Financial Statements 2008

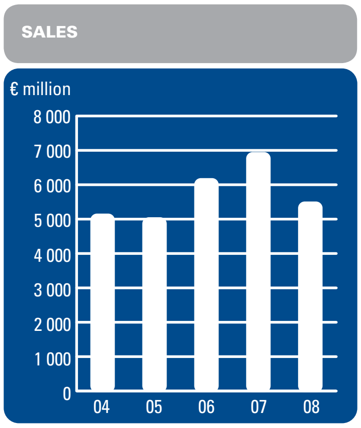
# STAINLESS STEEL ENDURES

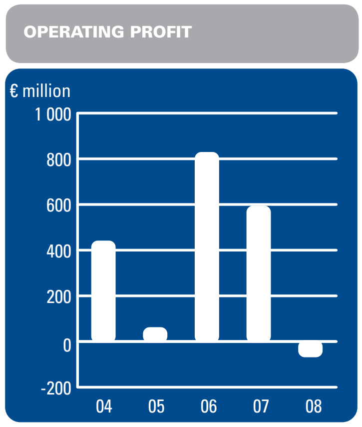
Consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). The parent company's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

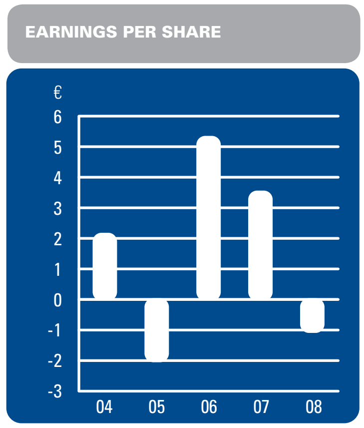
All figures in the annual report have been rounded and consequently the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures.

>> OUTOKUMPU OYJ'S FINANCIAL STATEMENTS FOR 2008

# Review by the board of directors for 2008




## THE GLOBAL ECONOMIC CRISIS HIT THE STAINLESS STEEL INDUSTRY, FORCING OUTOKUMPU TO TAKE ACTION

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

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

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

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

## TURBULENCE IN STAINLESS STEEL MARKETS

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

## SALES AND DELIVERIES

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

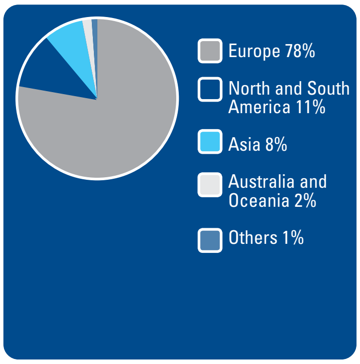
The European share of Group sales was 78% in 2008 (2007: 73%). Asia and the Americas accounted for 8% (2007: 12%) and 11% (2007: 12%), respectively.

## OPERATING PROFIT

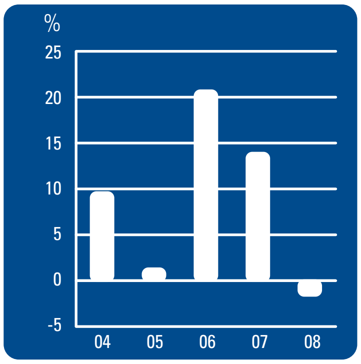
Operating profit in 2008 totaled EUR -63 million (2007: EUR 589 million). In 2008, net non-recurring costs of some EUR 83 million are included in the operating loss (EUR 66 million of provisions and write-downs related to the closure of the thin strip business in Sheffield and some EUR 17 million of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

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

**SALES BY MARKET AREA**




**RETURN ON CAPITAL EMPLOYED**




tinued operations) to the Cupori Group in June 2008. Earnings per share totaled EUR -1.05 (2007: EUR 3.52) and earnings per share from continuing operations totaled EUR -0.61 (2007: EUR 3.63). Return on capital employed in 2008 was -1.6% (2007: 13.9%).

## CAPITAL STRUCTURE

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

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

## CAPITAL EXPENDITURE

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

## INVESTMENT PROGRAM

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

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

The investments in high-purity ferritic and bright-annealing in Tornio, Finland, special grades in Avesta, Sweden and quarto plate in Degerfors, Sweden have been postponed. The investment to expand quarto plate pro-

## SALES

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

## STAINLESS STEEL DELIVERIES

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

## PROFITABILITY

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

## CAPITAL EXPENDITURE

| € million | 2008 | 2007 | 2006 |
|---|---|---|---|
| General Stainless | 332 | 57 | 83 |
| Specialty Stainless | 170 | 69 | 95 |
| Other operations | 42 | 64 | 9 |
| The Group | 544 | 190 | 187 |
| | | | |
| Depreciation | 206 | 204 | 221 |

## KEY FINANCIAL INDICATORS ON FINANCIAL POSITION

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

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

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

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

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

### CLOSURE OF THE THIN STRIP BUSINESS IN SHEFFIELD

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

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

### ACQUISITIONS AND DIVESTMENTS

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

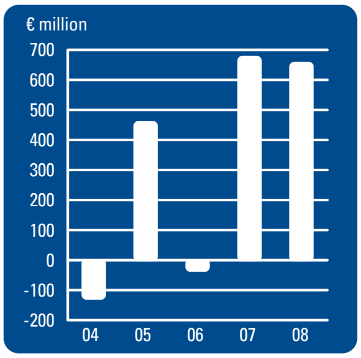
The former SoGePar units consist of stainless steel service centers in Castelleone in Italy and in Rotherham in the UK. It also has stock operations in Italy, the UK, Belgium, Finland, France and Ireland, as well as a commercial office in Germany and a representative office in Turkey. Sales by the SoGePar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

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

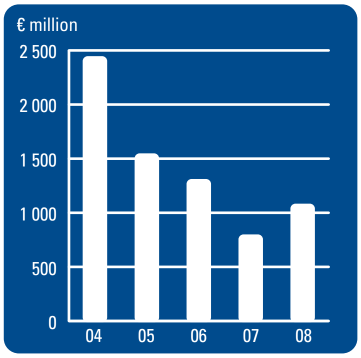
### DISCONTINUED OPERATIONS

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

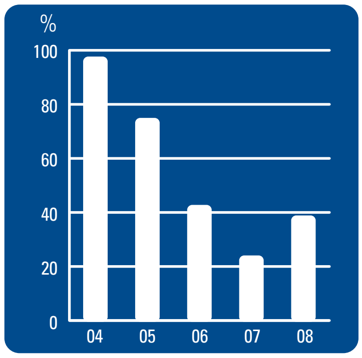
NET CASH FLOW FROM OPERATIONS



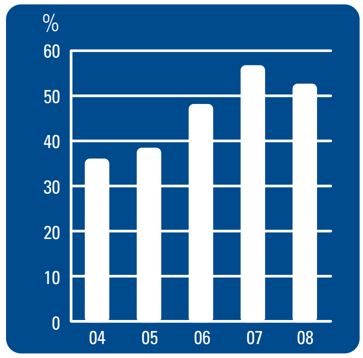

NET INTEREST-BEARING DEBT



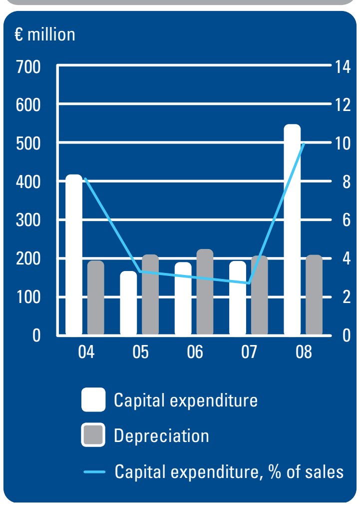

DEBT-TO-EQUITY RATIO




EQUITY-TO-ASSETS RATIO




CAPITAL EXPENDITURE AND DEPRECIATION




and Italy. In 2007, these businesses generated sales totaling EUR 510 million, recorded a net loss of EUR 5 million and employed 730 people.

### OPERATIONAL EXCELLENCE PROGRAMS

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

### CLAIMS REGARDING THE SOLD FABRICATED COPPER PRODUCTS BUSINESS

The fabricated copper products business sold in 2005, comprised among others Outokumpu Copper (USA), Inc. This company has been served with one individual damage claim for ACR Tubes under US antitrust laws. Outokumpu believes that the allegations in this case are groundless and will defend itself in any proceeding. In connection with the transaction to sell the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to this claim.

### CUSTOMS INVESTIGATION OF EXPORTS TO RUSSIA BY OUTOKUMPU TORNIO WORKS

In March 2007, Finnish Customs authorities initiated a criminal investigation into the Group's Tornio Works' export practices to Russia. The preliminary investigation is connected with another preliminary investigation concerning a forward agency based in South-eastern Finland. It is suspected that defective and/or forged invoices have been prepared at the forwarding agency as regards export of stainless steel to Russia. The preliminary investigation is focusing on possible complicity by Outokumpu Tornio Works in the preparation of defective and/or forged invoices by the forwarding agency in question. Directly after the Finnish Customs authorities started their investigations, Outokumpu initiated its own investigation into the trade practices connected with stainless steel exports from Tornio to Russia. In June 2007, after carrying out its investigation, a leading Finnish law firm Roschier Attorneys Ltd., concluded that it had not found evidence that any employees of Tornio Works or the Company had committed any of the crimes alleged by the Finnish Customs.

### RISK MANAGEMENT

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

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

### Strategic and business risks

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

### Operational risks

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

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

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

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

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

### Financial risks

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

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

## ENVIRONMENT, HEALTH AND SAFETY

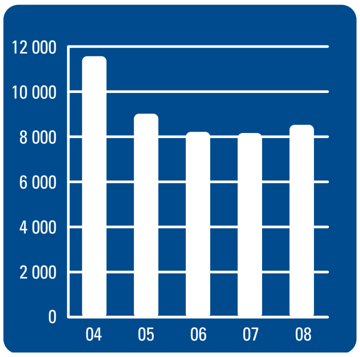
In the European Union, a new emissions trading period started in 2008. During this Kyoto-period 2008–2012 the scope of emissions trading was extended to cover also Outokumpu's heat treatment installations in Sweden and Sheffield melt shop in the UK. Outokumpu will receive 1.3 million tons emission allowances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

Mainly as a result of lower production volumes, the Group's carbon dioxide emissions decreased in 2008 and totaled approximately 900 000 tons. Approximately 820 000 tons were covered by emissions trading scope. Dur-

**PERSONNEL**

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

**PERSONNEL**




ing the year, the Group sold 1 022 000 tons of carbon dioxide allowances for EUR 22 million.

Emissions to air and discharges to water-courses remained mostly within permitted limits at Outokumpu sites, but some incidents took place in 2008. Outokumpu is not a party in any significant juridical or administrative proceeding concerning environmental issues, nor is it aware of any environmental risks that could have an adverse material effect on the Group's financial position.

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

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

## CORPORATE RESPONSIBILITY

In September, the results of the annual review carried out for the Dow Jones Sustainability Indexes (DJSI) by the Sustainable Asset Management Group (SAM) were published. Outokumpu retained its position in the Pan-European Dow Jones STOXX Sustainability Index (DJSI STOXX) and in the Dow Jones Sustainability World Index (DJSI World). In January 2008, Outokumpu was given the title of "SAM 2008 Sector Mover" for having shown the greatest relative improvement in its sustainability performance and for its outstanding achievements in the area of sustainability. Outokumpu was also included in SAM's Sustainability Yearbook 2009. Outokumpu also retained its position in Storebrand SRI: "Best in Class: Environmental and Social performance", ASPI Eurozone® index, and the Ethibel Sustainability Indexes (ESI): Ethibel Excellence Europe and Global.

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

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

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

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

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

## RESEARCH AND DEVELOPMENT

Group expenditure on research and development in 2008 totaled EUR 20 million or 0.4% of sales (2007: EUR 18 million and 0.3%). Outokumpu has research centers in Tornio, Finland and in Avesta, Sweden. Some process and technology development work is also carried out in production units, and there are close links between R&D operations and the Production Excellence program. The R&D function employed almost 200 professionals in 2008. Outokumpu also conducts research in collaboration with its customers, research institutes and universities.

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

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

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

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

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

## PERSONNEL

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

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

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

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

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

## ORGANIZATIONAL CHANGE AND APPOINTMENTS

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

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

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

## SHARES AND SHAREHOLDERS

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

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

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

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

## ANNUAL GENERAL MEETING 2008

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

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

The AGM decided on the number of the Board members, including the Chairman and Vice Chairman, to be eight. Evert Henkes, Ole Johansson, Victoire de Margerie, Anna Nilsson-Ehle, Leo Oksanen and Leena Saarinen were re-elected as members to the Board of Directors, and Jarmo Kilpelä and Anssi Soila were elected as new members. The Annual General Meeting elected Ole Johansson as Chairman and Anssi Soila as Vice Chairman of the Board. The AGM also resolved to form a Shareholders' Nomination Committee to prepare proposals on the composition and remuneration of the Board of Directors for presentation to the next AGM.

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

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

## SHAREHOLDERS' NOMINATION COMMITTEE

Outokumpu's Annual General Meeting of March 27, 2008 decided to establish a Shareholders' Nomination Committee to prepare proposals on the composition of the Board of Directors and director remuneration for the following Annual General Meeting. The members represent Outokumpu's four largest shareholders, registered in the Finnish book-entry securities system as of November 3, 2008, which accepted the assignment. The Shareholders' Nomination Committee of Outokumpu consists of the following four shareholders: The Finnish State (Jarmo Väisänen, Senior Financial Counsellor, Prime Minister's Office), The Finnish Social Insurance Institution (Jorma Huuhtanen, Director General), Ilmarinen Mutual Pension Insurance Company (Harri Sailas, Chief Executive Officer) and the OP-Delta Fund (Reijo Karhinen, Executive Chairman, OP-Pohjola Group). Jarmo Väisänen acts as Chairman of the Committee. Ole Johansson, the Chairman of Outokumpu's Board of Directors, serves as an expert member. The Shareholders' Nomination Committee is required to submit its proposals to the company's Board of Directors by February 2, 2009.

## EVENTS AFTER THE REVIEW PERIOD

Due to the very weak stainless steel demand Outokumpu continues to cut production and starts negotiations with personnel regarding temporary and permanent layoffs in several of its operating countries. The planned actions are expected to result in temporary layoffs for over 2 000 people and reduction of about 250 jobs.

At Tornio Works Outokumpu plans to temporarily cease its ferrochrome production (the Kemi mine and Ferrochrome Works), temporarily idle one of its melt-shops and reduce shifts at almost all steel production lines. Due to these production cuts the company will start new statutory negotiations on temporary layoffs at Tornio Works in Finland. The negotiations concern about 2 000 people, also office and maintenance employees.

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

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

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

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

## SHORT-TERM OUTLOOK

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

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

## BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION

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

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

According to the financial statements at December 31, 2008, distributable funds of the parent company totaled EUR 924 million. No material changes have taken place in the company's financial position after the balance sheet date and the proposed dividend does not compromise the company's financial standing.

