annually
Sheffield Special Strip	5S (orderlines) program in maintenance shop	Improved working conditions, motivation, speed and quality of work
Avesta melt shop	Reduce start-up break-out frequency at continuous caster	Reduced lost production time and improved yield
Avesta cold rolling mill	Reduce buffer stock level after annealing and pickling line	Some EUR 0.8 million of employed capital released, and elimination of line stoppages due to full buffer stock
Degerfors Hot Rolled Plate	Reduction of packaging material and optimization of package weights	Reduced packaging material, overtime and transport costs. Some EUR 0.4 million annually

DISCONTINUED OPERATIONS

In accordance with IFRS principles, discontinued operations are reported separately from Outokumpu's continuing operations. The Group's discontinued operations include Outokumpu Technology (sold and listed in 2006), the fabricated copper products businesses (sold in 2005) and Outokumpu Copper Tube and Brass (held-for-sale). In the consolidated income statement, these discontinued operations are reported as a separate item before the net profit for the financial year.

Outokumpu Technology Oyj was listed on the Helsinki Stock Exchange in October

The EUR 357 million net profit from discontinued operations in 2006 comprises Outokumpu Technology's operational result for January–September, the operational result of Outokumpu Tube and Brass for the whole year, and the EUR 328 million gain on the sale of shares in Outokumpu Technology. In 2005, the EUR 339 million loss comprised the operational result of the fabricated copper products business in the first quarter of 2005, the operational result of Outokumpu Technology and Tube and Brass for the whole year, the EUR 252 million loss on the sale of the fabricated copper products business and the impairment loss of EUR 86 million recognized in the tube and brass business.

Outokumpu Technology listed in October

In September 2006, the Board of Directors of Outokumpu Oyj decided to list Outokumpu Technology through an IPO. The sale of shares commenced on September 26, and ended on

October 9, and Outokumpu Technology Oyj was listed on the Helsinki Stock Exchange on October 10. In the offering, Outokumpu Oyj sold 36 960 001 shares at EUR 12.50 per share, leaving Outokumpu with a 12% holding in Outokumpu Technology.

Outokumpu Technology was classified as a discontinued operation in the Group's third quarter interim report. Net proceeds from the sale amounted to EUR 449 million. Until disposal, the remaining 12% stake in Outokumpu Technology is, as an available-for-sale financial asset, valued at fair value recognized directly in equity.

Outokumpu Copper Tube and Brass – restructuring program progressing

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

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

In February 2006, Outokumpu sold Outokumpu Copper MKM Ltd, a brass rod mill located in Aldridge in Britain, to The Meade Corporation.

Market conditions for Copper Tube and Brass were challenging in 2006 as a result of continuously rising prices for copper and zinc. Delivery volumes fell below those achieved in 2005, but conversion margins were higher. In 2006, sales totaled EUR 678 million and operating profit totaled EUR 23 million, including metal inventory gains and the gain from the sale of Outokumpu Copper MKM Ltd. Operating capital at the end of December totaled EUR 162 million.



HUMAN RESOURCES



The core principle of Outokumpu's Human Resources management is "Success is about people." This principle was applied in 2006 by continuing the systematic implementation of HR strategy and Group-wide HR processes.

Leadership principles renewed

In March 2006, Outokumpu published its new Leadership Principles. Concurrently, it launched a strategic leadership program in which 60 Outokumpu executives from different parts of the Group participated during 2006. The objective of the program is to promote a unified corporate culture in which being a good leader is a central element. While the development program was running, the participants were divided into nine working groups and prepared action and implementation plans for theme areas important for ensuring Outokumpu's success.

The process of mobilizing leadership behavior in line with the new principles will move ahead in 2007, and it will be extended to cover the entire personnel. Acting in accordance with the core principles will be measured by means of feedback assessments among management in connection with the Performance and Development Dialogue process that covers the entire personnel and by means of the O'People personnel surveys.

Human Resources development underpins personnel policy

Outokumpu's personnel policy revolves around the concept of continuous development of the personnel. The Group continuously offers training and opportunities for developing skills and competence. The highest-profile projects in 2006 were PECAT, Production Excellence Change Agent Training, and an extensive management training program.

Outokumpu has a Group-wide array of training programs for developing the personnel, and during 2006, training programs were arranged for managers at different stages of their careers and for potential managers as well as for new recruits. In addition to classroom

training, other methods, such as personal coaching, on-line teaching and challenging project assignments were also used.

Apart from training programs across the entire Group, another priority for personnel training was local training that maintains professional skill. In addition, the various units arrange joint training sessions for their own personnel.

Training costs in 2006 totaled 1.1% of total wages and salaries. Each employee spent an average of 2.9 days in training in 2006.

Assessment of management resources now completed

Key factors for stewarding Outokumpu's management resources are the long-term development of management resources in line with business strategy, identification of the right talent and slotting capable people into the right places.

The process of mapping and assessing Group-wide management resources and manager potential culminated in the Group's Executive Committee's discussion of key management resources in April. By the Management Review Process and formulating development plans, Outokumpu is building a corps of professionals to ensure the Group's success in coming years.

Harmonized performance appraisal discussions and reward models

A harmonized way of conducting Performance and Development Dialogues, Outokumpu's model, was developed further in 2006, and will be used at all Group units as of the beginning of 2007. This will ensure that everyone knows their targets at the team and individual level, receives feedback on their performance and also has an opportunity to give feedback to their supervisors. The dialogue forms a natural basis for developing the employee's competence and improving performance.

Outokumpu introduced short and long-term incentive systems in accordance with

its principles of rewarding employees, with the aim of emphasizing the points of contact between performance and rewards. Bonuses paid out in 2006 amounted to 4.2% of total salaries and wages.

The personnel and management listen to each other

At Outokumpu, the body that is dedicated to co-operation between personnel and management and based on a European Union directive is called the Outokumpu Personnel Forum. It comprises a total of 33 representatives of the personnel, who are chosen from different company locations as well as from representatives of the company's top management and HR management. In 2006, the scheduled meeting, which was already the 15th, was held in Terneuzen, the Netherlands.

The Outokumpu Personnel Forum's Group Working Committee is responsible for continuous cooperation between the personnel and management. The Committee met eight times during the year.

A decrease in the Group's headcount

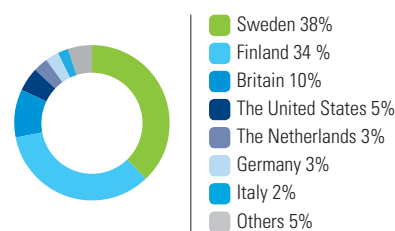
Owing to structural changes that were carried out during the year, the number of Outokumpu employees decreased by some 2 220 people compared with the previous year. The largest of these changes was the listing of Outokumpu Technology on the Helsinki Stock Exchange in October.

In the first half of 2006, the co-determination negotiations that were part of the fixed cost reduction program launched in 2005 were seen to completion, and the headcount reductions agreed was carried out. As a consequence of these measures and the closure of Coil Products Sheffield, completed in April, the Group's net reduction in number of employees has been about 1 250 people.

At the end of 2006, there were a total of 8 159 people employed in the Group's continuing operations, and 915 people were employed in units held-for-sale.

The core principle of Outokumpu's Human Resources management is "Success is about people"

PERSONNEL BY COUNTRY AT YEAR-END



KEY FIGURES

	2006	2005
Sales/person, € million	0.7	0.5
Incentives of total remuneration costs, %	4.2	4.6
Training costs of total remuneration costs, %	1.1	1.5
Training days/person	2.9	5.0
Days lost due to strikes	15	510
Personnel turnover, %	10.1	5.7

ENVIRONMENT, HEALTH AND SAFETY



Continuing reduction of environmental impacts

Stainless steel is fully recyclable, corrosion-resistant and

hygienic and the environmental impacts that result from its use are negligible. Almost all environmental impacts therefore arise during the production, manufacturing and re-processing stages of the material's life cycle.

As a stainless steel producer, Outokumpu is committed to responsible production. In line with its corporate responsibility policy, ethical principles and environmental policy, Outokumpu aims to minimize the negative impact of its operations on the environment as much as economically and technically possible while achieving continual improvements in overall performance. Local guidelines and environmental management systems provide more detailed models for action.

Environmental issues are an essential part of the management systems employed in the Group's plants and units, and the functioning of these systems is monitored by both internal and external audits. The relevant authorities also receive regular reports on Outokumpu's operations. At Group level, operations are managed and best practices are applied through the environment network, whose working groups and Environment Committee meet once a quarter.

Emissions and discharges in compliance

All Outokumpu's larger production sites have an environmental management system, and almost all of these systems are certified to ISO 14001, the corresponding international standard for environmental management systems.

All Group sites have valid environmental permits or applications for such permits have been filed. Many of Outokumpu's sites have applied for new permits because of changes in their operations or as a result of the implementation of European Union environmental legislation.

In general terms, emissions and discharges during the year were in compliance with environmental permits. There were however 30 minor breaches of environmental permits registered in 2006, 20 of them in plants located in Britain where permitted levels are very close to operational levels. This means that a minor deviation in operational conditions or a technical problem in abatement equipment can lead to such a breach. All the breaches that occurred in 2006 were temporary, were discovered rapidly and resulted in only minimal environmental impacts.

In November, a radioactive Am241 component was melted at Tornio Works. The contaminated slag and refractories were correctly isolated and sealed on site to await further processing. No harm was caused to either personnel or the environment.

Actual carbon dioxide emissions in 2005 have been reported and appropriate allowances have been submitted to local authorities. Lower production volumes and better-than-estimated energy efficiency in 2005 resulted in the Group's plants in Finland and Sweden having surplus allowances. During 2006, Outokumpu sold 415 000 tons of excess allowances for a total of EUR 7 million. Carbon dioxide allowances for 2006 were distributed in February 2006. Preparations to apply for allowances in the 2008–2012 Kyoto Period are under way.

Outokumpu is not a party to any significant juridical or administrative proceedings connected with environmental issues and is not aware of any environmental risks that

would have a material impact on the Group's financial position.

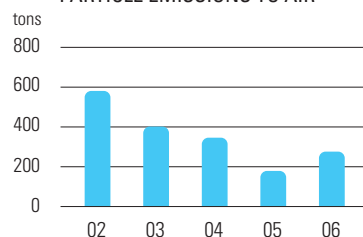
Environmental protection expenditures and investments

Environmental investments by Outokumpu in 2006 totaled some EUR 8 million (2005: EUR 12 million). Operational costs totaled EUR 52 million (2005: EUR 48 million), with the treatment and disposal of waste amounting to EUR 7 million.

Tornio Works paid EUR 0.2 million as voluntary compensation to Finnish and Swedish fishermen for harm caused to them by the dredging operations in Tornio Harbor in 2004–2005.

Group provisions and guarantees related to environmental issues at the end of 2006 totaled 29 million.

PARTICLE EMISSIONS TO AIR



ACCIDENTS



All Outokumpu's
larger production
sites have
an environmental
management system,
almost all are
ISO 14001 certified

Health and safety

Outokumpu is committed to providing its employees with a healthy and safe working environment. The Group is also responsible for the safety of personnel employed by its sub-contractors when they are working in Outokumpu facilities. Meetings of management teams and similar occasions throughout the Group always start by a health and safety issues review.

Outokumpu is striving to reduce the overall accident frequency rate to no more than five lost-time accidents per million working hours by 2009. The target for 2006 was set at a maximum of 14 but this was not met as the actual lost-time accident frequency rate was 17 (2005: 18). Accident figures include personnel employed by both Outokumpu and its sub-contractors.

Reporting on corporate responsibility

Outokumpu's corporate responsibility report is based on the Global Reporting Initiative (GRI) and is published in connection with this annual report. Additional and further details concerning environmental issues and health and safety can be found in the corporate responsibility report – Outokumpu and the environment 2006 – and at www.outokumpu.com.



RISK MANAGEMENT



Outokumpu operates in accordance with the Board-approved risk management policy defining the objectives, approaches and areas

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

Outokumpu's appetite for risk and tolerance to it are defined in relation to Group's capital structure, earnings and cash flow. The risk management process is part of the Group's management system, and in practical terms is divided into four stages: the identification of risks; risk assessment and measurement; control and mitigation; and reporting. During 2006, the review and monitoring of key risks for each business unit was further developed as the status of key risks and risk management actions is addressed regularly in performance management reviews.

The Board of Directors is ultimately responsible for the Group's risk management. The CEO and the Group Executive Committee are responsible for defining and implementing risk management procedures, and for ensuring that risks are properly addressed and taken into account in strategic and business planning. Business units are responsible for managing the risks involved in their own operations. The risk management function supports the implementation of risk management policy and develops Group-wide ways of working. External and internal auditors monitor the risk management process.

The risk management function prepares a quarterly risk report for the Audit Commit-

tee, Corporate Management, internal audit and external auditors. The Group Executive Committee, Audit Committee and Board of Directors also review key risks and risk management actions on a regular basis.

Strategic and business risks

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

Risk management supports the Group's strategy and business targets and helps to define a balanced risk profile

The global stainless steel market

The market for stainless steel is divided into three main regions: Asia, Europe and the Americas. Significant flows of trade between the regions take place despite some political barriers. Outokumpu's key production facilities are located in Europe and it has a global sales and distribution network.

Outokumpu's main market area is Europe. The changes that take place in different market areas as well as regional differences – such as the prevailing levels of supply and demand, price levels, or currency rates – can have an impact on Outokumpu's competitive position and financial performance. Because of the very good demand prospects for stain-

less steel in China, a lot of new production capacity is being built there.

It is now forecast that in 2007 demand and supply of stainless steel in China will be close to balance. This may lead to continued tough competition in the sector, with prices falling over the longer term. Outokumpu has already taken action and, by maintaining cost-efficient production, broadening its product offering, improving its delivery reliability and developing distribution channels, is making preparations for a possible continuation of overcapacity situation and the adverse effects of it. As set out in the Group's strategy, Outokumpu will also study ways of strengthening its position outside Europe in the years ahead.

Cyclical nature of stainless steel demand

Demand for Outokumpu's main product, austenitic stainless steel, is sensitive not only to fluctuations in actual end-user demand, but also to changes in the price of nickel, the most valuable alloying element. Stockists may speculate on changes in the nickel price by timing their purchases, which can complicate the forecasting of demand and affect Outokumpu's sales volumes. Outokumpu seeks to mitigate this risk in several ways, such as by increasing the number of direct end-use customers.

Raw materials and energy

Apart from its own ferrochrome production, Outokumpu is dependent on external suppliers for the raw materials used in production of stainless steel, and, as a rule, enters into long-term agreements with them. The availability and price of many raw materials and energy are subject to fluctuation. Reduced availability of raw materials and energy or a significant rise in their price may have an adverse effect on both Outokumpu's operations and profits if the risk mitigation measures by Outokumpu prove insufficient or if price increases cannot be passed on to customers. The carbon dioxide emissions trading that started in the European Union in

the beginning of 2005 affects Outokumpu mainly through possible increases in the price of electrical energy. Outokumpu has prepared to meet higher electricity prices not only through hedging, but also by stepping up the efficiency of energy use in its plants, concluding long-term delivery agreements and acquiring stakes in power generation companies.

Status of key risks and risk management actions is addressed regularly in performance management reviews

Competition in the stainless industry

Competition in the stainless steel industry is fierce, and factors such as increases in competitors' production capacity, a decrease in prices or the development of better or new products and services can weaken Outokumpu's position in relation to its competitors. Producers also compete with manufacturers of substitute materials such as other metals, plastics and composites. On the other hand, stainless steel is being used in many new applications where other materials, such as carbon steel, have previously been used. One of the key advantages of stainless steel over competing materials is its low life-cycle cost.

Operational risks

Operational risks arise as a consequence of inadequate or failed internal processes, people's actions, systems or external events. Risks of this kind are often connected with a plant's operations, projects, information technol-

ogy or infrastructure, and if they materialize, can lead to personal injury, liability, loss of property, the suspension of operations or environmental impacts. Risk surveys are carried out on an ongoing basis to assess such risks and keep them under control. Part of Outokumpu's operational risks are covered by insurance.

Property damage and business interruptions

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

Financial risks

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

Financial risk management issues are discussed in further detail in note 19 to the consolidated financial statements.



OUTOKUMPU SHARES AND SHAREHOLDERS



Shares and share capital

On December 31, 2006, Outokumpu Oyj's fully paid and registered share capital totaled

EUR 308 125 943.50 and it consisted of 181 250 555 shares. Each share entitles its holder to one vote at general meetings of shareholders. The Company's shares have been entered in the Finnish book-entry securities system. According to the Articles of Association, the share capital of Outokumpu Oyj is a minimum of EUR 150 000 000 and a maximum of EUR 1 200 000 000. The issued share capital may be increased or decreased within these limits without amending the Articles of Association.

Listing of shares

Outokumpu Oyj's shares are listed on the Helsinki Stock Exchange. The trading symbol is OUT1V.

Treasury shares

At the end of 2006, the Company held 218 603 treasury shares. The repurchases have been made between April 9 and November 27, 2001. The amount corresponds to 0.1% of the Company's shares and voting rights.

State ownership

The Finnish State reduced its holding of the Company's shares and voting rights from 37.8% to 31.1% in November 2006, through sale of shares (by book building). According to a resolution passed by the Finnish Parliament in June 2001, the state's shareholding in Outokumpu can be reduced down to 10%.

Any reduction below this level would require a new parliamentary resolution.

Redemption obligation

According to the Articles of Association, a shareholder whose proportion of all the Company's shares or aggregate voting rights reaches or exceeds 33 1/3% or 50% is obligated, upon request by the other shareholders, to redeem their shares at a price calculated in the manner specified in the Articles of Association.

Board's authorization to increase share capital

On March 30, 2006 the Annual General Meeting authorized the Board of Directors to increase the Company's share capital by issuing new shares and/or issuing convertible bonds. On the basis of this authorization, the Company's share capital may be increased by a maximum of EUR 30 800 000 by issuing a maximum of 18 117 647 new shares for subscription.

INCREASES IN SHARE CAPITAL 2002–2007

	Number of shares	Share capital, €
Share capital on Jan. 1, 2002	124 700 050	211 990 085.00
Share subscription under the 1999 convertible bond		
Apr. 8–Nov. 29, 2002	+872 161	213 472 758.70
Rights offering Nov. 28–Dec. 17, 2002		
Primary subscriptions registered on Dec. 23, 2002	+46 944 402	293 278 242.10
Secondary subscriptions registered on Jan. 3, 2003	+142 506	293 520 502.30
Share subscription under the 1999 convertible bond		
Apr. 8–Nov. 28, 2003	+255 417	293 954 711.20
Share subscription under the 1998 option warrants		
Sep. 10–Dec. 19, 2003	+659 629	295 076 080.80
Share issue to Boliden Mineral AB on Dec. 31, 2003	+5 000 000	303 756 080.50
Share subscription under the 1998 option warrants		
Dec. 20–31, 2003	+2 195	303 759 812.00
Jan. 1–Mar. 31, 2004	+2 174 244	307 276 026.80
Share subscription under the 1999 convertible bond		
Jan. 2–Apr. 5, 2004	+499 951	308 125 943.50
Share capital on Dec. 31, 2006	181 250 555	308 125 943.50
Shares subscribed with 2003A options		
Oct. 14–Dec. 29, 2006, registered on Jan 11, 2007	+33 323	308 182 592.60
Share capital on Jan. 31, 2007	181 283 878	308 182 592.60
Treasury shares on Dec. 31, 2006	218 603	371 625.10
Number of shares outstanding on Dec. 31, 2006	181 031 952	307 754 318.40

The Board of Directors is authorized to decide who will have the right to subscribe for the new shares or convertible bonds. The Board of Directors may deviate from the shareholders' pre-emptive subscription right, provided that such deviation is justified by an important financial reason such as strengthening the Company's capital structure, or financing corporate acquisitions or restructurings. The Board of Directors may not deviate from the shareholders' pre-emptive subscription rights in favour of persons that are closely connected to the Company in the meaning of Chapter 1, Section 4, sub-section 1 of the Finnish Companies Act. The Board of Directors decides the subscription price and the other terms and conditions connected with the issue of shares or convertible bonds. The Board of Directors may decide that the subscription price for new shares be paid by means of contribution in kind, set-off or otherwise subject to specific terms and conditions determined by the Board of Directors.

The authorization to issue new shares is valid until the Annual General Meeting in 2007, but no longer than 12 months from the decision of the General Meeting. The Board has not exercised the authorization.

Board's authorization to repurchase the Company's own shares

On March 30, 2006 the Annual General Meeting authorized the Board of Directors to repurchase the Company's own shares (treasury shares). A maximum of 18 000 000 shares can be repurchased, which currently equals 9,93% of the company's issued and outstanding shares. According to the Finnish Companies Act the aggregate maximum number of own shares the Company has in its possession may never exceed 10% of the Company's is-

sued and outstanding shares. Shares may be repurchased in accordance with a decision by the Board of Directors through purchases in public trading on the Helsinki Stock Exchange at the prevailing market price. The purchase price shall be paid to the sellers within the time limit provided in the rules of the Helsinki Stock Exchange and the Finnish Central Securities Depository Ltd. The shares shall be repurchased with distributable funds and accordingly repurchasing will reduce distributable equity of the Company. As the number of shares to be repurchased is limited as explained above and as the Company has only one class of shares, repurchases of own shares are not likely to have a significant impact on the relative holdings or voting rights between shareholders of the Company. Since shares will be repurchased in public trading at the Helsinki Stock Exchange without knowledge of the sellers' identity, it is not possible to determine whether and to what extent the repurchase could affect the proportionate holdings of persons that are closely connected to the Company in the meaning of chapter 1, section 4, subsection 1 of the Finnish Companies Act. The Board of Directors is authorized to decide on other matters and measures related to the repurchasing of own shares.

