Press release from Avesta Sheffield AB

Avesta Sheffield AB (publl)

Year-end Report for April – December 2000

The Avesta Sheffield AB (publ) last financial year was from 1 April to 31 December 2000. From 1 January 2001, the financial year is the calendar year.

- **The combination of Avesta Sheffield with Outokumpu Steel was completed on 22 January 2001. The new AvestaPolarit Group is now operational, and Avesta Sheffield is a subsidiary of AvestaPolarit Oyj Abp.**

- **The profit after financial items for the nine-month financial year improved significantly to SEK 860 million (219m). This corresponds to earnings per share after full tax of SEK 3.92 (1.04). Deliveries for the 2000 calendar year were an annual record for the Group.**

- **The result after financial items for the third quarter was a loss of SEK -10 million (123m) after providing for merger costs of SEK 50 million. This corresponds to earnings per share after full tax of SEK -0.15 (0.63) for the quarter. Output was reduced in December to adjust stocks in line with sharply reduced demand.**

- **The reduction in demand in the third quarter was caused by stock reductions, mainly by stockists. Underlying usage of stainless steel continues to grow and demand will increase as stock adjustment ends. Prices are also expected to recover after a period of weakness.**

- **The Board of Directors has decided to recommend that no dividend be paid in respect of the 2000 financial year as the Board of AvestaPolarit Oyj Abp will separately decide on any dividend to be paid to shareholders of AvestaPolarit.**

		April - Dec 2000	**April - Dec 1999**
Net sales	**(SEKm)**	**14,871**	**10,814**
Operating result before depreciation	(SEKm)	1,341	666
Result after financial items	**(SEKm)**	**860**	**219**
Net result for the period	(SEKm)	620	164
Earnings per share after tax	(SEK)	3.92	1.04
Return on equity after tax	(%)	10	3
Return on capital employed	(%)	12	4
Net borrowings at financial year-end	**(SEKm)**	**-2,260**	**-2,317**

"Avesta Sheffield's merger with Outokumpu Steel has now been successfully completed. Our first task now will be to integrate the two combining companies quickly and effectively to secure operational benefits and start realising the synergies. As we progress through this integration period, we must naturally ensure that our business is run in the most cost-efficient manner, so that we can continue to offer customers the best products and services available. By projecting a single brand to the market we will remind existing and potential customers of the values we stand for and we can also support our employees in the process to integrate several cultures in a truly multinational environment," says Avesta Sheffield's CEO, Stuart Pettifor.

AvestaPolarit is formed

Avesta Sheffield and Outokumpu Steel combined on 22 January 2001 to form AvestaPolarit, a leading and growth-oriented stainless steel company. The company is the world's second largest stainless steel producer with net sales in excess of EUR 3 billion. This new company employs about 8,900 people and has major production facilities in Sweden, Finland, the UK and the United States.

The combination was carried out through an Exchange Offer in which shareholders of Avesta Sheffield were offered one Outokumpu Steel share for each Avesta Sheffield share. Shareholders representing 94.7 per cent of the shares and voting rights approved the Exchange Offer during the initial acceptance period. This met the conditions set for completion of the combination. After the initial acceptance period for the Exchange Offer, Outokumpu Oyj owns 56.4 per cent and Corus Group plc 23.6 per cent of AvestaPolarit. The acceptance period was subsequently extended, for the shares not tendered during the initial acceptance period, until 2 February 2001. This increased the level of acceptance of the Exchange Offer to 98.6 per cent, and reduced the holding of Outokumpu Steel to 55.3 per cent and Corus Group plc to 23.2 per cent. In order to increase the liquidity of the share, Outokumpu Oyj has agreed to reduce its holding to not more than 40 per cent within three years. Outokumpu Steel Oyj was renamed AvestaPolarit Oyj Abp on 24 January 2001. AvestaPolarit's share was listed on the OM Stockholm and Helsinki Exchanges on 30 January 2001.

Avesta Sheffield AB, now a 98.6 per cent owned subsidiary of AvestaPolarit Oyj Abp, will be delisted from the OM Stockholm Exchange on 23 February 2001. The process has now commenced for compulsory redemption of the remaining shares that were not exchanged for AvestaPolarit shares.