In Espoo, February 3, 2009

Ole Johansson
Anssi Soila
Evert Henkes
Jarmo Kilpelä
Victoire de Margerie
Anna Nilsson-Ehle
Leo Oksanen
Leena Saarinen

# Auditors' report

## To the Annual General Meeting 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 year ended on December 31, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### THE RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### AUDITORS' RESPONSIBILITY

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with professional ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit has been performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

### OPINION ON THE DISCHARGE FROM LIABILITY AND DISPOSAL OF DISTRIBUTABLE FUNDS

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

Espoo, February 3, 2009

KPMG OY AB

Mauri Palvi
Authorized Public Accountant

# Consolidated financial statements

## Consolidated income statement

| € million | Note | 2008 | 2007 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Sales** | 3 | **5 474** | 6 913 |
| Cost of sales | 8 | **-5 276** | -6 108 |
| **Gross margin** | | **199** | 806 |
| Other operating income | 6 | **57** | 82 |
| Selling and marketing expenses | 8 | **-122** | -102 |
| Administrative expenses | 8 | **-134** | -136 |
| Research and development expenses | 8 | **-20** | -18 |
| Other operating expenses | 7 | **-42** | -43 |
| **Operating profit** | | **-63** | 589 |
| Share of results in associated companies | 16 | **-2** | 4 |
| Financial income and expenses | 10 | | |
| Interest income | | **20** | 25 |
| Interest expenses | | **-74** | -82 |
| Market price gains and losses | | **-2** | 0 |
| Other financial income | | **11** | 268 |
| Other financial expenses | | **-24** | -5 |
| Total financial income and expenses | | **-69** | 206 |
| **Profit before taxes** | | **-134** | 798 |
| Income taxes | 12 | **24** | -138 |
| **Net profit for the financial year from continuing operations** | | **-110** | 660 |
| **Net profit for the financial year from discontinued operations** | 4 | **-79** | -18 |
| **Net profit for the financial year** | | **-189** | 641 |
| | | | |
| **Attributable to** | | | |
| Equity holders of the Company | | **-189** | 638 |
| Minority interest | | **-0** | 4 |
| **Earnings per share for result attributable to the equity holders of the Company** | | | |
| Earnings per share, € | 13 | **-1.05** | 3.52 |
| Diluted earnings per share, € | | **-1.04** | 3.50 |
| **Earnings per share from continuing operations attributable to the equity holders of the Company** | | | |
| Earnings per share, € | | **-0.61** | 3.63 |
| Diluted earnings per share, € | | **-0.61** | 3.61 |
| **Earnings per share from discontinued operations attributable to the equity holders of the Company** | | | |
| Earnings per share, € | | **-0.44** | -0.10 |
| Diluted earnings per share, € | | **-0.43** | -0.10 |

# Consolidated balance sheet

| € million | Note | 2008 | 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| | | | |
| **Non-current assets** | | | |
| | | | |
| Intangible assets | 14 | 584 | 475 |
| Property, plant and equipment | 15 | 2 027 | 1 980 |
| Investments in associated companies [1] | 16 | 156 | 163 |
| Available-for-sale financial assets [1] | 18 | 67 | 125 |
| Derivative financial instruments [1] | 25 | 9 | 37 |
| Deferred tax assets | 12 | 37 | 26 |
| Trade and other receivables | 27 | | |
| Interest-bearing [1] | | 132 | 128 |
| Non interest-bearing | | 55 | 51 |
| **Total non-current assets** | | 3 067 | 2 986 |
| | | | |
| **Current assets** | | | |
| Inventories | 26 | 1 204 | 1 630 |
| Available-for-sale financial assets [1] | 18 | 8 | 14 |
| Derivative financial instruments [1] | 25 | 92 | 26 |
| Trade and other receivables | 27 | | |
| Interest-bearing [1] | | 25 | 10 |
| Non interest-bearing | | 701 | 975 |
| Cash and cash equivalents [1] | 28 | 224 | 86 |
| **Total current assets** | | 2 252 | 2 740 |
| | | | |
| **Assets classified as held for sale** [1] | 4 | 22 | 184 |
| | | | |
| **TOTAL ASSETS** | | 5 341 | 5 910 |

[1] Included in net interest-bearing debt.

| € million | Note | 2008 | 2007 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | | 308 | 308 |
| Premium fund | | 702 | 701 |
| Other reserves | | -13 | 72 |
| Retained earnings | | 1 984 | 1 617 |
| Net profit for the financial year | | -189 | 638 |
| | | 2 794 | 3 337 |
| | | | |
| **Minority interest** | | 1 | - |
| | | | |
| **Total equity** | 29 | 2 795 | 3 337 |
| | | | |
| | | | |
| **Non-current liabilities** | | | |
| | | | |
| Long-term debt [1)] | 32 | 1 170 | 1 036 |
| | | | |
| Derivative financial instruments [1)] | 25 | 48 | 10 |
| | | | |
| Deferred tax liabilities | 12 | 216 | 241 |
| | | | |
| Pension obligations | 30 | 64 | 58 |
| | | | |
| Provisions | 31 | 28 | 36 |
| | | | |
| Trade and other payables | 33 | 2 | 2 |
| | | | |
| **Total non-current liabilities** | | 1 529 | 1 382 |
| | | | |
| **Current liabilities** | | | |
| | | | |
| Current debt [1)] | 32 | 501 | 420 |
| | | | |
| Derivative financial instruments [1)] | 25 | 54 | 18 |
| | | | |
| Income tax liabilities | 12 | 5 | 22 |
| | | | |
| Provisions | 31 | 48 | 45 |
| | | | |
| Trade and other payables | 33 | | |
| | | | |
| Interest-bearing [1)] | | 26 | 26 |
| | | | |
| Non interest-bearing | | 378 | 609 |
| | | | |
| **Total current liabilities** | | 1 012 | 1 139 |
| | | | |
| **Liabilities classified as held for sale** [1)] | 4 | 6 | 52 |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | 5 341 | 5 910 |

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

# Consolidated cash flow statement

| € million | Note | 2008 | 2007 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net profit for the financial year | | -189 | 641 |
| Adjustments for | | | |
| Taxes | 4, 12 | -23 | 139 |
| Depreciation and amortization | 14, 15 | 206 | 204 |
| Impairments | 4, 10, 14, 15 | 36 | 1 |
| Share of results in associated companies | 16 | 4 | -4 |
| Loss on the sale of copper tube business | 4 | 66 | - |
| Gain on the sale of Outotec shares | 10 | - | -142 |
| Gain on the Talvivaara transaction | 10 | - | -110 |
| Profit and loss on sale of property, plant and equipment | 6, 7 | -1 | -26 |
| Interest income | 10 | -18 | -19 |
| Dividend income | 10 | -10 | -11 |
| Interest expense | 10 | 75 | 82 |
| Other adjustments | | 229 | 38 |
| | | 563 | 152 |
| Change in working capital | | | |
| Change in trade and other receivables | | 303 | 336 |
| Change in inventories | | 418 | 26 |
| Change in trade and other payables | | -328 | -194 |
| Change in provisions | | -23 | 13 |
| | | 370 | 181 |
| Dividends received | | 12 | 13 |
| Interest received | | 5 | 10 |
| Interest paid | | -76 | -83 |
| Income taxes paid | | -30 | -239 |
| **Net cash from operating activities** | | 656 | 676 |
| **Cash flow from investing activities** | | | |
| Acquisition of SoGePar shares, net of cash | 5 | -200 | - |
| Acquisition of other subsidiaries, net of cash | 5 | -4 | - |
| Acquisition of the minority in OSTP | 5 | - | -22 |
| Acquisition of shares in associated companies | 16 | -2 | - |
| Purchase of Talvivaara shares | 18 | - | -32 |
| Other purchases of available-for-sale financial assets | 18 | -1 | -2 |
| Purchases of property, plant and equipment | 15 | -313 | -160 |
| Purchases of intangible assets | 14 | -9 | -1 |
| Proceeds from the sale of copper tube business, net of cash | 4 | 49 | - |
| Proceeds from disposal of other subsidiaries, net of cash | 5 | - | 1 |
| Proceeds from sale of available-for-sale financial assets | 18 | 0 | 1 |
| Proceeds from sale of property, plant and equipment | 15 | 8 | 12 |
| Proceeds from sale of intangible assets | 14 | 23 | 2 |
| Change in other long-term receivables | | 0 | 4 |
| **Net cash from investing activities** | | -449 | -197 |
| **Cash flow before financing activities** | | 207 | 479 |
| **Cash flow from financing activities** | | | |
| Share options exercised | | 1 | 0 |
| Purchase of treasury shares | | - | -25 |
| Borrowings of long-term debt | | 341 | 150 |
| Repayments of long-term debt | | -229 | -382 |
| Change in current debt | | 47 | -180 |
| Borrowings of finance lease liabilities | | 1 | 1 |
| Repayments of finance lease liabilities | | -7 | -6 |
| Dividends paid | | -216 | -199 |
| Proceeds from the sale of Outotec shares | | - | 158 |
| Proceeds from the sale of other financial assets | 18 | 0 | 6 |
| Other financing cash flow | | -2 | 1 |
| **Net cash from financing activities** | | -64 | -477 |
| **Net change in cash and cash equivalents** | | 143 | 2 |
| Cash and cash equivalents at the beginning of the financial year | | 86 | 85 |
| Foreign exchange rate effect on cash and cash equivalents | | -5 | -1 |
| Net change in cash and cash equivalents | | 143 | 2 |
| **Cash and cash equivalents at the end of the financial year** | 28 | 224 | 86 |

# Consolidated statement of changes in equity

| | Attributable to the equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| € million | Share capital | Unregistered share capital | Premium fund | Other reserves | Fair value reserves | Treasury shares | Cumulative translation differences | Retained earnings | Minority interest | Total equity |
| **Equity on Jan. 1, 2007** | **308** | **0** | **701** | **11** | **144** | **-2** | **-35** | **1 927** | **17** | **3 071** |
| Cash flow hedges, net of tax | - | - | - | - | 3 | - | - | - | - | 3 |
| Fair value changes on available-for-sale financial assets, net of tax | - | - | - | - | 13 | - | - | - | - | 13 |
| Available-for-sale financial assets recognized through P&L | - | - | - | - | -100 | - | - | - | - | -100 |
| Net investment hedges, net of tax | - | - | - | - | - | - | 3 | - | - | 3 |
| Change in translation differences | - | - | - | - | -2 | - | -51 | - | 0 | -53 |
| Items recognized directly in equity | - | - | - | - | -86 | - | -48 | - | 0 | -134 |
| Net profit for the financial year | - | - | - | - | - | - | - | 638 | 4 | 642 |
| Total recognized income and expenses | - | - | - | - | -86 | - | -48 | 638 | 4 | 508 |
| Transfers within equity | 0 | -0 | - | 5 | - | - | - | -5 | - | - |
| Dividends | - | - | - | - | - | - | - | -199 | - | -199 |
| Purchase of treasury shares | - | - | - | - | - | -25 | - | - | - | -25 |
| Share-based payments | - | - | - | - | - | - | - | 3 | - | 3 |
| Share options exercised | 0 | - | 0 | - | - | - | - | - | - | 0 |
| Acquisition of minority in OSTP | - | - | - | - | - | - | - | - | -21 | -21 |
| **Equity on Dec. 31, 2007** | **308** | **-** | **701** | **16** | **57** | **-27** | **-82** | **2 364** | **-** | **3 337** |
| Cash flow hedges, net of tax | - | - | - | - | -52 | - | - | - | - | -52 |
| Fair value changes on available-for-sale financial assets, net of tax | - | - | - | - | -32 | - | - | - | - | -32 |
| Available-for-sale financial assets recognized through P&L | - | - | - | - | 5 | - | - | - | - | 5 |
| Net investment hedges, net of tax | - | - | - | - | - | - | 10 | - | - | 10 |
| Companies acquired | - | - | - | - | - | - | - | - | 1 | 1 |
| Change in translation differences | - | - | - | -0 | -6 | - | -66 | - | - | -72 |
| Items recognized directly in equity | - | - | - | - | -85 | - | -56 | - | 1 | -140 |
| Net profit for the financial year | - | - | - | - | - | - | - | -189 | -0 | -189 |
| Total recognized income and expenses | - | - | - | - | -85 | - | -56 | -189 | 1 | -329 |
| Transfers within equity | - | - | - | 0 | - | - | - | -0 | - | - |
| Dividends | - | - | - | - | - | - | - | -216 | - | -216 |
| Share-based payments | - | - | - | - | - | - | - | 2 | - | 2 |
| Share options exercised | 0 | - | 1 | - | - | - | - | - | - | 1 |
| **Equity on Dec. 31, 2008** | **308** | **-** | **702** | **15** | **-28** | **-27** | **-138** | **1 961** | **1** | **2 795** |

# 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 NASDAQ OMX Helsinki 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 2008 Outokumpu Oyj and its subsidiaries in continuing operations (together "the Outokumpu Group" or "the Group") have been organized into two divisions: General Stainless and Specialty Stainless.

In 2008, Outokumpu operated in about 30 countries and employed some 8 500 people. The Group's sales amounted to EUR 5.5 billion, of which 96% 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 new and amended standards and interpretations in 2008

Outokumpu adopted the following amended standards as of January 2008:

| | |
|---|---|
| IAS 23 | Borrowing costs |
| IAS 39 | Financial Instruments: Recognition and measurement |
| IFRS 7 | Financial Instruments: Disclosures |

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

In addition, Outokumpu has adopted the following new interpretations as of January 2008:

| | |
|---|---|
| IFRIC 11 | IFRS 2 - Group and Treasury Share Transactions |
| IFRIC 12 | Service Concession Arrangement |
| IFRIC 14 | IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction |

The adoption of new interpretations had no material impact on the Group's consolidated accounts in 2008.

Outokumpu changed its calculation method for the cost of inventories from first-in, first-out (FIFO) method to weighted average method in 2008. This change did not have material impact on Outokumpu's inventory value in 2008.

### Adoption of new and amended standards and interpretations in 2009–2010

Outokumpu will adopt in 2009 the following new or amended standards and interpretations:

| | |
|---|---|
| IFRS 2 | Share based payment – Vesting conditions and cancellations |
| IFRS 8 | Operating segments<br>According to IFRS 8, segment information should be based on management reporting structure and accounting principles. The adaptation of IFRS 8 will not have major impact on Outokumpu's segment reporting as the Group's segment information has already been based on the internal management reporting. Outokumpu's operating segments will be General Stainless and Specialty Stainless. |
| IAS 1 | Presentation of Financial Statements<br>The amended standard IAS 1 will change the presentation of income statement and statement of changes in equity. |
| IAS 32 | Financial instruments: Presentation |

In addition, Outokumpu will apply annual improvements to IFRS standards.

| | |
|---|---|
| IFRIC 13 | Customer Loyalty Programmes |
| IFRIC 15 | Agreements for the Construction of Real Estate |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation |

The above mentioned new and amended standards and interpretations have mainly effect on presentation of the financial statements.

Outokumpu will adopt in 2010 the following new or amended standards:

| | |
|---|---|
| IFRS 3 | Business Combinations |
| IAS 27 | Consolidated and Separate Financial Statements |
| IAS 39 | Financial Instruments: Recognition and measurement |

Outokumpu investigates the impacts of the new standards to consolidated financial statements during 2009.

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

### Principles of consolidation

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

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

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

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

## Discontinued operations

A discontinued operation results from a decision, pursuant to a single disposal plan, to divest an operation comprising a separate major line of business for which the assets, 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, the UK, Other Europe, North America, Asia and Australia and other countries.

## Foreign currency transactions

Items of each subsidiary included in the consolidated financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional currency of the parent company. Group companies' foreign currency transactions are translated into functional currencies using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into functional currencies at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement or translation of monetary interest-bearing assets and liabilities denominated in foreign currencies and related derivatives are recognized in financial income and expenses in the income statement. Foreign exchange differences arising in respect of other financial instruments are included in operating profit under sales, purchases or other income and expenses. Income statements and cash flows of subsidiaries, whose functional and reporting currencies are not the euro, are translated into euros at the average exchange rates during the financial period. Their balance sheets are translated into euros 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.

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. Also "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, are less frequently used.

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 obligations, provisions, untaxed 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.

## 2. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED ACCOUNTS

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 of qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Depreciation is based on the following expected useful lives:

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

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

### Government grants

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

### Impairments

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

### Leases

Leases of property, plant and equipment where the Group has substantially all the rewards and risks of ownership are classified as finance leases. Finance lease liabilities 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.

Leases of property, plant and equipment, where the Group has substantially transferred all the rewards and risks of ownership to the lessee, are classified as finance leases. Upon initial recognition, the finance lease asset is measured at the lower of the fair value of the leased property or the estimated present value of the underlying lease payments and recognized in interest-bearing receivables. Interest income from the finance lease asset is booked to income statement so as to achieve a constant interest rate on the finance balance outstanding.

### Financial instruments

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

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

Outokumpu's sites covered by EU emissions trading are the stainless steel production plants in Tornio in Finland, Avesta, Degerfors and Nyby in Sweden as well as Sheffield in the UK. Emission allowances are intangible assets. Purchased CO2 allowances are recognized at cost, whereas allowances received free of charge are recognized at nominal value, i.e. at zero. A provision to cover the obligation to return emission allowances is recognized provided that emission allowances received free of charge will not cover the actual emissions. Consequently the possible effect in operating profit will reflect the difference between what has been emitted and the received emission allowances. Emission allowances are not reflected in Outokumpu's balance sheet because actual emissions have not exceeded 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 weighted average 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. 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.

## Share-based payment transactions

Outokumpu has applied IFRS 2 Share-based payments standard to the 2003 option program in which the stock options have been granted after November 7, 2002 and to the share-based incentive program for 2006–2010.

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

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

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

## Dividends

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

## Earnings per share

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

## 3. SEGMENT INFORMATION

Outokumpu's business activities were organized into two strategic primary segments in 2008: General Stainless and Specialty Stainless. Activities outside the segments are reported under Other operations. Outokumpu Brass is reported as discontinued operations.

Demand and consumption of stainless steel grow faster than any other metal in the world. Outokumpu is one of the largest producers of stainless steel and widely recognized as a leader in technical support as well as research and development. End-user industries using stainless steel are, for example: architectural, building and construction industries, chemical, petrochemical and energy industries, process industries and resources, transportation as well as catering and appliances.

### General Stainless

General Stainless comprises two business units: Tornio Works and Long 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 in Finland. Long Products consists of a melt shop in Sheffield in the UK, a hot rolling mill for long products in Degerfors in Sweden as well as wire rod and bar production in Europe and in the US.

### Specialty Stainless

Specialty Stainless comprises three business units: Special Coil and Plate, Thin Strip and Outokumpu Stainless Tubular Products. The main products are hot and cold rolled sheet, quarto plate, tubes and various fittings and precision strip. Steel used by the Specialty Stainless units comes mostly from the meltshops in Avesta, Sweden and Sheffield, the UK, the latter being a part of the General Stainless segment.

