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AvestaPolarit/Outokumpu Steel Annual Results for 2000

Outokumpu Steel performed excellently in 2000. Operating profit was almost five times the previous year's level, reaching EUR 246 million. Profit before extraordinary items was EUR 241 million. The Board proposes a dividend of EUR 0.15 per share.

Outokumpu Steel Oyj and the Swedish company Avesta Sheffield AB (publ) joined forces on 22 January, 2001 and formed a leading stainless steel manufacturer AvestaPolarit.

These financial statements for AvestaPolarit cover the operations during 2000 of Outokumpu Steel Oyj only and for the sake of clarity the name Outokumpu Steel is therefore used throughout this report.

Avesta Sheffield published its financial statements earlier today. Avesta Sheffield's figures were not consolidated with the AvestaPolarit Group.

AvestaPolarit's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be paid out for 2000.

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SUMMARY OF THE CORPORATE REVIEW OF THE YEAR

Prices turned down

The growth rate of the world economy peaked in mid-2000 and then slowed down towards year-end. Economic growth for the year exceeded 4%. Both industrial production and industrial investment increased strongly. Slower growth began during the second half of the year in the United States, where more stringent monetary policy and rising oil prices curbed the robust growth that had continued for many years. Growth in Europe and Asia also slowed down during the second half of the year.

Demand and prices for metals rose considerably from the previous year and the overall metals market was better than average. Slower growth in the world economy towards year end, however, had an adverse effect on the metals market, which had recovered during the first half of the year. Destocking by customers started in the second half of the year causing a decline in the price and demand of stainless steel. The prices of the key raw materials for stainless steel, nickel and ferrochrome, also began to decline markedly.

Consumption of stainless steel rose on the previous year by around 7% and the average conversion margins rose 46% despite a decline at year-end. The supply of stainless steel scrap increased substantially, putting a damper on the demand for ferrochrome, the price of which increased by 19%. The average price of nickel rose by 44% despite a final-quarter decline.

Strong increase in net sales

Outokumpu Steel's net sales increased 51% from the previous year and amounted to EUR 1,177 million. Growth was mainly due to the price increase for stainless steel and ferrochrome, while stainless steel and ferrochrome delivery volumes were slightly less than the previous year.

Among Outokumpu Steel's business units, the biggest increase in net sales was shown by Outokumpu Polarit, which handles stainless steel production. Both Outokumpu Chrome, which operates a chromium mine and ferrochrome smelter, and Ja-Ro, which processes stainless steel into tubes and fittings, also showed an increase in net sales. In addition to the company's stainless steel production in Tornio, Outokumpu Polarit's figures include a steel processing unit in the Netherlands, a service centre in Germany and a Finnish forwarding company.

Asian trade picked up during the year under review and the region's share of sales rose to 15%. Meanwhile, Europe's share of sales fell to 76%, while the North American share remained unchanged.

Stainless steel production went smoothly and production volumes rose beyond the record 1999 level.

Excellent financial performance

Outokumpu Steel's result was substantially better in 2000 than the previous year. Consolidated operating profit was nearly five times the previous year's figure, reaching EUR 246 million (1999: EUR 52 million). Operating profit was boosted primarily by the rise in the prices of stainless steel and ferrochrome and the strengthening of the dollar.

Final-quarter profitability improved somewhat from the previous quarter and doubled compared with the same period in 1999. EUR 54 million in operating profit was generated in October-December.

Outokumpu Steel's profit before extraordinary items rose to EUR 241 million (1999: EUR 47 million). An amount of EUR 11 million due to changes in inventory valuation method was recorded under extraordinary income. The comparison figures in the "Corporate Review for the Year" have been restated to conform to the new accounting principle. The change is explained in more detail in the notes to the income statement and balance sheet. Group contributions to Outokumpu Oyj of EUR 113 million have been entered under extraordinary expenses. The payment of Group contributions was as agreed in the Combination Agreement and disclosed in detail in the Prospectus for the Exchange Offer.

Profit for the financial year after Group contributions and taxes amounted to EUR 101 million (1999: a loss of EUR 17 million). Earnings per share were EUR 0.88 (1999: EUR 0.15) and the return on capital employed 33% (1999: 8%).

Financial position further improved

Outokumpu Steel's financial position improved significantly in the period under review as a consequence of good operational performance.

Cash flow from operating activities showed a clear increase, reaching EUR 218 million (1999: EUR 73 million). The equity-to-assets ratio improved further and was 62% at year-end. Net interest-bearing debt declined on the previous year and amounted to EUR 53 million at year-end.