The authorization to repurchase shares is valid until the Annual General Meeting in 2007, but no longer than 12 months from the decision of the General Meeting. The Board has not exercised this authorization.

Board's authorization to transfer the Company's own shares

On March 30, 2006 the Annual General Meeting authorized the Board of Directors to transfer a maximum of 18 000 000 of the Company's own shares on one or several oc-

For the financial year
2006, a dividend of
EUR 1.10 per share
is proposed

SHAREHOLDERS BY GROUP
JANUARY 31, 2007



PRINCIPAL SHAREHOLDERS ON JANUARY 31, 2007

Shareholders	Number of shares	%
The Finnish State	56 440 597	31.1
The Finnish Social Insurance Institution	16 010 838	8.8
Ilmarinen Mutual Pension Insurance Company	3 962 864	2.2
Odin Norden	2 208 104	1.2
Varma Mutual Pension Insurance Company	1 347 354	0.7
Finnish State Pension Fund	1 200 000	0.7
Tapiola Mutual Pension Insurance Company	1 187 400	0.7
Etera Mutual Pension Insurance Company	1 022 611	0.6
Investment fund OP-Delta	795 407	0.4
Investment fund Sampo Suomi Osake	683 000	0.4
Nominee accounts held by custodian banks ¹⁾	69 305 583	38.2
Other shareholders total	27 120 120	15.0
Total number of shares	181 283 878	100.0

¹⁾ Shareholding of the companies belonging to Barclays Plc. has on November 17, 2006 increased to 5.3% of Outokumpu shares. According to the information available, no other nominee holdings exceed 5% of the total shares.

SHAREHOLDERS BY GROUP ON JANUARY 31, 2007

Shareholder group	Number of shares	%
Finnish corporations	2 435 906	1.3
Financial and insurance institutions	6 371 322	3.5
The public sector and public organizations		
The Finnish State	56 440 597	31.1
The Finnish Social Insurance Institution	16 010 838	8.8
Other	11 075 415	6.1
Non-profit organizations	3 601 684	2.0
Households/private persons	12 317 558	6.8
International shareholders	73 030 558	40.3
Shares not transferred to book-entry securities system	1 590	0.0
Total	181 283 878	100.0

DISTRIBUTION OF SHAREHOLDINGS ON JANUARY 31, 2007

Number of shares	Number of shareholders	% of shareholders	Total shares	% of share capital	Average shareholding
1–100	2 903	18.9	179 119	0.1	62
101–500	6 504	42.4	1 787 507	1.0	275
501–1 000	2 547	16.6	1 947 886	1.1	765
1 001–10 000	3 125	20.4	8 545 840	4.7	2 735
10 001–100 000	206	1.3	5 924 518	3.3	28 760
100 001–1 000 000	39	0.3	10 213 657	5.6	261 889
> 1 000 000	8	0.1	83 379 768	46.0	10 422 471
	15 332	100.0	111 978 295	61.8	7 304
Nominee accounts held by custodian banks			69 305 583	38.2	
Shares not transferred to book-entry securities system			1 590	0.0	
Total			181 283 878	100.0	

casions. The Board of Directors was authorized to decide on the recipients of the shares and the procedure and terms to be applied. The Board of Directors may decide to transfer shares in deviation from the pre-emptive right of the shareholders to the Company's shares. Shares can be transferred as a consideration when acquiring assets for the Company's business or as a consideration in possible corporate acquisitions, in the manner and to the extent decided by the Board of Directors. The Board of Directors can decide to sell shares through public trading on the Helsinki Stock Exchange to obtain funds for the Company for investments and possible corporate acquisitions. Shares can also be transferred as an element in incentive and bonus schemes directed to the Company's personnel, including the CEO and his/her deputy. Except as separately authorized, the Board of Directors may not deviate from the shareholders' pre-emptive rights to shares in favor of persons that are closely connected to the Company in the meaning of chapter 1, section 4, sub-section 1 of the Finnish Companies Act. The transfer price may not be less than the fair market value of the shares at the time of the transfer as set in public trading on the Helsinki Stock Exchange. The consideration can be paid in kind, by means of set-off or otherwise subject to specific terms and conditions determined by the Board of Directors. The Board of Directors is authorized to decide on other matters and measures related to the transfer of own shares.

The authorization to transfer shares is valid until the Annual General Meeting in 2007, but no longer than 12 months from the decision of the General Meeting. The Board has not exercised this authorization.

2003 option program

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

ward system is based on both earnings and the Company's relative performance, with rewards geared to accomplishments.

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

The subscription price for shares through the exercise of stock option 2003A is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki Stock Exchange from December 1, 2003 to February 29, 2004, with stock option 2003B it is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki Stock Exchange from December 1, 2004 to February 28, 2005 and with stock options 2003C it is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki Stock Exchange from December 1, 2005 to February 28, 2006. On each dividend record date, the share subscription price of stock options will be reduced by the amount of dividends to be decided after the close of the period for determining the subscription price and prior to share subscription.

The subscription period for shares with stock option 2003A is from September 1, 2006 to March 1, 2009, with stock option

2003B it is from September 1, 2007 to March 1, 2010 and with stock option 2003C it is from September 1, 2008 to March 1, 2011.

In February 2004, the Board of Directors confirmed that a total of 742 988 stock options 2003A be distributed to 116 persons in management positions of Outokumpu. The maximum number of 2003A stock options was 1 700 000. Members of the Group Executive Committee received 62% and other key persons received 45.25% of the maximum number of 2003A stock options. The number of 2003A stock options distributed was decided on the basis of the earnings criteria established in June 2003, and which were the Group's earnings per share and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing. Trading with Outokumpu Oyj's stock options 2003A commenced on the main list of the Helsinki Stock Exchange as of September 1, 2006. The unallocated 1 040 698 stock options have been annulled and removed from the Finnish book-entry system. By the end of year 2006, a total of 33 323 Outokumpu Oyj shares had been subscribed for on the basis of 2003A stock options. An aggregate maximum of 625 979 Outokumpu Oyj shares can be subscribed for with the remaining 2003A stock options. In accordance with the terms and conditions of the option program, the dividend adjusted share subscription price for a stock option was EUR 9.55 at the end of 2006.

In February 2005, the Board of Directors confirmed that a total of 1 148 820 stock options 2003B be distributed to 130 persons in management positions of Outokumpu. The maximum number of 2003B stock options was 1 700 000. Members of the Group Executive Committee received 55.2% and other key persons received 75% of the maximum number of 2003B stock options. The number of 2003B stock options distributed was decided on the basis of the earnings criteria established in February 2004, and which were the Group's earnings per share and share price performance outperforming the share price trend of peer

companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing. At the end of 2006 an aggregate maximum of 1 028 820 Outokumpu Oyj shares could be subscribed for with 2003B stock options. In accordance with the terms and conditions of the option program, the original subscription price for a stock option was EUR 13.56 per share, from which subsequent annual dividends will be deducted.

In February 2006, the Board of Directors decided that a total of 97 500 stock options 2003C be distributed to 7 members of the Group Executive Committee. The maximum number of 2003C stock options was 1 160 000. Members of the Group Executive Committee received 25% of the maximum number of 2003C stock options. No stock options were distributed to other key persons, because the earnings criteria established in March 2005, the Group's operating profit in 2005 and relative development of total shareholder return, were not achieved. The additional earnings criterion for the Group Executive Committee members was the Group's gearing and the established gearing target was achieved. At the end of 2006 an aggregate maximum of 87 500 Outokumpu Oyj shares could be subscribed for with 2003C stock options. In accordance with the terms and conditions of the option program, the original subscription price for a stock was EUR 13.69 per share, from which subsequent annual dividends will be deducted.

Following the subscriptions with 2003 stock options, Outokumpu Oyj's share capital may be increased by a maximum of EUR 2 961 908 and the number of shares by a maximum of 1 742 299. The number of shares that can be subscribed for on the basis of the stock options corresponds to 1.0% of Company's shares and voting rights.

Share-based incentive program for 2006–2010

On February 2, 2006, Outokumpu's Board of Directors confirmed a share-based incentive program as part of the key employee

incentive and commitment system of the company. The share incentive program will last five years, comprising three earning periods of three calendar years each. The earning periods commence on January 1, 2006, January 1, 2007 and January 1, 2008. The Board of Directors decides on the persons entitled to participate in the program for each earning period. At the end of 2006, 138 people were in the scope of the program for the earning period 2006–2008. On February 1, 2007, 138 people were confirmed to be in the scope of the program for the earning period 2007–2009. The objective of the share-based incentive program is to reward for good performance, which supports the Company's strategy and at the same time to direct the management's attention to increasing the company's shareholder value over a longer period of time. The program offers a possibility to receive Outokumpu shares and cash (equaling to the amount of taxes) as an incentive reward, if the targets set by the Board for each earning period are achieved. The aggregate number of shares to be distributed for each of the earning periods cannot exceed 500 000 shares. In accordance with targets confirmed for the earning periods 2006–2008 and 2007–2009 the reward is based on relative development of TSR (Total Shareholder Return) (50 % of the maximum reward) and achieving targets set for Operational Excellence programs (50% of the maximum award).

If persons covered by the first and second earning periods of the share-based incentive program were to receive the number of shares in accordance with the maximum reward (a total of 625 750 shares), their shareholding obtained via the program would amount to 0.3% of the Company's shares and the voting rights. Under the program, entitled persons must keep the shares in their possession for at least two years from their receipt. In addition,

according to the share ownership plan of the Outokumpu Group the members of the Group Executive Committee are obliged to own Outokumpu shares received under the incentive programs for the value of their annual gross base salary.

Management shareholding

On January 31, 2007 members of the Board of Directors and the Group Executive Committee held a total of 33 644 Company shares, corresponding to 0.02 % of the Company's shares and voting rights. If the 2003A, 2003B and 2003C options were exercised in their entirety and if the first two earning periods of the share-based incentive program for 2006–2010 yielded the maximum number of shares, shareholdings and aggregate voting rights held by the members of the Group Executive Committee would increase by 0.13 percentage points pursuant to the option warrants, and by 0.07 percentage points pursuant to the share-based incentive program. Details of management shareholdings are given on page 50.

Dividend proposal for 2006

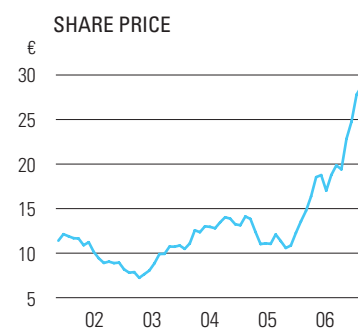
For the financial year 2006, a dividend of EUR 1.10 per share is proposed. The effective dividend yield is 3.7%. The average dividend payout ratio during the past five years is 36.7%. Share price development, trading volume and share-related key figures of the Outokumpu share are shown in the table on page 45.

Very favorable share price development in 2006

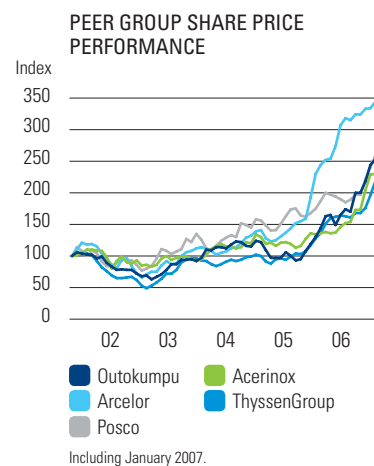
Outokumpu share was one of the best performers on the Helsinki Stock Exchange in 2006 with an increase of 136% year-on-year (OMXH-index: +18%). Also in relation to the peer companies the Outokumpu share performed very well. The share price rose

from EUR 12.55 at the end of the previous year to EUR 29.66 at the end of the year. The year-high quotation of the share was at EUR 30.39 in December and the year-low at EUR 12.60 in January.

The trading volume in 2006 was 78% higher than in 2005 and amounted to 319 million shares. In November, the Finnish State sold 12 million shares (6.6% of all Outokumpu shares) at a price of EUR 24.65 per share, reducing its holding from 37.8% to 31.1%. The total turnover in 2006 was EUR 6.3 billion (2005: EUR 2.1 billion).



Source: OMX. Monthly averages including January 2007.



Including January 2007.

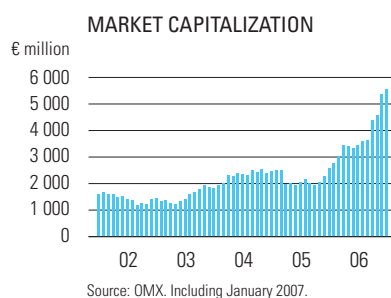
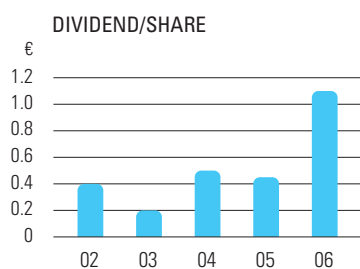
SHARE-RELATED KEY FIGURES

		FAS 2002	IFRS 2003	IFRS 2004	IFRS 2005	IFRS 2006
Earnings per share	€	1.15	0.65	2.12	(2.01)	5.31
Equity per share	€	11.14	11.54	13.65	11.31	16.87
Dividend per share	€	0.40	0.20	0.50	0.45	1.10 ¹⁾
Dividend payout ratio	%	43.5	32.1	23.6	neg.	20.7
Dividend yield	%	4.8	1.9	3.8	3.6	3.7
Price/earnings ratio		7.2	16.7	6.2	neg.	5.6
Development of share price						
Average trading price	€	10.28	8.75	12.52	11.89	19.77
Lowest trading price	€	8.14	6.87	9.93	9.63	12.60
Highest trading price	€	12.67	11.41	14.46	14.72	30.39
Trading price at the end of period	€	8.30	10.77	13.15	12.55	29.66
Change during the period	%	(22.6)	29.8	22.1	(4.6)	136.3
Change in the OMXH-index during the period	%	(34.4)	4.4	3.3	31.1	17.9
Market capitalization at the end of period ²⁾	€ million	1 420	1 911	2 377	2 272	5 369
Development in trading volume						
Trading volume	1 000 shares	58 198	75 574	123 832	179 289	319 345
In relation to weighted average number of shares	%	42.3	44.0	68.8	99.0	176.4
Adjusted average number of shares ²⁾		137 658 458	171 623 035	180 056 920	181 031 415	181 033 168
Number of shares at the end of period ²⁾		171 110 613	177 450 725	180 752 022	181 031 952	181 031 952

2003A stock options have been listed on the Helsinki Stock Exchange since September 1, 2006. For further details see page 43.

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

²⁾ Excluding treasury shares.



OUTOKUMPU CORPORATE GOVERNANCE

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

Group structure

Outokumpu's Corporate Management consists of the Chief Executive Officer, members of the Group Executive Committee, and managers and experts who assist the CEO and the Group Executive Committee members. The task of Corporate Management is to manage the Group as a whole, and its du-

ties include coordination and execution work in the areas of strategy and planning, business development, financial control, internal audit, human resources, environment, health and safety, investor relations and communications, legal affairs as well as treasury and risk management. In addition to the resources centralized under Corporate Management, functional steering across the businesses has also been organized into Commercial Operations, Production Operations and Corporate Services functions.

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

As a discontinued operation, Outokumpu Copper Tube and Brass is managed separately from the Group through the Outokumpu Copper Tube and Brass' Board of Directors.

The Outokumpu Group is managed in accordance with its business organization, in which the legal company structure of the Group provides the legal framework for operations. Clear financial and operational targets have been defined for all the Group's operational businesses.

Tasks and responsibilities of governing bodies

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

General Meeting of Shareholders

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

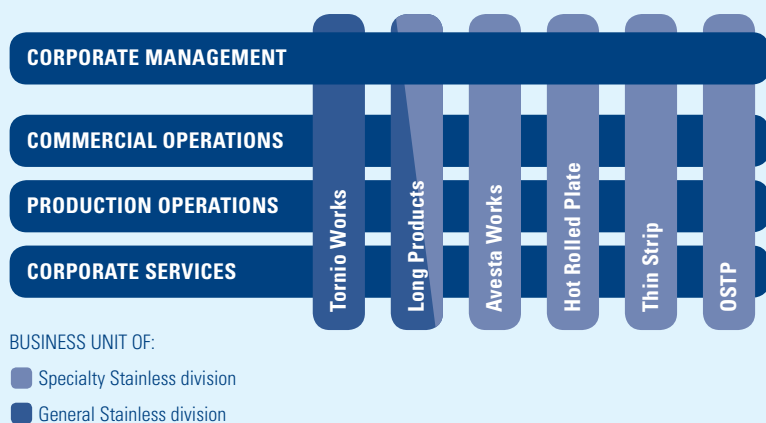
The Board of Directors convenes a General Meeting of Shareholders. The Board can decide to convene a General Meeting on its own initiative, but is obliged to convene a General Meeting if the auditor or shareholders holding at least 10% of the Company's shares so request.

Furthermore, each shareholder has the right to bring a matter that falls within the domain of the General Meeting before a General Meeting of Shareholders provided that a written request to do this has been received by the Board of Directors early enough to allow the matter to be placed on the agenda included in the notice announcing that a General Meeting is being convened. According to its Articles of Association, Outokumpu has only a single class of shares. All shares therefore have equal voting power at General Meetings of Shareholders.

Board of Directors

The general objective of the Board of Directors is to direct the Company's business in a manner that secures a significant and sus-

ORGANIZATION



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

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

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

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

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

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

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

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

With respect to financial control and risk management:

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

The Board of Directors also assesses its own

activities on a regular basis.

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

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

Under the Articles of Association, the Board shall have a minimum of five and a maximum of twelve members. At the 2006 Annual General Meeting, eight members were elected to the Board of Directors. The CEO of Outokumpu is not a Board member.

The Company's largest shareholders have confirmed that they are in favor of a principle according to which members of the Company's Board of Directors should, as a rule, be qualified experts from outside the Company. Seven of the Board's eight members are independent of the Company (Evert Henkes, Jukka Härmälä, Ole Johansson, Anna Nilsson-Ehle, Leena Saarinen, Soili Suonoja and Taisto Turunen) and six are independent of both the Company and its significant shareholders (Evert Henkes, Jukka Härmälä, Ole Johansson, Anna Nilsson-Ehle, Leena Saarinen and Soili Suonoja). The Board of Directors shall meet at least five times a year. In 2006, the Board met 11 times. The average attendance of members at Board meetings was 93%.

Board committees

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

The Audit Committee comprises three Board members who are independent of the Company: Ole Johansson (Chairman), Leena Saarinen and Taisto Turunen. Mr. Johansson holds a B.Sc.(Econ.) degree and his working experience includes several years as the Chief Financial Officer of a publicly listed company. The task of the Audit Committee is to deal with matters relating to financial statements, auditing work, internal controls, the scope of internal and external audits, billing by auditors, the Group's financial policies and other procedures for managing the Group's risks. In addition, the Committee prepares a recommendation to the Company's largest shareholders concerning the election of an external auditor and auditing fees. The Audit Committee met four times during 2006.

The Nomination and Compensation Committee comprises the Chairman of the Board and two other Board members who are independent of the Company: Jukka Härmälä (Chairman), Evert Henkes, and Anna Nilsson-Ehle. The tasks of the Committee do not comply in all respects with the Corporate Governance Recommendations for Listed Companies published by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. The task of the Nomination and Compensation Committee is to prepare proposals for the Board of Directors concerning appointment of the company's top management – excluding the Board of Directors – and the principles of their compensation. The Committee is authorized to determine the terms of service and benefits of the Group Executive Committee members other than the CEO and the Deputy CEO. The Nomination and Compensation Committee met five times during 2006.

For attending to specific tasks, the Board of Directors can also set up temporary work-

ing groups from among its members. These working groups report to the Board. During 2006 no such working groups were set up.

Shareholders' Nomination Committee

Outokumpu's 2006 Annual General Meeting decided to establish a Shareholders' Nomination Committee to prepare proposals for the following General Meeting of Shareholders on the composition of the Board of Directors and director remuneration. The 2006 Annual General Meeting also decided that the Shareholders' Nomination Committee should consist of the representatives of Outokumpu's four largest registered shareholders in the Finnish book-entry securities system on November 1, 2006, which accept the assignment. The Chairman of Outokumpu's Board of Directors acts as an expert member. The largest shareholders are determined based on their registered shareholdings in the Finnish book-entry system. However, holdings by a shareholder, who under the Finnish Securities Markets Act has the obligation to disclose changes in shareholdings (flagging obligation), e.g. divided into a number of funds, may be combined provided that the owner presents a written request to that effect to the Board of Directors of the Company no later than on October 31, 2006.

The representatives of the shareholders in the committee were: The Finnish State, The Finnish Social Insurance Institution, Ilmarinen Mutual Pension Insurance Company and Varma Mutual Pension Insurance Company. These shareholders chose the following persons as their representatives on the Shareholders' Nomination Committee: Markku Tapio, Director General, Ministry of Trade and Finance (The Finnish State); Jorma Huuhtanen, Director General (The Finnish Social Insurance Institution); Harri Sailas, Deputy CEO (Ilmarinen) and Risto Murto, Chief Investment Officer (Varma). The Chairman of Outokumpu's Board Jukka Härmälä served as an expert member and Markku Tapio as the Chairman of the Committee. The Committee submitted its proposals on Board composition and director

remuneration to the Board of Directors. The Outokumpu Board will incorporate these proposals into the notice announcing the Annual General Meeting of Shareholders.