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

### Other operations

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

## 3.1 BUSINESS SEGMENTS

| **2008**<br>€ million | General Stainless | Specialty Stainless | Other operations | Eliminations | Group |
|---|---|---|---|---|---|
| External sales | 3 153 | 2 298 | 23 | - | 5 474 |
| Inter-segment sales | 993 | 407 | 235 | -1 636 | - |
| Sales | 4 147 | 2 705 | 258 | -1 636 | 5 474 |
| Operating profit | -6 | -101 | 38 | 6 | -63 |
| Share of results in associated companies | - | - | -2 | - | -2 |
| Financial income and expenses | - | - | - | - | -69 |
| Profit before taxes | - | - | - | - | -134 |
| Income taxes | - | - | - | - | 24 |
| Discontinued operations | - | - | - | - | -79 |
| Net profit for the financial year | - | - | - | - | -189 |
| | | | | | |
| Substantial items without payment transaction included in operating profit | | | | | |
| Thin Strip restructuring in the UK | | | | | |
| Impairments | - | -31 | - | - | -31 |
| Items related to personnel adjustments | - | -35 | - | - | -35 |
| Redundancy provision | - | -17 | - | - | -17 |
| Depreciation | -129 | -57 | -1 | - | -188 |
| Amortization | -6 | -6 | -6 | - | -18 |
| | | | | | |
| Non interest-bearing assets | 3 121 | 1 454 | 279 | -283 | 4 571 |
| Investments in associated companies | - | - | 156 | - | 156 |
| Other interest-bearing assets | - | - | - | - | 556 |
| Deferred tax assets | - | - | - | - | 37 |
| Assets classified as held for sale | - | - | - | - | 22 |
| Total assets | - | - | - | - | 5 341 |
| | | | | | |
| Non interest-bearing liabilities | 458 | 280 | 65 | -278 | 525 |
| Interest-bearing liabilities | - | - | - | - | 1 800 |
| Deferred tax liabilities | - | - | - | - | 216 |
| Liabilities classified as held for sale | - | - | - | - | 6 |
| Total liabilities | - | - | - | - | 2 547 |
| | | | | | |
| Operating capital | 2 663 | 1 174 | 214 | -5 | 4 046 |
| Net deferred tax liability | - | - | - | - | -179 |
| Capital employed | - | - | - | - | 3 867 |
| | | | | | |
| Capital expenditure | 332 | 170 | 42 | - | 544 |

## 3.1 BUSINESS SEGMENTS

| 2007<br>€ million | General Stainless | Specialty Stainless | Other operations | Eliminations | Group |
|---|---|---|---|---|---|
| External sales | 4 006 | 2 851 | 56 | - | 6 913 |
| Inter-segment sales | 1 315 | 605 | 181 | -2 101 | - |
| Sales | 5 321 | 3 456 | 237 | -2 101 | 6 913 |
| Operating profit | 220 | 337 | 21 | 11 | 589 |
| Share of results in associated companies | - | - | 4 | - | 4 |
| Financial income and expenses | - | - | - | - | 206 |
| Profit before taxes | - | - | - | - | 798 |
| Income taxes | - | - | - | - | -138 |
| Discontinued operations | - | - | - | - | -18 |
| Net profit for the financial year | - | - | - | - | 641 |
| | | | | | |
| Substantial items without payment transaction included in operating profit | | | | | |
| Thin Strip restructuring in the UK | - | -11 | - | - | -11 |
| Gain on the sale of Hitura mine in Finland | - | - | 25 | - | 25 |
| Depreciation | -131 | -57 | -2 | - | -190 |
| Amortization | -2 | -6 | -6 | - | -15 |
| Impairments | - | 3 | - | - | 3 |
| | | | | | |
| Non interest-bearing assets | 3 338 | 1 923 | 301 | -451 | 5 110 |
| Investments in associated companies | - | - | 163 | - | 163 |
| Other interest-bearing assets | - | - | - | - | 426 |
| Deferred tax assets | - | - | - | - | 26 |
| Assets classified as held for sale | - | - | - | - | 184 |
| Total assets | - | - | - | - | 5 910 |
| | | | | | |
| Non interest-bearing liabilities | 731 | 411 | 65 | -436 | 771 |
| Interest-bearing liabilities | - | - | - | - | 1 509 |
| Deferred tax liabilities | - | - | - | - | 241 |
| Liabilities classified as held for sale | - | - | - | - | 52 |
| Total liabilities | - | - | - | - | 2 573 |
| | | | | | |
| Operating capital | 2 607 | 1 513 | 236 | -16 | 4 340 |
| Net deferred tax liability | - | - | - | - | -215 |
| Capital employed | - | - | - | - | 4 125 |
| | | | | | |
| Capital expenditure | 57 | 69 | 64 | - | 190 |

## 3.2 GEOGRAPHICAL SEGMENTS

| € million | Finland | Sweden | The UK | Other Europe | North America | Asia and Australia | Other countries | Inter area | Group |
|---|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | | |
| Sales by destination [1] | 246 | 331 | 250 | 3 470 | 562 | 522 | 93 | - | 5 474 |
| Sales by origin [2] | 2 880 | 2 389 | 1 033 | 968 | 456 | 165 | 13 | -2 430 | 5 474 |
| Operating profit [2] | 85 | 0 | -79 | -70 | -2 | -3 | -0 | 6 | -63 |
| Non interest-bearing assets [2] | 2 517 | 1 155 | 286 | 634 | 169 | 67 | 2 | -259 | 4 571 |
| Operating capital [2] | 2 309 | 972 | 183 | 459 | 90 | 34 | 1 | -1 | 4 046 |
| Capital expenditure [2] | 120 | 146 | 19 | 226 | 19 | 13 | - | - | 544 |
| | | | | | | | | | |
| 2007 | | | | | | | | | |
| Sales by destination [1] | 336 | 470 | 335 | 3 924 | 770 | 960 | 118 | - | 6 913 |
| Sales by origin [2] | 3 666 | 3 058 | 1 422 | 1 109 | 676 | 233 | 17 | -3 267 | 6 913 |
| Operating profit [2] | 179 | 308 | 17 | 39 | 58 | 6 | 1 | -19 | 589 |
| Non interest-bearing assets [2] | 2 884 | 1 514 | 448 | 367 | 189 | 65 | 7 | -363 | 5 110 |
| Operating capital [2] | 2 531 | 1 224 | 284 | 199 | 93 | 24 | 2 | -17 | 4 340 |
| Capital expenditure [2] | 90 | 79 | 8 | 9 | 4 | 0 | - | - | 190 |

1) Sales by destination is presented for external sales.

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

## 4. DISCONTINUED OPERATIONS

### Outokumpu Copper Tube

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

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

### Outokumpu Brass

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

**Net assets of the disposed Outokumpu Copper Tube**

| € million | 2008 |
|---|---|
| Intangible and tangible assets | 4 |
| Other non-current assets | 0 |
| Inventories | 82 |
| Other current assets | 117 |
| Provisions | -3 |
| Other non-current liabilities | -5 |
| Trade payables | -57 |
| Other current liabilities | -20 |
| | 119 |
| Losses on disposals | -66 |
| **Total consideration** | **52** |
| | |
| Received in cash | 52 |
| Cash and cash equivalents in disposed subsidiaries and units | -7 |
| **Net cash flow from disposals** [1] | **45** |

[1] Part of the cash effect will realize in 2009.

**Specification of discontinued operations and assets held for sale**

**Income statement**

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

**Balance sheet**

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

**Cash flows**

| € million | 2008 | 2007 |
|---|---|---|
| Operating cash flow | -8 | 18 |
| Investing cash flow | -16 | -3 |
| Financing cash flow | 19 | -19 |
| | -5 | -4 |

## 5. ACQUISITIONS AND DISPOSALS

### ACQUISITIONS

#### Year 2008

#### SoGePar

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

In the acquisition Outokumpu obtained stainless steel service centers in Castelleone in Italy and in Rotherham in the UK, stock operations in Italy, the UK, Belgium, Finland, France and Ireland, as well as a commercial office in Germany and a representative office in Turkey.

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

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

**Preliminary purchase price allocation**

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

**Acquired assets, liabilities and contingent liabilities**

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

#### Avesta Klippcenter

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

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

#### Outokumpu Armetal Stainless Pipe Co., Ltd

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

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

#### Year 2007

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

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

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

In the purchase price allocation the majority of the excess value was allocated to the nickel ore reserves according to the fair value and it will be amortized using the units-of-production method based on the depletion of ore reserves in Talvivaara. A goodwill amounting to EUR 9 million was recognized. Goodwill is not amortized, but tested annually for impairment. According to a press release given by Talvivaara at the beginning of Dec. 2008 , the mine is estimated to ramp-up according to plan and Talvivaara targets to reach full capacity in 2010.

## 5. ACQUISITIONS AND DISPOSALS

### DISPOSALS

#### Year 2008
Outokumpu sold its remaining copper tube assets to Cupori Group Oy. More infoma-tion can be found in note 4. Discontinued operations.

#### Year 2007
In March, OSTP (Outokumpu Stainless Tubular Products) sold its flange business in order to focus on pipes, tubes, butt-welded and threaded fittings. The purchaser is a subsidiary of Shree Ganesh Forgings Ltd, an Indian company. The sale had no significant impact on Group's results.

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

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

**Net assets of the disposed subsidiaries and businesses**

| € million | 2007 |
|---|---|
| Intangible assets | 0 |
| Property, plant and equipment | 1 |
| Other long-term assets | 0 |
| Derivative financial instruments | - |
| Inventories | 6 |
| Receivables, interest-bearing | - |
| Receivables, non interest-bearing | 9 |
| Provisions | 0 |
| Liabilities, interest-bearing | 0 |
| Liabilities, non interest-bearing | 9 |
| | 6 |
| Gains on disposals | 23 |
| **Total consideration** | **29** |
| | |
| Received in cash | 4 |
| Direct costs related to the disposals | -0 |
| Cash and cash equivalents in disposed subsidiaries and units | -3 |
| **Net cash flow from disposals** | **1** |

## 6. OTHER OPERATING INCOME

| € million | 2008 | 2007 |
|---|---|---|
| Gains on sale of intangible and tangible assets | 27 | 8 |
| Gain on the sale of the Hitura mine | - | 25 |
| Other income items | 5 | 49 |
| Market price gains and losses from derivative financial instruments | 25 | - |
| | 57 | 82 |

## 7. OTHER OPERATING EXPENSES

| € million | 2008 | 2007 |
|---|---|---|
| Losses on sale of intangible and tangible assets | -26 | -9 |
| Impairment of intangible and tangible assets | -6 | 3 |
| Other expense items | -10 | -10 |
| Market price gains and losses from derivative financial instruments | - | -27 |
| | -42 | -43 |

## 8. FUNCTION EXPENSES BY NATURE

| € million | 2008 | 2007 |
|---|---|---|
| Raw materials and merchandise | -3 090 | -4 518 |
| Fuels and supplies | -364 | -325 |
| Energy expenses | -221 | -189 |
| Freights | -192 | -187 |
| Maintenance | -113 | -106 |
| Employee benefit expenses | -520 | -499 |
| Rents and leases | -26 | -24 |
| Hire processing | -38 | -48 |
| Depreciation and amortization | -206 | -204 |
| Production for own use | 9 | 1 |
| Change in inventories | -521 | -38 |
| Other expenses | -271 | -229 |
| | -5 552 | -6 364 |

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

In 2008, auditors were paid fees totaling EUR 3 million (2007: EUR 2 million), of which non-auditing services accounted for EUR 1 million (2007: EUR 0 million).

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

**Non-recurring items in operating profit**

| € million | 2008 | 2007 |
|---|---|---|
| Redundancy provision | -17 | - |
| Thin Strip restructuring in the UK | -66 | -11 |
| Gain on the sale of Hitura mine in Finland | - | 25 |
| | -83 | 14 |

## 9. EMPLOYEE BENEFIT EXPENSES

| € million | 2008 | 2007 |
|---|---|---|
| Wages and salaries | -356 | -350 |
| Termination benefits | -25 | -5 |
| Social security costs | -54 | -56 |
| Pension and other long-term employee benefits | | |
| Defined benefit plans | -10 | -9 |
| Defined contribution plans | -55 | -50 |
| Other long-term employee benefits | -6 | -10 |
| Expenses from share-based payments | -0 | -5 |
| Other personnel expenses [1)] | -14 | -12 |
| | -520 | -499 |

1) Includes EUR 0 million (2007: EUR 4 million) of profit-sharing bonuses based on the Finnish Personnel Funds Act.

## 10. FINANCIAL INCOME AND EXPENSES RECOGNIZED IN PROFIT AND LOSS

| € million | 2008 | 2007 |
|---|---|---|
| Dividend income on available-for-sale financial assets | 10 | 11 |
| Interest income on loans and receivables | 16 | 19 |
| Interest income on bank accounts and deposits | 4 | 5 |
| Interest income on fair value through profit and loss | 0 | 1 |
| Gains on the sale of | | |
| Available-for-sale financial assets | 0 | 145 |
| Investments at fair value through profit and loss | - | 1 |
| Other financial income | 1 | 110 |
| Total financial income | 32 | 292 |
| | | |
| Interest expenses | | |
| Financial liabilities at amortized cost | -77 | -82 |
| Finance lease arrangements | -3 | -3 |
| Capitalized interests | 3 | 0 |
| Derivatives | 6 | 3 |
| Impairment losses on available-for-sale financial assets | -24 | -1 |
| Other financial expenses | -4 | -3 |
| Total financial expenses | -99 | -87 |
| | | |
| Exchange gains and losses | | |
| Derivatives | 79 | 33 |
| Other | -71 | -31 |
| Other market price gains and losses | | |
| Derivatives | -11 | -1 |
| Other | 1 | 0 |
| Total market price gains and losses | -2 | 0 |
| | | |
| Total financial income and expenses | -69 | 206 |

**Exchange gains and losses in the income statement**

| € million | 2008 | 2007 |
|---|---|---|
| In sales | 75 | 2 |
| In purchases | -45 | 5 |
| In other income and expenses | -10 | -27 |
| In financial income and expenses | 8 | 1 |
| | 27 | -19 |

Exchange gains and losses comprise EUR 75 million net exchange gains on derivative financial instruments (2007: EUR 5 million net gains). Exchange gains and losses on derivatives, which are related to financing activities and the ineffective portion from hedges of net investment in foreign operations EUR 0.2 million loss (2007: EUR 0.4 million gain) are included in financial income and expenses. Derivative gains and losses recognized in operating profit are presented in notes 6. Other operating income and 7. Other operating expenses.

**Non-recurring items in financial income and expenses**

| € million | 2008 | 2007 |
|---|---|---|
| Impairment of Belvedere shares | -21 | - |
| Gain on the sale of Outotec shares | - | 142 |
| Gain on the Talvivaara transaction | - | 110 |
| | -21 | 252 |

## 11. INCOME AND EXPENSES RECOGNIZED IN EQUITY

| € million | 2008 | 2007 |
|---|---|---|
| Exchange gains and losses on hedge on net investment in foreign operations, net of tax | 10 | 3 |
| Effective portion of cash flow hedges | | |
| Exchange gains and losses | -53 | - |
| Other market price gains and losses | -16 | 6 |
| Change in fair value of available-for-sale financial assets | -44 | 16 |
| Available-for-sale financial assets recognised through profit and loss | 5 | -100 |
| Income tax on income and expenses recognized directly in equity | 26 | -5 |
| | -72 | -79 |

## 12. INCOME TAXES

**Income taxes in the income statement**

| € million | 2008 | 2007 |
|---|---|---|
| Current taxes | -6 | -107 |
| Deferred taxes | 30 | -31 |
| | 24 | -138 |

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 | 2008 | 2007 |
|---|---|---|
| Hypothetical income taxes at Finnish tax rate on consolidated profit before tax | 35 | -207 |
| Effect of different tax rates outside Finland | 20 | -17 |
| Tax effect of non-deductible expenses and tax exempt income | -7 | 78 |
| Tax effect of losses for which no deferred tax benefit is recognized | -29 | -0 |
| Changes in the carrying amounts of deferred tax assets from prior years | 1 | 3 |
| Taxes for prior years | -2 | 5 |
| Impact of the changes in the tax rates on deferred tax balances | 4 | -0 |
| Tax effect of net results of associated companies | -1 | 1 |
| Effects of consolidation and eliminations | 0 | -0 |
| Other items | 1 | -2 |
| Income taxes in the consolidated income statement | 24 | -138 |

**Deferred income taxes in the balance sheet**

| € million | 2008 | 2007 |
|---|---|---|
| Deferred tax assets | 37 | 26 |
| Deferred tax liabilities | -216 | -241 |
| Net deferred tax liability | -179 | -215 |

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 | 2008 | 2007 |
|---|---|---|
| Net deferred tax liability on Jan. 1 | -215 | -182 |
| Income statement charge | 30 | -31 |
| Translation differences | 9 | 2 |
| Acquired subsidiaries | -29 | - |
| Taxes recognized in equity | 26 | -4 |
| Net deferred tax liability on Dec. 31 | -179 | -215 |

**Movement in deferred tax assets and liabilities during the financial year**

| **2008**<br>€ million | Jan. 1 | Recognized in the income statement | Recognized in equity | Acquired subsidiaries | Translation differences | Dec. 31 |
|---|---|---|---|---|---|---|
| Deferred tax liabilities | | | | | | |
| Depreciation difference and other untaxed reserves | -230 | 25 | - | -1 | 8 | -198 |
| Fair value adjustments | -8 | 23 | - | -31 | - | -16 |
| Effects of consolidation and eliminations | -1 | -0 | - | - | - | -1 |
| Other taxable temporary differences | -62 | -5 | - | - | 1 | -66 |
| | -301 | 43 | - | -32 | 8 | -282 |
| | | | | | | |
| Deferred tax assets | | | | | | |
| Tax losses carried forward | 20 | 5 | - | - | -0 | 25 |
| Fair value adjustments | 0 | -18 | 26 | - | - | 8 |
| Pension obligations | 7 | 2 | - | - | 0 | 9 |
| Effects of consolidation and eliminations | 10 | -6 | - | - | 0 | 4 |
| Other tax deductible temporary differences | 50 | 3 | - | 3 | 1 | 57 |
| | 86 | -14 | 26 | 3 | 1 | 103 |
| | | | | | | |
| Net deferred tax liability | -215 | 30 | 26 | -29 | 9 | -179 |

## 12. INCOME TAXES

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

**Aggregate deferred taxes recognized directly in equity**

| € million | 2008 | 2007 |
|---|---|---|
| Cashflow hedging | 17 | -1 |
| Available-for-sale financial assets | 5 | -3 |
| | 21 | -5 |

Deferred tax assets of EUR 53 million (2007: EUR 42 million) have not been recognized in the consolidated financial statements because the realization of the tax benefit included in these assets is not probable. Majority of these unrecognized deferred tax assets relate to tax losses amounting to EUR 163 million (2007: EUR 144 million), which can be carried forward in the future. EUR 4 million these tax losses (2007: EUR - million) will expire within next five years and the rest earliest in 2014. The consolidated balance sheet includes deferred tax assets of EUR 23 million (Dec. 31, 2007: EUR 3 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 2008 (Dec. 31, 2007: EUR - million).