GROUP

Market

In contrast to the improvements achieved in the stainless steel market during the first half of 2000, there has been a marked turnaround in terms of both demand and prices in the European market during the final quarter. The period has been characterised by heavy de-stocking, resulting in weaker than expected consumption. European coil shipments reflect this softening of demand, showing a decline of almost seven per cent compared to the corresponding final period in 1999.

The fall in nickel prices was a further contributing factor responsible for customers reducing inventory levels. As alloy surcharges have fallen in response to declining nickel prices there has been a move to liquidate stocks, which had been built up by speculative demand during the first half of 2000.

Market sentiment was also adversely affected by a slowdown in economic growth, particularly in the USA, and the potential impact this could have on the global economy.

Demand in Asia continued to lose momentum during the final quarter. A combination of a rapid slowdown in domestic consumption in some of the key South East Asian economies, and worries that manufacturers dependent on the US market would suffer in response to the slow-down in the US economy, resulted in weak market activity. The picture was similar in the USA, where high levels of inventory amongst stockists and end users, coupled with the sudden deceleration of growth in the US economy, contributed to underlying demand remaining subdued.

Base prices for coil products were adversely affected by the weaker market conditions. Base prices in Germany for example fell by six per cent compared to the previous quarter. This downward trend was also apparent, but even more severe, in Asia where prices fell by around eleven per cent.

For other products, however, there has been less volatility in both volume and pricing terms. Quarto plate consumption continued in line with recent trends, as project-related activity encouraged further marginal signs of improvement. Long product performance was also in line with expectations. Precision strip demand was robust in all segments, remaining largely unaffected by the de-stocking cycle currently affecting coil. Orderbooks were strong, which enabled base price improvements to take place during the quarter.

Net sales

Delivered tonnage of 676,000 tonnes (645,000) for the nine months to December was 5 per cent up on the same period last year, which is in line with the normal underlying growth of the stain-less steel market. Deliveries in the third quarter totalled 216,000 tonnes (223,000), which was 3 per cent below the same period last year. Although end-user demand remained firm through the quarter, order intake from stockists has remained subdued since the summer as they have reduced their stock levels. These stock reductions resulted partly from the falling nickel price during the nine-month period, but also from high deliveries by producers during the first half of 2000.

Net sales for the nine months to December were SEK 14,871m (10,814m), which was an increase of 38 per cent compared with the same period last year. Net sales for the third quarter were SEK 4,929m (3,789m). Of the 30 per cent year-on-year increase in net sales in the third quarter, 29 per cent relates to price and mix improvements, including the effect of the Alloy Adjustment Factor, whilst 4 per cent is a result of improved exchange rates, offset by a reduction of 3 per cent due to lower deliveries.

Net sales/deliveries (April to December)

Market	Net sales SEKm		Change in %	Net deliveries Kton		Change in %
	2000	**1999**		**2000**	**1999**	
Europe	11,402	8,143	40	521	493	6
North America	2,245	1,895	18	86	94	-9
Asia	863	534	62	51	44	16
Rest of World	361	242	49	18	14	29
Total sales/ net deliveries	**14,871**	**10,814**	**38**	**676**	**645**	**5**

Raw materials
Nickel prices reduced through most of the nine-month period to December, falling from USD 4.64 per lb at the start of the period to approximately USD 3 per lb at end December 2000. Since the turn of the year, however, nickel prices have become more volatile as a result of increasing uncertainty in the market. This price volatility has been caused by, amongst other factors, destocking at both stainless steel producers and stockists, potential supply problems at producers (including the effect of a strike at the Falconbridge plant in Canada), speculative activity and varying availability of stainless steel scrap. There appears to be a consensus amongst analysts that, despite the current short-term uncertainty, the nickel market will move into over-supply in the course of 2001 and will remain in surplus until 2004. This is likely to lead to a further weakening in nickel prices over this period.
The Group continued to benefit from the increased use of stainless steel scrap in its production. Prices for this secondary source of ferroalloys tended to follow the movement in primary ferroalloy prices, but at a significant discount to them.

Chromium prices in 2000 were approximately 20 per cent above 1999 levels. However, current market conditions have resulted in producers markedly reducing their initial price expectations for the early part of 2001. Molybdenum prices reduced by approximately 10 per cent in the second half of 2000 but recent tightness of material for prompt availability has led to signs of price increases. Despite these recent moves, the market is still forecast to be significantly oversupplied throughout 2001.