CEO and Deputy CEO

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

Group Executive Committee

The role of the Group Executive Committee is to manage Outokumpu's main business, stainless steel, as a whole. The Committee members have extensive authorities in their individual areas of responsibilities and have the duty to develop the Group's operations in line with the targets set by the Board of Directors and the CEO. The Group Executive Committee consists of six members appointed by the Board of Directors. The members of the committee are the CEO and his Deputy, Executive Vice President – Production Operations, Executive Vice President – Commercial Operations, Executive Vice President – Chief Financial Officer and Executive Vice President – Human Resources.

The Group Executive Committee meets 1–2 times a month.

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

Monthly fees for members of the Board of Directors as confirmed by the Annual General

FEES, SALARIES AND EMPLOYEE BENEFITS PAID

2006	Salaries and fees with employee benefits	Performance/project-related bonuses	2003A options	Total
€				
Board of Directors				
Chairman of the Board, Härmälä	54 200	-	-	54 200
Vice Chairman of the Board, Johansson	43 000	-	-	43 000
Board member, Henkes	35 300	-	-	35 300
Board member, Honkaniemi	8 700	-	-	8 700
Board member, Huuhtanen	7 700	-	-	7 700
Board member, Karinen	13 500	-	-	13 500
Board member, Lohiniva	33 300	-	-	33 300
Board member, Nilsson-Ehle	34 300	-	-	34 300
Board member, Saarinen	35 800	-	-	35 800
Board member, Suonoja	33 300	-	-	33 300
Board member, Turunen	28 000	-	-	28 000
CEO	661 060	-	-	661 060
Deputy CEO	332 127	-	312 046	644 173
Other Group Executive Committee members	1 160 835	-	642 466	1 803 301

Shares and options received through share-related schemes are also included in the table on page 50.

2005	Salaries and fees with employee benefits	Performance/project-related bonuses	Share remuneration	Total
€				
Board of Directors				
Chairman of the Board, Karinen	56 200	-	-	56 200
Vice Chairman of the Board, Johansson	40 200	-	-	40 200
Board member, Henkes	36 500	-	-	36 500
Board member, Honkaniemi	37 800	-	-	37 800
Board member, Huuhtanen	34 500	-	-	34 500
Board member, Härmälä	26 600	-	-	26 600
Board member, Lohiniva	25 100	-	-	25 100
Board member, Nilsson-Ehle	25 100	-	-	25 100
Board member, Saarinen	34 500	-	-	34 500
Board member, Suonoja	32 700	-	-	32 700
Board member, Vilppola	13 000	-	-	13 000
CEO	602 991	-	-	602 991
Deputy CEO	371 804	36 181	104 130	512 115
Other Group Executive Committee members ¹⁾	1 441 072	326 678	1 331 799	3 099 549

¹⁾ Other Group Executive Committee members include also salaries and performance related bonuses as well as share remunerations paid to the former CEO Juusela and the former Deputy CEO Virrankoski.

Share remuneration presented in the table refer to the remuneration from the third remuneration period, which was paid in February 2005. 60% of the remuneration was paid in cash and 40% in Outokumpu shares.

Meeting are the following: Chairman EUR 4 500, Vice Chairman EUR 3 000, other members EUR 2 400. All members of the Board of Directors are to be paid a meeting fee of EUR 500. A meeting fee is also paid for meetings of Board committees.

The period of notice for the CEO is six months on both sides. If the Company terminates the CEO's employment for a reason or reasons unconnected with his performance or events interpreted as him having failed in his duties, the Company will make a compensation payment. The amount of this payment will total the CEO's basic salary in the preceding 24 months plus the monetary value of his employee benefits at the moment of termination.

The performance-related bonus paid to the CEO and members of the Group Executive Committee in addition to their salary and employee benefits for the year 2007 is determined on the basis of achieving Group's ROCE (Return on capital employed) target, operating profit margin compared with a peer group, operational (safety and delivery reliability) targets and separately set individual targets. The maximum amount of this bonus is for the CEO 75% and for the other members of the Group Executive Committee 60% of the annual base salary. No separate remuneration is paid to the CEO or members of the Group Executive Committee for membership of the Committee or the other internal governing bodies of the Group. Members of the Group Executive Committee are entitled, subject to a decision by the Board of Directors, to retire at the age of 60. Pension benefits of Finnish members of the Group Executive Committee amount to 60% of the total average annual salary in the last five full years of service. The Company has not given any guarantees or other similar commitments on behalf of the members of the Board of Directors or the Group Executive Committee. Neither members of the Board of Directors or the Group Executive Committee, or closely related persons or institutions, have any significant business relationships with the Company.

SHARE OWNERSHIP OF THE MEMBERS OF THE BOARD OF DIRECTORS ON JANUARY 31, 2007

Member	Shares
Jukka Härmälä	3 000
Ole Johansson	1 789
Evert Henkes	-
Juha Lohiniva	-
Anna Nilsson-Ehle	-
Leena Saarinen	800
Soili Suonoja	300
Taisto Turunen	-
Total	5 889

SHARE OWNERSHIP AND OPTIONS OF THE GROUP EXECUTIVE COMMITTEE MEMBERS ON JANUARY 31, 2007

Member	Shares	Options 2003A	Options 2003B	Options 2003C	Share-based incentive scheme 2006–2008 ¹⁾	Share-based incentive scheme 2007–2009 ¹⁾
Juha Rantanen	-	-	60 000	27 500	30 000	15 500
Karri Kaitue	4 880	-	19 320	15 000	15 000	7 500
Pekka Erkkilä	8 150	8 200	27 600	15 000	10 000	5 300
Andrea Gatti	4 525	-	7 500	10 000	10 000	5 300
Esa Lager	8 200	-	19 320	10 000	10 000	5 300
Timo Vuorio	2 000	-	-	10 000	10 000	5 300
Total	27 755	8 200	133 740	87 500	85 000	44 200

¹⁾ The table presents the maximum amount of shares, which can be paid based on reaching the set earning criteria 2006–2008 and 2007–2009.

Control systems

The Group's operations are controlled and steered by means of the above-described corporate governance system. The Group is organized into operational business units providing clear channels of financial responsibility within the Group and promoting supervision of the operations and administration of the Group's different parts. Outokumpu employs the reporting systems required for operational business control and effective monitoring of the Group's assets and interests.

Ultimate responsibility for accounting and financial controls rests with the Board of Directors. It is the CEO's duty to attend to the practical arrangements concerning accounting and the control mechanism.

Realization of the objectives set is monitored monthly by means of an operational planning and financial control reporting system. In addition to actual data, the system provides up-to-date forecasts and plans for the current year and the next 12 months. The accumulation of economic value added

(EVA) is monitored in Outokumpu's internal quarterly reports and this information is published in the Annual Report.

The Board of Directors has the ultimate responsibility for the Group's risk management. The CEO and the Group Executive Committee are responsible for defining and implementing risk management procedures and ensuring that risks are taken into account in the Group's strategic planning. The Business Units are responsible for managing the risks related to their own operations. The Group's risk management function supports the implementation of risk management policy and develops practical ways of working. External and internal auditors monitor the proper functioning of the risk management process. Outokumpu has classed risks that affect its operations in three categories: risks relating to strategy and business, operational risks and financial risks. Risk management is discussed in more detail on pages 38–39. Financial risks are discussed in more detail in the note 19 to the financial statements.

The internal audit function provides consultative auditing on areas and matters that are agreed separately with the Board Audit Committee and the Group Executive Committee. The focus of the audit is on business risks and on the sharing of information. The internal audit acts in close cooperation with the Group's finance and risk management function, financial and business control and the external auditors. The internal audit function operationally reports to the Board Audit Committee.

The CEO, members of the Group Executive Committee and other managers working at Corporate Management are responsible for ensuring that day-to-day operations of the Group comply with existing laws and regulations, the Company's operating principles and decisions by the Board of Directors.

Managing of insider issues

Outokumpu's Insider Rules are based on and comply with the Guidelines for Insiders by the Helsinki Stock Exchange.

The Company's permanent insiders with a duty to declare consist of the members of the Board of Directors, the Auditor in Charge, the CEO and his deputy, as well as the other members of the Group Executive Committee. Outokumpu maintains a public register on the permanent insiders with the duty to declare.

Employees of the Group who receive inside information on a regular basis due to their positions or tasks are registered in a non-public register of permanent company-specific insiders.

Permanent insiders must not purchase or sell securities issued by the Company in the 14 days prior to publication of interim reports or annual accounts (the so-called closed window).

Separate non-public project-specific insider registers are maintained for insider projects. Persons defined as project-specific insiders are those who in the course of their duties in connection with a project receive information concerning the Group which, when realized, is likely to have a significant effect on the value of the company's publicly traded security.

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

Auditors

Under the Articles of Association, the Company shall have a minimum of one and a maximum of two auditors who are auditors or firms of independent public accountants authorized by the Central Chamber of Commerce of Finland. The Annual General Meeting elects the auditors to a term of office ending at the close of the next Annual General Meeting. Proposals to the Annual General Meeting concerning the election of auditors which have been made known to the Board prior to the Annual General Meeting will be made public if the proposal is supported by shareholders holding

a minimum of 10% of all the Company's shares and voting rights and if the person or company proposed has consented to such nomination. The Company's auditors submit the statutory auditor's report to the Company's shareholders in connection with the Company's financial statements. The auditors also report their findings to the Board of Directors on a regular basis. The parent company, Outokumpu Oyj, is audited by KPMG Oy Ab, and the responsible auditor is Mauri Palvi, Authorized Public Accountant. KPMG Oy Ab is also responsible for overseeing and coordinating the auditing of all Group companies.

Both Outokumpu and KPMG Oy Ab highlight the requirement for an auditor to be independent of the company being audited. In its global independence policy, KPMG Oy Ab has stated its commitment to applying the Code of Ethics of the International Federation of Accountants (IFAC). Outokumpu's Board Audit Committee continuously monitors the global level of non-audit services purchased by the Group from KPMG Oy Ab.

In 2006, auditors were paid fees totaling EUR 1.9 million, of which non-auditing services accounted for EUR 0.5 million.

Communications

The aim of the Outokumpu's external communications is to support the correct valuation of the Company's listed securities by providing the markets with sufficient information on Outokumpu's business structure, financial position, market developments and, in particular, the Group's objectives and strategy for attaining these objectives.

Outokumpu's website at www.outokumpu.com contains the information that has been made public based on the disclosure requirements for listed companies.

BOARD OF DIRECTORS



Chairman Jukka Härmälä

b. 1946, Finnish citizen,
B.Sc. (Econ.)
Outokumpu Board member 2005–,
Chairman of the Board 2006–,
Chairman of the Nomination and
Compensation Committee
CEO and board member
Stora Enso Oyj 1999–
Board member: Finnlines plc
Supervisory board member: Varma
Mutual Pension Insurance Company



Vice Chairman Ole Johansson

b. 1951, Finnish citizen,
B.Sc. (Econ.)
Outokumpu Board member 2002–,
Vice Chairman of the Board 2004–,
Chairman of the Audit Committee
President and CEO Wärtsilä
Corporation 2000–
Chairman of the Board: Technology
Industries of Finland
Vice Chairman of the Board: Confed-
eration of Finnish Industries, Varma
Mutual Pension Insurance Company



Evert Henkes

b. 1943, Dutch citizen,
B.Sc. (Ag. Econ.)
Outokumpu Board member 2003–,
Member of the Nomination and
Compensation Committee
CEO Shell Chemicals Ltd. 1998–2003
Board member: Tate & Lyle Plc,
CNOOC Ltd, SembCorp Industries Ltd,
Air Products and Chemicals Inc.



Juha Lohiniva

b. 1962, Finnish citizen
Outokumpu Board member 2005–
Maintenance operator
– Outokumpu Stainless Oy
Employed by the Outokumpu Group
since 1980



Anna Nilsson-Ehle

b. 1951, Swedish citizen,
Ph.D., M.Sc. (Eng.)
Outokumpu Board member 2005–,
Member of the Nomination and
Compensation Committee
Managing Director Universeum AB
1999–2004,
Consultant Ohde & Co 2005–2006
Director: SAFER–National vehicle
and traffic safety research centre
2006–
Board member: Chalmers University
of Technology Foundation,
Innovationsbron Väst AB



Leena Saarinen

b. 1960, Finnish citizen,
M.Sc. (Food technology)
Outokumpu Board member 2003–,
Member of the Audit Committee
President and CEO Altia
Corporation 2005–
Managing Director 2003–2005:
Unilever Bestfoods Nordic Foodsolu-
tion, National Manager 2002–2005:
Suomen Unilever Oy and board
member 1999 and 2001–2005
Board member: Atria Group plc



Soili Suonoja

b. 1944, Finnish citizen,
Teacher of Home Economics, MBA
Outokumpu Board member 2003–
CEO Amica Restaurants Ltd., Amica
Services Ltd. 1989–2000
Board member: Finland Post Corpo-
ration, Alko Inc., Lassila & Tikanoja
Plc, Lännen Tehtaat Oyj, the Finnish
Association of Professional Board
Members



Taisto Turunen

b. 1945, Finnish citizen,
M. Pol. Sc.
Outokumpu Board member 2006–,
Member of the Audit Committee
Director General, Energy
Department, Ministry of Trade
and Industry 1984–
Supervisory board member: Gasum Oy
Board member: Ekokem Oy

Outokumpu shareholding of the members of the Board of Directors is presented on page 50.

GROUP EXECUTIVE COMMITTEE



Juha Rantanen

b. 1952, Finnish citizen, M.Sc. (Econ.), MBA
CEO 2005–
Chairman of the Group Executive Committee 2005–
Outokumpu Board member and Vice Chairman
2003–2004
Responsibility: Group management and Hot Rolled
Plate, Thin Strip and OSTP business units
Employed by the Outokumpu Group since 2004
Chairman of the Board of Directors:
Finpro Association
Vice President: European Confederation of
Iron and Steel Industries Eurofer
Board member: Technology Industries of Finland,
Association of Finnish Steel and Metal Producers
Supervisory board member:
Varma Mutual Pension Insurance Company

Karri Kaitue

b. 1964, Finnish citizen, LL.Lic.
Deputy CEO 2005–
Member of the Group Executive Committee 2002–,
Vice Chairman of the Group Executive
Committee 2005–
Responsibility: commercial operations, Long
Products business unit, strategy and corporate
planning, business development, M&A and legal
affairs, communications, investor relations, corpo-
rate social responsibility, portfolio businesses
Employed by the Outokumpu Group since 1990
Vice Chairman of the board: Okmetic Oyj, Outo-
kumpu Technology Oyj
Board member: Cargotec Oyj

Pekka Erkkilä

b. 1958, Finnish citizen, M.Sc. (Eng.)
Executive Vice President – Production Operations
Member of the Group Executive Committee 2003–
Responsibility: Tornio Works and Avesta Works
business units, and Production Operations:
Production Excellence program, material flow
optimization, R&D, EHS, procurement
Employed by the Outokumpu Group since 1983
Chairman of the board: Finnish Association
of Mining and Metallurgical Engineers
Board member: International Stainless Steel Forum
(ISSF), Jernkontoret



Andrea Gatti

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

Executive Vice President – Commercial Operations

Member of the Group Executive Committee 2005–

Responsibility: Commercial Excellence program, commercial strategy and sales planning, marketing, sales company network, stock and processing

Employed by the Outokumpu Group since 2002

Esa Lager

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

Chief Financial Officer (CFO)

Member of the Group Executive Committee 2001–

Responsibility: Financial control and tax planning, treasury and risk management, business processes and IT, shared services

Employed by the Outokumpu Group since 1990

Board member: Olvi Oyj, Okmetic Oyj

Timo Vuorio

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

Executive Vice President – Human Resources

Member of the Group Executive Committee 2005–

Responsibility: HR strategy and key HR processes: competence management and people development, recruitment, industrial relations, compensation, development of leadership and organization, and the management review process

Employed by the Outokumpu Group since 2005

New member appointed:

Bo Annvik

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

Executive Vice President – Specialty Businesses

Member of the Group Executive Committee spring 2007–

Responsibility: Avesta Works, Hot Rolled Plate, Thin Strip and OSTP business units

Outokumpu shareholding and options of the members of the Group Executive Committee are presented on page 50.

STOCK EXCHANGE RELEASES IN 2006

Nov. 22, 2006

Barclays Plc's holding in Outokumpu Oyj to 5.34%

Nov. 20, 2006

Shareholders Nomination Committee at Outokumpu

Oct. 31, 2006

Outokumpu – Financial reporting schedule for the year 2007

Oct. 23, 2006

Outokumpu's third-quarter 2006 interim report – soaring base prices and nickel-related inventory gains boosted profits

Oct. 18, 2006

Historical restated financial information of Outokumpu following the sale of Outokumpu Technology shares

Oct. 16, 2006

Outokumpu – Publishing of the third-quarter 2006 financial results

Oct. 13, 2006

Managers have exercised the over-allotment option in Outokumpu Technology offering

Oct. 10, 2006

Outokumpu's third quarter results better than expected

Oct. 9, 2006

The offering of Outokumpu Technology shares successfully completed – the offer price set at 12.50 per share

Sep. 25, 2006

Offering of shares in Outokumpu Technology

Sep. 15, 2006

Outokumpu Oyj 2003A Stock Options

Sep. 11, 2006

Evaluation of the possibility of listing Outokumpu Technology progresses

Aug. 30, 2006

Outokumpu Oyj's stock options 2003A to the main list of the Helsinki stock exchange

Jul. 25, 2006

Outokumpu's second quarter 2006 interim report – strong demand and higher base prices improved profits

Jul. 18, 2006

Outokumpu – Publishing of the second-quarter 2006 financial results

Jun. 7, 2006

Outokumpu evaluating the possibility of listing Outokumpu Technology on the Helsinki stock exchange

Jun. 6, 2006

Outokumpu applies for listing of stock options 2003A on the main list of the Helsinki stock exchange

May 8, 2006

The Finnish Social Institution's holding of Outokumpu's share capital is below 10%

Apr. 25, 2006

Outokumpu's first quarter 2006 interim report – upturn in market conditions, profits improving

Apr. 12, 2006

Outokumpu – Publishing of the first-quarter 2006 financial results

Mar. 30, 2006

Outokumpu Board decisions at their first meeting

Mar. 30, 2006

Resolutions of Outokumpu Oyj's Annual General Meeting 2006

Mar. 16, 2006

Outokumpu's Annual Report 2005 published

Mar. 10, 2006

Notice of Annual General Meeting

Feb. 2, 2006

Share-based incentive programme for 2006-2010 – Earning period 2006-2008

Feb. 2, 2006

Outokumpu's Board of Directors confirms management stock options 2003C

Feb. 2, 2006

Outokumpu's AGM to convene on March 30, 2006

Feb. 2, 2006

Outokumpu Annual Accounts Bulletin 2005 – Major transformation in difficult market conditions

Jan. 27, 2006

Proposals on the Board composition and director remuneration by Shareholder's Nomination Committee of Outokumpu

Jan. 26, 2006

Outokumpu – Publishing of the 2005 financial results

Jan. 17, 2006

Outokumpu's deliveries in 2005

Jan. 4, 2006

Employee and union consultations on the fixed cost reduction program of Outokumpu Group completed

OUTOKUMPU OYJ'S FINANCIAL STATEMENTS FOR 2006

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Consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). Outokumpu Oyj sold its Technology business in 2006. The whole former Outokumpu Technology division is classified as a discontinued operation, together with Outokumpu Copper Tube and Brass, and the financial result from discontinued operations is recorded in the income statement on a single line after the profit from continuing operations. Income statement for 2005, but not for prior years, has been restated accordingly. In graphs and tables, data for years 2003–2006 is presented according to IFRS and for prior years according to Finnish accounting standards.

REVIEW BY THE BOARD OF DIRECTORS

Record profits and successful sale of Outokumpu Technology shares

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

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

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

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

2006 characterized by strong demand for stainless steel

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

Base prices for stainless steel soared throughout 2006 as a result of strong demand and supply constraints. According to CRU, the German base price for CR 304 sheet almost doubled from

1 030 EUR/ton in December 2005 to 1 980 EUR/ton in December 2006. Transaction prices were further boosted by extremely high nickel prices.

The strong recovery in stainless steel markets in 2006 resulted in an upturn in demand for the main alloying elements used in the production of stainless steel: nickel, ferrochrome and molybdenum. The supply of nickel was also constrained because production volumes were lower than planned. As a consequence, the price of nickel set successive records during the year, rising from 13 380 USD/ton at the end of 2005 to 34 205 USD/ton by the end of 2006. The average price in 2006, 24 254 USD/ton, was 65% higher than the corresponding figure for 2005. In the beginning of 2006, ferrochrome prices declined as a result of production cuts in the stainless industry implemented in the latter part of 2005. As 2006 progressed, markets turned to undersupply as demand from stainless steel producers accelerated. The average price of ferrochrome for the year was 0.72 USD/lb, 3% lower than in 2005. Despite decreasing by 23% in 2006, molybdenum prices remained at a historically high level, averaging 25.10 USD/lb. The average price of recycled steel in 2006 was 230 USD/ton, 13% higher compared to 2005.