## 13. EARNINGS PER SHARE

| | 2008 | 2007 |
|---|---|---|
| Result attributable to the equity holders of the Company, € million | -189 | 638 |
| | | |
| Weighted average number of shares, in thousands | 180 185 | 180 922 |
| | | |
| Earnings per share for result attributable to the equity holders of the Company, € | -1.05 | 3.52 |
| Earnings per share, € | | |
| From continuing operations | -0.61 | 3.63 |
| From discontinued operations | -0.44 | -0.10 |

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.

## 13. EARNINGS PER SHARE

| | 2008 | 2007 |
|---|---|---|
| Result attributable to the equity holders of the Company, € million | -189 | 638 |
| | | |
| Weighted average number of shares, in thousands | 180 185 | 180 922 |
| Effect of 2003A share options, in thousands | 393 | 398 |
| Effect of 2003B share options, in thousands | 561 | 546 |
| Effect of 2003C share options, in thousands | 51 | 53 |
| Diluted average number of shares, in thousands | 181 190 | 181 920 |
| | | |
| Diluted earnings per share, € | -1.04 | 3.50 |
| From continuing operations | -0.61 | 3.61 |
| From discontinued operations | -0.43 | -0.10 |

## 14. INTANGIBLE ASSETS

| | | Intangible assets, acquired | | | | | |
|---|---|---|---|---|---|---|---|
| € million | Intangible assets, internally generated | Patents | Software | Customer relationships | Other | Goodwill | Total |
| Historical cost on Jan. 1, 2008 | - | 4 | 39 | - | 118 | 405 | 566 |
| Translation differences | - | - | -2 | - | -6 | -1 | -9 |
| Additions | - | 0 | 3 | - | 8 | - | 11 |
| Acquired subsidiaries | - | 0 | 0 | 46 | 0 | 78 | 125 |
| Disposals | - | -0 | -4 | - | -1 | - | -6 |
| Reclassifications | - | - | 2 | - | 1 | - | 3 |
| **Historical cost on Dec. 31, 2008** | **-** | **4** | **38** | **46** | **120** | **482** | **690** |
| | | | | | | | |
| Accumulated amortization and impairment on Jan. 1, 2008 | - | -2 | -33 | - | -56 | - | -91 |
| Translation differences | - | - | 2 | - | 3 | - | 5 |
| Disposals | - | 0 | 3 | - | 0 | - | 4 |
| Reclassifications | - | - | 0 | - | -0 | - | 0 |
| Amortization | - | -0 | -3 | -4 | -10 | - | -18 |
| Impairments | - | - | - | - | - | -6 | -6 |
| **Accumulated amortization and impairment on Dec. 31, 2008** | **-** | **-2** | **-31** | **-4** | **-63** | **-6** | **-106** |
| | | | | | | | |
| **Carrying value on Dec. 31, 2008** | **-** | **2** | **7** | **42** | **57** | **476** | **584** |
| Carrying value on Jan. 1, 2008 | - | 2 | 6 | - | 62 | 405 | 475 |
| | | | | | | | |
| Historical cost on Jan. 1, 2007 | 0 | 4 | 43 | - | 124 | 404 | 576 |
| Translation differences | - | - | -1 | - | -4 | 0 | -4 |
| Additions | - | 0 | 0 | - | 0 | - | 0 |
| Disposal of subsidiaries | - | - | - | - | -0 | - | -0 |
| Disposals | -0 | - | -4 | - | -2 | - | -6 |
| Reclassifications | - | - | -0 | - | 0 | - | - |
| Historical cost on Dec. 31, 2007 | - | 4 | 39 | - | 118 | 405 | 566 |
| | | | | | | | |
| Accumulated amortization and impairment on Jan. 1, 2007 | -0 | -1 | -34 | - | -48 | - | -82 |
| Translation differences | - | - | 0 | - | 1 | - | 2 |
| Disposals | 0 | - | 4 | - | 1 | - | 5 |
| Amortization | - | -0 | -3 | - | -11 | - | -15 |
| Accumulated amortization and impairment on Dec. 31, 2007 | - | -2 | -33 | - | -56 | - | -91 |
| | | | | | | | |
| Carrying value on Dec. 31, 2007 | - | 2 | 6 | - | 62 | 405 | 475 |
| Carrying value on Jan. 1, 2007 | 0 | 2 | 10 | - | 76 | 404 | 493 |

## 14. INTANGIBLE ASSETS

**Amortization by function**

| € million | 2008 | 2007 |
|---|---|---|
| Cost of sales | -13 | -12 |
| Selling and marketing expenses | -4 | -0 |
| Administrative expenses | -2 | -3 |
| Research and development expenses | -0 | -0 |
| | -18 | -15 |

**Goodwill allocation to the segments**

| € million | 2008 | 2007 |
|---|---|---|
| General Stainless | 416 | 338 |
| Specialty Stainless | 60 | 67 |
| | 476 | 405 |

### Impairment testing of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the business organization. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations are based on the cash flow projections in the strategic plans approved by the management for 2009. Projections for 2010–2013 are based on conservative price and delivery forecasts and the company's fixed costs are planned to stay on the same level as in 2009. Change in working capital is driven by delivery volume. The estimated delivery volumes are derived from the utilization of existing property, plant and equipment.

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

Discount rate is the weighted average pre-tax cost of capital (WACC) as defined for Outokumpu. The components of WACC are risk-free yield rate, market risk premium, equity beta, cost of debt and targeted capital structure. The WACC used in the calculations was 9% in 2008 (2007: 9%).

Sensitivity analysis was carried out by changing i.a. the discount factor. According to the performed sensitivity analysis it does not appear probable that a 1% change in the discount factor, on which Outokumpu's recoverable amounts are based, would cause their respective values to fall short of their carrying amounts at Dec. 31, 2008, other assumptions used in the cash flow calculations staying on the above mentioned level. As a result of the performed impairment tests, no impairment losses have been recognized.

In relation to the closure of the Sheffield Special Strip, EUR 6 million goodwill, which could be allocated to that unit, was impaired in income statement in 2008.

### Emission allowances

In the European Union, a new emission trading period started in 2008. During this Kyoto period 2008–2012 the scope of the emissions trading was extended to cover also Outokumpu's heat treatment installations in Sweden and Sheffield melt shop in the UK. Outokumpu will receive 1.3 million tons emission allowances annually until 2012, which is estimated to be enough for the current production capacity within the Group's European production sites. Emission trading is expected to continue after 2012 and Outokumpu follows the development of the EU Climate and Energy package, and the renewal of the Emissions Trading Scheme. Purchased carbon dioxide allowances are accounted for as intangible assets at cost, whereas carbon dioxide 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, 2008, 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 2008. Actual carbon dioxide emissions in units, which belong to the Greenhouse Gas emission trading system, were about 820 000 tons in 2008 (2007: 680 000 tons). The Group sold 1 022 000 tons emission allowances for EUR 22 million in 2008 (2007: 1 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, 2008 | 38 | 33 | 830 | 2 890 | 98 | 94 | 3 984 |
| Translation differences | -3 | - | -26 | -154 | -1 | -6 | -190 |
| Additions | 1 | - | 19 | 54 | 0 | 227 | 301 |
| Acquired subsidiaries | 1 | - | 20 | 14 | 0 | 0 | 36 |
| Disposals | -0 | - | -11 | -95 | -0 | -0 | -108 |
| Reclassifications | 2 | 0 | 6 | 41 | 2 | -53 | -2 |
| **Historical cost on Dec. 31, 2008** | **39** | **33** | **838** | **2 749** | **99** | **262** | **4 021** |
| | | | | | | | |
| Accumulated depreciation and impairment on Jan. 1, 2008 | -2 | -2 | -341 | -1 627 | -32 | -0 | -2 004 |
| Translation differences | -0 | - | 17 | 98 | 0 | 0 | 115 |
| Disposals | - | - | 9 | 74 | 0 | - | 83 |
| Reclassifications | - | - | 0 | -1 | -0 | -0 | -0 |
| Depreciation | - | -1 | -29 | -151 | -5 | - | -188 |
| **Accumulated depreciation and impairment on Dec. 31, 2008** | **-2** | **-3** | **-345** | **-1 606** | **-37** | **-0** | **-1 994** |
| | | | | | | | |
| **Carrying value on Dec. 31, 2008** | **37** | **30** | **494** | **1 143** | **62** | **262** | **2 027** |
| Carrying value on Jan. 1, 2008 | 36 | 31 | 490 | 1 263 | 66 | 94 | 1 980 |
| | | | | | | | |
| Historical cost on Jan. 1, 2007 | 39 | 39 | 813 | 2 896 | 84 | 138 | 4 009 |
| Translation differences | -1 | - | -10 | -60 | -0 | -4 | -76 |
| Additions | 1 | - | 4 | 26 | 1 | 105 | 137 |
| Disposal of subsidiaries | -0 | -6 | -2 | -12 | - | - | -20 |
| Disposals | -0 | - | -1 | -63 | -2 | -1 | -67 |
| Reclassifications | 0 | - | 25 | 104 | 15 | -144 | - |
| Historical cost on Dec. 31, 2007 | 38 | 33 | 830 | 2 890 | 98 | 94 | 3 984 |
| | | | | | | | |
| Accumulated depreciation and impairment on Jan. 1, 2007 | -2 | -7 | -321 | -1 581 | -28 | -0 | -1 939 |
| Translation differences | 0 | - | 7 | 40 | 0 | -0 | 47 |
| Disposal of subsidiaries | - | 6 | 2 | 11 | - | - | 19 |
| Disposals | - | - | 1 | 55 | 1 | - | 56 |
| Reclassifications | - | 0 | -0 | -0 | - | - | - |
| Depreciation | - | -1 | -29 | -154 | -5 | - | -190 |
| Impairments | - | - | 0 | 3 | 0 | - | 3 |
| Accumulated depreciation and impairment on Dec. 31, 2007 | -2 | -2 | -341 | -1 627 | -32 | -0 | -2 004 |
| | | | | | | | |
| Carrying value on Dec. 31, 2007 | 36 | 31 | 490 | 1 263 | 66 | 94 | 1 980 |
| Carrying value on Jan. 1, 2007 | 36 | 32 | 492 | 1 315 | 56 | 138 | 2 069 |

## 15. PROPERTY, PLANT AND EQUIPMENT

**Depreciation by function**

| € million | 2008 | 2007 |
|---|---|---|
| Cost of sales | -180 | -182 |
| Selling and marketing expenses | -3 | -3 |
| Administrative expenses | -4 | -4 |
| Research and development expenses | -1 | -1 |
| | -188 | -190 |

Borrowing cost amounting to EUR 3 million was capitalized on investment projects during the financial year (2007: EUR - million). Total interest capitalized on Dec. 31, 2008 was EUR 46 million. (Dec. 31, 2007: EUR 47 million). Outokumpu determines separate capitalization rates for each quarter. The average rate used during 2008 was 5.06%.

**Assets leased by finance lease agreements**

| € million | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| Historical cost | 9 | 71 | 80 |
| Accumulated depreciation | -2 | -22 | -24 |
| **Carrying value on Dec. 31, 2008** | **7** | **49** | **56** |
| | | | |
| Historical cost | 3 | 66 | 70 |
| Accumulated depreciation | -1 | -16 | -17 |
| Carrying value on Dec. 31, 2007 | 2 | 51 | 53 |

## 16. INVESTMENTS IN ASSOCIATED COMPANIES

| € million | 2008 | 2007 |
|---|---|---|
| Investments in associated companies at cost | | |
| Historical cost on Jan. 1 | 139 | 23 |
| Translation differences | -0 | -0 |
| Additions | - | 116 |
| Historical cost on Dec. 31 | 138 | 139 |
| | | |
| Equity adjustment to investments in associated companies on Jan. 1 | 24 | 23 |
| Change in translation differences | -3 | -1 |
| Dividends received during financial year | -2 | -2 |
| Share of results in associated companies | -2 | 4 |
| Equity adjustment to investments in associated companies on Dec. 31 | 17 | 24 |
| | | |
| Carrying value of investments in associated companies on Dec. 31 | 156 | 163 |

**Associated companies**

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

## 16. INVESTMENTS IN ASSOCIATED COMPANIES

**Principal associated companies**

| € million | Domicile | Assets | Liabilities | Sales | Profit | Ownership, % |
|---|---|---|---|---|---|---|
| **2008** | | | | | | |
| Fagersta Stainless AB | Sweden | 77 | 32 | 212 | -3 | 50 |
| Rapid Power Oy [1] | Finland | 221 | 167 | 48 | -1 | 33 |
| Talvivaara Project Ltd. [2] | Finland | 399 | 307 | 0 | -10 | 20 |
| | | | | | | |
| 2007 | | | | | | |
| Fagersta Stainless AB | Sweden | 95 | 38 | 280 | 7 | 50 |
| Rapid Power Oy | Finland | 235 | 181 | 44 | 0 | 33 |
| Talvivaara Project Ltd. | Finland | 199 | 106 | 0 | -3 | 20 |

[1] Rapid Power Oy's figures for 2008 are based on the information on November 30, 2008.
[2] Talvivaara Project Ltd's figures for 2008 are based on the information on June 30, 2008. These figures are included in Talvivaara Mining Ltd's consolidated accounts published for the period ending June 30, 2008. Outokumpu's share of Talvivaara Project Ltd's profits for 2008 is consolidated from the 6-month period ending at the end of June.

## 17. CARRYING VALUES OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

| | | Measured at | | | | | |
|---|---|---|---|---|---|---|---|
| **2008**<br>€ million | Category in accordance with IAS 39 | Amortised cost | Cost | Fair value recognised in equity | Fair value recognised through profit or loss | Net carrying amount Dec. 31, 2008 | Fair value Dec. 31, 2008 |
| **Non-current financial assets** | | | | | | | |
| Available-for-sale financial assets | a) | - | 15 | 52 | - | 67 | 67 |
| Trade and other receivables | | | | | | | |
| Interest-bearing | b) c) | 130 | - | - | 1 | 132 | 93 |
| Non interest-bearing | b) | 55 | - | - | - | 55 | 55 |
| Hedge accounted derivatives | e) | - | - | 1 | - | 1 | 1 |
| Derivatives held for trading | d) | - | - | - | 9 | 9 | 9 |
| | | | | | | | |
| **Current financial assets** | | | | | | | |
| Available-for-sale financial assets | a) | - | 0 | 7 | - | 8 | 8 |
| Trade and other receivables | | | | | | | |
| Interest-bearing | b) | 25 | - | - | - | 25 | 25 |
| Non interest-bearing | b) | 650 | - | - | - | 650 | 650 |
| Cash and cash equivalents | b) c) | 205 | - | - | 19 | 224 | 224 |
| Hedge accounted derivatives | e) | - | - | 11 | - | 11 | 11 |
| Derivatives held for trading | d) | - | - | - | 81 | 81 | 81 |
| | | 1 064 | 15 | 71 | 110 | 1 262 | 1 223 |
| | | | | | | | |
| **Non-current financial liabilities** | | | | | | | |
| Long-term debt | f) | 1 170 | - | - | - | 1 170 | 1 106 |
| Trade and other payables | f) | 2 | - | - | - | 2 | 2 |
| Hedge accounted derivatives | e) | - | - | 48 | - | 48 | 48 |
| | | | | | | | |
| **Current financial liabilities** | | | | | | | |
| Current debt | f) | 501 | - | - | - | 501 | 501 |
| Trade and other payables | | | | | | | |
| Interest-bearing | f) | 26 | - | - | - | 26 | 26 |
| Non interest-bearing | f) | 378 | - | - | - | 378 | 378 |
| Hedge accounted derivatives | e) | - | - | 1 | - | 1 | 1 |
| Derivatives held for trading | d) | - | - | - | 53 | 53 | 53 |
| | | 2 077 | - | 49 | 53 | 2 179 | 2 115 |

Categories in accordance with IAS 39:
a) Available-for-sale financial assets
b) Loans and receivables
c) Financial assets at fair value through profit and loss
d) Derivatives held for trading
e) Hedge accounted derivatives
f) Other financial liabilities

## 17. CARRYING VALUES OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

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

Categories in accordance with IAS 39:
a) Available-for-sale financial assets
b) Loans and receivables
c) Financial assets at fair value through profit and loss
d) Derivatives held for trading
e) Hedge accounted derivatives
f) Other financial liabilities

## 18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| € million | 2008 | 2007 |
|---|---|---|
| Carrying value on Jan. 1 | 139 | 189 |
| Translation differences | -7 | -2 |
| Additions | 1 | 56 |
| Disposals | -0 | -162 |
| Fair value changes | -35 | -87 |
| Impairment losses | -23 | -1 |
| Gains and losses on disposals in the income statement | 0 | 146 |
| Carrying value on Dec. 31 | 75 | 139 |
| | | |
| Listed equity securities | 21 | 72 |
| Unlisted equity securities | 54 | 67 |
| | | |
| Less: | | |
| Non-current listed equity securities | -14 | -61 |
| Non-current unlisted equity securities | -53 | -64 |
| Current available-for-sale financial assets | 8 | 14 |
| | | |
| Fair value | 75 | 139 |
| Acquisition value | -59 | -83 |
| Fair value changes | 15 | 56 |
| Deferred tax liability | 5 | -3 |
| Fair value reserve in equity | 20 | 53 |

Available-for-sale financial assets comprise listed and unlisted equity securities, which are recognized at fair value. The significant and prolonged decline in the fair value will lead to impairment if the fair value has been below the acquisition value by more than predefined percentage during last three quarters. The assets include unlisted equity securities with carrying value of EUR 15 million (2007: EUR 16 million), for which the fair value cannot be reliably determined. These securities are measured at cost less possible impairment. Valuation methods used for unlisted equity securities have been chosen by company so that information available for the valuation and the characteristics of the company's business can be adequately taken into account. Investment in carbon fund is recognized at fair value. The valuation is based on estimated amounts and prices of Kyoto-credits agreed to be sourced from projects as well as estimated market prices of such Kyoto-credits. Formerly, carbon fund investment was recognized at acquisition value.