There was a positive effect from price change in inventory of SEK 7m (513m) for the nine month period to December. This all arose in the third quarter. This positive effect arose, despite the reduction in nickel prices, because of lower inventory levels and reduced stock provisions.

Result
The operating result for the third quarter was a profit of SEK 20m (147m). In December, in response to low demand and reducing selling prices, the Group decided to cut back production in order to reduce stocks and conserve working capital. The result after financial items was a loss of SEK –10m (123m). The operating result for the nine-month period was a profit of SEK 969m (274m). The result after financial items was a profit of SEK 860m (219m). The improvement in the operating result for the nine-month period compared to the same period last year was principally the result of:
- A 5 per cent increase in sales volumes to 676,000 tonnes, which improved the result by an estimated SEK 100m.
- Increased conversion margins (the difference between net selling prices and raw material costs) totalling SEK 1,750m, mainly resulting from the improvement in base selling prices across the Group’s product range during the first six months of the period.
- The share of profits of associated companies improved the result by SEK 51m compared with last year.

These improvements were offset by:
- Price changes in inventory which affected the result by SEK 7m compared with SEK 513m for the same period last year.
- Adverse exchange rate movements related to the weakness of the euro and to the strength of the US dollar against the Swedish krona, the net cost of which is estimated at SEK -400m compared with the same period last year.
- Cost increases related to the reduced level of production, particularly during December when there were extended plant shutdowns, increased cost levels related mainly to plant maintenance and also net additional costs related to acquisitions and disposals. There were also non-recurring costs of SEK 50m associated with the merger.

Financial position
The cash inflow was SEK 399m (-1,290m) during the nine-month period, after non-recurring expenditure of SEK 70m on items provided against profits in prior years. Net borrowings (interest-bearing liabilities less liquid assets) were SEK 2,260m as at 31 December 2000, compared with net borrowings of SEK 2,317m as at 31 December 1999 and SEK 2,343m as at 31 March 2000. The gross interest-bearing liabilities as at 31 December 2000 were SEK 2,739m (2,717m at 31 December 1999 and 2,903m at 31 March 2000), and liquid assets were SEK 479m (400m at 31 December 1999 and 560m at 31 March 2000).

The committed credit facilities of Avesta Sheffield comprise:

a) a five year multi-currency committed credit facility of EUR 300 million, established with a consortium of 14 banks in May 2000.
b) a five year multi-currency committed credit facility of USD 70 million to Avesta Sheffield NAD Inc and its US subsidiaries. This facility expires in July 2001.

The Group’s debt/equity (gearing) ratio improved from March 2000 to 26 per cent. The solvency ratio also improved from March 2000 to 55 per cent. Both ratios reflect the improved profitability in 2000, which resulted in an increase in equity compared with March 2000.

		Dec 2000	March 2000	Dec 1999
Solvency	(%)	55	53	51
Gearing	(%)	26	28	31

The capital employed in the Group increased by SEK 247m to SEK 11,384m. Fixed assets increased by SEK 443m to SEK 6,305m. Working capital increased by SEK 64m to SEK 5,956m. Inventories remained relatively high because of destocking by customers, with accounts receivable and accounts payable both reducing because of the lower level of activity.

Equity increased by SEK 403m to SEK 8,571m as a result of the improved profitability in 2000.

Investments and acquisitions
Capital expenditure for the nine-month period to December was SEK 536m (278m), of which SEK 274m was incurred in the third quarter. Capital expenditure increased from summer 2000 as the major projects approved in late 1999 and early 2000 were progressed.

The most significant projects incurring expenditure during the nine-month period were:

- installation of a ladle arc furnace and craneage at the Avesta Melt Shop to reduce costs and improve production flexibility, commissioned October/December 2000 total project cost: SEK 112m.
- installation of additional cold rolling capacity of 30,000 tonnes per annum, including an extra 15,000 tonnes per annum thinner gauge material, at Sheffield Coil, commissioned December 2000. Total project cost: SEK 167m.
- installation of equipment at Nyby to increase thin cold rolled capacity by 15,000 tonnes per annum, commissions October 2001. Total project cost: SEK 148m.
- increase in production capacity from 210,000 to 330,000 tonnes per annum of continuously produced wide plate at KBR in Avesta, commissions end 2001. Total project cost: SEK 328m.