Higher transaction prices and deliveries increased sales

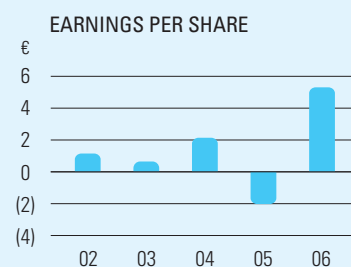
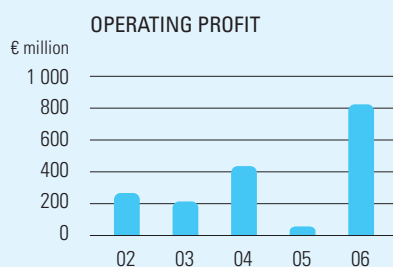
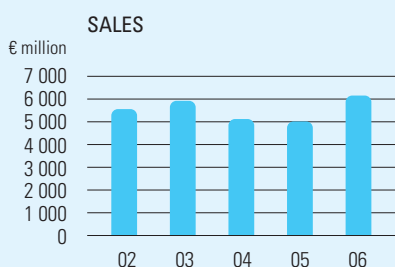
SALES

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

STAINLESS STEEL DELIVERIES

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

The Group's sales increased by 23% to EUR 6 154 million in 2006. In 2005, sales by Specialty Stainless included some EUR 400 million of intra-group semi-products delivered by Avesta to the Sheffield coil products unit, which until the closure was part of General Stainless.



The Group's stainless steel deliveries rose by 10%. Deliveries of both quarto plate and tubular products increased by some 10% and black hot coil deliveries by 50 000 tons. In addition to higher deliveries, the increase in transaction prices throughout 2006 contributed to the rise in sales.

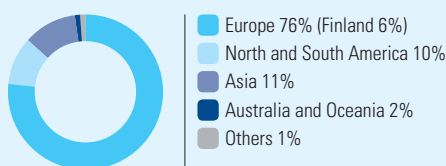
Europe's share of the Group's sales increased to 76% in 2006 (2005: 69%). Asia's and the Americas' share declined to 11% (2005: 16%) and 10% (2005: 12%), respectively.

Record operating profit

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

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

SALES BY MARKET AREA



negative net impact of EUR 164 million from non-recurring costs related to the closure of Sheffield coil products unit and measures taken as part of the fixed-cost reduction program, as well as the EUR 35 million gain from the sale of Boliden shares.

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

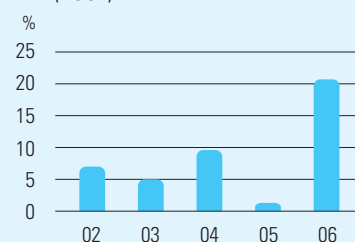
Return on capital employed was 20.7%, clearly exceeding the Group's target of more than 13%.

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

Capital structure strengthened

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

RETURN ON CAPITAL EMPLOYED (ROCE)



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

The Group's net cash generated from operating activities was, however, EUR 35 million negative. Inventory volumes are under tight control and average throughput time was reduced during 2006. However, working capital increased by EUR 975 million to EUR 1 990 million, mainly because of fast increasing nickel prices.

Capital expenditure within limits

CAPITAL EXPENDITURE		
€ million	2006	2005
General Stainless	83	94
Specialty Stainless	95	58
Other operations	9	13
The Group	187	164
Depreciation	221	207

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

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

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

To expand Outokumpu's product offering, an investment of EUR 13 million in batch annealing furnaces for the production of ferritic stainless steel in Tornio was started in 2005. Ferritic stainless steel normally includes some 12–17% chromium, with the remainder

being iron. The price of ferritics, which do not contain any nickel, has traditionally been less volatile than that of austenitic stainless steel, Outokumpu's main product. Tornio Works has a competitive cost advantage in ferritics production as utilizing liquid ferrochrome from its own smelter reduces melting costs. Annual production capacity will be 60 000 tons of ferritic stainless steel, and production will come on stream during the first quarter 2007. Deliveries are scheduled to begin in the second quarter of 2007.

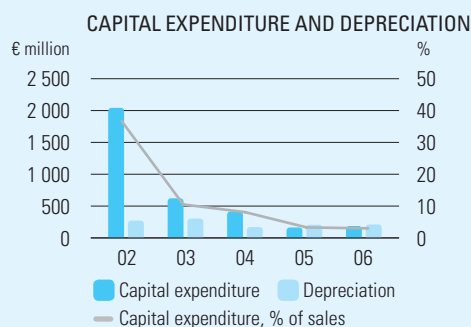
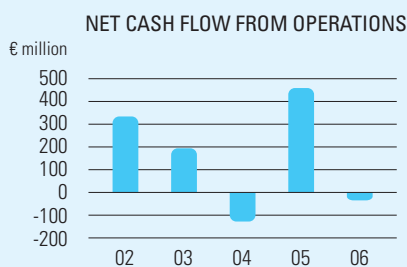
Discontinued operations

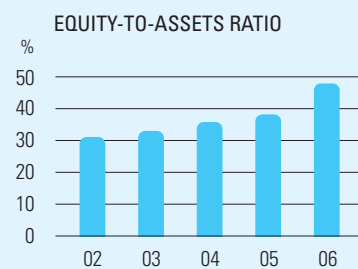
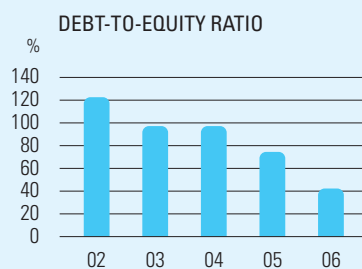
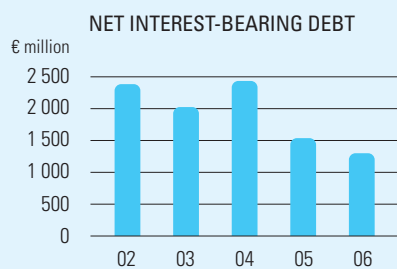
– Sale of Outokumpu Technology shares

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

In September, the Board decided to commence the offering of shares in Outokumpu Technology. The transaction was sale of shares through an Initial Public Offering (IPO), which commenced on September 26, 2006 and ended on October 9, 2006. Outokumpu Technology was listed on the Helsinki Stock Exchange on October 10, 2006. In the offering, Outokumpu Oyj sold 36 960 001 shares at EUR 12.50 per share and Outokumpu's remaining holding in Outokumpu Technology is 12%. Outokumpu has agreed that it will not sell shares in Outokumpu Technology Oyj without the consent of the global coordinator of the offering until April 7, 2007. Outokumpu Technology was classified as a discontinued operation in the third quarter interim report. Net proceeds from the sale amounted to EUR 449 million and the capital gain totaled EUR 328 million. Until disposal, the remaining holding in Outokumpu Technology is an available-for-sale financial asset, valued at fair value recognized directly in equity. On December 31, 2006, the fair value of Outokumpu's 12% holding in Outokumpu Technology Oyj totaled EUR 114 million.

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





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

Short-term profitability improvement initiatives completed as planned

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

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

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

Good progress in the Commercial and Production Excellence programs

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

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

Risk management

The review and monitoring of key risks for each business unit was further developed. The status of key risks and actions for risk

mitigation will be addressed regularly in performance management meetings.

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

Risks associated with Outokumpu's operations and risk management are described in more detail in the annual report in section Risk management and in note 19 (Financial risk management and insurances) to the consolidated financial statements.

Environment, health and safety

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

Emissions to air and discharges to water remained mostly within permitted limits during 2006. All Outokumpu's sites have valid environmental permits in place. Sheffield Special Strip at Meadowhall in Britain will complete external certification for its ISO 14001 environmental management systems in the spring of 2007. After this, all the Group's major production sites will have a certified environmental management system. Outokumpu is not a party in any significant juridical or administrative proceeding concerning environmental issues, nor is it aware of any environmental risks that could have a material adverse effect on the Group's financial position.

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

Outokumpu's corporate responsibility report – Outokumpu and the environment 2006 – will be published together with the annual report. The corporate responsibility report is based on the Global Reporting Initiative (GRI). Environment, health and safety issues are discussed in more detail in Outokumpu and the environment 2006 report, and in the annual report in section Environment, health and safety.

Research and development

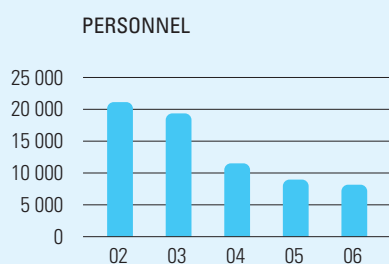
The Group's expenditure on research and development in 2006 totaled EUR 17 million or 0.3% of sales (2005: EUR 20 million and 0.4%). The R&D function employed almost 200 professionals. In addition to new products, R&D operations focus on innovative manufacturing processes that reduce costs, result in lower emissions, shorten lead times and improve quality. These initiatives are closely linked to the Production Excellence program.

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

Launch of the semi-cold-rolled RAP™2E product was successful, with a favorable reception amongst customers. Special grades are one of the Group's key focus areas, and include high-alloyed corrosion-resistant austenitic, duplex and heat-resistant alloys. Much effort has been put into the development of duplex grades with a low nickel content, since these offer a good combination of strength and corrosion resistance. Demand for such materials has grown strongly as a response to high nickel prices. Customers have shown growing interest in LDX 2101®, Outokumpu's own development of Lean Duplex.

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

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



Personnel

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

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

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

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

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

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

Further information and key figures on personnel are presented in the annual report in section Personnel and in Outokumpu and the environment 2006 report.

Annual General Meeting and Board of Directors

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

The AGM authorized the Board of Directors for one year to increase the Company's share capital with a total maximum of EUR 30 800 000 by issuing new shares or convertible bonds. Accordingly, an aggregate maximum of 18 117 647 shares, having the account equivalent value of EUR 1.70 each, may be issued. The AGM authorized the Board of Directors for one year to repurchase and transfer the Company's own shares. The maximum number of

shares to be repurchased and transferred is 18 000 000. The number of own shares in the Company's possession may not exceed 10% of the total amount of the Company's shares. By February 1, 2007, the authorizations had not been exercised.

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

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

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

Shareholders' Nomination Committee

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

Short-term outlook

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

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

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

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

Board of Directors' proposal for profit distribution

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

The Board of Directors is proposing to the Annual General Meeting to be held on March 28, 2007 that a dividend of EUR 1.10 per share, totaling EUR 199 million, be paid from the parent company's distributable funds on December 31, 2006 and that any remaining distributable funds be allocated to retained earnings. The suggested dividend record date is April 2, 2007 and the dividend will be paid on April 11, 2007.

According to the financial statements at December 31, 2006, distributable funds of the parent company totaled EUR 731 million. No material changes have taken place in the company's financial position after the balance sheet date and the proposed dividend does not compromise the company's financial standing.

Espoo, February 1, 2007

Jukka Härmälä
Ole Johansson
Evert Henkes
Juha Lohiniva
Anna Nilsson-Ehle
Leena Saarinen
Soili Suonoja
Taisto Turunen

Juha Rantanen CEO

AUDITORS' REPORT

TO THE SHAREHOLDERS OF OUTOKUMPU OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Outokumpu Oyj for the period January 1, 2006 – December 31, 2006. The Board of Directors and the Chief Executive Officer have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the Board of Directors and the Chief Executive Officer of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

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

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

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

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

Opinion

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

Espoo, February 14, 2007
KPMG OY AB

Mauri Palvi
Authorized Public Accountant

Consolidated income statement

€ million	Note	2006	2005
Continuing operations			
Sales	3	6 154	5 016
Cost of sales	8	(5 112)	(4 638)
Gross margin		1 043	379
Other operating income	6	44	83
Selling and marketing expenses	8	(100)	(114)
Administrative expenses	8	(135)	(174)
Research and development expenses	8	(17)	(22)
Other operating expenses	7	(11)	(94)
Operating profit		824	57
Share of results of associated companies	16	8	1
Financial income and expenses	10		
Net interest expenses		(62)	(65)
Market price gains and losses		12	(1)
Other financial income and expenses		3	0
Total financial income and expenses		(48)	(67)
Profit/(loss) before taxes		784	(8)
Income taxes	11	(178)	(16)
Net profit/(loss) for the financial year from continuing operations		606	(24)
Net profit/(loss) for the financial year from discontinued operations	4	357	(339)
Net profit/(loss) for the financial year		963	(363)
Attributable to			
Equity holders of the Company		962	(364)
Minority interest		2	1
Earnings per share for result attributable to the equity holders of the Company			
Earnings per share, €	12	5.31	(2.01)
Diluted earnings per share, €		5.29	(2.01)
Earnings per share from continuing operations attributable to the equity holders of the Company			
Earnings per share, €		3.34	(0.14)
Diluted earnings per share, €		3.33	(0.14)
Earnings per share from discontinued operations attributable to the equity holders of the Company			
Earnings per share, €		1.97	(1.87)
Diluted earnings per share, €		1.97	(1.87)

Consolidated balance sheet

€ million	Note	2006	2005
ASSETS			
Non-current assets			
Intangible assets	14	493	578
Property, plant and equipment	15	2 069	2 125
Investments in associated companies ¹⁾	16	47	50
Available-for-sale financial assets ¹⁾	17	171	38
Derivative financial instruments ¹⁾	20	24	18
Deferred tax assets	11	45	30
Trade and other receivables	22		
Interest-bearing ¹⁾		133	156
Non interest-bearing		32	15
Total non-current assets		3 014	3 009
Current assets			
Inventories	21	1 710	1 186
Available-for-sale financial assets ¹⁾	17	17	4
Derivative financial instruments ¹⁾	20	24	25
Trade and other receivables	22		
Interest-bearing ¹⁾		14	8
Non interest-bearing		1 314	841
Cash and cash equivalents ¹⁾	23	85	212
Total current assets		3 164	2 277
Receivables related to assets held for sale ¹⁾	4	235	221
TOTAL ASSETS		6 414	5 507

¹⁾ Included in net interest-bearing debt.

€ million	Note	2006	2005
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital		308	308
Premium fund		701	701
Other reserves		155	34
Retained earnings		928	1 369
Net profit/(loss) for the financial year		962	(364)
		3 054	2 047
Minority interest		17	15
Total equity	24	3 071	2 062
Non-current liabilities			
Long-term debt ¹⁾	27	1 287	1 618
Derivative financial instruments ¹⁾	20	6	5
Deferred tax liabilities	11	226	188
Pension obligations	25	54	74
Provisions	26	55	55
Trade and other payables	28	2	3
Total non-current liabilities		1 630	1 943
Current liabilities			
Current debt ¹⁾	27	632	501
Derivative financial instruments ¹⁾	20	25	22
Income tax liabilities	11	111	40
Provisions	26	30	78
Trade and other payables	28		
Interest-bearing ¹⁾		27	32
Non interest-bearing		814	739
Total current liabilities		1 640	1 413
Liabilities related to assets held for sale ¹⁾	4	73	89
TOTAL EQUITY AND LIABILITIES		6 414	5 507

¹⁾ Included in net interest-bearing debt.

Consolidated cash flow statement

€ million	Note	2006	2005
Cash flow from operating activities			
Net profit/(loss) for the financial year		963	(363)
Adjustments for			
Taxes	4, 11	194	28
Depreciation and amortization	14, 15	229	232
Impairments	4, 14, 15	12	165
Share of results of associated companies	16	(6)	0
Gain on the sale of Outokumpu Technology shares		(328)	-
Loss on sale of the fabricated copper products business	4	-	252
Profit/(loss) on sale of property, plant and equipment	6, 7	(29)	(11)
Interest income	10	(27)	(21)
Dividend income	10	(6)	(6)
Interest expense	10	86	95
Other adjustments		3	10
		129	743
Change in working capital			
Change in trade and other receivables		(696)	123
Change in inventories		(602)	(5)
Change in trade and other payables		375	31
Change in provisions		(52)	52
		(975)	202
Dividends received		7	7
Interest received		17	21
Interest paid		(89)	(93)
Income tax paid		(87)	(58)
Net cash from operating activities		(35)	459
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash	5	-	(32)
Acquisition of shares in associated companies	16	(1)	(3)
Acquisition of available-for-sale financial assets	17	(5)	(1)
Purchases of property, plant and equipment	15	(174)	(194)
Purchases of intangible assets	14	(4)	(15)
Proceeds from disposal of subsidiaries, net of cash	5	338	489
Proceeds from sale of shares in associated companies	16	9	290
Proceeds from sale of available-for-sale financial assets	17	1	4
Proceeds from sale of property, plant and equipment	15	11	2
Proceeds from sale of intangible assets	14	8	7
Change in other long-term receivables		14	18
Net cash from investing activities		198	565
Cash flow before financing activities		163	1 024
Cash flow from financing activities			
Borrowings of long-term debt		173	136
Repayments of long-term debt		(374)	(454)
Change in current debt		3	(600)
Borrowings of finance lease liabilities		1	3
Repayments of finance lease liabilities		(7)	(6)
Dividends paid		(81)	(91)
Other financing cash flow		(2)	(19)
Net cash from financing activities		(286)	(1 032)
Other adjustments		0	2
Net change in cash and cash equivalents		(123)	(6)
Cash and cash equivalents at the beginning of the financial year		212	211
Foreign exchange rate effect on cash and cash equivalents		(5)	7
Net change in cash and cash equivalents		(123)	(6)
Cash and cash equivalents at the end of the financial year	23	85	212

Consolidated statement of changes in equity

€ million	Attributable to the equity holders of the Company									Minority interest	Total equity
	Share capital	Unregistered share capital	Premium fund	Other reserves	Fair value reserves	Treasury shares	Cumulative translation differences	Retained earnings			
Equity on Jan. 1, 2005	308	-	700	13	15	(5)	(59)	1 496	38	2 506	
Cash flow hedges	-	-	-	-	6	-	-	-	-	6	
Fair value gains on available-for-sale financial assets	-	-	-	-	3	-	-	-	-	3	
Net investment hedges	-	-	-	-	-	-	1	-	-	1	
Change in translation differences	-	-	-	-	-	-	19	-	0	19	
Items recognized directly in equity	-	-	-	-	9	-	20	-	0	29	
Net profit for the financial year	-	-	-	-	-	-	-	(364)	1	(363)	
Total recognized income and expenses	-	-	-	-	9	-	20	(364)	1	(334)	
Dividends paid	-	-	-	-	-	-	-	(91)	-	(91)	
Management stock option program: value of received services	-	-	-	-	-	-	-	3	-	3	
Transfer of treasury shares	-	-	1	-	-	3	-	-	-	4	
Effect of the sale of the fabricated copper products business	-	-	-	-	-	-	-	-	(24)	(24)	
Other changes	-	-	-	(1)	-	-	-	-	-	(1)	
Equity on Dec. 31, 2005	308	-	701	11	23	(2)	(38)	1 044	15	2 062	
Cash flow hedges	-	-	-	-	(3)	-	-	-	-	(3)	
Fair value gains on available-for-sale financial assets	-	-	-	-	124	-	-	-	-	124	
Net investment hedges	-	-	-	-	-	-	(2)	-	-	(2)	
Change in translation differences	-	-	-	-	-	-	6	-	0	6	
Items recognized directly in equity	-	-	-	-	121	-	4	-	0	125	
Net profit for the financial year	-	-	-	-	-	-	-	962	2	963	
Total recognized income and expenses	-	-	-	-	121	-	4	962	2	1 088	
Unregistered share capital	-	0	-	-	-	-	-	-	-	0	
Dividends paid	-	-	-	-	-	-	-	(81)	-	(81)	
Management stock option program: value of received services	-	-	-	-	-	-	-	2	-	2	
Equity on Dec. 31, 2006	308	0	701	11	144	(2)	(35)	1 927	17	3 071	

Notes to the consolidated financial statements

1. Corporate information

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

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

In 2006, Outokumpu operated in about 30 countries and employed some 8 500 people. The Group's sales amounted to EUR 6.2 billion, of which 94% was generated outside Finland.

2. Accounting principles for the consolidated accounts

Basis of preparation

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

Applied amended standards and interpretations

In 2006 the Group has adopted the amendments to the following standards and new interpretation with effective date January 1, 2006. Comparative figures have been restated as required.

IAS 39	Financial Instruments: Recognition and Measurement
IAS 19	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
IFRCI 4	Determining whether an Arrangement contains a Lease

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

Adoption of new and amended standards in 2007–2008

Outokumpu will adopt in 2007 new standard IFRS 7 Financial Instruments: Disclosures as well as amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures.

The adoption will have impact only on the disclosures to the consolidated financial statements and comparative information for 2006 will be amended.

In July 2007, International Accounting Standards Board (IASB) announced that no new standards or major amendments to standards are required to be applied before January 1, 2009. Therefore no material changes to Outokumpu's accounting principles are expected in 2008.

Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Accounting estimates are employed in the financial statements to determine reported amounts, including the realizability of certain assets, the useful lives of tangible and intangible assets, income taxes, inventories, provisions, pension obligations, impairment of goodwill and other items. The basis for the estimates are described in more detail in these accounting principles and in connection with the relevant disclosure to the financial statement. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

Principles of consolidation

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

Acquired companies are accounted for using the purchase method according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The cost of goodwill is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on consolidation is not amortized but tested for impairment annually. In accordance with the exemption under IFRS 1, acquisitions prior to the IFRS transition date, January 1, 2003, have not been restated but the previous values are taken as the deemed cost. Subsidiaries acquired during the financial year are included in the consolidated financial statements from the date of their acquisition and disposed subsidiaries are included up to their date of sale.

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

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

Discontinued operations

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

Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of segments in other economic environments. Outokumpu's primary reporting segments are its business divisions General Stainless and Specialty Stainless. Other operations consists mainly of such business development and Corporate Management expenses that are not allocated to businesses. Pricing of inter-segment transactions is based on current market prices. Secondary reporting segments are geographical and based on the main areas where Outokumpu has activities and sales: Finland, Sweden, Britain, Other Europe, North America, Asia and other countries.

Foreign currency transactions

Items of each subsidiary included in the consolidated financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional currency of the parent company. Group companies' foreign currency transactions are translated into functional

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

Revenue recognition

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

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

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

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

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

Research and development

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

Income taxes

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

acquired companies, fair valuation of available-for-sale financial assets and derivatives, intra-group inventory profits, pension and other provisions, un-taxed reserves and tax losses and credits carried forward. Deductible temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized.