## 19. SHARE-BASED PAYMENTS

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 commenced 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 value of the programs at Dec. 31, 2008 is estimated to be EUR 15 million. This value is recognized as an expense in the income statement during the vesting periods.

**Share-based payments included in employee benefit expenses:**

| € million | 2008 | 2007 |
|---|---|---|
| Equity-settled share-based payment transactions | -2 | -3 |
| Cash-settled share-based payment transactions | 2 | -2 |
| | -0 | -5 |
| | | |
| Total carrying amount of liabilities for cash-settled arrangements on Dec. 31 | 3 | 5 |

## 19. SHARE-BASED PAYMENT PLANS

### OPTION PROGRAM

**The general terms and conditions of the option program:**

| | 2003A | 2003B | 2003C |
|---|---|---|---|
| Grant date | June 12, 2003 | Feb. 10 and Sept. 15, 2004 | March 22, 2005 and April 1–Oct. 1,2007 |
| The number of options granted | 742 988 | 1 148 820 | 1 205 000 |
| The maximum number of options granted on Dec. 31 | 550 804 | 945 990 | 90 500 |
| Exercise price, € [1] | 7.25 | 10.31 | 10.94 |
| Term of contract | June 12, 2003–March 1, 2009 | Feb. 10, 2004–March 1, 2010 | March 22, 2005–March 1,2011 |
| Vesting period | June 12, 2003–Aug. 31, 2006 | Feb. 10, 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 development of the Group's operating profit (EBIT), and development of the Group's total shareholder return (TSR) compared to a peer group. The additional criterion for Group Executive Committee members was the Group's gearing. |

[1] Paid dividends have been deducted.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2008 was 0.9 years (2007: 1.9 years).

In 2008, no new options were granted. In 2007, 15 000 new options were granted, and the average fair value of options granted was EUR 15.76.

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.

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

| | 2008 Options | 2008 Weighted average exercise price €/share | 2007 Options | 2007 Weighted average exercise price €/share |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 1 719 381 | 10.48 | 1 742 299 | 11.54 |
| Granted during the year | - | - | 15 000 | 12.14 |
| Forfeited during the year | -2 000 | 10.94 | - | - |
| Exercised during the year | -130 087 | 9.14 | -37 918 | 9.61 |
| Outstanding at the end of the year | 1 587 294 | 9.28 | 1 719 381 | 10.48 |
| Exercisable at the end of the year | 1 587 294 | 9.28 | 1 616 881 | 10.37 |

## 19. SHARE-BASED PAYMENT PLANS

### SHARE-BASED INCENTIVE PROGRAM

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

| | Share-based incentive program, 2006–2008 | Share-based incentive program, 2007–2009 | Share-based incentive program, 2008–2010 |
|---|---|---|---|
| Grant date | Feb. 2, 2006 | Feb. 1, 2007 | Jan. 31, 2008 |
| Vesting period | Jan. 1, 2006–Dec. 31, 2008 | Jan. 1, 2007–Dec. 31, 2009 | Jan. 1,2008–Dec. 31, 2010 |
| Vesting conditions: | | | |
| Market | Share price performance outperforming share price trend of peer companies. | Share price performance outperforming share prices trend of peer companies. | Share price performance outperforming share prices trend of peer companies. |
| Non-market | Achieving targets set for the Excellence programs. | Achieving targets set for the Excellence programs. | Achieving targets set for the Excellence programs. |
| Other relevant conditions | A limit, based on salary, has been set the received benefit from the program. | A limit, based on salary, has been set the received benefit from the program. | A limit, based on salary, has been set the received benefit from the program. |

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

**Inputs of the model:**

| | Share-based incentive program, 2006–2008 | Share-based incentive program, 2007–2009 | Share-based incentive program, 2008–2010 |
|---|---|---|---|
| Share price at the grant date, € | 14.90 | 28.10 | 21.01 |
| Share price at the balance sheet date, € | 8.28 | 8.28 | 8.28 |
| Reference ratio annualized volatility at the grant date, % p.a. | 25.0 | 25.9 | 28.1 |
| Reference ratio annualized volatility at the balance sheet date, % p.a. | 45.0 | 45.0 | 45.0 |
| Estimated forfeit ratio at the grant date, % p.a. | 5.0 | 10.0 | 8.0 |
| Estimated forfeit ratio at the balance sheet date, % p.a. | 6.0 | 6.0 | 6.0 |
| Actual forfeit ratio, % p.a. | 4.5 | 4.6 | 6.6 |
| Estimated outcome of market criteria at the grant date, % | 39.4 | 41.1 | 51.5 |
| Estimated outcome of non-market criteria at the grant date, % | 50.0 | 100.0 | 50.0 |
| Estimated outcome of market criteria at the balance sheet date, % | 0.0 | 4.3 | 33.2 |
| Estimated outcome of non-market criteria at the balance sheet date, % | 100.0 | 0.0 | 0.0 |

## 20. FINANCIAL RISK MANAGEMENT, CAPITAL MANAGEMENT AND INSURANCES

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

The Board has approved the risk management policy, which defines responsibilities, risk management process and other risk management guidelines for the Group. The Board oversees Group's risk management framework. In 2008 CEO and the Group Executive Committee reviewed and updated the financial risk policy, which includes a new approach in managing Group's nickel price risk. Chief Financial Officer is responsible for implementation and development of financial risk management.

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

Treasury and Risk Management purchases substantial part of Group's insurances. The most important insurance lines are property damage and business interruption, liability, transport and credit. Group's captive insurance company retains selected part of insurable risk.

### MARKET RISK

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

Outokumpu uses derivative contracts to mitigate above-mentioned impacts of market price changes. Hedge accounting is applied to hedges of forecasted electricity purchases of Finnish production sites (electricity price risk), committed currency denominated electricity purchases (EUR/SEK spot rate risk) and net investment in foreign entities (EUR/SEK spot rate risk). Derivatives, for which hedge accounting is not applied, have been entered into for the purpose of reducing impacts of market price changes on earnings and/or cash flows related to business or financing activities. In this description of financial risk management the term hedging has been used in its broad meaning and therefore it also includes use of non-hedge-accounted derivatives. The use of non-hedge-accounted derivatives may cause timing differences between derivative gains/losses and the earnings-impact of the underlying exposure. Nominal amounts and fair values of all derivatives are presented in note 25.

#### Foreign exchange rate risk

Major part of Group's sales is in euros and US dollars. A significant part of expenses arise in euros, US dollars, Swedish kronas and British pounds. Outokumpu hedges most of its fair value risk, e.g. risks related to currency denominated accounts receivables, accounts payables, debt, cash and loan receivables. Cash flow risk related to firm commitments is hedged to large extent and based on separate decisions, forecasted and probable cash flows can be hedged selectively. In 2008 Outokumpu signed a significant Swedish krona denominated long-term electricity supply contract, which has been hedged to the extent needed with currency derivatives. Due to the length and size of the exposure hedge accounting is applied to hedges in relation to changes in EUR/SEK spot rate. Group's fair-value currency position is presented on a more detailed level in note 21.

Outokumpu does not hedge income statement translation risk and translation of equity is hedged selectively. The total non-euro-denominated equity of the Group's foreign subsidiaries was EUR 1 075 million on Dec. 31, 2008 (2007: EUR 1 423 million). Some 66% of the total net investment exposure is denominated in Swedish krona and 13% in British pounds. Approximately 9.3% (2007: 7.0%) of the net investment exposure was hedged on Dec. 31, 2008 and all such hedges were related to the exposure in Swedish krona.

#### Interest rate risk

Group's interest rate risk is monitored as cash flow risk (impact on net interest expenses) and fair value risk (impact on fair value of monetary assets and liabilities). In order to manage the balance between risk and cost in an optimal way, a significant part of loans have short-term interest rate as a reference rate. Cash flow risk is reduced with interest rate swaps, where Outokumpu pays fixed rate and receives variable rate.

Swedish krona and euro have substantial contribution to the overall interest rate risk. Approximately 88% of Group's interest-bearing liabilities have an interest period of less than one year and the average interest rate of long-term interest bearing debt on Dec. 31, 2008 was 4.3%. Interest rate position is presented on a more detailed level in note 22.

#### Commodity and energy price risk

Outokumpu uses a 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 changes in raw material and energy prices to end-product prices, all affect hedging requirements and activities.

Nickel price is the most important commodity price risk for Outokumpu. Majority of stainless steel sales contracts include an alloy surcharge clause, with the aim of reducing the risk arising from the time difference between raw material purchase and product delivery. During 2008 Outokumpu changed the approach to manage nickel price risk. Formerly hedging was focused mainly on long-term price fixed sales orders, now the managed exposure includes price fixed purchase orders, nickel-containing material in inventories and price fixed sales orders. According to the new Financial Risk Policy this, typically long (surplus), position in nickel is partly reduced with derivatives. The new policy allows the use of forwards, purchased options and combinations of purchased and sold options for managing Group's nickel price risk. Outokumpu uses nickel derivatives to reduce the impacts of price changes on earnings. Metal price changes have a major impact on the Group's working capital and thus cash flow from operations. However, this risk is not hedged with derivatives.

Many of Outokumpu's main sites are participating the EU Emissions Trading Scheme (ETS). Realized and forecasted carbon dioxide emissions and granted emission allowances are monitored and assessed centrally. Emission allowance price risk is managed with the aim of securing the cost of compliance for the current trading period and reducing the cost of compliance e.g. by investing in a carbon fund and by swapping EUAs (European Union Allowances) to Kyoto credits within the limits set in ETS.

Outokumpu has energy intensive production processes utilizing mainly electrical energy but also liquefied petroleum gas, natural gas and other fuels. Electrical energy utilized by the Group's Nordic production sites is purchased and managed centrally while at other sites electrical energy is purchased locally. Electricity price risk is reduced with fixed price supply contracts, ownerships in energy producers and with the use of derivatives. In 2008 Outokumpu signed a significant long-term electricity supply contract with an aim to secure stable price for electrical power. These kinds of physical supply contracts are not treated as derivatives. Electricity derivatives are used to manage short- and medium-term price risk and hedge accounting is applied to part of the contracts. The Group has not used derivatives to reduce the risk caused by changes in fuel prices. Hedge accounted derivatives are presented in note 25.

On Dec. 31, 2008 the Group had electricity derivatives of 1.3 TWh (Dec. 31, 2007: 2.3 TWh). Electricity consumption of the Group's Nordic production sites was 2.7 TWh (2007: 2.8 TWh).

#### Security price risk

Outokumpu has investments in equity securities, loan receivables and investment funds. On Dec. 31, 2008 the biggest investment in listed equity securities was Talvivaara Mining Company Ltd and the most significant loan receivable was from Luvata Fabrication Oy (former Luvata International Oy). Fund investments were made to two fixed income funds and one money market fund. Apart from currency risk related to loan receivables, securities have not been hedged with derivatives.

## DEFAULT RISK

Default risk consists of country risk and counterparty risk. Counterparty risk related to trade receivables is managed according to principles defined in Credit Control Policy. According to the policy all external sales must be covered by approved credit limits or secured payment terms. Credit limits can be decided by Outokumpu's management, but most of the outstanding trade receivables have been covered by credit limits granted by insurance companies. Part of the credit risk related to trade receivables is managed with bank guarantees, letters of credit and cash in advance.

On Dec. 31, 2008 the maximum exposure to credit risk of trade receivables was EUR 571 million (2007: EUR 832 million). Some 94% of trade receivables are covered by insurance or secured payment terms (2007: 96%). The Group's trade receivables are generated by a large number of customers; however there have been some single customer credit risk concentrations during the last year and at the end of 2008 Outokumpu had many uninsured limits for Italian customers. Age analysis of accounts receivables is in note 27.

Loan receivables are typically not insured or secured in any other way. Significant portion of all interest bearing loan receivables at the end of 2008 was a receivable from Luvata Fabrication Oy.

Treasury and Risk Management monitors credit risk related to receivables, including receivables related to derivatives, from financial institutions. Outokumpu seeks to reduce these risks by limiting the counterparties to banks and other financial institutions with good credit standing. For the derivative transactions Outokumpu prefers to have ISDA framework agreements in place. Investments related to liquidity management are made in short-term deposits and liquid financial instruments with, as far as possible, low credit risk.

## LIQUIDITY AND REFINANCING RISK

Outokumpu raises most of its interest-bearing debt centrally. The Group seeks to reduce liquidity and refinancing risks by having sufficient amount of cash and credit lines available and by having balanced maturity profile of long-term debt. Efficient cash and liquidity management is also reducing liquidity risk. In fall 2008 the targeted level of Group's cash and cash equivalents was raised due to the turmoil in global financial markets.

In 2008 Outokumpu Oyj agreed SEK 1 000 million (of which SEK 100 million was undrawn at year end) and EUR 30 million new long-term loans. 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 1 000 million, which matures in June 2010. On Dec. 31, 2008 Outokumpu had committed and available credit facilities, available and undrawn TyEL pension loans in Finland, and other agreed and undrawn loans totaling EUR 1 010 million. More information on liquidity and refinancing risk is presented in note 23.

## CAPITAL MANAGEMENT

The Group's capital management objectives are to secure the ability to continue as going concern and at the same time to optimize the cost of capital in order to enhance value to shareholders. As part of these objectives the Group seeks to maintain access to loan and capital markets at all times despite the volatile nature of the industry in which Outokumpu operates. The Board of Directors reviews the capital structure of the Group on a regular basis.

Capital structure and debt capacity are taken into account when deciding new investments. Practical tools to manage capital include application of dividend policy, share buybacks and share issues. Debt capital is managed considering the requirement to secure liquidity and the capability to refinance maturing debt in the longer run as well. Outokumpu seeks to avoid having financial covenants in its debt and currently there are none.

Group's internal capital structure is reviewed on a regular basis with an aim to optimize the structure e.g. with internal dividends and equity adjustments. Net investment in foreign entities is monitored and the Group has ongoing hedging activities to manage related translation risk.

Group's captive insurance company, Visenta Försäkrings Ab, has to comply with externally imposed capital requirements. During the reporting period Visenta has been well capitalized to meet externally imposed requirements.

The management monitors capital structure on the basis of gearing ratio, which is calculated as net debt divided by total equity. Net debt is calculated as total borrowings, including all interest-bearing liabilities, marked with 1), in the consolidated balance sheet less interest-bearing assets, marked with 1), in the consolidated balance sheet. Other definitions can be found on page 56.

The Group's financial target is to maintain the gearing ratio below 75 percent. Financial objectives include also a return on capital employed of over 13% and always the best among peers. Weighted average cost of capital (WACC) is defined and applied to monitor efficiency of capital use and to provide market driven guidance for managing capital structure and for making capital allocation decisions.

On Dec. 31, 2008 net interest-bearing debt was EUR 1 072 million (2007: EUR 788 million), total equity EUR 2 795 million (2007: EUR 3 337 million) and debt-to-equity ratio 38.4% (2007: 23.6%). The increase in net interest-bearing debt and debt-to-equity ratio during 2008 resulted primarily from net loss for the financial year, dividend payment and the acquisition of the Italian stainless steel distributor SoGePar. Increase in net debt was limited by significant reduction in working capital.

## INSURANCES

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

Visenta Försäkrings AB can act as direct insurer or as reinsurer. The company is registered in Sweden and it has assets worth almost EUR 35 million. Visenta underwrites e.g. credit insurance policies and property and business interruption insurance policies.