The investment programme has been aimed at reducing costs and improving operational efficiency, and in projects with a strong customer or market focus. The projects form part of the joint Business Plan developed for AvestaPolarit.

Acquistions made during the nine-month period were:

- the purchase of Smidesbolaget L. Persson AB in Degerfors, Sweden, for SEK 26m, plus borrowings of SEK 33m, taken over at the time of acquisition in May 2000
- the purchase of the Deroulinox stainless steel service centre in Tours, France, for FFR 22m in November 2000
- the purchase of the Triasas stainless steel stockholder in Kaunas, Lithuania, for USD 0.6m in November 2000

These investments and acquisitions have been financed from operating cash flow and from the Group's committed credit facilities, which are multi-currency syndicated bank loans.

Personnel

The number of employees at the end of December 2000 totalled 6,471, a net increase of 163 from March 2000. This net increase includes approximately 100 additional employees related to acquisitions made during the period (see 'Investments and acquisitions' above).

PARENT COMPANY

The Parent Company reported net sales of SEK 6,730m (4,504m) and a result after financial items of SEK 180m (15m) for the nine-month period to December 2000. The improvement in profitability is attributable to substantially the same items as explained in 'Result' above. Capital expenditure amounted to SEK 261m (123m) and liquid assets stood at SEK 61m (140m) as at 31 December 2000.

MARKET OUTLOOK

Despite some slowing down in rates of economic growth the underlying demand for stainless steel is expected to continue to grow through 2001, once the current destocking phase comes to an end. In Asia there are indications that market activity is beginning to improve, supported by improved stainless steel demand from China. Capacity utilisation levels are forecast to remain above trend. The outlook for prices is uncertain but it is believed that there will be some recovery from current levels as demand improves.

Quarto plate consumption should gradually improve as more project-related investment, particularly in the oil and gas sector, is anticipated to come on stream during the year. Base prices, however, are not expected to show any improvements in the short term, due to the supply/demand imbalance currently seen in the market.

The outlook for precision strip products remains buoyant, with potential for further price increases expected to be supported by firm demand.

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of shareholders of Avesta Sheffield AB will be held at 9.00 a.m. on Monday, 23 April 2001 at Avesta Sheffield AB head office in Stockholm, Sweden.

The Annual General Meeting of shareholders of AvestaPolarit Oyj Abp will be held at 3 p.m. on Monday, 23 April 2001 at Outokumpu Oyj head office in Espoo, Finland.

DIVIDEND

The Board of Directors have decided to recommend that no dividend be paid in respect of the 2000 financial year. The Board of Directors of AvestaPolarit will separately decide about any dividend to be paid to shareholders of AvestaPolarit. Both of these recommendations are subject to approval at the respective Annual General Meetings of Avesta Sheffield AB and AvestaPolarit Oyj, both to be held on 23 April 2001.

ACCOUNTING POLICIES

With effect from 1 January 2001, Avesta Sheffield AB will adopt the accounting policies to be applied by AvestaPolarit Oyj. These will be based on Finnish Accounting Standards. Management expects that a reconciliation of the profit for the financial period and equity as reported by AvestaPolarit to International Accounting Standards (IAS) will show no material differences. However, it is not yet known how a new standard on recognition and measurement of financial instruments (IAS 39) will affect this reconciliation.

FINANCIAL REPORTS

Avesta Sheffield AB is now a subsidiary of AvestaPolarit Oyj Abp and will be de-listed from the OM Stockholm Exchange. The last trading day will be 23 February 2001. As a result, the Avesta Sheffield Annual Report for the nine-month period to 31 December 2000 will comprise only the Directors' Report and the Financial Statements and accompanying notes. No future Interim Report will be issued by Avesta Sheffield AB.