Goodwill and other intangible assets

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

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

Periods of amortization used for intangible assets are:

Intangible rights	up to 20 years
Software	up to 10 years

Property, plant and equipment

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

Depreciation is based on the following expected useful lives:

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

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

Government grants

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

Impairments

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

Leases

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

Financial instruments

Financial instruments are classified as loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at amortized cost and financial assets and liabilities at fair value through profit and loss. Equity securities are classified as available-for-sale financial assets. Interest-bearing securities and convertible loan receivables are classified as financial assets at fair value through profit and loss. Highly liquid marketable securities with maturity not exceeding three months are classified as cash equivalents.

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

Loans and receivables as well as all financial liabilities, except for derivatives, are recognized at the settlement date and measured at amortized cost using the effective interest rate method. Transaction costs are included

in the initially recognized amount. The need for impairment is assessed separately for each loan receivable and when realized it is deducted from the carrying value. The impairment shall be based on evidence that it is probable that the Group will not be able to collect the loan receivable according to initial terms. Financial assets and liabilities at fair value through profit and loss are recognized at the trade date and measured at fair value.

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

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

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

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

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

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

Emission allowances

EU emission trading system (ETS) started on January 1, 2005. Outokumpu's sites covered by EU emissions trading are the stainless steel production plants in Tornio, Finland as well as in Avesta and Degerfors, Sweden. Accounting for carbon dioxide (CO₂) allowances is based on current IFRS standards. Emission allowances are intangible assets. Purchased CO₂ allowances are recognized cost, whereas allowances received free of charge are recognized at nominal value, i.e. at zero. A provision to cover the obligation to return emission allowances is recognized provided that emission allowances received free of charge will not cover the actual emissions. Consequently the possible effect in operating profit will reflect the difference between what has been emitted and the received emission allowances. At the end of 2005, emission allowances are not reflected in Outokumpu's balance sheet because actual emissions do not exceed the amount of allowances received free of charge and no allowances have been purchased from the market. Revenues from the sale of excess allowances are recognized as other operating income in the income statement.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods

and work in progress comprises raw materials, direct labor, other direct costs and related production overheads, but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade receivables

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

Cash and cash equivalents

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

Treasury shares

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

Provisions

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

Employee benefits

Group companies in different countries have various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation of defined benefit plans is determined using the projected unit credit method and the plan assets are measured at fair value at the measurement date. In calculating the Group's obligation with respect to a plan, the extent to which the cumulative unrecognized actuarial gain or loss exceeds the greater of the present value of the defined benefit obligation and the fair value of plan assets by more than 10% is identified. That excess portion is recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Share-based payment transactions

Outokumpu has applied IFRS 2 Share-based payments standard to the 2003 option program in which the stock options have been granted after November 7, 2002, and to the share-based incentive program for 2006–2010. Equity-settled awards that were granted before November 7, 2002, have not been recognized as an expense in the financial statements. The comparative information has been restated accordingly.

The stock options are valued at fair value on the grant date and recognized as an expense in the income statement during the vesting period. The expense of the stock options determined at the grant date reflects the Group's estimate of the number of stock options that will ultimately vest. The fair value is determined at the grant date using the Black-Scholes-Merton option pricing model and relevant statistical methods. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest. Outokumpu updates at each annual and interim closing the estimate of the final amount of the options that will vest.

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

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

Dividends

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

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the equity holders of the company by the weighted average number of shares in issue during the year, excluding shares purchased by Outokumpu and held as treasury shares. Diluted earnings per share is calculated as if the warrants and options were exercised at the beginning of the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. The assumption of exercise is not reflected in earnings per share when the exercise price of the warrants and options exceeds the average market price of the shares during the period. The warrants and options have a diluting effect only when the average market price of the share during the period exceeds the exercise price of the warrants and options.

3. Segment information

Outokumpu's business activities were organized into two strategic primary segments in 2006: General Stainless and Specialty Stainless. Activities outside the segments are reported under Other operations. Outokumpu Technology and Outokumpu Copper Tube and Brass are reported as discontinued operations.

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

General Stainless

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

Specialty Stainless

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

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

Other operations

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

3.1 Business segments

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

3.1 Business segments

2005 € million	General Stainless	Specialty Stainless	Other operations	Dis- continued operations	Elimi- nations	Group
External sales	2 877	2 013	125	-	-	5 016
Inter-segment sales	1 196	726	146	-	(2 068)	-
Sales	4 073	2 739	272	-	(2 068)	5 016
Operating profit	(62)	110	8	-	1	57
Share of results of associated companies	-	-	1	-	-	1
Financial income and expenses	-	-	-	-	-	(67)
Loss before taxes	-	-	-	-	-	(8)
Income taxes	-	-	-	-	-	(16)
Discontinued operations	-	-	-	(339)	-	(339)
Net loss for the financial year	-	-	-	-	-	(363)
Depreciation	(131)	(54)	(2)	-	-	(187)
Amortization	(2)	(7)	(11)	-	-	(20)
Impairments	(77)	(0)	-	-	-	(78)
Non interest-bearing assets	3 061	1 537	237	267	(357)	4 745
Investments in associated companies	-	-	48	2	-	50
Other interest-bearing assets	-	-	-	-	-	461
Deferred tax assets	-	-	-	-	-	30
Assets held for sale	-	-	-	221	-	221
Total assets	-	-	-	-	-	5 507
Non interest-bearing liabilities	577	376	98	274	(337)	988
Interest-bearing liabilities	-	-	-	-	-	2 179
Deferred tax liabilities	-	-	-	-	-	188
Liabilities held for sale	-	-	-	89	-	89
Total liabilities	-	-	-	-	-	3 445
Operating capital	2 484	1 161	139	(7)	(21)	3 756
Net deferred tax liability	-	-	-	-	-	(158)
Capital employed	-	-	-	-	-	3 599
Capital expenditure	94	58	13	-	-	164

3.2 Geographical segments

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

2005 € million	Finland	Sweden	Britain	Other Europe	North America	Asia and Australia	Other countries	Inter area	Group total
Sales by destination ¹⁾	291	268	300	2 610	558	871	118	-	5 016
Sales by origin ²⁾	2 544	2 473	1 471	817	424	169	22	(2 904)	5 016
Operating profit ²⁾	35	108	(137)	29	21	2	0	-	57
Non interest-bearing assets ²⁾	2 689	1 216	533	377	176	79	37	(363)	4 745
Operating capital ²⁾	2 384	909	275	170	63	13	(48)	(9)	3 756
Capital expenditure ²⁾	91	50	9	9	3	1	0	-	164

¹⁾ Sales by destination is presented for external sales.

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

4. Discontinued operations

Outokumpu Technology

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

On September 25, 2006, the Board decided to commence the offering of shares in Outokumpu Technology. The offering structure was a sale of shares through an Initial Public Offering (IPO). The offering commenced on September 26, 2006 and ended on October 9, 2006. In the offering Outokumpu Oyj sold 36 960 001 shares at EUR 12.50 per share and Outokumpu Oyj's remaining holding in Outokumpu Technology is 12%. Outokumpu has agreed that it will not sell shares in Outokumpu Technology Oyj without the consent of the global coordinator of the offering until April 7, 2007. Outokumpu Technology was classified as a discontinued operation at the end of September. Net proceeds from the sale amounted to some EUR 449 million and the capital gain from the sale to EUR 328 million. Until disposal, the remaining holding in Outokumpu Technology Oyj is an available-for-sale financial asset, valued at fair value recognized directly in equity. On December 31, 2006 the fair value of Outokumpu's 12% holding totaled EUR 114 million.

Outokumpu Copper Tube and Brass

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

In February 2006 Outokumpu sold its brass rod mill, Outokumpu Copper MKM Ltd, located in Aldridge in the UK, to The Meade Corporation. The total consideration of the transaction was some EUR 20 million. The production capacity of Outokumpu Copper MKM Ltd is some 40 000 tonnes of brass rod and its sales in 2005 amounted to some EUR 70 million. It employs 320 people.

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

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

Specification of discontinued operations and assets held for sale

Income statement

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

Balance sheet

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

4. Discontinued operations

Cash flows

€ million	2006	2005
Operating cash flow	(13)	(6)
Investing cash flow	(145)	(83)
Financing cash flow	80	132
Total cash flows	(77)	42

5. Acquisitions and disposals

Acquisitions in 2006 and 2005

In 2006 Outokumpu had no acquisitions.

In 2005 Outokumpu acquired the remaining ownership in Outokumpu Heatcraft. The total consideration was EUR 32 million. The company was sold in connection with the sale of fabricated copper products on June 7, 2005.

Disposals in 2006 and 2005

Year 2006

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

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

Year 2005

On April 5, 2005 Outokumpu and Nordic Capital signed a sales and purchase agreement according to which Outokumpu sold its fabricated copper products business to Nordic Capital. The sale was finalized on June 7, 2005. The total consideration was EUR 612 million, of which EUR 4 million was recognized as interest income. For more details, see note 4. Discontinued operations.

In November 2005 Outokumpu sold its stainless steel welding operations, Avesta Welding, to Austrian company Böhler-Uddeholm. Total consideration was EUR 9 million.

Net assets of the disposed subsidiaries and businesses

€ million	2006	2005
Intangible assets	80	31
Property, plant and equipment	31	399
Other long-term assets	19	8
Derivative financial instruments	0	3
Inventories	79	293
Receivables, interest-bearing	1	-
Receivables, non interest-bearing	314	352
Provisions	33	37
Liabilities, interest-bearing	6	-
Liabilities, non interest-bearing	335	183
	150	866
Gains/losses on disposals	334	(249)
Total consideration	483	617
Received in cash	484	517
Direct costs related to the disposals	(13)	(8)
Cash and cash equivalents in disposed subsidiaries and units	(133)	(19)
Net cash flow from disposals	338	489

6. Other operating income

€ million	2006	2005
Gain on the sale of the Okmetic shares	4	-
Gain on the sale of the Boliden shares	-	35
Gain on the sale of the stainless welding business	-	3
Gains on sale of other intangible and tangible assets	18	4
Other income items	12	18
Market price gains and losses from derivative financial instruments	10	23
	44	83

7. Other operating expenses

€ million	2006	2005
Losses on sale of intangible and tangible assets	(3)	(11)
Impairment of intangible and tangible assets	(3)	(78)
Other expense items	(5)	(6)
	(11)	(94)

8. Function expenses by nature

€ million	2006	2005
Raw materials and merchandise	(4 008)	(2 878)
Fuels and supplies	(325)	(330)
Energy expenses	(239)	(221)
Freights	(227)	(214)
Maintenance	(111)	(138)
Employee benefit expenses	(506)	(556)
Rents and leases	(26)	(30)
Hire processing	(44)	(43)
Depreciation and amortization	(221)	(207)
Production for own use	1	2
Change in inventories	542	(57)
Other expenses	(199)	(275)
	(5 364)	(4 947)

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

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

Non-recurring items

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

9. Employee benefit expenses

€ million	2006	2005
Wages and salaries	(346)	(392)
Termination benefits	(15)	(56)
Social security costs	(58)	(78)
Pension and other post-employment benefits		
Defined benefit plans	(11)	8
Defined contribution plans	(47)	(33)
Other post-employment benefits	(3)	(3)
Expenses from share-based payments	(4)	(3)
Other personnel expenses ¹⁾	(22)	1
	(506)	(556)

¹⁾ Includes EUR 10 million (2005: EUR - million) of profit-sharing bonuses based on the Finnish Personnel Funds Act.

10. Financial income and expenses

€ million	2006	2005
Dividend income	6	6
Interest income		
Derivative financial instruments	-	0
Other	26	30
Other financial income	2	1
Total financial income	34	37
Interest expenses		
Current and long-term debt	(85)	(92)
Finance lease arrangements	(3)	(2)
Capitalized interests	-	0
Derivative financial instruments	(1)	(1)
Other financial expenses	(5)	(7)
Total financial expenses	(94)	(102)
Exchange gains and losses		
Derivative financial instruments	(13)	7
Other	18	(13)
Other market price gains and losses		
Derivative financial instruments	8	5
Other	0	0
Total market price gains and losses	12	(1)
Total financial income and expenses	(48)	(67)

Exchange gains and losses in the income statement

€ million	2006	2005
In sales	(51)	66
In purchases	38	(43)
In other income	(8)	6
In financial income and expenses	5	(6)
	(16)	23

Exchange gains and losses comprise EUR 21 million net exchange losses on derivative financial instruments (2005: EUR 13 million net gains). Majority of interest income is capitalized interest on loan receivables.

11. Income taxes

Income taxes in the income statement

€ million	2006	2005
Current taxes	(156)	(63)
Deferred taxes	(22)	47
Total income taxes from continuing operations	(178)	(16)
Current taxes	-	(5)
Deferred taxes	-	(4)
Total income taxes from discontinued operations	-	(9)
Total income taxes	(178)	(24)

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

€ million	2006	2005
Hypothetical income taxes at Finnish tax rate on consolidated profit before tax	(204)	2
Effect of different tax rates outside Finland	(20)	(2)
Tax effect of non-deductible expenses and tax exempt income	4	14
Tax effect of losses for which no deferred tax benefit is recognized	(0)	(30)
Changes in the carrying amounts of deferred tax assets from prior years	41	3
Taxes for prior years	3	(2)
Impact of the changes in the tax rates on deferred tax balances	0	0
Tax effect of net results of associated companies	1	0
Effects of consolidation and eliminations	(3)	2
Other items	(1)	(3)
Income taxes in the consolidated income statement	(178)	(16)

11. Income taxes

Deferred income taxes in the balance sheet

€ million	2006	2005
Deferred tax assets	45	30
Deferred tax liabilities	(226)	(188)
Net deferred tax liability	(182)	(158)

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

The gross movements of the deferred income tax balances

€ million	2006	2005
Net deferred tax liability on Jan. 1	(158)	(210)
Income statement charge from continuing operations	(22)	43
Translation differences	(4)	2
Acquisitions and disposals of subsidiaries	0	2
Taxes recognized in equity	1	(2)
Discontinued operations	1	7
Net deferred tax liability on Dec. 31	(182)	(158)

Movement in deferred tax assets and liabilities during the financial year

€ million	Jan. 1	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions/disposals of subsidiaries	Discontinued operations	Dec. 31
2006							
Deferred tax liabilities							
Depreciation difference and other untaxed reserves	(204)	(4)	-	(2)	0	1	(210)
Fair value adjustments	(6)	(2)	1	0	-	2	(5)
Effects of consolidation and eliminations	(7)	4	-	0	-	-	(3)
Other taxable temporary differences	(57)	(0)	-	(0)	-	11	(47)
	(275)	(2)	1	(3)	0	14	(264)
Deferred tax assets							
Tax losses carried forward	55	(29)	-	(0)	-	(8)	18
Fair value adjustments	4	(4)	-	0	-	-	0
Pension obligations	4	6	-	(0)	-	(2)	8
Effects of consolidation and eliminations	14	6	-	0	-	-	20
Other tax deductible temporary differences	41	(1)	-	(1)	-	(3)	36
	118	(21)	-	(1)	-	(13)	82
Net deferred tax liability	(158)	(22)	1	(4)	0	1	(182)
2005							
Deferred tax liabilities							
Depreciation difference and other untaxed reserves	(287)	40	-	4	2	37	(204)
Fair value adjustments	(4)	(2)	(1)	0	-	1	(6)
Effects of consolidation and eliminations	(9)	2	-	-	-	-	(7)
Other taxable temporary differences	(53)	(9)	-	1	-	3	(57)
	(353)	32	(1)	4	2	41	(275)
Deferred tax assets							
Tax losses carried forward	54	16	-	0	0	(15)	55
Fair value adjustments	1	4	(1)	(1)	-	-	4
Pension obligations	14	(5)	-	0	-	(4)	4
Effects of consolidation and eliminations	20	(6)	-	0	-	-	14
Other tax deductible temporary differences	55	3	-	(2)	-	(15)	41
	143	11	(1)	(2)	0	(34)	118
Net deferred tax liability	(210)	43	(2)	2	2	7	(158)

11. Income taxes

Aggregate deferred taxes recognized directly in equity

€ million	2006	2005
Cashflow hedging	(0)	(1)
Available-for-sale financial assets	(0)	0
	(0)	(1)

Deferred tax assets of EUR 72 million (2005: EUR 92 million) have not been recognized in the consolidated financial statements because the realization of the tax benefit included in these assets is not probable. Majority of these unrecognized deferred tax assets relate to tax losses and credits amounting to EUR 198 million (2005: EUR 280 million), which can be carried forward in the future. None of these tax losses and credits (2005: EUR 1 million) will expire within next four years, but in 2011 the earliest. The consolidated balance sheet includes deferred tax assets of EUR 2 million (Dec. 31, 2005:

EUR 35 million) in subsidiaries, which have generated losses in current or in prior year. The recognition of these assets is based on result estimates, which indicate that the realization of these deferred tax assets is probable. Deferred tax liability has not been recognized on all undistributed earnings of subsidiaries because distribution of the earnings is in the control of the Group and such distribution is not probable within foreseeable future. There was not any such undistributed earnings at the end of the year (Dec. 31, 2005: EUR 6 million).

12. Earnings per share

	2006	2005
Result attributable to the equity holders of the Company, € million	962	(364)
Weighted average number of shares, in thousands	181 033	181 031
Earnings per share for result attributable to the equity holders of the Company, €	5.31	(2.01)
Earnings per share, €		
from continuing operations	3.34	(0.14)
from discontinued operations	1.97	(1.87)

Diluted earnings per share is calculated by adjusting average number of shares outstanding to assume conversion of all diluting potential shares. The Group has diluting options (2003 option program). The options have a diluting effect, when the exercise price with an option is lower than the market value of the Company share. The diluting effect is the number of

shares that the Company has to issue gratuitously because the received funds from the exercised options do not cover the fair value of the shares. The fair value of the Company's share is determined as the average market price of the shares during the period.

	2006	2005
Result attributable to the equity holders of the Company, € million	962	(364)
Weighted average number of shares, in thousands	181 033	181 031
Effect of 2003A share options, in thousands	324	109
Effect of 2003B share options, in thousands	373	-
Effect of 2003C share options, in thousands	29	-
Diluted average number of shares, in thousands	181 758	181 140
Diluted earnings per share, €	5.29	(2.01)
from continuing operations	3.33	(0.14)
from discontinued operations	1.97	(1.87)

13. Dividend per share

The dividends paid in 2006 were EUR 0.45 per share and in 2005 EUR 0.50 per share. At the Annual General Meeting on March 28, 2007, a dividend of EUR 1.10 per share is proposed, corresponding to total dividends of EUR

199 million for 2006. This dividend payable is not reflected in the financial statements.

14. Intangible assets

€ million	Intangible asset, internally generated		Intangible asset, acquired			Goodwill	Total
	Licenses	Other	Patents	Software	Other		
Historical cost on Jan. 1, 2006	1	1	13	53	133	451	652
Translation differences	-	-	-	0	0	0	1
Additions	-	-	0	1	1	-	2
Disposal of subsidiaries	-	-	-	-	-	-	-
Disposals	-	-	-	(2)	(4)	-	(6)
Reclassifications	-	1	-	0	(1)	-	1
Discontinued operations	(1)	(2)	(9)	(9)	(6)	(47)	(74)
Historical cost on Dec. 31, 2006	-	0	4	43	124	404	576
Accumulated amortization and impairment on Jan. 1, 2006	(0)	(1)	(3)	(30)	(40)	-	(75)
Translation differences	-	-	-	(0)	(1)	-	(1)
Disposal of subsidiaries	-	-	-	-	-	-	-
Disposals	-	-	-	1	1	-	2
Reclassifications	-	-	-	(0)	-	-	(0)
Amortization	-	-	0	(6)	(11)	-	(17)
Impairments	-	-	-	-	-	-	-
Discontinued operations	0	1	2	2	3	-	9
Accumulated amortization and impairment on Dec. 31, 2006	-	(0)	(1)	(34)	(48)	-	(82)
Carrying value on Dec. 31, 2006	-	0	2	10	76	404	493
Carrying value on Jan. 1, 2006	1	0	10	23	93	451	578
Historical cost on Jan. 1, 2005	1	7	13	56	137	477	692
Translation differences	0	0	0	0	0	4	4
Additions	-	-	3	4	7	0	15
Disposal of subsidiaries	-	-	-	-	(0)	-	(0)
Disposals	-	-	(4)	(3)	(11)	(1)	(18)
Reclassifications	(0)	(2)	(0)	3	6	-	6
Discontinued operations	-	(4)	(0)	(7)	(6)	(29)	(46)
Historical cost on Dec. 31, 2005	1	1	13	53	133	451	652
Accumulated amortization and impairment on Jan. 1, 2005	(0)	(5)	(4)	(30)	(32)	-	(72)
Translation differences	0	0	0	0	0	-	0
Disposal of subsidiaries	-	-	-	-	0	-	0
Disposals	-	-	2	1	3	-	6
Reclassifications	-	1	0	0	(1)	-	0
Amortization	(0)	(0)	(1)	(7)	(13)	-	(22)
Impairments	-	-	-	-	(0)	-	(0)
Discontinued operations	-	3	0	6	4	-	13
Accumulated amortization and impairment on Dec. 31, 2005	(0)	(1)	(3)	(30)	(40)	-	(75)
Carrying value on Dec. 31, 2005	1	0	10	23	93	451	578
Carrying value on Jan. 1, 2005	1	2	9	26	104	477	620

14. Intangible assets

Amortization by function

€ million	2006	2005
Cost of sales	(14)	(17)
Selling and marketing expenses	0	(0)
Administrative expenses	(3)	(3)
Research and development expenses	0	0
Continuing operations	(17)	(20)
Discontinued operations	-	(2)

Goodwill allocation to the segments and divisions

€ million	2006	2005
General Stainless	338	338
Specialty Stainless	66	66
Continuing operations	404	404
Discontinued operations	-	47
The Group	404	451

Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the business organization. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations are based on the cash flow projections in the strategic plans approved by the management covering a three-year period. Projections for the fourth and fifth year are estimated to equal the third planning year. The estimated sales and production volumes are derived from the utilization of existing property, plant and equipment. The most important assumptions are the conversion margins, product mix and nickel price. In defining its planning assumptions, in addition to general conservatism, Outokumpu makes use of growth, demand and price estimates by market research institutions. Discount rate is the weighted average pre-tax cost of capital (WACC) as defined for Outokumpu. The components of WACC are risk-free yield rate, market risk premium, industry specific beta, cost of debt and targetted capital structure. The WACC used in the calculations was 8% in 2006 (2005: 8%). Cash flows beyond the five year period are calculated using terminal value method, where the EBITDA (=earnings before interest, taxes, amortizations and depreciation) of the fifth planning period is multiplied by six and discounted using the WACC described above. According to the performed sensitivity analysis it does not appear that any reasonable long-term change in the key assumptions on which Outokumpu's recoverable amounts are based would cause their respective values to fall short of their carrying amounts at December 31, 2006. As a result of the performed impairment tests, no impairment losses have been recognized.