Investments proceed according to plan

Capital expenditure rose considerably on the previous year and amounted to EUR 84 million, or 7.1% of net sales. Maintenance investments accounted for about EUR 34 million of this.

The most significant investment project in 2000 was the construction of the new steel meltshop and the significant capacity expansions at the hot and cold rolling mills in Tornio (total cost EUR 680 million). The new production will come on stream gradually from 2002, and full annual capacity will be achieved by 2004. This investment will

strengthen the position of the integrated production plant in Tornio as one of the most cost-efficient manufacturers of stainless steel.

Another important ongoing investment is the move to underground mining at the Kemi chromium mine (EUR 70 million). This investment will improve the efficiency and profitability of operations and make it possible to double the mine output.

The investments in progress have proceeded according to plan.

Expenditure on research and development during 2000 amounted to EUR 7 million, or 0.6% of net sales (1999: EUR 8 million and 1.0%). R&D focused on developing processes and customer applications in ferrochrome, coil and tubular production, and in mining, and on improving quality.

Good results from new water treatment programme

During the Group's occupational safety campaign year 2000, various training sessions were held at different sites, and safety risks connected with working habits and the working environment were identified and eliminated. The number of accidents at Outokumpu Steel declined by 22% from the previous 5-year average.

The focused efforts to reduce emissions from production plants continued. Emissions exceeding the limits established in the Tornio water permit in 1999 were clearly reduced below those specified in the permit terms with a new water treatment programme. The neutralisation plant scheduled for completion in 2001 will ensure compliance with the permit terms.

The environmental system of the Kemi mine was certified during the year.

Personnel figures unchanged

During 2000, personnel development focused primarily on occupational safety and on the vocational expertise of young employees and experience-based learning. Incentive schemes for management and other employees were also developed further.

The number of employees remained at the 1999 level and comprised 2,438 at year-end.

Most of the personnel, or 94%, were stationed in Finland at the end of the year. About 4% were stationed in the Netherlands and 2% in Germany.

Outokumpu Steel and Avesta Sheffield joined and formed AvestaPolarit

Outokumpu Steel and Avesta Sheffield joined forces in January 2001 and formed AvestaPolarit, a leading, focused and growth-oriented stainless steel company. The company is the world's second largest producer of stainless steel and has net sales of

more than EUR 3 billion. It employs some 8,900 people and its key production plants are located in Finland, Sweden, Great Britain and the United States.

The combination was carried out with an Exchange Offer valid from 21 December, 2000 to 19 January, 2001 in which Avesta Sheffield shareholders were offered one Outokumpu Steel share for one Avesta Sheffield share. Shareholders representing 94.7% of the shares and voting rights approved the Exchange Offer during the initial acceptance period. This met the pre-condition set for the combination. After the end of an extended acceptance period, this figure went up to 98.6%. After the close of the Exchange Offer, Outokumpu owns 55.3% of AvestaPolarit's shares, while Corus Group owns 23.2%. Outokumpu has agreed to reduce its holding to 40% or less within three years.

Outokumpu Steel Oyj was renamed AvestaPolarit Oyj Abp on 24 January, 2001 and the share was listed on the Stockholm and Helsinki Exchanges on 30 January, 2001.

Difficult market situation at outset of 2001

A controlled slowdown in world economic growth is expected. Factors contributing to this trend are a more stringent monetary policy and declining share prices in the United States, which together will slow industrial production and reduce consumer demand. Economic development in the United States will affect the entire world economy. Economic growth in many Asian countries has already slowed down considerably. In Europe, the decline in growth will be more moderate than in the United States and Asia.

The consumption of stainless steel has remained good in the company's main market of Europe. The destocking of the excessive inventories held by stockists began after summer 2000 and led to a fall in demand and a reduction in price levels. The market situation is expected to stabilise and demand to pick up again during the second quarter. Over the long term, the growth rate of stainless steel demand is expected to remain strong, at an average of 5% per year.

The market situation of ferrochrome also declined as a result of reduced production of stainless steel and the high availability of stainless steel scrap.

As far as AvestaPolarit's profit in the near future is concerned, the key factor is the demand and price development for stainless steel in the next few months.

Over the longer term, successful integration of the AvestaPolarit combination, rapid initiation of the measures required to achieve identified synergies, and efficient realisation of decided investments will be key factors in financial performance.