Stockholm, 22 February 2001

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CONSOLIDATED INCOME STATEMENT

SEK million	Oct-Dec 2000	Oct-Dec 1999	April-Dec 2000	April-Dec 1999	Jan-Dec 2000	April 1999-March 2000
Net sales	**4,929**	**3,789**	**14,871**	**10,814**	**20,150**	**16,093**
Operating expenses	-4,785	-3,503	-13,530	-10,148	-17,662	-14,280
Depreciation according to plan	-140	-125	-397	-366	-522	-491
Share of result in associated companies	16	-14	25	-26	20	-31
Operating result	**20**	**147**	**969**	**274**	**1,986**	**1,291**
Financial items	-30	-24	-109	-55	-139	-85
Result after financial items	**-10**	**123**	**860**	**219**	**1,847**	**1,206**
Tax	-8	-26	-227	-54	-408	-235
Minority interests	-6	2	-13	-1	-18	-6
Net result for the period	**-24**	**99**	**620**	**164**	**1,421**	**965**

Key numbers

Earnings per share after full tax (SEK)	-0.15	0.63	3.92	1.04	8.99	51.70
Return on equity after tax (%)	-1	5	10	3	17	13
Return on capital employed (%)	1	7	12	4	19	14
Equity per share (SEK)	54.25	46.45	54.25	46.45	54.25	51.70
Number of shares (million)	158	158	158	158	158	158

Definition of key numbers

Return on equity after tax
The result after taxation as a percentage of the average equity.

Return on capital employed
The result before financial items plus financial income as a percentage of the average capital employed.

Equity per share
Equity divided by the number of shares at the financial year-end.

Avesta Sheffield has chosen to report equity per share rather than net worth per share. To be able to report net worth, it is necessary to establish with reasonable certainty an objective market value for the (fixed) assets. The value of the asset should thus be largely independent of the company's business operations.

SUMMARY OF THE BALANCE SHEET

SEK million	31.12.2000	31.12.1999	31.03.2000
ASSETS			
Fixed assets			
Intangible assets	117	103	105
Tangible assets	5,697	5,414	5,435
Financial assets	491	316	322
Total fixed assets	**6,305**	**5,833**	**5,862**
Inventories	**4,687**	**4,369**	**4,427**
Current receivables			
Accounts receivable	3,773	3,524	4,183
Other receivables	252	334	495
Prepaid costs and accrued income	170	152	151
Total current receivables	**4,195**	**4,010**	**4,829**
Short-term investments	**50**	**163**	**79**
Cash and bank	**429**	**237**	**481**
Total current assets	**9,361**	**8,779**	**9,816**
TOTAL ASSETS	**15,666**	**14,612**	**15,678**
EQUITY AND LIABILITIES			
Equity	**8,571**	**7,339**	**8,168**
Minority interests	**74**	**61**	**66**
Provisions			
Provisions for pensions and similar commitments[1])	534	377	522
Provisions for deferred taxation	1,003	626	800
Other provisions	193	413	235
Total provisions	**1,730**	**1,416**	**1,557**
Long-term liabilities			
Liabilities to credit institutions	1,705	1,315	2,203
Other liabilities – interest-bearing	114	127	112
Other liabilities – non-interest-bearing	86	70	52
Total long-term liabilities	**1,905**	**1,512**	**2,367**
Current liabilities			
Accounts payable	1,683	1,937	2,145
Liabilities to credit institutions	546	942	235
Other liabilities– non-interest-bearing	277	478	357
Accrued costs and prepaid income	880	927	783
Total current liabilities	**3,386**	**4,284**	**3,520**
TOTAL EQUITY AND LIABILITIES	**15,666**	**14,612**	**15,678**

[1])Provisions include SEK 374 m (333m at 31 December 1999 and 353m at 31 March 2000) of interest-bearing pension liabilities

CASH FLOW STATEMENT

SEK million	**April - Dec 00**	**April - Dec 99**	**Jan - Dec 00**
Operating income and costs			
Result before appropriations and tax	860	219	1,847
Depreciation and write-downs against earnings	401	368	524
Other items, net	-66	-104	-170
Working capital			
Increase(-)/reduction(+) in inventories	-251	-1,278	-309
Increase(-)/reduction(+) in interest-free receivables	628	-753	-148
Increase(+)/reduction(-) in interest-free liabilities	-441	646	-527
From operations	**1,131**	**-902**	**1,217**
Change in fixed assets	**-629**	**-253**	**-741**
Sale/acquisition of subsidiary companies	**-103**	**-135**	**-103**
Cash Flow	**399**	**-1,290**	**373**
External financing	**-480**	**1,097**	**-294**
Change in liquid assets	**-81**	**-193**	**79**
LIQUID ASSETS AT PERIOD END	**479**	**400**	**479**