Emission allowances

As of January 1, 2005 Emissions Trading System (ETS) started in the European Union. Outokumpu's stainless steel plants in Finland and Sweden belong to the Greenhouse Gas emission trading system. In February, carbon dioxide allowances for the first three-year period 2005–2007 were granted to the Tornio site in Finland and the steel making and casting plants at Avesta and Degerfors in Sweden. Purchased CO₂ allowances are accounted for as intangible assets at cost, whereas CO₂ emission allowances received free of charge are accounted for at nominal value, i.e. at zero. A provision to cover the obligation to return emission allowances is recognized provided that emission allowances received free of charge will not cover the actual emissions. Consequently the possible effect in operating profit will reflect the difference between what has been emitted and the received emission allowances. On December 31, 2006, emission allowances are not reflected in Outokumpu's balance sheet because no allowances have been purchased and because actual emissions did not exceed the amount of received allowances in 2006. To secure competitive price of emission allowances in the Kyoto period 2008–2012, Outokumpu invested EUR 1.5 million in a carbon fund in 2006. Actual CO₂ emissions in 2006 were about 780 000 tons (2005: 730 000 tons). The Group sold emission allowances for EUR 6.5 million in 2006 (2005: 2.5 million) and the proceeds from the sale is recognized under other operating income. At the end of 2006 the Group had 1 070 000 tons unused emission allowances permitted for the period 2005–2007 and the fair value was EUR 7 million.

15. Property, plant and equipment

€ million	Land	Mine properties	Buildings	Machinery and equipment	Other tangible assets	Advances paid and construction work in progress	Total
Historical cost on Jan. 1, 2006	41	37	852	3 088	79	92	4 188
Translation differences	0	-	5	31	0	2	37
Additions	-	1	2	51	1	124	179
Disposal of subsidiaries	-	-	-	(0)	-	-	(0)
Disposals	(1)	-	(44)	(254)	(1)	(0)	(299)
Reclassifications	(1)	2	10	44	5	(69)	(8)
Discontinued operations	(1)	-	(12)	(64)	(0)	(10)	(88)
Historical cost on Dec. 31, 2006	39	39	813	2 896	84	138	4 009
Accumulated depreciation and impairment on Jan. 1, 2006	(3)	(7)	(341)	(1 690)	(22)	(0)	(2 063)
Translation differences	0	-	(3)	(18)	(0)	-	(21)
Disposal of subsidiaries	-	-	-	0	-	-	0
Disposals	0	-	43	252	0	-	296
Reclassifications	0	-	4	4	(0)	-	8
Depreciation	-	(1)	(28)	(170)	(5)	-	(204)
Impairments	-	-	(0)	(3)	(0)	(0)	(3)
Discontinued operations	-	-	4	44	0	-	48
Accumulated depreciation and impairment on Dec. 31, 2006	(2)	(7)	(321)	(1 581)	(28)	(0)	(1 939)
Carrying value on Dec. 31, 2006	36	32	492	1 315	56	138	2 069
Carrying value on Jan. 1, 2006	38	30	511	1 398	57	92	2 125
Historical cost on Jan. 1, 2005	58	34	983	3 813	100	138	5 127
Translation differences	1	-	10	53	3	2	68
Additions	2	2	6	67	6	74	157
Disposal of subsidiaries	(0)	-	(0)	(10)	-	-	(11)
Disposals	(1)	-	(6)	(26)	(0)	(0)	(33)
Reclassifications	0	1	7	45	2	(71)	(16)
Discontinued operations	(19)	-	(148)	(853)	(32)	(51)	(1 104)
Historical cost on Dec. 31, 2005	41	37	852	3 088	79	92	4 188
Accumulated depreciation and impairment on Jan. 1, 2005	(3)	(6)	(360)	(1 968)	(44)	(2)	(2 383)
Translation differences	(0)	-	(4)	(32)	(3)	(0)	(40)
Disposal of subsidiaries	-	-	0	5	-	-	5
Disposals	-	-	4	20	0	-	24
Reclassifications	(1)	(0)	1	8	1	-	9
Depreciation	1	(0)	(30)	(161)	(3)	-	(194)
Impairments	(0)	-	(9)	(68)	(0)	-	(77)
Discontinued operations	0	-	57	506	27	2	593
Accumulated depreciation and impairment on Dec. 31, 2005	(3)	(7)	(341)	(1 690)	(22)	(0)	(2 063)
Carrying value on Dec. 31, 2005	38	30	511	1 398	57	92	2 125
Carrying value on Jan. 1, 2005	55	27	623	1 845	56	137	2 743

15. Property, plant and equipment

Depreciation by function

€ million	2006	2005
Cost of sales	(196)	(177)
Selling and marketing expenses	(3)	(2)
Administrative expenses	(4)	(7)
Research and development expenses	(1)	(1)
Continuing operations	(204)	(187)
Discontinued operations	-	(7)

No interest was capitalized on investment projects during the financial year (2005: EUR 0.2 million). Total interest capitalized on Dec. 31, 2006 was EUR 50 million (Dec. 31, 2005: EUR 71 million).

Assets leased by finance lease agreements

2006	Buildings	Machinery and equipment	Total
€ million			
Historical cost	4	70	74
Accumulated depreciation	(1)	(12)	(13)
Carrying value on Dec. 31, 2006	2	58	61
2005			
€ million			
Historical cost	3	65	68
Accumulated depreciation	(1)	(8)	(9)
Carrying value on Dec. 31, 2005	2	56	59

16. Investments in associated companies

€ million	2006	2005
Investments in associated companies at cost		
Historical cost on Jan. 1	33	281
Translation differences	0	(0)
Additions	-	3
Transfer from/to investments in associated companies	(4)	18
Disposals	(4)	(263)
Discontinued operations	(3)	(5)
Historical cost on Dec. 31	23	33
Equity adjustment to investments in associated companies on Jan. 1	17	10
Change in translation differences	(1)	(0)
Dividends received during financial year	(1)	(1)
Disposals and other changes	(1)	8
Share of results of associated companies	8	0
Discontinued operations	1	(0)
Equity adjustment to investments in associated companies on Dec. 31	23	17
Carrying value of investments in associated companies on Dec. 31	47	50

16. Investments in associated companies

Associated companies

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

Principal associated companies

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

2005	Domicile	Assets	Liabilities	Sales	Profit	Ownership, %
€ million						
Okmetic Oyj ¹⁾	Finland	83	49	50	(0)	32
Fagersta Stainless AB	Sweden	73	31	164	4	50
Rapid Power Oy	Finland	271	218	43	(0)	33

¹⁾ Outokumpu sold its shares in Okmetic Oyj in 2006 and the ownership decreased to 16%. Proceeds from the disposal totaled EUR 9 million and resulted in a capital gain of EUR 4 million. The remaining holding is classified as an available-for-sale financial asset.

17. Available-for-sale financial assets

€ million	2006	2005
Carrying value on Jan. 1	41	61
Translation differences	1	(1)
Additions	5	1
Disposals	0	(5)
Transfer from investments in subsidiaries	16	-
Transfer from/to investments in associated companies	4	(18)
Fair value changes	124	3
Gains and losses on disposals in the income statement	0	1
Discontinued operations	(1)	(1)
Carrying value on Dec. 31	189	41
Listed equity securities	127	4
Unlisted equity securities	62	37
Less:		
Non-current listed equity securities	(114)	0
Non-current unlisted equity securities	(57)	(37)
Current available-for-sale financial assets	17	4
Fair value	189	41
Acquisition value	(46)	(22)
Fair value changes	143	19
Deferred tax liability	0	0
Fair value reserve in equity	143	19

Available-for-sale financial assets comprise listed and unlisted equity securities, which are valued at fair value. Listed equity securities include 5 039 999 shares of Outokumpu Technology Oyj, and their fair value on Dec. 31, 2006 amounted to EUR 114 million. Unlisted equity securities include equity securities with carrying value of EUR 14 million, for which the fair value cannot be reliably determined. These assets are measured at cost less

possible impairment. Valuation methods used for unlisted equity securities have been chosen by company so that information available for the valuation and the characteristics of the company's business can be adequately taken into account. No deferred tax liability has been recognised on the fair value changes because according to the current view of the management the gains on the sale of the shares will not be taxable income.

18. Share-based payment plans

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

Outokumpu's Board of Directors confirmed on February 2, 2006 a share-based incentive program as part of the key employee incentive and commitment system of the Company. The share incentive program will last five years, comprising three earning periods of three calendar years each. The earning periods commence on January 1, 2006, January 1, 2007 and January 1, 2008. The objective of the share-based incentive program is to reward

for good performance, which supports the Company's strategy and at the same time to direct the management's attention to increasing the Company's shareholder value over a longer period of time. The program offers a possibility to receive Outokumpu shares and cash (equaling approximately to the amount of taxes) as an incentive reward, if the targets set by the Board for each earning period are achieved.

IFRS 2 Share-based payments standard has been applied for the 2003 stock option program and for the share-based incentive program for 2006–2010. The total estimated value of the programs is EUR 16 million. This value is recognized as an expense in the income statement during the vesting periods.

General terms and conditions of the option program:

	2003A	2003B_I	2003B_II	2003C
Grant date	June 12, 2003	Feb. 10, 2004	Sept. 15, 2004	March 22, 2005
The number of options granted	742 988	1 088 820	60 000	1 190 000
The maximum number of granted on Dec. 31	625 979	1 028 820	60 000	87 500
Exercise price, € ¹⁾	9.55	12.61	12.61	13.24
Term of contract	June 12, 2003– March 1, 2009	Feb. 10, 2004– March 1, 2010	Sept. 15, 2004– March 1, 2010	March 22, 2005– March 1, 2011
Vesting period	June 12, 2003– Aug. 18, 2006	Feb. 10, 2004– Aug. 31, 2007	Sept. 15, 2004– Aug. 31, 2007	March 22, 2005– Aug. 31, 2008
Conditions of the agreement	The Group's earnings per share in 2003 and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing.	The Group's earnings per share in 2004 and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing.	The Group's earnings per share in 2004 and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing.	The development of the Group's operating profit in 2005 (EBIT), and development of the Group's total shareholder return (TSR) compared to a peer group. The additional criterion for Group Executive Committee members was the Group's gearing.

¹⁾ Paid dividends have been deducted.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2006 is 2.9 years (2005: 4.3 years)

No new options were granted during the financial year 2006. In 2005 the average fair value of options granted was € 2.03.

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

Inputs of the model:

	2003A	2003B_I	2003B_II	2003C_I
Risk-free interest rate (%)	3.05	3.79	3.64	3.38
Expected life of options at the grant date (years)	5.7	6.1	5.5	6.0
Share price at the grant date, €	7.75	10.35	13.49	13.46
Estimated forfeit ratio at the grant date, % p.a.	2.2	2.2	2.2	2.2
Estimated forfeit ratio at the balance sheet date, % p.a.	10.0	10.0	10.0	10.0
Actual forfeit ratio, % p.a.	3.6	12.2	0.0	1.3
Estimated outcome of non-market based criteria (at the grant date)	-1)	-1)	-1)	37.0
Estimated outcome of market based criteria (at the grant date)	-1)	-1)	-1)	6.8
Fair value of the option at the grant date, €	2.99	3.78	4.48	3.79

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

Notes to the consolidated financial statements

18. Share-based payment plans

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

	2006 Options	2006 Weighted average exercise price €/share	2005 Options	2005 Weighted average exercise price €/share
Outstanding at the beginning of the year	2 951 761	12.60	2 369 444	12.62
Granted during the year	-	-	1 265 000	13.65
Forfeited during the year	(113 639)	12.00	(134 628)	12.17
Exercised during the year	(33 323)	9.55	-	-
Expired during the year	(1 062 500)	13.24	(548 055)	13.06
Outstanding at the end of the year	1 742 299	11.54	2 951 761	12.60
Exercisable at the end of the year	625 979	9.55	-	-

General terms and conditions of the share-based incentive program:

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

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

	Share-based incentive program 2006–2008
Share price at the grant date, €	14.90
Share price at the balance sheet date, €	29.66
Reference ratio annualized volatility at the grant date, % p.a.	25.0
Reference ratio annualized volatility at the balance sheet date, %	25.9
Estimated forfeit ratio at the grant date, % p.a.	5.0
Estimated forfeit ratio at the balance sheet date, % p.a.	10.0
Actual forfeit ratio, % p.a.	3.3
Estimated outcome of market criteria at the grant date, %	39.4
Estimated outcome of non-market criteria at the grant date, %	50.0
Estimated outcome of market criteria at the balance sheet date, %	59.0
Estimated outcome of non-market criteria at the balance sheet date, %	100.0

Share-based payments included in employee benefit expenses:

€ million	2006	2005
Equity-settled share-based payment transactions	(2)	(3)
Cash-settled share-based payment transactions	(2)	-
	(4)	(3)
Total carrying amount of liabilities for cash-settled arrangements on Dec. 31	2	-

19. Financial risk management and insurances

The main objective of the Group's financial risk management is to reduce the impacts of price fluctuations in financial markets and other factors of uncertainty on earnings, cash flows and balance sheet, as well as to ensure sufficient liquidity.

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

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

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

Market risk

Market risks are caused by changes in foreign exchange and interest rates, as well as commodity, energy and security prices. These changes may have a significant impact on the Group's earnings, cash flows and balance sheet. In order to mitigate adverse impacts of market price changes Outokumpu uses derivative contracts. Hedge accounting is applied to hedges of forecasted electricity purchases of the Finnish production facilities and to hedges of net investment in the foreign subsidiaries. Derivatives, for which hedge accounting is not applied, have been entered into for the purpose of reducing adverse impacts of market price changes on earnings and cash flows related to business and financing activities. In this description of financial risk management the term hedging has been used in its broadest sense and therefore it also includes usage of non-hedge-accounted derivatives.

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

Exchange rate risk

Major part of the Group's sales is in euros and US dollars. A significant part of expenses arise in euros, US dollars, Swedish kronas and British pounds.

The Group hedges most of its fair value risk. Cash flow risk related to firm commitments is hedged to large extent and forecasted cash flows are hedged selectively, based on separate decisions. Outokumpu does not currently hedge its income statement translation risk and translation of equity is hedged selectively. The total non-euro-denominated equity of the Group's foreign subsidiaries and associated companies was EUR 1 378 million on December 31, 2006 (2005: EUR 1 264 million). Approximately 7.9% (2005: 5.6%) of the net investment exposure was hedged.

On December 31, the Group had EUR 2 139 million (Dec. 31, 2005: EUR 1 796 million) outstanding foreign exchange forward contract amounts. The nominal amounts do not represent the amounts exchanged by the parties, and those amounts may also include positions, which have been closed off.

Interest rate risk

The Group's interest rate risk is monitored as cash flow and fair value risks. In order to manage the balance between risk and cost efficiently, significant part of the loans and financial investments have short-term interest rate as

a reference rate. In order to reduce cash flow risk the Group has interest rate swaps, where Outokumpu pays fixed rate and receives variable rate.

Euro, Swedish krona and British pound have substantial contribution to overall interest rate risk. Approximately 72% of the Group's interest-bearing liabilities have interest period of less than one year.

On December 31, the Group had outstanding interest rate swap contract amounts EUR 283 million (Dec. 31, 2005: EUR 432 million). The nominal amounts do not represent the amounts exchanged by the parties, and those amounts may include also positions, which have been closed off.

Commodity and energy price risk

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

The most important commodity price risks are caused by nickel and to certain extent copper price fluctuations. Majority of stainless steel sales contracts include an alloy adjustment factor clause, with the aim of reducing the risk arising from the time difference between raw material purchase and product delivery. Outokumpu uses metal derivatives to reduce the impacts of nickel and copper price changes on earnings and cash flows. Nickel and copper price changes also have a major impact on the Group's working capital and cash flow before financing. This cash flow risk is not hedged with derivatives.

On December 31, the Group had the following outstanding metal derivative contract amounts (the notional amounts do not represent the amounts exchanged by the parties, and those amounts may include also positions, which have been closed off):

Tons	2006	2005
Forward and futures nickel contracts	3 636	1 608
Forward and futures copper contracts	6 000	33 775
Forward and futures zinc contracts	2 150	1 300

Some of the Group's production facilities are participating the EU Emission Trading Scheme. Realized carbon dioxide emissions, granted emission allowances and forecasted emissions are monitored and assessed centrally. Emission allowance trading is centralized to Treasury.

Outokumpu has energy intensive production processes utilizing mainly electrical energy but also natural gas, liquefied petroleum gas and some other fuels. Spot and forward prices of many energy products are relatively volatile.

Electrical energy utilized by the Group's Nordic production facilities is purchased and managed centrally. In other facilities, electrical energy is purchased locally. Electricity price risk is reduced with price fixed supply contracts and derivatives. Outokumpu also has partial ownerships in energy producing companies to secure competitive pricing of electricity. Hedge accounting is applied to part of the electricity derivatives. The Group has not used derivatives to reduce the risk caused by changes in fuel prices.

On December 31, 2006 the Group had exchange traded electricity derivatives of 0.0 TWh (Dec. 31, 2005: 0.1 TWh) and other derivatives of 4.1 TWh (Dec. 31, 2005: 4.6 TWh). The electricity consumption of the Group's Nordic production facilities was 3.0 TWh (2005: 2.8 TWh).

Securities price risk

Outokumpu has investments in equity securities and the portfolio also includes debt notes. On December 31, 2006 the biggest shareholding in listed equity securities was in Outokumpu Technology Oyj. The most significant debt investment was the receivable from Luvata International Oy. Apart from currency risk related to receivables, securities have not been hedged with derivatives.

Default risk

The Group's trade receivables are generated by a large number of customers. However, there have been some single customer credit risk concentrations. Credit risk related to business operations is reduced for example with credit insurances and letters of credit.

The Group's Treasury manages majority of the Group's credit risk related to other financial instruments. Outokumpu seeks to reduce these risks by limiting the counterparties to banks, other financial institutions, brokers and suppliers of electrical power, which have good credit standing. All investments related to liquidity management are made in liquid instruments with, as far as possible, low credit risk.

Liquidity risk

The Group's Treasury raises most of the Group's interest-bearing debt centrally. The Group seeks to reduce liquidity and refinancing risks with balanced maturity profile of loans as well as by keeping sufficient amount of credit lines available. Efficient cash and liquidity management is also reducing liquidity risk.

In 2006 Treasury agreed some EUR 170 million new long-term loans and the maturities of some existing loans were lengthened. The main funding

programs and standby credit facilities include the Finnish Commercial Paper Program totaling EUR 650 million, the Euro-Commercial Paper Program totaling USD 250 million and the committed Revolving Credit Facility of EUR 1000 million. On December 31, 2006, Outokumpu had committed and available credit facilities and other agreed and undrawn loans totaling EUR 846 million.

Insurances

Outokumpu's business is capital intensive and key production processes are rather tightly integrated and have other interdependences as well. Property damage and business interruption is the most important insurance line and substantial part of the insurance premiums paid relates to these types of risks. Other significant insurance lines include credit and liability.

Outokumpu's own insurance company, Visenta Försäkrings AB, can act as direct insurer or as reinsurer. The company is registered in Sweden and it has assets worth over EUR 40 million. The company issues insurance policies for business units e.g. to cover the differences between internal and external deductibles.

20. Fair values of derivative instruments

€ million	2006			2005
	Positive fair value	Negative fair value	Net fair value	Net fair value
Currency derivatives				
Currency forwards	10	19	(9)	(1)
Interest rate derivatives				
Interest rate swaps	10	-	10	3
Metal derivatives				
Forward and futures nickel contracts	9	0	9	1
Forward and futures copper contracts	1	2	(1)	(1)
Forward and futures zinc contracts	0	0	0	0
Electricity derivatives				
Publicly traded electricity derivatives	0	0	0	1
Other electricity derivatives	17	9	8	13
	48	31	16	15
Less long-term derivatives				
Interest rate derivatives	10	-		
Electricity derivatives	14	6		
Short-term derivatives	24	25		

Fair values are estimated based on market rates and prices, discounted future cash flows and, in respect of options, on evaluation models.