## 21. FOREIGN EXCHANGE EXPOSURE

**Fair value exposures to currency risk of EUR reporting companies:**

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| € million | SEK | USD | GBP | Other | SEK | USD | GBP | Other |
| Trade receivables and payables | 3 | 12 | 22 | 12 | 9 | 15 | 35 | 22 |
| Loans and bank accounts [1] | 579 | 111 | 50 | -67 | 549 | 52 | 7 | -86 |
| Derivatives | -236 | -92 | -58 | 67 | -550 | 103 | -33 | 88 |
| Net exposure | 346 | 31 | 14 | 12 | 8 | 170 | 9 | 24 |

**Fair value exposures to currency risk of SEK reporting companies:**

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| € million | EUR | USD | GBP | Other | EUR | USD | GBP | Other |
| Trade receivables and payables | 100 | 58 | 1 | 19 | 226 | 91 | -14 | 24 |
| Loans and bank accounts [1] | 23 | 11 | 3 | 2 | 26 | 7 | 4 | 4 |
| Derivatives | -142 | -63 | -1 | -19 | -364 | -80 | -1 | -27 |
| Net exposure | -19 | 5 | 3 | 2 | -112 | 18 | -11 | 1 |

[1] Includes cash and cash equivalents, interest-bearing liabilities and receivables.

## 22. CURRENCY DISTRIBUTION AND REPRICING OF OUTSTANDING NET DEBT [1]

| € million | Dec. 31, 2008 | | | | Dec. 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| Currency | Net debt | Average rate, % | Duration, year | Rate sensitivity [2] | Net debt | Average rate, % | Duration, year | Rate sensitivity [2] |
| EUR | 967 | 4.2 | 0.9 | 4.4 | 1 024 | 4.5 | 1.3 | 4.3 |
| SEK | 459 | 4.2 | 1.1 | 4.0 | 268 | 4.7 | 0.6 | 2.1 |
| USD | -134 | 7.6 | 5.6 | -0.2 | -83 | 10.2 | 9.3 | 0.2 |
| Others | -11 | 3.4 | -0.5 | -0.1 | 25 | 3.1 | 0.1 | 0.2 |
| | 1 282 | | | 8.1 | 1 233 | | | 6.8 |

[1] Includes cash and cash equivalents, interest-bearing liabilities and receivables and interest and cross currency swaps.

[2] The effect one percentage point increase in interest rates on the Group's net interest expenses over the following year.

## 23. LIQUIDITY AND REFINANCING RISK

| **2008** | Balance sheet | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| € million | Dec. 31 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014– |
| Bonds | 225 | - | - | 75 | 150 | - | - |
| Loans from financial institutions | 959 | 208 | 275 | 96 | 92 | 162 | 126 |
| Pension loans | 160 | 29 | 29 | 37 | 24 | 21 | 21 |
| Finance lease liabilities | 55 | 4 | 5 | 4 | 4 | 4 | 33 |
| Other liabilities | 272 | 260 | 3 | 2 | - | - | 7 |
| Interest payments | 26 | 66 | 37 | 32 | 21 | 12 | 18 |
| Interest rate and cross-currency swaps | -9 | -3 | -0 | -1 | -6 | - | - |
| Trade payables | 236 | 236 | - | - | - | - | - |
| Other derivative financial instruments | 12 | 2 | 4 | 6 | - | - | - |
| | | 801 | 352 | 251 | 285 | 199 | 205 |

On Dec 31, 2008 the Group had cash and cash equivalent marketable securities amounting to EUR 224 million and committed and available credit facilities, available and undrawn TyEL pension loans in Finland, and other agreed and undrawn loans totaling EUR 1 010 million.

| 2007 | Balance sheet | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| € million | Dec. 31 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013– |
| Bonds | 314 | 89 | - | - | 75 | 150 | - |
| Loans from financial institutions | 797 | 172 | 133 | 82 | 99 | 90 | 221 |
| Pension loans | 161 | 30 | 30 | 29 | 27 | 14 | 32 |
| Finance lease liabilities | 57 | 6 | 4 | 4 | 4 | 4 | 35 |
| Other liabilities | 126 | 124 | 2 | - | - | - | - |
| Interest payments | 26 | 72 | 44 | 38 | 33 | 19 | 15 |
| Interest rate derivatives | -10 | -5 | -3 | -2 | - | - | - |
| Trade payables | 444 | 444 | - | - | - | - | - |
| Other derivative financial instruments | 2 | 2 | - | - | - | - | - |
| | | 934 | 211 | 151 | 238 | 277 | 303 |

The Group had cash and cash equivalent marketable securities amounting to EUR 86 million and available long-term credit facilities amounting to EUR 1 000 million on Dec 31,2007.

## 24. SENSITIVITY TO MARKET RISKS

| | **2008** | | 2007 | |
|---|---|---|---|---|
| € million | **Income statement** | **Equity** | Income statement | Equity |
| +/-10% change in EUR/USD exchange rate | **-2/+3** | **-** | -11/+14 | - |
| +/-10% change in EUR/SEK exchange rate | **-2/+2** | **-17/+21** | -8/+10 | +7/-8 |
| +/-10% change in EUR/GBP exchange rate | **-1/+1** | **-** | -1/+1 | - |
| +/-10% change in USD nickel price | **-3/+3** | **-** | +2/-2 | - |
| +/-10% change in electricity price | **+1/-1** | **+1/-1** | +3/-3 | +2/-2 |
| +/-10% change in share prices | **+0/-0** | **+6/-6** | +0/-0 | +11/-11 |
| +/-1% parallel shift in interest rates | **-6/+6** | **-** | -5/+5 | - |

Sensitivity analyses have been made to financial instruments only. Other assets, liabilities and off-balance sheet items such as sales and purchase orders, are not in the scope of these analyses. The flat price variation for nickel, electricity, currency and share prices are assumed to be 10 percent. The variation of interest rates is assumed to be one percent parallel shift on interest rate curve. The calculations are net tax.

## 25. FAIR VALUES AND NOMINAL AMOUNTS OF DERIVATIVE INSTRUMENTS

| € million | 2008 Positive fair value | 2008 Negative fair value | 2008 Net fair value | 2007 Net fair value | 2008 Nominal amounts | 2007 Nominal amounts |
|---|---|---|---|---|---|---|
| Currency and interest rate derivatives | | | | | | |
| Currency forwards | 69 | 68 | 0 | 8 | 1 920 | 1 992 |
| Interest rate swaps | 2 | - | 2 | 10 | 200 | 282 |
| Cross-currency swaps | 7 | - | 7 | - | 46 | - |
| | | | | | Number of shares, million | Number of shares, million |
| Stock options | | | | | | |
| Belvedere Resources Ltd. | 0 | - | 0 | 3 | 3.7 | 3.7 |
| | | | | | Tons | Tons |
| Metal derivatives | | | | | | |
| Forward and futures nickel contracts | 5 | 5 | -0 | 0 | 4 729 | 3 114 |
| Nickel options, bought | 14 | - | 14 | 0 | 16 758 | 24 |
| Nickel options, sold | - | 14 | -14 | - | 11 478 | - |
| Forward molybdenum contracts | - | - | - | -0 | - | 5 |
| Forward and futures copper contracts | 2 | 2 | -0 | -2 | 4 925 | 11 775 |
| Forward and futures zinc contracts | 0 | 0 | -0 | -0 | 1 025 | 1 100 |
| Emission allowance derivatives | 1 | - | 1 | 0 | 270 000 | 80 000 |
| | | | | | TWh | TWh |
| Electricity derivatives | 2 | 14 | -11 | 16 | 1.3 | 2.3 |
| Total derivatives | 101 | 103 | -1 | 35 | | |
| Less long-term derivatives | | | | | | |
| Currency forwards | - | 37 | -37 | - | | |
| Interest rate swaps | 1 | - | 1 | 8 | | |
| Cross currency swaps | 7 | - | 7 | - | | |
| Stock options | - | - | - | 3 | | |
| Emission allowance derivatives | 0 | - | 0 | 0 | | |
| Electricity derivatives | 1 | 11 | -10 | 16 | | |
| Short-term derivatives | 92 | 54 | 37 | 8 | | |

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

## 25. FAIR VALUES AND NOMINAL AMOUNTS OF DERIVATIVE INSTRUMENTS

**Net investment hedges**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| Currency | Nominal value | Fair value, EUR million | Cumulative translation difference in equity 2008, EUR million | Nominal value | Fair value, EUR million | Cumulative translation difference in equity 2007, EUR million |
| SEK million | 962 | 11 | 14 | 922 | 2 | 5 |
| GBP million | - | - | 0 | - | - | 0 |
| | | 11 | 15 | | 2 | 5 |

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

**Hedge accounted electricity derivatives**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| € million | Nominal value, TWh | Fair value | In fair value reserve in equity | Nominal amounts, TWh | Fair value | In fair value reserve in equity |
| Remaining maturity < 1 year | 0.1 | -1 | -1 | 0.1 | 1 | 0 |
| Remaining maturity 1–2 years | 0.5 | -10 | -7 | 0.3 | 5 | 4 |
| | 0.5 | -11 | -8 | 0.4 | 6 | 4 |

Forecast purchases of electricity for the Finnish production facilities are hedged with electricity forwards. The effective portion of unrealized gains and losses on hedges, net of tax is recognized in equity. Other fair value changes are recognized in income. The effective portion of realized gains and losses on hedges is recognized in income as adjustment to purchases in the period when the hedged cash flow affects income. Other realized gains and losses are recognized in other operating income and expenses.

**Hedge accounted cash flow hedges**

| | 2008 | | |
|---|---|---|---|
| | Nominal value, SEK million | Fair value, EUR million | In fair value reserve in equity, EUR million |
| Maturity 1–5 years | 1 106 | -11 | -12 |
| Maturity 5–10 years | 2 160 | -21 | -23 |
| Maturity > 10 years | 488 | -4 | -5 |
| | 3 755 | -37 | -39 |

Outokumpu Oyj has hedged currency risk related to SEK denominated long-term electricity supply agreement for the Finnish production sites. The currency derivatives, which hedge the EUR/SEK spot rate risk, mature in different periods (years 2010–2013) than the underlying electricity purchases (years 2010–2019) and will be prolonged later to match finally cash flow periods. The effective portion of hedges is recognized in fair value reserve net of tax and will be recognized in income at the period when the underlying hedged item affect income. The ineffective portion of the hedges (year 2008 gain EUR 16 millon) is recognized in income.

## 26. INVENTORIES

| € million | 2008 | 2007 |
|---|---|---|
| Raw materials and consumables | 381 | 369 |
| Work in progress | 402 | 640 |
| Finished goods and merchandise | 421 | 621 |
| Advance payments | 0 | 0 |
| | 1 204 | 1 630 |

At the end of 2008, EUR 131 million (Dec. 31, 2007: EUR 33 million) was recognized as expense, with which the carrying value of the inventories was written down to reflect its net realizable value (NRV). The most significant commodity price risk for Outokumpu is caused by fluctuation in nickel and other alloy prices. Majority of stainless steel sales contracts include an alloy surcharge clause, with the aim of reducing the risk arising from the time difference between raw material purchase and product delivery. However, the remaining risk is remarkable, because the delivery cycle in production is longer than the alloy surcharge mechanism expects. Due to that, only the price for the products to be sold in near future is known at the balance sheet date. That is why a significant part of the product prices used in NRV calculations is based on management's best estimates. Due to the fluctuation in nickel and other alloy prices the actual prices can deviate significantly from what has been used in NRV calculations at the balance sheet date.

## 27. TRADE AND OTHER RECEIVABLES

| € million | 2008 | 2007 |
|---|---|---|
| **Non-current** | | |
| Interest-bearing | | |
| Loans receivable | 130 | 126 |
| Financial assets at fair value through profit and loss | 1 | 2 |
| | 132 | 128 |
| Non interest-bearing | | |
| Trade receivables | 0 | 0 |
| Defined benefit pension assets | 54 | 51 |
| Other receivables | 0 | 0 |
| | 55 | 51 |
| **Current** | | |
| Interest-bearing | | |
| Loans receivable | 24 | 10 |
| Accrued interest income | 0 | 0 |
| | 25 | 10 |
| Non interest-bearing | | |
| Trade receivables | 571 | 832 |
| Income tax receivable | 51 | 45 |
| Prepaid insurance expenses | 8 | 6 |
| VAT receivable | 42 | 59 |
| Grants and subsidies receivable | 1 | 1 |
| Other accruals | 16 | 16 |
| Other receivables | 13 | 16 |
| | 701 | 975 |
| Doubtful receivables deducted from trade receivables | | |
| Doubtful trade receivables on Jan. 1 | 6 | 6 |
| Additions | 1 | 1 |
| Deductions | -1 | -0 |
| Recovery of doubtful receivables | -0 | -0 |
| Doubtful trade receivables on Dec. 31 | 6 | 6 |

**Age analysis of trade receivables**

| € million | 2008 | 2007 |
|---|---|---|
| Neither impaired, nor past due | 467 | 551 |
| Past due 1–30 days | 72 | 254 |
| Past due 31–60 days | 16 | 16 |
| More than 60 days | 17 | 11 |
| | 571 | 832 |

Fair value of interest-bearing non-current loan receivables is estimated to be EUR 91 million (2007: EUR 109 million). Substantial part of the difference between fair value and carrying amount relate to loan receivable from Luvata Fabrication Oy. In determining the fair value of the receivable, the priority position versus other financing, partial capitalization of interest, market credit spreds and level of market interest rates have been considered. Also the scenario of premature repayment according to agreed terms and conditions has been taken into account in the valuation. Carrying amount on current receivables is reasonable approximation of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan and trade receivables.

## 28. CASH AND CASH EQUIVALENTS

| € million | 2008 | 2007 |
|---|---|---|
| Cash at bank and in hand | 203 | 66 |
| Short term bank deposits | 2 | 1 |
| Cash equivalent marketable securities | 19 | 19 |
| | 224 | 86 |
| Bank overdrafts [1)] | -5 | -51 |
| | 219 | 35 |

1) Presented in current debt on the balance sheet.

Fair value of cash and cash equivalents does not significantly differ from the carrying value. The effective interest rate of cash equivalent marketable securities at the end of 2008 was 2.3% and the average maturity 1 day. Fixed income funds are included in the cash equivalent marketable securities.

## 29. EQUITY

**Share capital and premium fund**

| € million | Number of shares 1 000 | Share capital | Unregistered share capital | Premium fund | Total |
|---|---|---|---|---|---|
| On Jan. 1, 2007 | 181 065 | 308 | 0 | 701 | 1 009 |
| Transfers from unregistered share capital | 33 | 0 | -0 | - | - |
| Shares subscribed with 2003A option rights | 24 | 0 | - | 0 | 0 |
| Shares subscribed with 2003B option rights | 14 | 0 | - | 0 | 0 |
| Purchase of treasury shares | -1 000 | - | - | - | - |
| On Dec. 31, 2007 | 180 103 | 308 | - | 701 | 1 010 |
| Shares subscribed with 2003A option rights | 52 | 0 | - | 0 | 0 |
| Shares subscribed with 2003B option rights | 68 | 0 | - | 1 | 1 |
| Shares subscribed with 2003C option rights | 10 | 0 | - | 0 | 0 |
| **On Dec. 31, 2008** | **180 233** | **308** | **-** | **702** | **1 011** |
| Treasury shares | 1 219 | | | | |
| **Total number of shares on Dec. 31, 2008** | **181 452** | | | | |

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. No treasury shares have been purchased in 2008. The average price of treasury share purchases in 2007 was EUR 24.95.

**Fair value reserves**

| € million | 2008 | 2007 |
|---|---|---|
| Available-for-sale financial assets reserve | 20 | 53 |
| Cash flow hedge reserve | -47 | 4 |
| | -28 | 57 |

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 | 2008 | 2007 |
|---|---|---|
| Reserve fund | 14 | 15 |
| Other reserves | 1 | 1 |
| | 15 | 16 |

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.

## 29. EQUITY

**Distributable funds**

On December 31, 2008 the distributable funds of the parent company totaled EUR 924 million.

**Dividend per share**

The dividends paid in 2009 will be decided at the Annual General Meeting on March 24, 2009.
This dividend payable is not reflected in these financial statements.

| | 2009 [1] | 2008 | 2007 |
|---|---|---|---|
| Dividend per share, € | 0.50 | 1.20 | 1.10 |
| Total dividends, € million | 90 | 216 | 199 |

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

## 30. EMPLOYEE BENEFIT OBLIGATIONS

Outokumpu has established several defined benefit and defined contribution pension plans in various countries. The most significant defined benefit plans are in the UK, Germany and in the US.

ITP-pension plans operated by Alecta in Sweden and plans operated by Stichting Bedrijfspensioenfonds voor de metaalindustrie in the Netherlands are multi-employer defined benefit pension plans. It has, however, not been possible to get sufficient information for the calculation of obligations and assets by employer from the plan operators, and therefore these plans have been accounted for as defined contribution plans in the financial statements.

Other long-term employee benefits relate to retirement medical arrangements in the US and on long-term employment benefits in Finland.