PROPOSAL BY THE BOARD OF DIRECTORS FOR PROFIT DISTRIBUTION

The objective of AvestaPolarit's Board of Directors is to maintain a dividend pay-out-ratio of a least 30% of net income over a business cycle. In drawing up its annual proposal for distribution of profit, the Board considers both the financial performance and the Group's investment and development needs.

Under the Exchange Offer, all new AvestaPolarit shareholders who accepted the Exchange Offer are entitled to a dividend as of the financial year 2000.

In drawing up the proposal for profit distribution, AvestaPolarit's Board has considered the facts presented above together with the financial performance for the financial year ending on 31 December, 2000 for both Outokumpu Steel and Avesta Sheffield.

Outokumpu Steel's financial statements of 31 December, 2000 show that the Group's distributable funds total EUR 123 million and those of the Parent Company EUR 104 million.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be distributed and that the remaining distributable funds be allocated to retained earnings.

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

INCOME STATEMENT	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
EUR million	2000	1999	2000	1999
Net sales	293	222	1 177	778
Costs and expenses	(237)	(195)	(930)	(726)
Unusual items	-	0	-	0
Other operating income and expenses	(2)	(1)	(1)	0
Operating profit	54	26	246	52
Financial income and expenses	(1)	(1)	(5)	(5)
Profit before extraordinary items	53	25	241	47
Extraordinary items	(81)	(33)	(102)	(65)
Income taxes	0	1	(38)	1
Profit for the financial year	(28)	(7)	101	(17)

BALANCE SHEET	Dec 31	Dec 31
EUR million	2000	1999
Fixed assets and other long-term investments		
Intangible assets	4	5
Property, plant and equipment	590	572
Long-term financial assets	15	11
	609	588
Current assets		
Inventories	239	169
Receivables	166	177
Cash and bank	76	28
	481	374
Total assets	1 090	962
Shareholders' equity	676	551
Minority interest	10	10
Long-term liabilities		
Interest-bearing	65	119
Non interest-bearing	99	106
	164	225
Current liabilities		
Interest-bearing	64	38
Non interest-bearing	176	138
	240	176
Total shareholders' equity and liabilities	1 090	962

CASH FLOW STATEMENT	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
EUR million	2000	1999	2000	1999
Income financing	71	41	258	106
Increase in working capital	(19)	(35)	(40)	(34)
Other adjustments	3	2	0	1
Cash provided by operating activities	55	8	218	73
Capital expenditure	(40)	(10)	(84)	(36)
Other investing activities	3	0	8	(7)
Cash flow before financing activities	18	(2)	142	30
Cash used in financing activities	(35)	14	(142)	(26)
Decrease (increase) in cash and marketable securities	(17)	12	0	4

KEY FIGURES	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
	2000	1999	2000	1999
Operating profit margin, %	18.4	11.6	20.9	6.7
Return on capital employed, %	27.3	15.2	32.7	7.6
Return on shareholders' equity, %	32.1	14.3	33.4	7.6
Capital employed at end of period, EUR million	815	709	815	709
Net interest-bearing debt at end of period, EUR million	53	129	53	129
Equity-to-assets ratio at end of period, %	62.0	57.9	62.0	57.9
Debt-to-equity ratio at end of period, %	7.9	23.8	7.9	23.8
Earnings per share (excl. extraordinary items), EUR	0.15	0.08	0.88	0.15
Earnings per share, EUR	(0.14)	(0.04)	0.53	(0.09)
Average number of shares outstanding, in thousands	193 111	193 111	193 111	193 111
Shareholders' equity per share at end of period, EUR	3.50	2.85	3.50	2.85
Number of shares outstanding at end of period, in thousands	193 111	193 111	193 111	193 111
Capital expenditure, EUR million	40	10	84	36
Depreciation, EUR million	16	15	61	59
Average personnel for the period	2 431	2 384	2 500	2 509

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

Changes in the inventory valuation principles

The inventory valuation method applied within Outokumpu Steel has been adjusted as of the beginning of 2000. The inventory valuation method of purchased metals and metal raw materials applied has been changed retrospectively to FIFO method. The cumulative effect of the change in accounting principle on January 1, 2000 is EUR 11 million and it is reported as an extraordinary income. The comparison figures for 1999 presented in financial information, except the income statement, balance sheet, cash flow statement and notes presented in the official Consolidated Financial Statements, have been restated to reflect this change.

Board of Directors' authority to increase share capital

AvestaPolarit Oyj Abp's Board of Directors has no current authorization to raise the Company's share capital.