20. Fair values of derivative instruments

Net investment hedges on Dec. 31, 2006

Currency	Nominal value	Fair value, € million	Cumulative translation difference in equity 2006, € million
GBP million	7	(0)	0
SEK million	917	(2)	2

Net investment hedges on Dec. 31, 2005

Currency	Nominal value	Fair value, € million	Cumulative translation difference in equity 2005, € million
GBP million	21	0	0
SEK million	371	0	3

Net investment in foreign subsidiaries is hedged with currency forwards. The portion of gains and losses on effective hedges, net of tax is recognized in equity. The ineffective portion is recognized in income.

Electricity purchase hedges on Dec. 31, 2006

€ million	Nominal amounts, TWh	Fair value	In fair value reserve in equity
2007	0.4	0	0
2008	0.2	1	1
€ million			
Fair value changes		2	
Deferred tax liability		0	
Fair value reserve in equity on Dec. 31, 2006		2	

Electricity purchase hedges on Dec. 31, 2005

€ million	Nominal amounts, TWh	Fair value	In fair value reserve in equity
2006	0.3	3	2
2007	0.3	1	1
2008	0.1	1	1
€ million			
Fair value changes		5	
Deferred tax liability		(1)	
Fair value reserve in equity on Dec. 31, 2005		4	

Forecast purchases of electricity for the Finnish production facilities are hedged with electricity forwards. The portion of unrealized gains and losses on effective hedges, net of tax is recognized in equity. Other fair value changes are recognized in income. The portion of realized gains and losses

on effective hedges is recognized in income as adjustment to purchases in the period when the hedged cash flow affects income. Other realized gains and losses are recognized in other operating income and expenses.

21. Inventories

€ million	2006	2005
Raw materials and consumables	410	244
Work in progress	698	472
Finished goods and merchandise	600	461
Advance payments	2	9
	1 710	1 186

At the end of 2006, EUR 3 million (Dec. 31, 2005: EUR 27 million) was recognized as expense, with which the carrying value of the inventories was written down to reflect its net realizable value.

22. Trade and other receivables

€ million	2006	2005
Non-current		
Interest-bearing		
Loans receivable	130	152
Financial assets at fair value through profit and loss	3	4
	133	156
Non interest-bearing		
Trade receivables	0	0
Defined benefit pension assets	32	14
Other receivables	0	1
	32	15

Fair value of interest-bearing loan receivables is estimated to be some EUR 19 million below the recognized value. Substantial part of the difference between fair value and book value relate to one loan receivable. In determining the fair value of the receivable, the priority position vs. other financing,

partial capitalization of interest and level of market interest rates have been considered. Also the scenario of premature repayment according to agreed terms and conditions has been taken into account in the valuation.

€ million	2006	2005
Current		
Interest-bearing		
Loans receivable	13	8
Prepaid interest expenses	0	0
Accrued interest income	1	1
	14	8
Non interest-bearing		
Trade receivables	1 209	707
Income tax receivable	2	9
Prepaid insurance expenses	5	7
VAT receivable	81	61
Grants and subsidies receivable	1	14
Other accruals	8	33
Other receivables	7	11
	1 314	841
Doubtful receivables deducted from trade receivables		
Doubtful trade receivables on Jan. 1	9	14
Additions	0	2
Deductions	(1)	(3)
Recovery of doubtful receivables	(1)	0
Discontinued operations	(1)	(4)
Doubtful trade receivables on Dec. 31	6	9

23. Cash and cash equivalents

€ million	2006	2005
Cash at bank and in hand	65	138
Short term bank deposits	0	30
Cash equivalent marketable securities	19	44
	85	212

Fair value of cash and cash equivalents does not significantly differ from the carrying value. The effective interest rate of cash equivalent marketable securities in 2006 is 3.49% and the average maturity 1 day. Fixed income funds are included in the cash equivalent marketable securities.

24. Equity

Share capital and premium fund

€ million	Number of shares, 1 000	Share capital	Unregistered share capital	Premium fund	Total
On Jan. 1, 2005	180 752	308	-	700	1 008
Treasury shares to management remuneration schemes	280	-	-	1	1
On Dec. 31, 2005	181 032	308	-	701	1 009
Shares subscribed with 2003A option rights	33	-	0	0	0
On Dec. 31, 2006	181 065	308	0	701	1 009
Unregistered shares	(33)				
Treasury shares	219				
Total number of shares on Dec. 31, 2006	181 251				

According to the Articles of Association, the maximum number of Outokumpu Oyj shares is 706 million. Account equivalent value of a share is EUR 1.70, and the maximum share capital is EUR 1.2 billion.

Fair value reserves

€ million	2006	2005
Available-for-sale financial assets reserve	143	19
Cash flow hedge reserve	1	4
	144	23

Fair value reserves include movements in the fair values of available-for-sale financial assets and derivative instruments used for cash flow hedging.

Other reserves

€ million	2006	2005
Reserve fund	10	10
Other reserves	1	1
	11	11

Reserve fund includes amounts transferred from the distributable equity under the Articles of Association or by a decision by General Meeting of Shareholders. Other reserves include other items based on the local regulations of the group companies.

Distributable funds

On December 31, 2006 the distributable funds of the parent company totaled EUR 731 million.

25. Employee benefit obligations

Outokumpu has established several defined benefit and defined contribution pension plans in various countries.

I TP-pension plans operated by Alecta in Sweden and plans operated by Stichting Bedrijfspensioenfonds voor de metaalindustrie in the Netherlands are multi-employer defined benefit pension plans. It has, however, not been possible to get sufficient information for the calculation of obligations

and assets by employer from the plan operators, and therefore these plans have been accounted for as defined contribution plans in the financial statements.

Other post-employment benefits relate to retirement medical arrangements in the US.

Pension and other post-employment benefits

Amounts recognized in the income statement

€ million	2006	2005
Defined benefit pension expenses	(11)	8
Defined contribution pension expenses	(47)	(33)
Other post-employment benefits	(3)	(3)
Total continuing operations	(61)	(28)
Defined benefit pension expenses	-	(0)
Defined contribution pension expenses	-	(7)
Other post-employment benefits	-	(0)
Total discontinued operations	-	(8)

By function

€ million	Defined benefit pension plans		Other post-employment benefits	
	2006	2005	2006	2005
Cost of sales	(5)	10	(2)	(2)
Selling and marketing expenses	(3)	(1)	(0)	(0)
Administrative expenses	(3)	(1)	(0)	(0)
Research and development expenses	(0)	(0)	-	-
	(11)	8	(3)	(3)

Pension cost in employee benefit expenses

€ million	Defined benefit pension plans		Other post-employment benefits	
	2006	2005	2006	2005
Current service cost	(12)	(14)	(1)	(1)
Interest cost	(21)	(21)	(2)	(2)
Expected return on plan assets	23	21	-	-
Recognized net actuarial gains and losses	(2)	0	0	0
Employee contributions	2	3	-	-
Past service cost	(0)	(0)	(0)	(0)
Gains and losses on curtailments and settlements	(1)	20	-	-
	(11)	8	(3)	(3)
Actual return on plan assets	17	52	-	-

Amounts recognized in the balance sheet

€ million	Defined benefit pension plans		Other post-employment benefits	
	2006	2005	2006	2005
Present value of funded obligations	427	437	-	-
Fair value of plan assets	(413)	(375)	-	-
Present value of unfunded obligations	31	42	27	36
Unrecognized actuarial gains and losses	(45)	(69)	(7)	(13)
Unrecognized past service cost	0	(1)	3	3
Net liability	0	34	22	26

25. Employee benefit obligations

Balance sheet reconciliation

€ million	Defined benefit pension plans		Other post-employment benefits	
	2006	2005	2006	2005
Net liability on Jan. 1	34	96	26	39
Net periodic pension cost in income statement	11	(8)	3	3
Contributions paid into the plans	(29)	(18)	(1)	(2)
Translation differences	(1)	1	(3)	3
Discontinued operations	(15)	(37)	(3)	(17)
Net liability on Dec. 31	0	34	22	26

€ million	2006	2005
Defined benefit pension and other post-employment benefit obligations	54	74
Defined benefit pension assets	(32)	(14)
Net liability	22	61

Movement in plan assets

€ million	2006	2005
Fair value of plan assets on Jan. 1	375	304
Contributions paid into the plans	29	17
Benefits paid by the plans	(22)	(21)
Expected return on plan assets	24	21
Actuarial gains and losses	4	35
Translation differences	4	8
Fair value of plan assets on Dec. 31	414	375

The expected contributions to be paid to the plans in 2007 are EUR 25 million.

Allocation of plan assets

	2006	2005
Equity securities	54%	53%
Debt securities	2%	2%
Real estate	0%	0%
Bonds	27%	27%
Other (insured plans)	16%	18%
	100%	100%

Principal actuarial assumptions

	2006	2005
Discount rate	4.00–5.50%	4.00–5.50%
Expected return on plan assets	4.50–6.50%	4.50–6.90%
Future salary increase expectation	2.50–3.30%	2.50–5.00%
Future benefit increase expectation	2.00–3.00%	1.50–2.70%

26. Provisions

€ million	Restructuring provisions	Environmental provisions	Other provisions
Provisions on Jan. 1, 2006	85	32	17
Translation differences	2	0	0
Increases in provisions	13	1	2
Utilized during the financial year	(51)	(1)	(1)
Unused amounts reversed	(2)	(3)	(1)
Other changes	0	0	0
Discontinued operations	-	-	(6)
Provisions on Dec. 31, 2006	45	29	11
Provisions on Jan. 1, 2005	19	31	16
Translation differences	0	1	0
Increases in provisions	79	5	6
Utilized during the financial year	(7)	(4)	(5)
Unused amounts reversed	0	0	0
Other changes	0	-	0
Discontinued operations	(6)	0	0
Provisions on Dec. 31, 2005	85	32	17
€ million		2006	2005
Non-current provisions		55	55
Current provisions		30	78
		85	133

Provisions are based on best estimates on the balance sheet date. The increase in restructuring provisions in 2006 relates mainly to the planned closure of the OSTP's (Outokumpu Stainless Tubular Products) unit in Fagersta, Sweden. The utilization of restructuring provisions in 2006 relates to the closure of Coil Products Sheffield in Britain and to the costs from the fixed cost reduction program. Majority of environmental provisions are for closing

costs of landfill areas and removal of problem waste in facilities in Finland and in Britain. Other provisions comprise mainly provisions for reclamation of old mine sites, litigations as well as onerous contracts and claims. The outflow of economic benefits related to long-term provisions is expected to take place mainly within 2 to 3 years.

27. Interest-bearing liabilities

€ million	2006	2005
Non-current		
Bonds and debentures	164	310
Loans from financial institutions	900	1 089
Pension loans	160	147
Finance lease liabilities	58	64
Other long-term loans	5	9
	1 287	1 618
Current		
Bonds and debentures	147	-
Loans from financial institutions	93	121
Pension loans	25	23
Finance lease liabilities	5	5
Other current loans	361	352
	632	501

Finance lease liabilities

Minimum lease payments

€ million	2006	2005
Not later than 1 year	9	9
1–2 years	9	9
2–3 years	6	9
3–4 years	6	5
4–5 years	5	5
Later than 5 years	43	46
Future finance charges	(15)	(13)
Present value of minimum lease payments	63	69

27. Interest-bearing liabilities

Present value of minimum lease payments

€ million	2006	2005
Not later than 1 year	7	7
1–2 years	7	7
2–3 years	4	6
3–4 years	4	4
4–5 years	4	4
Later than 5 years	38	42
Present value of minimum lease payments	63	69

Repayment schedule of long-term debt on Dec. 31, 2006

€ million		2007 ¹⁾	2008	2009	2010	2011	2012–	Total
Bonds and debentures	EUR	125	89	-	-	75	-	289
	SEK	22	-	-	-	-	-	22
Loans from financial institutions	EUR	39	58	105	74	42	139	456
	USD	8	29	-	-	-	26	63
	CAD	-	-	20	-	-	-	20
	SEK	11	11	11	166	61	160	419
Pension loans	EUR	25	30	29	29	27	46	185
Finance lease liabilities	EUR	2	4	4	4	4	39	56
	USD	3	3	-	-	-	-	6
	SEK	0	0	0	0	0	1	2
Other long-term loans	EUR	3	3	2	-	-	-	7
	SEK	-	1	-	-	-	-	1
		238	227	169	272	208	411	1 525

¹⁾ Repayments of long-term debt in 2007 are included in current debt.

Average maturity of long-term debt is 4 years and the average interest rate is 4.21%.

Bonds and debentures

€ million	Interest rate, %	In currency	2006	2005
Fixed interest rate				
Bonds and debentures				
2002–2007	7.05	SEK 200 million	22	21
2002–2008	6.90	EUR 89 million	89	89
2004–2011	5.00	EUR 75 million	75	75
			186	185
Floating interest rate				
Bonds and debentures				
2004–2007	4.19	EUR 125 million	125	125
			311	310

Carrying and fair values of borrowings

€ million	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	1 287	1 295	1 618	1 642
Current debt	632	632	501	501

The fair value of interest-bearing debt is higher compared to the carrying value mainly due to the valuation of fixed rate bonds, bank and pension loans with the current market interest rates that are lower than the nominal interest rates of these loans.

28. Trade and other payables

€ million	2006	2005
Non-current		
Non interest-bearing		
Trade payables	0	-
Other long-term liabilities	2	3
	2	3
Current		
Interest-bearing		
Accrued interest expenses	27	32
Non interest-bearing		
Trade payables	612	406
Advances received	2	108
Accrued employee-related expenses	80	91
VAT payable	18	9
Withholding tax and social security liabilities	15	12
Other accruals	75	80
Other payables	12	33
	814	739

29. Commitments and contingent liabilities

€ million	Group		Parent company	
	2006	2005	2006	2005
Mortgages and pledges on Dec. 31				
Mortgages on land	126	94	-	0
Other pledges	0	8	-	-
Guarantees on Dec. 31				
On behalf of subsidiaries				
For financing	-	-	24	27
For commercial and other guarantees	95	22	84	4
On behalf of associated companies				
For financing	5	4	5	4
On behalf of discontinued operations				
For financing	-	-	5	27
For commercial guarantees	2	55	-	170
Other commitments	59	65	59	65

The Group has pledged real estate mortgages created in the Tornio production plant for a value of EUR 124 million as security for its pension loans (EUR 185 million).

Commercial and other guarantees include a guarantee exposure of EUR 39 million related to a deficit recovery plan engagement in favour of Outokumpu's British subsidiary's pension trust.

Outokumpu Oyj has, through parent company guarantees and counter guarantees, an indirect guarantee obligation related to guarantees issued on behalf of Outokumpu Technology companies prior to the sale of the shares of

Outokumpu Technology. This indirect guarantee obligation amounted to EUR 2 million on December 31, 2006.

Outokumpu Oyj is, in relation to its shareholding in Kymppivoima Tuotanto Oy and Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Rapid Power Oy. The net debt of Rapid Power Oy at the year end amounted to approximately EUR 178 million, out of which Outokumpu is liable for one third. This liability is reported under other commitments.

29. Commitments and contingent liabilities

Present value of minimum lease payments on operating leases

€ million	2006	2005
Not later than 1 year	19	26
1–2 years	16	22
2–3 years	10	14
3–4 years	8	11
4–5 years	6	10
Later than 5 years	34	36
Present value of minimum lease payments	93	120

Outokumpu Oyj sold to the Mutual Pension Insurance Company Varma-Sampo part of its real estate located in Espoo, Finland in 2002. Outokumpu Oyj sold five office buildings and parcels of totaling approximately three hectares. In connection with the sale, Outokumpu Oyj concluded operating lease agreements with Varma-Sampo for 10–15 years.

The Group has entered into long-term (15 years) supply agreements of industrial gases for the production facilities in Tornio, Avesta and Sheffield. These agreements do not qualify as finance lease agreements.

Major off-balance sheet investment commitments on Dec. 31

€ million	2006	2005
Tornio Works	9	31
Kloster	6	21

30. Disputes and litigations

In March 2001, the European Commission initiated an investigation concerning alleged participation by Outokumpu Oyj and Outokumpu Copper Products Oy in a price and market-sharing cartel with respect to copper tubes in the European Union. Outokumpu has cooperated fully with the European Commission in connection with the investigation. The investigation involving Outokumpu was subsequently divided into two separate proceedings: investigation into alleged price fixing and market sharing in the industrial copper tubes sector and investigation into alleged price fixing and market sharing in the sanitary copper tube sector.

Pursuant to its investigations the European Commission has in its decision dated December 16, 2003, found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed the applicable EU competition laws by participating in agreements and concerted practices consisting of price fixing and market sharing in the industrial copper tubes sector during a period between May 3, 1988 and March 22, 2001. As a result, the European Commission imposed an aggregate fine of EUR 18 million on Outokumpu Oyj and Outokumpu Copper Products Oy. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter that is currently pending.

Furthermore, pursuant to its investigations the European Commission has in its decision dated 3 September 2004 found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed applicable EU competition laws for participation in agreements and concerted practices consisting of price fixing and market sharing in the sanitary copper tube sector during a period between June 1988 and March 2001 and imposed an aggregate fine of EUR 36 million on Outokumpu Oyj and Outokumpu Copper Products Oy. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter that is currently pending.

Related to the above investigations of the European Commission, Outokumpu Oyj, Outokumpu Copper Products Oy and Outokumpu Copper (USA), Inc. have been served and are defendants in consolidated cases filed in the

federal district court in Memphis, Tennessee, (USA) which alleges claims and damages under the US antitrust laws and purports to be a class action on behalf of all direct purchasers of copper plumbing tubes in the US from 1988 to March 31, 2001. In addition, there are purported class actions pending against these same Outokumpu companies in the state courts of California, Tennessee and Massachusetts, on behalf of so-called indirect purchasers of copper plumbing tube. Outokumpu believes that the allegations in all these proceedings lack merit and will vigorously defend itself. In connection with the sale of the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to these class actions.

Carrier Corporation filed a lawsuit against Outokumpu Oyj and Outokumpu Copper Franklin, Inc., among others, in April 2006. The complaint alleges a worldwide price fixing and market allocation cartel with respect to copper tubing for air conditioning and related applications (ACR Tube) for at least the period from 1989 to 2001. The complaint requests damages due to alleged overcharges (but does not specify a particular amount of damages). There have also been three class action cases filed in federal district court (Memphis) alleging a price fixing cartel in ACR Tube. These cases have been filed on behalf of an alleged class of all direct purchasers of ACR Tube in the United States, and the complaint names Outokumpu Oyj, together with other European and American companies that were the subject of the European Commission's industrial tubes cartel proceeding. Outokumpu believes that the allegations in all these proceedings lack merit and will vigorously defend itself. In connection with the sale of the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to these proceedings.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. Management believes that the outcome of such disputes will not have a material effect on the Group's financial position.

31. Related party transactions

Transactions and balances with associated companies

€ million	2006	2005
Sales	0	6
Purchases	(9)	(12)
Dividends received	1	1
Interest income	0	0
Long-term receivables		
Loans receivable	0	0
Subordinated loans receivable	0	2
Current receivables		
Loans receivable	9	6
Trade receivables	0	0
Other receivables	-	0
Current liabilities		
Trade payables	1	1
Other current liabilities	-	0
Loans receivable from associated companies ¹⁾		
Loans receivable on Jan. 1	8	7
Withdrawals	3	1
Repayments	-	-
Other movement ²⁾	(2)	-
Loans receivable on Dec. 31	9	8

¹⁾ Loans to associated companies include both current and non-current receivables.

²⁾ Outokumpu's ownership in Okmetic decreased to 16% in 2006.

The interest rates of loans granted to associated companies are based on market rates. EUR 9 million of the loans is expected to mature by the end of 2007.

Employee benefits for key management

€ million	2006	2005
Short-term employee benefits	3	3
Termination benefits	-	4
Post-employment benefits	3	3
Other long-term benefits	-	-
Share-based payments	1	1
	7	11

Key management consists of the members of the Board of Directors, CEO and other members of the Group Executive Committee. There were no outstanding loans receivable from key management on Dec. 31, 2006 (Dec. 31, 2005: EUR - million).

32. Events after the balance sheet date

Outokumpu management does not have knowledge of any significant events after the balance sheet date, which would have had an impact on the financial statements.