**Pension and other long-term employee benefits**

**Amounts recognized in the income statement**

| € million | 2008 | 2007 |
|---|---|---|
| Defined benefit pension plans | -10 | -9 |
| Defined contribution pension expenses | -55 | -50 |
| Other long-term employee benefits | -6 | -10 |
| | -71 | -70 |

**By function**

| | Defined benefit pension plans | | Other long-term employee benefits | |
|---|---|---|---|---|
| € million | 2008 | 2007 | 2008 | 2007 |
| Cost of sales | -12 | -9 | -5 | -9 |
| Selling and marketing expenses | -2 | -2 | -0 | -0 |
| Administrative expenses | 3 | 2 | -1 | -1 |
| | -10 | -9 | -6 | -10 |

**Defined benefit cost**

| | Defined benefit pension plans | | Other long-term employee benefits | |
|---|---|---|---|---|
| € million | 2008 | 2007 | 2008 | 2007 |
| Current service cost | -7 | -10 | -1 | -1 |
| Interest cost | -20 | -22 | -2 | -1 |
| Expected return on plan assets | 25 | 25 | - | - |
| Recognized net actuarial gains and losses | -0 | -1 | -0 | -0 |
| Employee contributions | 2 | 2 | - | - |
| Past service cost | -0 | -0 | -3 | -8 |
| Gains and losses on curtailments and settlements | -9 | -5 | - | - |
| | -10 | -9 | -6 | -10 |
| | | | | |
| Actual return on plan assets | -51 | 5 | - | - |

## 30. EMPLOYEE BENEFIT OBLIGATIONS

**Amounts recognized in the balance sheet**

| | Defined benefit pension plans | | Other long-term employee benefits | |
|---|---|---|---|---|
| € million | **2008** | 2007 | **2008** | 2007 |
| Present value of funded obligations | **281** | 367 | **-** | - |
| Fair value of plan assets | **-288** | -398 | **-** | - |
| Present value of unfunded obligations | **26** | 26 | **34** | 32 |
| Unrecognized actuarial gains and losses | **-42** | -16 | **-1** | -4 |
| Unrecognized past service cost | **-0** | -0 | **1** | 1 |
| Net liability | **-24** | -21 | **34** | 29 |

**Balance sheet reconciliation**

| | Defined benefit pension plans | | Other long-term employee benefits | |
|---|---|---|---|---|
| € million | **2008** | 2007 | **2008** | 2007 |
| Net liability on Jan. 1 | **-21** | 0 | **29** | 22 |
| Net periodic cost in income statement | **10** | 9 | **6** | 10 |
| Contributions paid into the plans | **-22** | -29 | **-2** | -1 |
| Translation differences | **7** | 1 | **1** | -2 |
| Acquired subsidiaries | **2** | - | **-** | - |
| Disposal of subsidiaries | **-** | -0 | **-** | - |
| Curtailments and settlements | **-** | -2 | **-** | - |
| Net liability on Dec. 31 | **-24** | -21 | **34** | 29 |

| € million | **2008** | 2007 |
|---|---|---|
| Defined benefit pension and other long-term employee benefits | **64** | 58 |
| Defined benefit pension assets | **-54** | -51 |
| Net liability | **10** | 7 |

**Movement in plan assets**

| € million | **2008** | 2007 |
|---|---|---|
| Fair value of plan assets at Jan. 1 | **398** | 414 |
| Contributions paid into the plans | **22** | 30 |
| Benefits paid by the plans | **-14** | -16 |
| Expected return on plan assets | **21** | 24 |
| Actuarial gains and losses | **-66** | -21 |
| Translation differences | **-72** | -29 |
| Disposal of subsidiaries | **-** | -0 |
| Curtailments and settlements | **-** | -3 |
| Fair value of plan assets at Dec. 31 | **288** | 398 |

The expected contributions to be paid to the plans in 2009 are EUR 11 million.

**Historical information**

| € million | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligations | **341** | 426 | 485 | 515 | 586 |
| Fair value of plan assets | **-288** | -398 | -414 | -375 | -413 |
| Deficit in the plan | **53** | 28 | 71 | 140 | 173 |

**Allocation of plan assets**

| % | **2008** | 2007 |
|---|---|---|
| Equity securities | **39** | 45 |
| Debt securities | **43** | 43 |
| Real estate | **5** | 0 |
| Cash | **0** | 1 |
| Other (insured plans) | **13** | 11 |
| | **100** | 100 |

**Principal actuarial assumptions**

| % | **2008** | 2007 |
|---|---|---|
| Discount rate | **3.70–6.50** | 4.30–5.80 |
| Expected return on plan assets | **6.00–8.50** | 5.00–8.50 |
| Future salary increase expectation | **2.50–4.30** | 2.00–4.65 |
| Future benefit increase expectation | **2.00–4.05** | 2.00–3.40 |

## 31. PROVISIONS

| € million | Restructuring provisions | Environmental provisions | Other provisions |
|---|---|---|---|
| Provisions on Jan. 1, 2008 | 43 | 23 | 15 |
| Translation differences | -8 | -2 | -2 |
| Increases in provisions | 45 | 1 | 2 |
| Utilized during the financial year | -26 | -2 | -0 |
| Unused amounts reversed | -7 | - | -5 |
| Acquisition of subsidiaries | - | - | 0 |
| **Provisions on Dec. 31, 2008** | **46** | **20** | **10** |
| | | | |
| Provisions on Jan. 1, 2007 | 45 | 29 | 11 |
| Translation differences | -3 | -1 | -0 |
| Increases in provisions | 22 | 2 | 10 |
| Utilized during the financial year | -14 | -6 | -2 |
| Unused amounts reversed | -7 | -1 | -0 |
| Disposal of subsidiaries | - | -0 | -4 |
| Provisions on Dec. 31, 2007 | 43 | 23 | 15 |

| € million | 2008 | 2007 |
|---|---|---|
| Non-current provisions | 28 | 36 |
| Current provisions | 48 | 45 |
| | 76 | 80 |

Provisions are based on best estimates on the balance sheet date. The increases in provisions are mainly due to the closure of Sheffield Special Strip, the planned personnel reductions in the Swedish production sites and the fixed cost reduction program. The utilization of restructuring provisions in 2008 relates to the closure of Coil Products Sheffield and of Sheffield Special Strip. Majority of environmental provisions are for closing costs of landfill areas, removal of problem waste in facilities in Finland and in the UK. Other provisions comprise mainly provisions 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.

## 32. INTEREST-BEARING LIABILITIES

| € million | 2008 | 2007 |
|---|---|---|
| **Non-current** | | |
| Bonds | 225 | 225 |
| Loans from financial institutions | 751 | 625 |
| Pension loans | 132 | 132 |
| Finance lease liabilities | 51 | 52 |
| Other long-term liabilities | 12 | 2 |
| | 1 170 | 1 036 |
| | | |
| **Current** | | |
| Bonds | - | 89 |
| Loans from financial institutions | 208 | 172 |
| Pension loans | 29 | 30 |
| Finance lease liabilities | 4 | 5 |
| Other current liabilities | 260 | 124 |
| | 501 | 420 |

The fair value of non-current interest bearing liabilities is EUR 1 106 million (2007: EUR 1 023 million). The fair values are determinated by using discounted cash flow method taken into consideration market credit spread. Carrying amount on current interest bearing liabilities is reasonable approximation of their fair value.

## 32. INTEREST-BEARING LIABILITIES

**Finance lease liabilities**

**Minimum lease payments**

| € million | 2008 | 2007 |
|---|---|---|
| Not later than 1 year | 8 | 9 |
| 1–2 years | 7 | 6 |
| 2–3 years | 7 | 6 |
| 3–4 years | 7 | 6 |
| 4–5 years | 6 | 6 |
| Later than 5 years | 34 | 39 |
| Future finance charges | -13 | -15 |
| Present value of minimum lease payments | 55 | 57 |

**Present value of minimum lease payments**

| € million | 2008 | 2007 |
|---|---|---|
| Not later than 1 year | 5 | 7 |
| 1–2 years | 5 | 4 |
| 2–3 years | 4 | 4 |
| 3–4 years | 5 | 4 |
| 4–5 years | 4 | 4 |
| Later than 5 years | 31 | 35 |
| Present value of minimum lease payments | 55 | 57 |

Finance lease liabilities include lease payments on a building, which has been subleased with a finance lease agreement. Finance lease receivable relating to this agreement is EUR 8 million.

**Bonds**

| € million | Interest rate, % | In currency | 2008 | 2007 |
|---|---|---|---|---|
| Fixed interest rate | | | | |
| 2002–2008 | 6.90 | EUR 89 million | - | 89 |
| 2004–2011 | 5.00 | EUR 75 million | 75 | 75 |
| | | | 75 | 164 |
| Floating interest rate | | | | |
| 2007–2012 | 4.52 | EUR 150 million | 150 | 150 |
| | | | 225 | 314 |

## 33. TRADE AND OTHER PAYABLES

| € million | 2008 | 2007 |
|---|---|---|
| **Non-current** | | |
| Other non interest-bearing liabilities | 2 | 2 |
| | 2 | 2 |
| **Current** | | |
| Interest-bearing | | |
| Accrued interest expenses | 26 | 26 |
| Non interest-bearing | | |
| Trade payables | 236 | 444 |
| Advances received | 4 | 5 |
| Accrued employee-related expenses | 68 | 69 |
| VAT payable | 5 | 9 |
| Withholding tax and social security liabilities | 15 | 12 |
| Other accruals | 33 | 56 |
| Other payables | 16 | 13 |
| | 378 | 609 |

## 34. COMMITMENTS AND CONTINGENT LIABILITIES

| | Group | | Parent company | |
|---|---|---|---|---|
| € million | 2008 | 2007 | 2008 | 2007 |
| Mortgages and pledges on Dec. 31 | | | | |
| Mortgages on land | 189 | 122 | - | - |
| Other pledges | 5 | 0 | - | - |
| | | | | |
| Guarantees on Dec. 31 | | | | |
| On behalf of subsidiaries | | | | |
| For financing | - | - | 35 | 24 |
| For commercial and other guarantees | 55 | 41 | 46 | 32 |
| On behalf of associated companies | | | | |
| For financing | 5 | 5 | 5 | 5 |
| On behalf of discontinued operations | | | | |
| For financing | - | - | - | 6 |
| | | | | |
| Other commitments | 59 | 64 | 59 | 64 |

The Group has pledged real estate mortgages created in the Tornio production plant for a value of EUR 138 million as security for its pension loans.

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 2008 amounted to approximately EUR 144 million, out of which Outokumpu is liable for one third. Outokumpu Oyj is, in relation to its shareholding in Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Tornion Voima Oy. The net debt of Tornion Voima Oy at the year end 2008 amounted to approximately EUR 54 million, out of which Outokumpu is liable for under one fifth. These liabilities are reported under other commitments.

**Present value of minimum lease payments on operating leases**

| € million | 2008 | 2007 |
|---|---|---|
| Not later than 1 year | 11 | 13 |
| 1–2 years | 7 | 10 |
| 2–3 years | 5 | 7 |
| 3–4 years | 4 | 5 |
| 4–5 years | 4 | 4 |
| Later than 5 years | 21 | 18 |
| Present value of minimum lease payments | 52 | 56 |

Operating leases include lease agreements on Group companies' premises. The current duration of these agreements vary between 4–13 years.

Group's off-balance sheet investment commitments totaled EUR 93 million on Dec. 31, 2008 (Dec. 31, 2007: EUR 37 million).

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.

In July, 2008 Outokumpu signed a deal with Vattenfall on electricity deliveries amounting to around fifteen terawatt hours (TWh) during a ten-year period starting in 2010 in Finland and Sweden.

## 35. DISPUTES AND LITIGATIONS

In March 2001, the European Commission initiated an investigation concerning alleged participation by Outokumpu Oyj and Outokumpu Copper Products Oy in a price and market-sharing cartel with respect to copper tubes in the European Union. Outokumpu has cooperated fully with the European Commission in connection with the investigation. The investigation involving Outokumpu was subsequently divided into two separate proceedings: investigation into alleged price fixing and market sharing in the industrial copper tubes sector and investigation into alleged price fixing and market sharing in the sanitary copper tube sector.

Pursuant to its investigations the European Commission has in its decision dated December 16, 2003, found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed the applicable EU competition laws by participating in agreements and concerted practices consisting of price fixing and market sharing in the industrial copper tubes sector during a period between May 3, 1988 and March 22, 2001. As a result, the European Commission imposed an aggregate fine of EUR 18 million on Outokumpu Oyj and Outokumpu Copper Products Oy. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter and the appeal is currently pending.

Furthermore, pursuant to its investigations the European Commission has in its decision dated 3 September 2004 found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed applicable EU competition laws for participation in agreements and concerted practices consisting of price fixing and market sharing in the sanitary copper tube sector during a period between June 1988 and March 2001 and imposed an aggregate fine of EUR 36 million on Outokumpu Oyj and Outokumpu Copper Products Oy. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter and the appeal is currently pending.

## 35. DISPUTES AND LITIGATIONS

The fabricated copper products business sold in 2005, comprised among others Outokumpu Copper (USA), Inc. This company has been served with one individual damage claim for ACR Tubes under US antitrust laws. Outokumpu believes that the allegations in this case are groundless and will defend itself in any proceeding. In connection with the transaction to sell the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to this claim.

In March 2007, Finnish Customs authorities initiated a criminal investigation into the Group's Tornio Works' export practices to Russia. The preliminary investigation is connected with another preliminary investigation concerning a forwarding agency based in South-eastern Finland. It is suspected that defective and/or forged invoices have been prepared at the forwarding agency as regards export of stainless steel to Russia. The preliminary investigation is focusing on possible complicity by Outokumpu Tornio Works in the preparation of defective and/or forged invoices by the forwarding agency in question. The investigation is expected to last until spring 2009.

Directly after the Finnish Customs authorities started their investigations, Outokumpu initiated its own investigation into the trade practices connected with stainless steel exports from Tornio to Russia. In June 2007, after having carried out its investigation, at leading Finnish law firm Roschier Attorneys Ltd., concluded that it had not found evidence that any employees of Tornio Works or the company would have committed any of the crimes alleged by the Finnish Customs.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. Management believes that the outcome of such disputes will not have a material effect on the Group's financial position.

## 36. RELATED PARTY TRANSACTIONS

Subsidiaries are presented in note 38. Subsidiaries on Dec. 31, 2008.

**Transactions and balances with associated companies**

| € million | 2008 | 2007 |
|---|---|---|
| Sales | 0 | 0 |
| Purchases | -13 | -9 |
| Dividends received | 2 | 2 |
| Interest income | 1 | 0 |
| | | |
| Long-term loans receivable | - | 0 |
| | | |
| Current receivables | 7 | 9 |
| | | |
| Current trade payables | 0 | 0 |
| | | |
| Loans receivable on Jan. 1 | 9 | 9 |
| Withdrawals | - | 0 |
| Other movement | 2 | - |
| Loans receivable on Dec. 31 [1)] | 7 | 9 |

[1)] Loans to associated companies are current receivables.

The interest rates of loans granted to associated companies are based on market rates. EUR 7 million of the loans mature by the end of 2009.

**Employee benefits for key management**

| € million | 2008 | 2007 |
|---|---|---|
| Short-term employee benefits | 4 | 3 |
| Post-employment benefits | 1 | 1 |
| Share-based payments | 1 | 1 |
| | 7 | 5 |

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, 2008 (Dec. 31, 2007: EUR - million).

## 37. EVENTS AFTER THE BALANCE SHEET DATE

Outokumpu management does not have knowledge of any significant events after the balance sheet date, which would have had an impact on the financial statements.

## 38. SUBSIDIARIES ON DEC. 31, 2008

| | Country | Group holding, % |
|---|---|---|
| **General Stainless** | | |
| Contisteel N.V. [3] | Belgium | 100 |
| Eurotec N.V. [3] | Belgium | 100 |
| Finsogepar S.p.A. [3] | Italy | 100 |
| Outokumpu AS | Norway | 100 |
| Outokumpu A/S | Denmark | 100 |
| Outokumpu Asia Pacific Ltd | China | 100 |
| Outokumpu Baltic Oü | Estonia | 100 |
| Outokumpu Benelux B.V. | The Netherlands | 100 |
| Outokumpu Brasil Comercio de Metais Ltda. | Brazil | 100 |
| Outokumpu B.V. | The Netherlands | 100 |
| Outokumpu Chrome Oy | Finland | 100 |
| Outokumpu Distribution Oy | Finland | 100 |
| Outokumpu Gebouwen B.V. | The Netherlands | 100 |
| Outokumpu Ges.m.b.H | Austria | 100 |
| Outokumpu GmbH | Germany | 100 |
| Outokumpu India Private Limited | India | 100 |
| Outokumpu Istanbul Dis Ticaret Limited Sirketi [*] | Turkey | 100 |
| Outokumpu Kft. | Hungary | 100 |
| Outokumpu K.K. | Japan | 100 |
| Outokumpu, Lda.[*] | Portugal | 100 |
| Outokumpu Ltd | Ireland | 100 |
| Outokumpu Middle East FZCO [2] | United Arab Emirates | 100 |
| Outokumpu Nordic AB | Sweden | 100 |
| Outokumpu N.V. | Belgium | 100 |
| Outokumpu Pty Ltd | Australia | 100 |
| Outokumpu (Pty) Ltd | South Africa | 100 |
| Outokumpu Rossija Oy [*] | Finland | 100 |
| Outokumpu S.A.S. [1] | France | 100 |
| Outokumpu S.A. | Spain | 100 |
| Outokumpu (S.E.A.) Pte. Ltd. | Singapore | 100 |
| Outokumpu Shipping Oy | Finland | 100 |
| Outokumpu S.p.A. | Italy | 100 |
| Outokumpu Sp. z o.o. | Poland | 100 |
| Outokumpu S.R.L. [2] | Romania | 100 |
| Outokumpu s.r.o. | Czech Republic | 100 |
| Outokumpu Stainless B.V. | The Netherlands | 100 |
| Outokumpu Stainless Coil, Inc. | The United States | 100 |
| Outokumpu Stainless Holding GmbH | Germany | 100 |
| Outokumpu Stainless Ltd | The United Kingdom | 100 |
| Outokumpu Stainless Oy | Finland | 100 |
| Outokumpu UAB | Lithuania | 100 |
| Sogepar Deutschland GmbH [3] | Germany | 100 |
| Sogepar France s.a.r.l [3] | France | 100 |
| Sogepar Ireland Limited [3] | Ireland | 100 |
| So.Ge.Par S.p.A. [3] | Italy | 100 |
| Sogepar UK Limited [3] | The United Kingdom | 100 |
| ZAO Outokumpu | Russia | 100 |
| **Specialty Stainless** | | |
| Avesta Klippcenter AB [3] | Sweden | 100 |
| Outokumpu Armetal Stainless Pipe Co. Ltd. [2] | Saudi Arabia | 51 |
| Outokumpu Prefab AB | Sweden | 100 |
| Outokumpu Press Plate AB | Sweden | 100 |
| Outokumpu PSC Benelux B.V. | The Netherlands | 100 |
| Outokumpu PSC Germany GmbH | Germany | 100 |
| Outokumpu Stainless AB | Sweden | 100 |
| Outokumpu Stainless Bar, Inc. | The United States | 100 |
| Outokumpu Stainless Pipe, Inc. | The United States | 100 |
| Outokumpu Stainless Plate, Inc. | The United States | 100 |
| Outokumpu Stainless Steel (China) Co. Ltd. [2] | China | 100 |
| Outokumpu Stainless Trading (Shanghai) Co Ltd | China | 100 |
| AS Outokumpu Stainless Tubular Products | Estonia | 100 |
| Outokumpu Stainless Tubular Products AB | Sweden | 100 |
| Outokumpu Stainless Tubular Products Ltd. | Canada | 100 |
| Outokumpu Stainless Tubular Products Oy Ab | Finland | 100 |
| Polarit Welding, Inc. | The United States | 100 |
| SH-Trade Oy | Finland | 100 |
| AB Örnsköldsviks Mekaniska Verkstad | Sweden | 100 |