EUR million	Oct-Dec 2000	Oct-Dec 1999	Jan-Dec 2000	Jan-Dec 1999
Unusual items				
Refund of actuarial surplus	-	0	-	0
	-	0	-	0
Extraordinary items				
Group contributions granted	(81)	(33)	(113)	(65)
Change in accounting principles	-	-	11	-
	(81)	(33)	(102)	(65)
Other operating income and expenses				
Gains and losses on disposals of fixed assets	(2)	(1)	(2)	(1)
Other income and expense items	0	0	1	1
	(2)	(1)	(1)	0
Income taxes				
Current taxes and taxes from previous years	0	0	(44)	(1)
Deferred taxes	0	1	6	2
	0	1	(38)	1

Commitments	Dec 31 2000	Dec 31 1999
EUR million		
Mortgages and pledges		
To secure borrowings of Group companies	6	6
Guarantees		
On behalf of other parties	7	6
Minimum future lease payments on operating leases	8	9

Open derivative instruments	Fair value	Contract amounts	
EUR million	Dec 31 2000	Dec 31 2000	Dec 31 1999
Financial derivatives			
Forward foreign exchange contracts	3	190	192
Metal derivatives ¹⁾			
Forward and futures nickel contracts	0	612	216

1) Contract amounts of base metal derivatives in tonnes

The derivative transactions have been made for hedging purposes. The fair value of derivatives indicates the result of those transactions if the deals were closed at the date of the balance sheet. The realized gains and losses of derivative instruments are booked in the income statement according to hedge accounting principle i.e. against the underlying transaction.

All of the above derivative transactions have been made with Outokumpu Oyj.

Net sales by Business Unit	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
EUR million	2000	1999	2000	1999
Outokumpu Chrome	28	30	106	95
Outokumpu Polarit	283	215	1 128	755
Ja-Ro	19	19	92	67
Parent Company	2	1	6	5
Intra-group	(39)	(43)	(155)	(144)
The Group	293	222	1 177	778

Output of main products	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Tonnes	2000	1999	2000	1999
Ferrochrome	66 100	63 400	260 600	256 300
Steel slabs	164 600	161 800	636 300	597 900
Cold rolling mill production				
Cold rolled products	108 600	111 000	421 700	403 300
White hot strip	47 700	32 400	135 000	128 300
Tubes and tube fittings	6 600	8 900	32 100	28 400

Personnel	Dec 31	Dec 31
At the end of period	2000	1999
Outokumpu Chrome	307	315
Outokumpu Polarit	1 816	1 743
Ja-Ro	311	333
Parent Company	4	6
The Group	2 438	2 397
Average for the period	2 500	2 509

Financial indicators by quarter								
EUR million	I/99	II/99	III/99	IV/99	I/00	II/00	III/00	IV/00
Net sales	183	191	182	222	300	320	264	293
Operating profit	3	15	8	26	59	83	50	54
Profit before extraordinary items	1	14	7	25	58	82	48	53
Earnings/share								
(excl. extraordinary items), EUR	0.00	0.05	0.02	0.08	0.29	0.42	0.02	0.15

METAL MARKET PRICES AND EXCHANGE RATES

		Oct-Dec 2000	Oct-Dec 1999	Jan-Dec 2000	Jan-Dec 1999	Change %
Average prices						
Stainless steel	EUR/kg	2.10	1.51	2.07	1.30	59.2
transaction price						
Stainless steel	EUR/kg	1.53	1.25	1.52	1.18	28.8
base price						
Stainless steel	EUR/kg	1.10	0.80	1.08	0.74	45.9
conversion margin						
Ferrochrome	USD/lb	0.44	0.39	0.43	0.36	19.4
(Cr-content)	EUR/kg	1.12	0.84	1.03	0.75	37.3
Nickel	USD/lb	3.38	3.53	3.92	2.73	43.6
	EUR/kg	8.57	7.50	9.35	5.65	65.5

Sources:

Stainless steel: CRU - German transaction and base prices and conversion margin (2 mm cold rolled 304 sheet); estimate of prices for deliveries during the period.

CRU has revised stainless steel conversion margin according to its new accounting practise.

Ferrochrome: Metal Bulletin - lumpy Cr charge, basis 52% Cr, free market.

Nickel: London Metal Exchange (LME) cash quotations converted into USD/lb.

The average EUR/USD exchange rate for Jan-Dec 2000 was 0.92 (I-IV/1999: 1.07) and the closing rate 0.93 (IV/1999: 1.00).