33. Subsidiaries on Dec. 31, 2006

	Country	Group holding, %		Country	Group holding, %
General Stainless			Other operations		
Handelmij Roestvrij B.V.	The Netherlands	100	2843617 Canada Inc.	Canada	100
Outokumpu AS	Norway	100	AvestaPolarit Pension Trustees Ltd	Britain	100
Outokumpu A/S	Denmark	100	Granefors Bruk AB ¹⁾	Sweden	100
Outokumpu Asia Pacific Ltd	China	100	Kopparlunden AB	Sweden	100
Outokumpu Baltic Oü	Estonia	100	Norsulfid A/S ¹⁾	Norway	100
Outokumpu Benelux B.V.	The Netherlands	100	Orijjärvi Oy ¹⁾	Finland	100
Outokumpu Chrome Oy	Finland	100	Outokumpu Alueverkko Oy ¹⁾	Finland	100
Outokumpu Distribution Oy	Finland	100	Outokumpu Engineering Enterprises, Inc. ¹⁾	The United States	100
Outokumpu Gebouwen B.V. ¹⁾	The Netherlands	100	Outokumpu Exploration Ventures Pty. Ltd.	Australia	100
Outokumpu Ges.m.b.H	Austria	100	Outokumpu France S.A. ¹⁾	France	100
Outokumpu GmbH	Germany	100	Outokumpu Istanbul Dis Ticaret Limited Sirketi ¹⁾	Turkey	100
Outokumpu India Private Limited ²⁾	India	100	Outokumpu Metals Off-Take Oy ¹⁾	Finland	100
Outokumpu Kft	Hungary	100	Outokumpu Minera Española S.A.	Spain	100
Outokumpu K.K.	Japan	100	Outokumpu Mines Inc. ¹⁾	Canada	100
Outokumpu, Lda. ¹⁾	Portugal	100	Outokumpu Mining Australia Pty. Ltd.	Australia	100
Outokumpu Ltd	Ireland	100	Outokumpu Mining Oy	Finland	100
Outokumpu Nordic AB	Sweden	100	Outokumpu Nickel Resources B.V.	The Netherlands	100
Outokumpu N.V.	Belgium	100	Outokumpu Rawmet, S.A.	Spain	100
Outokumpu Pty Ltd	Australia	100	Outokumpu Stainless Holdings Ltd	Britain	100
Outokumpu (Pty) Ltd	South Africa	100	Outokumpu Stainless, Inc.	The United States	100
Outokumpu Rossija Oy ¹⁾	Finland	100	Outokumpu Stainless Steel Oy ¹⁾	Finland	100
Outokumpu S A	France	100	Outokumpu Zinc Australia Pty. Ltd.	Australia	100
Outokumpu S.A.	Spain	100	Outokumpu Zinc B.V. ¹⁾	The Netherlands	100
Outokumpu (S.E.A.) Pte. Ltd.	Singapore	100	Pancarelian Ltd. ¹⁾	Bermuda	100
Outokumpu Shipping Oy ¹⁾	Finland	100	Princeton Gamma-Tech, Inc.	The United States	82
Outokumpu S.p.A.	Italy	100	Viscaria AB ¹⁾	Sweden	100
Outokumpu Sp. z o.o.	Poland	100	Visent Invest AB	Sweden	100
Outokumpu s.r.o.	Czech Republic	100	Visenta Försäkrings AB	Sweden	100
Outokumpu Stainless B.V.	The Netherlands	100			
Outokumpu Stainless Coil, Inc.	The United States	100	Discontinued operations		
Outokumpu Stainless Holding GmbH	Germany	100	Boliden Cuivre & Zinc España S.A.	Spain	100
Outokumpu Stainless Ltd	Britain	100	Outokumpu Copper BCZ (France) Eurl	France	100
Outokumpu Stainless Oy	Finland	100	Outokumpu Copper BCZ GmbH	Germany	100
Outokumpu UAB	Lithuania	100	Outokumpu Copper BCZ (Polska) Sp. z o.o.	Poland	100
ZAO Outokumpu	Russia	100	Outokumpu Copper BCZ SA	Belgium	100
			Outokumpu Copper Brass SA	France	100
			Outokumpu Copper CDC SA	Belgium	100
			Outokumpu Copper Fabrication AB ¹⁾	Sweden	100
			Outokumpu Copper Gusum AB	Sweden	100
			Outokumpu Copper HME B.V.	The Netherlands	100
			Outokumpu Copper LDM B.V.	The Netherlands	100
			Outokumpu Copper Nonferro Metal GmbH	Germany	100
			Outokumpu Copper Products AB	Sweden	100
			Outokumpu Copper Tube Hungary Kereskedelmi Kft.	Hungary	100
			Outokumpu Copper Tubes, S.A. ¹⁾	Spain	100
			Outokumpu Holding UK Limited	Britain	100
			Outokumpu Pori Tube Oy	Finland	100
			Outokumpu Tube Italy S.r.l.	Italy	100
			Foreign branches		
			Outokumpu Asia Pacific Ltd., branch office in Republic of Korea		
			Outokumpu Asia Pacific Ltd., agencies in China and Taiwan		
			Outokumpu Baltic Oü, branch office in Latvia		
			Outokumpu Mining Oy, branch office in Spain		
			Outokumpu (S.E.A.) Pte. Ltd., agency in Vietnam		

¹⁾ Name change

²⁾ Founded

¹⁾ Shares and stock held by the parent company

This list does not include all dormant companies or all holding companies. However, all companies owned directly by the parent company are included. The Group holding corresponds to the Group's share of voting rights.

Key financial figures of the Group

		FAS 2002 ¹⁾	IFRS 2003 ¹⁾	IFRS 2004	IFRS 2005	IFRS 2006
Scope of activity						
Sales	€ million	5 558	5 922	5 122	5 016	6 154
- change in sales	%	4.4	6.6	n/a	(2.1)	22.7
- exports from and sales outside Finland, of total sales	%	92.4	93.4	94.0	94.2	94.4
Capital employed on Dec. 31	€ million	4 331	4 108	4 941	3 599	4 371
Operating capital on Dec. 31	€ million	4 569	4 287	5 151	3 756	4 553
Capital expenditure	€ million	2 042	622	414	164	187
- in relation to sales	%	36.7	10.5	8.1	3.3	3.0
Depreciation and amortization	€ million	264	304	191	207	221
Research and development costs	€ million	47	48	31	22	17
- in relation to sales	%	0.8	0.8	0.6	0.4	0.3
Personnel on Dec. 31		21 130	19 359	11 514	8 963	8 159
- average for the year		20 196	21 442	11 787	9 579	8 505
Profitability						
Operating profit	€ million	267	214	436	57	824
- in relation to sales	%	4.8	3.6	8.5	1.1	13.4
Share of results of associated companies	€ million	(7)	(15)	78	1	8
Profit/loss before taxes	€ million	213	108	440	(8)	784
- in relation to sales	%	3.8	1.8	8.6	(0.2)	12.7
Net profit/(loss) for the period from continuing operations ¹⁾	€ million	-	-	379	(24)	606
Net profit/(loss) for the period from discontinued operations ¹⁾	€ million	-	-	7	(339)	357
Net profit/(loss) for the financial year	€ million	159	112	386	(363)	963
- in relation to sales	%	2.9	1.9	7.5	(7.2)	15.7
Return on equity	%	8.0	5.4	16.8	(15.9)	37.5
Return on capital employed	%	7.0	5.0	9.6	1.3	20.7
Return on operating capital	%	6.6	4.8	9.2	1.3	19.8
Financing and financial position						
Liabilities	€ million	4 381	4 314	4 571	3 355	3 270
Net interest-bearing debt	€ million	2 385	2 025	2 435	1 537	1 300
- in relation to sales	%	42.9	34.2	47.5	30.6	21.1
Net financial expenses	€ million	46	91	75	67	48
- in relation to sales	%	0.8	1.5	1.5	1.3	0.8
Net interest expenses	€ million	75	98	66	65	62
- in relation to sales	%	1.4	1.7	1.3	1.3	1.0
Interest cover		3.8	2.1	7.6	0.9	13.6
Share capital ²⁾	€ million	294	304	308	308	308
Other equity	€ million	1 652	1 779	2 198	1 754	2 763
Equity-to-assets ratio	%	31.1	33.0	35.8	38.2	47.9
Debt-to-equity ratio	%	122.6	97.2	97.2	74.5	42.3
Net cash generated from operating activities	€ million	334	194	(128)	459	(35)
Dividends	€ million	69	36	91	81	199 ³⁾

¹⁾ Figures for 2002 and 2003 have not been divided into continuing and discontinued operations.

²⁾ Figures for 2002 and 2003 include unregistered share capital.

³⁾ The Board of Directors' proposal to the Annual General Meeting.

Quarterly information

Income statement by quarter

€ million	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
Continuing operations										
Sales										
General Stainless	1 286	1 158	813	816	4 073	1 013	1 066	1 130	1 561	4 770
Specialty Stainless	785	819	584	552	2 739	650	638	614	821	2 723
Other operations	55	71	70	76	272	87	93	96	85	361
Intra-group sales	(732)	(605)	(404)	(328)	(2 068)	(342)	(405)	(394)	(560)	(1 700)
The Group	1 394	1 442	1 063	1 117	5 016	1 408	1 392	1 447	1 907	6 154
Operating profit										
General Stainless	71	93	(55)	(170)	(62)	43	91	166	236	536
Specialty Stainless	55	65	14	(23)	110	22	65	81	171	338
Other operations	9	(3)	10	(8)	8	2	(8)	(13)	(16)	(35)
Intra-group items	(6)	3	5	(1)	1	(0)	1	(3)	(13)	(15)
The Group	129	157	(26)	(202)	57	67	149	231	378	824
Share of results of associated companies	(1)	2	(0)	0	1	0	2	1	4	8
Financial income and expenses	(13)	(22)	(19)	(13)	(67)	(7)	(10)	(18)	(13)	(48)
Profit/(loss) before taxes	115	137	(45)	(215)	(8)	60	141	214	369	784
Income taxes	(19)	(37)	10	31	(16)	(18)	(29)	(48)	(83)	(178)
Net profit/(loss) for the period from continuing operations	96	99	(36)	(184)	(24)	41	112	166	286	606
Net profit/(loss) for the period from discontinued operations	(340)	(3)	(0)	4	(339)	15	20	6	317	357
Net profit/(loss) for the period	(244)	97	(36)	(180)	(363)	56	133	172	603	963
Attributable to										
Equity holders of the Company	(245)	96	(36)	(179)	(364)	56	132	171	603	962
Minority interest	1	1	0	(1)	1	(0)	0	1	1	2

Stainless steel deliveries by quarter

1 000 tons	I/05	II/05	III/05	IV/05	2005	I/06	II/06	III/06	IV/06	2006
Cold rolled	233	226	195	212	867	286	239	200	211	963
White hot strip	135	126	61	68	391	104	103	80	103	390
Other	117	106	77	89	390	121	125	113	131	490
Total deliveries	485	459	333	370	1 647	510	467	393	445	1 815

Share-related key figures

		FAS 2002	IFRS 2003	IFRS 2004	IFRS 2005	IFRS 2006
Earnings per share	€	1.15	0.65	2.12	(2.01)	5.31
Cash flow per share	€	2.42	1.13	(0.71)	2.54	(0.19)
Equity per share	€	11.14	11.54	13.65	11.31	16.87
Dividend per share	€	0.40	0.20	0.50	0.45	1.10 ¹⁾
Dividend payout ratio	%	43.5	32.1	23.6	neg.	20.7
Dividend yield	%	4.8	1.9	3.8	3.6	3.7
Price/earnings ratio		7.2	16.7	6.2	neg.	5.6
Development of share price						
Average trading price	€	10.28	8.75	12.52	11.89	19.77
Lowest trading price	€	8.14	6.87	9.93	9.63	12.60
Highest trading price	€	12.67	11.41	14.46	14.72	30.39
Trading price at the end of the period	€	8.30	10.77	13.15	12.55	29.66
Change during the period	%	(22.6)	29.8	22.1	(4.6)	136.3
Change in the OMXH index during the period	%	(34.4)	4.4	3.3	31.1	17.9
Market capitalization at the end of the period ²⁾	€ million	1 420	1 911	2 377	2 272	5 369
Development in trading volume						
Trading volume	1 000 shares	58 198	75 574	123 832	179 289	319 345
In relation to weighted average number of shares	%	42.3	44.0	68.8	99.0	176.4
Adjusted average number of shares ²⁾		137 658 458	171 623 035	180 056 920	181 031 415	181 033 168 ³⁾
Number of shares at the end of the period ²⁾		171 110 613	177 450 725	180 752 022	181 031 952	181 031 952

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

²⁾ Excluding treasury shares.

³⁾ The average number of shares for 2006 diluted with the 2003A, 2003B and 2003C options was 181 758 268. These have a diluting effect of 0.02 euro on earnings per share in 2006.

Definitions of key financial figures

Capital employed	=	Total equity + net interest-bearing debt
Operating capital	=	Capital employed + net tax liability
Research and development costs	=	Research and development expenses in the income statement (including expenses covered by grants received)
Return on equity	=	$\frac{\text{Net profit for the financial year}}{\text{Total equity (average for the period)}} \times 100$
Return on capital employed (ROCE)	=	$\frac{\text{Operating profit}}{\text{Capital employed (average for the period)}} \times 100$
Return on operating capital (ROOC)	=	$\frac{\text{Operating profit}}{\text{Operating capital (average for the period)}} \times 100$
Net interest-bearing debt	=	Total interest-bearing debt – total interest-bearing assets
Interest cover	=	$\frac{\text{Profit before taxes + net interest expenses}}{\text{Net interest expenses}}$
Equity-to-assets ratio	=	$\frac{\text{Total equity}}{\text{Total assets – advances received}} \times 100$
Debt-to-equity ratio	=	$\frac{\text{Net interest-bearing debt}}{\text{Total equity}} \times 100$
Earnings per share	=	$\frac{\text{Net profit for the financial year attributable to the equity holders}}{\text{Adjusted average number of shares during the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Equity attributable to the equity holders}}{\text{Adjusted number of shares at the end of the period}}$
Dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{Adjusted number of shares at the end of the period}}$
Dividend payout ratio	=	$\frac{\text{Dividend for the financial year}}{\text{Net profit for the financial year attributable to the equity holders}} \times 100$
Dividend yield	=	$\frac{\text{Dividend per share}}{\text{Adjusted trading price at the end of the period}} \times 100$
Price/earnings ratio (P/E)	=	$\frac{\text{Adjusted trading price at the end of the period}}{\text{Earnings per share}}$
Average trading price	=	$\frac{\text{EUR amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$
Market capitalization at end of the period	=	Number of shares at the end of the period × trading price at the end of the period
Trading volume	=	Number of shares traded during the period, and in relation to the weighted average number of shares during the period

Income statement of the parent company

€ million	2006	2005
Sales	197	187
Cost of sales	(140)	(146)
Gross margin	57	42
Administrative expenses	(56)	(57)
Selling and marketing expenses	(33)	(28)
Research and development expenses	(3)	(6)
Other operating income	420	20
Other operating expenses	(120)	(144)
Operating profit	266	(173)
Financial income and expenses	(5)	(30)
Profit/(loss) before extraordinary items	261	(203)
Extraordinary items	284	41
Profit/(loss) before appropriations and taxes	545	(162)
Appropriations		
Change in depreciation difference	1	1
Income taxes	(51)	0
Profit/(loss) for the financial year	494	(161)

The parent company's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

Balance sheet of the parent company

€ million	2006	2005
ASSETS		
Non-current assets		
Intangible assets	31	44
Property, plant and equipment	19	19
Long-term financial assets		
Shares in Group companies	2 198	2 427
Shares in associated companies	18	26
Other shares and holdings	25	13
Other long-term financial assets	561	639
	2 802	3 104
Total non-current assets	2 853	3 167
Current assets		
Current receivables		
Interest-bearing	1 846	1 688
Non interest-bearing	386	91
	2 232	1 780
Cash and cash equivalents	15	53
Total current assets	2 247	1 833
TOTAL ASSETS	5 100	5 000
€ million	2006	2005
EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	308	308
Unregistered share capital	0	-
Premium fund	708	708
Retained earnings	237	480
Profit/(loss) for the financial year	494	(161)
	1 747	1 334
Untaxed reserves		
Accumulated depreciation difference	1	2
Liabilities		
Non-current liabilities		
Interest-bearing	1 444	1 725
Non interest-bearing	2	1
	1 447	1 726
Current liabilities		
Interest-bearing	1 757	1 789
Non interest-bearing	148	148
	1 905	1 938
Total liabilities	3 352	3 664
TOTAL EQUITY AND LIABILITIES	5 100	5 000

Cash flow statement of the parent company

€ million	2006	2005
Cash flow from operating activities		
Profit/(loss) for the financial year	494	(161)
Adjustments for		
Taxes	51	(0)
Depreciation	9	10
Impairments	104	-
Profit/(loss) on sale of property, plant and equipment	(0)	5
Interest income	(102)	(98)
Dividend income	(5)	(5)
Interest expenses	122	114
Change in provisions	(0)	(1)
Group contributions	(284)	(41)
Exchange gains and losses	10	13
Gain of the sale of Outokumpu Technology shares	(410)	-
Loss on the sale of the fabricated copper products business	-	137
Other adjustments	3	8
	(503)	142
Change in working capital		
Change in trade and other receivables	(18)	23
Change in trade and other payables	32	(20)
	15	3
Dividend received	5	5
Interest received	84	99
Interest paid	(121)	(108)
Income tax paid	(14)	(3)
	(46)	(7)
Net cash from operating activities	(40)	(23)
Cash flow from investing activities		
Acquisition of subsidiaries and other shares and holdings	(7)	(182)
Purchases of property, plant and equipment	(2)	(4)
Purchases of intangible assets	(7)	(8)
Proceeds from disposal of subsidiaries	534	502
Proceeds from sale of shares in associated companies	9	-
Proceeds from sale of other shares and holdings	0	3
Disposals of intangible assets	7	0
Disposals of property, plant and equipment	2	0
Change in loan receivables	80	(105)
Net cash from investing activities	616	207
Cash flow before financing activities	576	183
Cash flow from financing activities		
Borrowings of long-term debt	181	406
Repayments of long-term debt	(361)	(418)
Change in current debt	(131)	(137)
Dividends paid	(81)	(91)
Cash flow from group contributions	(67)	205
Other financing cash flow	(155)	(191)
Net cash from financing activities	(614)	(226)
Net change in cash and cash equivalents	(38)	(42)
Net change in cash and cash equivalents in the balance sheet	(38)	(42)

Statement of changes in equity of the parent company

€ million	2006	2005
Share capital on Jan. 1	308	308
Share capital on Dec. 31	308	308
Unregistered share capital on Jan. 1	-	-
Shares subscribed with options	0	-
Unregistered share capital on Dec. 31	0	-
Premium fund on Jan. 1	708	707
Gain on the sale of treasury shares	-	1
Shares subscribed with options	0	-
Premium fund on Dec. 31	708	708
Retained earnings on Jan. 1	480	581
Previous year's loss	(161)	(14)
Dividends paid	(81)	(91)
Transfer of treasury shares	-	3
Retained earnings on Dec. 31	237	480
Profit/(loss) for the financial year	494	(161)
Total shareholders' equity on Dec. 31	1 747	1 334
Distributable funds on Dec. 31		
€ million	2006	2005
Retained earnings	237	480
Profit/(loss) for the financial year	494	(161)
Distributable funds on Dec. 31	731	318

INVESTOR INFORMATION

The Annual General Meeting of Outokumpu Oyj will be held on Wednesday, March 28, 2007 at 13.00 am (Finnish time) at the Finlandia Hall, in Helsinki, Finland. In order to attend the Annual General Meeting a shareholder must be registered in the Company's shareholders' register maintained by the Finnish Central Securities Depository Ltd (Suomen Arvopaperikeskus Oy) on March 16, 2007. Nominee-registered shareholders who wish to attend the Annual General Meeting should temporarily re-register the shares under their own name. Such re-registration must be made no later than March 16, 2007. In order to arrange a temporary re-registration, nominee registered shareholders should contact their bank or other custodian. Shareholders who wish to attend the Annual General Meeting must notify the Company by no later than March 21, 2007 at 4.00 pm (Finnish time). Notification can be made by telephone +358 9 421 5519, by fax +358 9 421 2223 or by e-mail agm@outokumpu.com. Notification can also be made by a letter addressed to Outokumpu Oyj, Share Register, P.O. Box 140, 02201 Espoo, Finland. The letter must reach the Company on March 21, 2007 at the latest.

A shareholder may attend and vote at the meeting in person or by proxy. However, in accordance with Finnish practice, Outokumpu does not send proxy forms to its shareholders. Shareholders wishing to vote by proxy should submit their own proxy forms to the Company during the registration period.

Additional information on the Annual General Meeting is available at www.outokumpu.com.

Annual General Meeting and payment of dividends in 2007

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.10 per share be paid for the financial year 2006.



Annual General Meeting	March 28
Ex-dividend date	March 29
Record date for dividend payment	April 2
Dividend payout	April 11

Financial reports in 2007

Investor information is available at the Group's English language website www.outokumpu.com. The website also covers annual reports, interim reports, as well as stock exchange and press releases, which are published in both Finnish and English. Alternatively financial reports can be obtained from Outokumpu Oyj/Corporate Communications, Riihitontuntie 7 B, P.O. Box 140, 02201 Espoo, Finland, tel. +358 9 421 2416, fax +358 9 421 2429 and email corporate.comms@outokumpu.com. Subscriptions to the emailing list for press releases and the mailing list for printed annual reports can be made via the same e-mail address.

Shareholder mailings are made on the basis of the contact information in the shareholders' register maintained by the Finnish Central Securities Depository Ltd. A shareholder should inform his/her account operator, or in case of a nominee-registered shareholder the relevant bank or other custodian, about changes in contact details.



Financial Statements Bulletin	February 1
Annual Report	Week starting March 12
First-quarter interim report	April 24
Second-quarter interim report	July 24
Third-quarter interim report	October 23

Outokumpu share basics

Listing	Helsinki Stock Exchange
Trading symbol	OUT1V
Number of shares	181 283 878

Investor Relations

The main task of Outokumpu's Investor Relations function is to support the correct valuation of the Outokumpu share by providing information about the company's activities, financial position, goals and strategy, thus enabling the markets to form a true and fair view of Outokumpu as an investment prospect. Our aim is to communicate in open, timely and clear manner and to treat all parties equally.

Outokumpu observes a two-week closed period prior to the publication of financial statements and interim reports. During these periods, we do not arrange meetings with investors or comment on result forecasts. Should you require further information about Outokumpu, please contact one of the following persons:

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Päivi Laajaranta coordinates meeting requests.

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ANALYSTS COVERING OUTOKUMPU

The following banks and brokers prepare investment analysis on Outokumpu.
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Photos: Outokumpu, Jaakko Vuorenmaa
and Arnold Klaxman (pages 18 ja 30).
Image on page 23: Cimolai, Italy.

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www.outokumpu.com

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Business ID: 0215254-2

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OUTO KUMPU

Outokumpu is an international stainless steel company. Our vision is to be the undisputed number one in stainless, with success based on operational excellence. Customers in a wide range of industries use our stainless steel and services world-wide. We are dedicated to helping our customers gain competitive advantage.

www.outokumpu.com