| | Country | Group holding, % |
|---|---|---|
| **Other operations** | | |
| 2843617 Canada Inc. | Canada | 100 |
| AvestaPolarit Pension Trustees Ltd | The United Kingdom | 100 |
| Granefors Bruk AB [*] | Sweden | 100 |
| Kopparlunden AB | Sweden | 100 |
| Orijärvi Oy [*] | Finland | 100 |
| Outokumpu Alueverkko Oy [*] | Finland | 100 |
| Outokumpu Engineering Enterprises, Inc. [*] | The United States | 100 |
| Outokumpu Exploration Ventures Pty. Ltd. | Australia | 100 |
| Outokumpu Metals Off-Take Oy [*] | Finland | 100 |
| Outokumpu Minera Española S.A. | Spain | 100 |
| Outokumpu Mines Inc. [*] | Canada | 100 |
| Outokumpu Mining Australia Pty. Ltd. | Australia | 100 |
| Outokumpu Mining Oy | Finland | 100 |
| Outokumpu Nickel Resources B.V. | The Netherlands | 100 |
| Outokumpu Rawmet, S.A. | Spain | 100 |
| Outokumpu Stainless Holdings Ltd | The United Kingdom | 100 |
| Outokumpu Stainless, Inc. | The United States | 100 |
| Outokumpu Stainless Steel Oy [*] | Finland | 100 |
| Outokumpu Treasury Belgium N.V./SA [*] | Belgium | 100 |
| Outokumpu Zinc Australia Pty. Ltd. | Australia | 100 |
| Outokumpu Zinc B.V. [*] | The Netherlands | 100 |
| Pancarelian Ltd. [*] | Bermuda | 100 |
| Princeton Gamma-Tech, Inc. | The United States | 100 |
| Viscaria AB [*] | Sweden | 100 |
| Visent Invest AB | Sweden | 100 |
| Visenta Försäkrings AB | Sweden | 100 |
| **Discontinued operations** | | |
| Outokumpu Copper Brass SA | France | 100 |
| Outokumpu Copper Fabrication AB [*] | Sweden | 100 |
| Outokumpu Copper Gusum AB | Sweden | 100 |
| Outokumpu Copper HME B.V. | The Netherlands | 100 |
| Outokumpu Copper LDM B.V. | The Netherlands | 100 |
| Outokumpu Copper Nonferro Metall GmbH | Germany | 100 |
| Outokumpu Copper Tube Hungary Kereskedelmi Kft. | Hungary | 100 |
| Outokumpu Holding UK Limited | The United Kingdom | 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

This list does not include all dormant companies or all holding companies.
The Group holding corresponds to the Group's share of voting rights.

1) Name change
2) Founded
3) Acquired
*) Shares and stock held by the parent company

# Key financial figures

## Key financial figures of the Group

| | | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| **Scope of activity** | | | | | | |
| Sales | € million | 5 122 | 5 016 | 6 154 | 6 913 | **5 474** |
| - change in sales | % | n/a | -2.1 | 22.7 | 12.3 | **-20.8** |
| - exports from and sales outside Finland, of total sales | % | 94.0 | 94.2 | 94.4 | 95.1 | **95.5** |
| Capital employed on Dec. 31 | € million | 4 941 | 3 599 | 4 371 | 4 125 | **3 867** |
| Operating capital on Dec. 31 | € million | 5 151 | 3 756 | 4 553 | 4 340 | **4 046** |
| Capital expenditure | € million | 414 | 164 | 187 | 190 | **544** |
| - in relation to sales | % | 8.1 | 3.3 | 3.0 | 2.8 | **9.9** |
| Depreciation and amortization | € million | 191 | 207 | 221 | 204 | **206** |
| Research and development costs | € million | 31 | 22 | 17 | 18 | **20** |
| - in relation to sales | % | 0.6 | 0.4 | 0.3 | 0.3 | **0.4** |
| Personnel on Dec. 31 | | 11 514 | 8 963 | 8 159 | 8 108 | **8 471** |
| - average for the year | | 11 787 | 9 579 | 8 505 | 8 270 | **8 551** |
| **Profitability** | | | | | | |
| Operating profit | € million | 436 | 57 | 824 | 589 | **-63** |
| - in relation to sales | % | 8.5 | 1.1 | 13.4 | 8.5 | **-1.2** |
| Share of results of associated companies | € million | 78 | 1 | 8 | 4 | **-2** |
| Profit before taxes | € million | 440 | -8 | 784 | 798 | **-134** |
| - in relation to sales | % | 8.6 | -0.2 | 12.7 | 11.5 | **-2.4** |
| Net profit for the period from continuing operations | € million | 379 | -24 | 606 | 660 | **-110** |
| Net profit for the period from discontinued operations | € million | 7 | -339 | 357 | -18 | **-79** |
| Net profit for the financial year | € million | 386 | -363 | 963 | 641 | **-189** |
| - in relation to sales | % | 7.5 | -7.2 | 15.7 | 9.3 | **-3.5** |
| Return on equity | % | 16.8 | -15.9 | 37.5 | 20.0 | **-6.2** |
| Return on capital employed | % | 9.6 | 1.3 | 20.7 | 13.9 | **-1.6** |
| Return on operating capital | % | 9.2 | 1.3 | 19.8 | 13.2 | **-1.5** |
| **Financing and financial position** | | | | | | |
| Liabilities | € million | 4 571 | 3 355 | 3 270 | 2 521 | **2 541** |
| Net interest-bearing debt | € million | 2 435 | 1 537 | 1 300 | 788 | **1 072** |
| - in relation to sales | % | 47.5 | 30.6 | 21.1 | 11.4 | **19.6** |
| Net financial expenses | € million | 75 | 67 | 48 | -206 | **69** |
| - in relation to sales | % | 1.5 | 1.3 | 0.8 | -3.0 | **1.3** |
| Net interest expenses | € million | 66 | 65 | 62 | 58 | **54** |
| - in relation to sales | % | 1.3 | 1.3 | 1.0 | 0.8 | **1.0** |
| Interest cover | | 7.6 | 0.9 | 13.6 | 14.9 | **-1.5** |
| Share capital | € million | 308 | 308 | 308 | 308 | **308** |
| Other equity | € million | 2 198 | 1 754 | 2 763 | 3 029 | **2 486** |
| Equity-to-assets ratio | % | 35.8 | 38.2 | 47.9 | 56.5 | **52.4** |
| Debt-to-equity ratio | % | 97.2 | 74.5 | 42.3 | 23.6 | **38.4** |
| Net cash generated from operating activities | € million | -128 | 459 | -35 | 676 | **656** |
| Dividends | € million | 91 | 81 | 199 | 216 | **90** [1] |

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

# Quarterly information

**Income statement by quarter** [1)]

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

**Stainless steel deliveries by quarter** [2)]

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

1) Full year figures are audited.
2) Figures are not audited.

# Share-related key figures

| | | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Earnings per share | € | 2.12 | -2.01 | 5.31 | 3.52 | **-1.05** |
| Cash flow per share | € | -0.71 | 2.54 | -0.19 | 3.74 | **3.64** |
| Equity per share | € | 13.65 | 11.31 | 16.87 | 18.53 | **15.50** |
| Dividend per share | € | 0.50 | 0.45 | 1.10 | 1.20 | **0.50** [1] |
| Dividend payout ratio | % | 23.6 | neg. | 20.7 | 33.9 | **neg.** |
| Dividend yield | % | 3.8 | 3.6 | 3.7 | 5.7 | **6.0** |
| Price/earnings ratio (P/E) | | 6.2 | neg. | 5.6 | 6.0 | **neg.** |
| Development of share price | | | | | | |
| Average trading price | € | 12.52 | 11.89 | 19.77 | 24.94 | **18.99** |
| Lowest trading price | € | 9.93 | 9.63 | 12.60 | 18.48 | **6.33** |
| Highest trading price | € | 14.46 | 14.72 | 30.39 | 31.65 | **33.99** |
| Trading price at the end of the period | € | 13.15 | 12.55 | 29.66 | 21.21 | **8.28** |
| Change during the period | % | 22.1 | -4.6 | 136.3 | -28.5 | **-61.0** |
| Change in the OMXH index during the period | % | 3.3 | 31.1 | 17.9 | 20.5 | **-53.4** |
| Market capitalization at the end of the period [2] | € million | 2 377 | 2 272 | 5 369 | 3 820 | **1 492** |
| Development in trading volume | | | | | | |
| Trading volume | 1 000 shares | 123 832 | 179 289 | 319 345 | 516 489 | **511 080** |
| In relation to weighted average number of shares | % | 68.8 | 99.0 | 176.4 | 285.5 | **283.6** |
| Adjusted average number of shares [2] | | 180 056 920 | 181 031 415 | 181 033 168 | 180 922 336 | **180 184 845** [3] |
| Number of shares at the end of the period [2] | | 180 752 022 | 181 031 952 | 181 031 952 | 180 103 193 | **180 233 280** |

[1] The Board of Directors' proposal to the Annual General Meeting.
[2] Excluding treasury shares.
[3] The average number of shares for 2008 diluted with the 2003A, 2003B and 2003C options was 181 190 245. These have a diluting effect of 0.01 euro on earnings per share in 2008.

# 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 | 2008 | 2007 |
|---|---|---|
| **Sales** | 228 | 187 |
| Cost of sales | -145 | -104 |
| **Gross margin** | 83 | 83 |
| Other operating income | 19 | 157 |
| Selling and marketing expenses | -45 | -35 |
| Administrative expenses | -62 | -57 |
| Research and development expenses | -3 | -3 |
| Other operating expenses | -64 | -28 |
| **Operating profit** | -71 | 117 |
| Financial income and expenses | 367 | 69 |
| **Profit before extraordinary items** | 296 | 186 |
| Extraordinary items | 40 | 135 |
| **Profit before appropriations and taxes** | 336 | 322 |
| Appropriations | | |
| Change in depreciation difference | 0 | 1 |
| Income taxes | -2 | -22 |
| **Profit for the financial year** | 334 | 300 |

The parent company's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

# Balance sheet of the parent company

| € million | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| | | |
| **Non-current assets** | | |
| | | |
| Intangible assets | 22 | 24 |
| | | |
| Property, plant and equipment | 39 | 26 |
| | | |
| Long-term financial assets | | |
| Shares in Group companies | 4 046 | 3 684 |
| Long-term loan receivables from Group companies | 460 | 661 |
| Shares in associated companies | 18 | 18 |
| Other shares and holdings | 19 | 20 |
| Other long-term financial assets | 130 | 114 |
| | 4 675 | 4 497 |
| | | |
| **Total non-current assets** | 4 735 | 4 547 |
| | | |
| | | |
| **Current assets** | | |
| | | |
| Current receivables | | |
| Interest-bearing | 133 | 73 |
| Non interest-bearing | 523 | 489 |
| | 656 | 562 |
| | | |
| Cash and cash equivalents | 164 | 41 |
| | | |
| **Total current assets** | 820 | 602 |
| | | |
| **TOTAL ASSETS** | 5 555 | 5 149 |

| € million | 2008 | 2007 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| | | |
| **Shareholders' equity** | | |
| Share capital | 308 | 308 |
| Premium fund | 709 | 708 |
| Retained earnings | 590 | 507 |
| Profit for the financial year | 334 | 300 |
| | 1 942 | 1 823 |
| | | |
| **Untaxed reserves** | | |
| Accumulated depreciation difference | 0 | 1 |
| | | |
| **Liabilities** | | |
| | | |
| **Non-current liabilities** | | |
| Interest-bearing | 1 469 | 1 305 |
| Non interest-bearing | 2 | 1 |
| | 1 470 | 1 306 |
| | | |
| **Current liabilities** | | |
| Interest-bearing | 1 947 | 1 916 |
| Non interest-bearing | 195 | 104 |
| | 2 142 | 2 020 |
| | | |
| **Total liabilities** | 3 613 | 3 326 |
| | | |
| **TOTAL EQUITY AND LIABILITIES** | 5 555 | 5 149 |

# Cash flow statement of the parent company

| € million | 2008 | 2007 |
|---|---|---|
| **Cash flow from operating activities** | | |
| | | |
| Profit for the financial year | 334 | 300 |
| Adjustments for | | |
| Taxes | 2 | 22 |
| Depreciation | 7 | 7 |
| Impairments | 2 | 16 |
| Profit and loss on sale of property, plant and equipment | 1 | -155 |
| Interest income | -55 | -115 |
| Dividend income | -460 | -112 |
| Interest expenses | 145 | 141 |
| Change in provisions | 0 | -2 |
| Group contributions | -40 | -135 |
| Exchange gains and losses | -41 | 4 |
| Loss on the sale of copper tube business | 57 | - |
| Other adjustments | 1 | 16 |
| | -379 | -314 |
| Change in working capital | | |
| Change in trade and other receivables | -88 | -5 |
| Change in trade and other payables | 117 | -19 |
| | 29 | -24 |
| | | |
| Dividends received | 460 | 112 |
| Interest received | 43 | 124 |
| Interest paid | -143 | -134 |
| Income taxes paid | 14 | -99 |
| | 374 | 4 |
| | | |
| **Net cash from operating activities** | 358 | -34 |
| | | |
| **Cash flow from investing activities** | | |
| Acquisition of subsidiaries and other shares and holdings | -341 | -1 501 |
| Purchases of property, plant and equipment | -11 | -0 |
| Purchases of intangible assets | -26 | -9 |
| Proceeds from disposal of subsidiaries | 57 | 0 |
| Proceeds from sale of other shares and holdings | - | 161 |
| Disposals of property, plant and equipment | 0 | 0 |
| Disposals of intangible assets | 22 | 1 |
| Change in loan receivables | 176 | -234 |
| | | |
| **Net cash from investing activities** | -123 | -1 582 |
| | | |
| **Cash flow before financing activities** | 236 | -1 617 |
| | | |
| **Cash flow from financing activities** | | |
| Purchase of treasury shares | - | -25 |
| Borrowings of long-term debt | 311 | 152 |
| Repayments of long-term debt | -130 | -355 |
| Change in current debt | -41 | 233 |
| Dividends paid | -216 | -199 |
| Cash flow from group contributions | 79 | 63 |
| Shares subscribed with options | 1 | 0 |
| Other financing cash flow | -115 | 1 773 |
| | | |
| **Net cash from financing activities** | -113 | 1 642 |
| | | |
| **Net change in cash and cash equivalents** | 123 | 26 |
| | | |
| **Net change in cash and cash equivalents in the balance sheet** | 123 | 26 |

# Statement of changes in equity of the parent company

| € million | Share capital | Unregistered share capital | Premium fund | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Equity on Jan. 1, 2007** | **308** | **0** | **708** | **731** | **1 747** |
| Profit for the financial year | - | - | - | 300 | 300 |
| Transfers within equity | 0 | -0 | - | - | - |
| Dividends | - | - | - | -199 | -199 |
| Purchase of treasury shares | - | - | - | -25 | -25 |
| Shares subscribed with options | 0 | - | 0 | - | 0 |
| **Equity on Dec. 31, 2007** | **308** | **-** | **708** | **807** | **1 823** |
| Profit for the financial year | - | - | - | 334 | 334 |
| Dividends | - | - | - | -216 | -216 |
| Shares subscribed with options | 0 | - | 1 | - | 1 |
| **Equity on Dec. 31, 2008** | **308** | **-** | **709** | **924** | **1 942** |

**Distributable funds on Dec. 31**

| € million | 2008 | 2007 |
|---|---|---|
| Retained earnings | 590 | 507 |
| Profit for the financial year | 334 | 300 |
| Distributable funds on Dec. 31 | 924 | 807 |

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