AvestaPolarit STAINLESS
An Outokumpu Group company

STOCK EXCHANGE RELEASE

Espoo 17 February 2003, 13.10 hours

AvestaPolarit Annual Accounts 2002

Profitability improved significantly in 2002

- Despite the sluggish world economy, demand in stainless steel markets grew in 2002 following the decline in 2001. The first half of the year saw rising demand followed by a market slowdown after the summer break, as it became apparent that the global economic recovery would be delayed.

- Both net sales and operating profit for the financial year were up compared to 2001, as a result of higher prices and delivery volumes. Net sales for 2002 amounted to EUR 3 002 million (EUR 2 977 million), operating profit to EUR 232 million (EUR 141 million) and profit before extraordinary items to EUR 219 million (EUR 131 million).

- By the end of December Outokumpu Oyj had acquired over 99% of AvestaPolarit shares and the share was delisted from the Stockholm Stock Exchange. The shares will be delisted from the Helsinki Stock Exchange as soon as Outokumpu has gained title as the sole owner of all shares in AvestaPolarit.

Key figures				Pro forma	Actual
	Oct-Dec	Oct-Dec	**Jan-Dec**	Jan-Dec	Jan-Dec
EUR million	**2002**	2001	**2002**	2001	2001
Net sales	**739**	679	**3 002**	2 977	2 851
Operating profit	**28**	23	**232**	141	139
Profit before extraordinary items	**22**	21	**219**	131	129
Profit for the financial period	**21**	29	**172**	112	112
Earnings per share, EUR	**0.06**	0.08	**0.49**	0.32	0.33
Return on capital employed, %	**4.4**	4.5	**9.8**	7.0	9.8
Net interest-bearing debt	**971**	482	**971**	482	482
Debt-to-equity ratio (gearing), %	**72.1**	39.7	**72.1**	39.7	39.7

All text comments on 2001 full year figures relate to pro forma figures.

Modest improvement in fourth quarter profits

- Net sales for October to December rose by 9% compared to 2001 and totalled EUR 739 million (EUR 679 million). Fourth quarter profitability improved compared to the same period last year with operating profit amounting to EUR 28 million (EUR 23 million).

- The fourth quarter results were lower than expected largely due to the weak results in Special Products and North America divisions. December profitability was affected by an extended holiday period characterised by low delivery volumes. A sharp weakening of the US dollar resulted in unrealised losses on currency hedges.

- The operating profit for Coil Products increased during the fourth quarter, mainly as a result of higher deliveries and conversion margins, and totalled EUR 32 million (EUR 25 million). The main reasons for Special Products' operating loss of EUR 8 million (loss of EUR 14 million) were low delivery volumes reported by the Hot

Rolled Plate and the Tubes business units. Long Products' poor result for the fourth quarter resulted mainly from losses in Degerfors Stainless. The operating loss for the North America division was EUR 3 million (loss of EUR 5 million).

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Summary of Directors' Report 2002

Stainless steel markets held against sluggish economy

Global economic growth fell short of expectations for 2002 and any indications of a market recovery seen in the first quarter had disappeared by the end of the summer. The weak trading environment is attributable to a number of interrelated factors, including the continuing decline in equity markets, further pressure on corporate profitability, financial scandals in the USA, turbulence in emerging markets and the threat of war in Iraq. The global economy grew by just over 1.5%. The trend of poor or modest economic growth has been noticeable in all the world's major regions except in China, which saw strong growth. The attempts to reverse the economic slowdown with aggressive monetary and fiscal measures continued, with USA and European interest rates being lowered several times during the year to stimulate growth.

Despite the sluggish world economy, demand in stainless steel markets grew following the decline in 2001. The apparent consumption of cold rolled stainless steel was up 2% compared to 2001. The first half of the year saw rising demand, which was triggered partly by restocking following the rise in nickel prices and severe destocking in the second half of 2001. The market slowed down after the summer break, as it became apparent that the global economic recovery would be delayed and the rise in nickel prices eased up somewhat. Regionally, demand was best in Europe and China, despite the implementation of Chinese safeguard measures which caused considerable confusion in the Asian market in the second half of the year. It is estimated that stainless steel consumption in China rose by 30% compared to 2001.

Hot rolled stainless steel consumption remained steady in 2001 and the growth in 2002 was a moderate 2%. Demand for long products also increased by 2%. Market activity for precision strip improved in the first half of the year, and following a slowdown after the summer break, improved again at the end of the year. In the sector for tubular products, prices remained under pressure from the first quarter onwards.

World stainless steel melted production reached almost 20 million tonnes, an increase of 5% compared to 2001. There were, however, wide regional variations. In Europe, the increase was some 6%. US production growth of 19% marked a recovery but only to 2000 levels. Growth in Chinese production continued to rise at more than double the rate of European growth, with an increase of 11%. Japanese production fell by almost 3%.

The stainless steel market moved slightly to oversupply towards the end of 2002 as demand softened. The consolidation of the stainless steel industry appeared to have had a stabilising effect in 2002, as the supply demand balance has been maintained, despite the general deterioration in the economy. This has contributed to normal inventory levels in Europe and the USA and sustained base prices in the second half of the year.

Stainless steel prices in Europe increased in the improved trading environment noted during the first half of the year and stabilised for the second half of the year. According to CRU, the average European base price for cold rolled stainless steel was 10% above the average for 2001.

In March, the USA announced restrictions to be imposed on stainless steel imports based on the Section 201 review carried out in 2001. The tariffs, of up to 15%, are to be imposed over a three-year period on imports of stainless steel bar, wire rod and wire. Although these restrictions have an effect on the Long Products business unit, they have not had any significant impact on the Group's core operations or profitability, as slabs, billets and cold rolled stainless steel are not affected. In November, the Chinese government introduced its definitive safeguard measures following the temporary quotas started in May. Quotas have been confirmed and special duties of up to 18% will be levied on imported cold rolled stainless steel for deliveries over and above the quota volumes. These safeguard measures remain in force until May 2005. China currently needs to import 75% of its stainless steel consumption. Currently approximately 4% of AvestaPolarit's flat product sales are to China. In Asia, India and Thailand also imposed tariffs or quotas, causing further confusion in the Asian market.

The increase in stainless steel production improved nickel demand in 2002. The limited availability of stainless steel scrap increased the need for primary nickel. Nickel production continued to grow at a fast rate, balancing the increase in demand. The level of reported inventories in nickel remained unchanged. The average nickel price was 14% above the average for 2001.

The market for ferrochrome improved markedly in 2002. Demand was boosted by the rise in stainless steel production. The market was undersupplied and inventories fell to just below normal levels. The market deficit was due to significant production cutbacks by the main ferrochrome producers. The price of ferrochrome continued to rise throughout the year, but the average price in 2002 was still 3% lower than in 2001.

Modest improvement in net sales

Net sales for 2002 were slightly up compared to the previous year and amounted to EUR 3 002 million (EUR 2 977 million). This results mainly from increased stainless steel delivery volumes. The weakening of the US dollar had a negative impact on net sales.

Net sales EUR million	**Jan-Dec 2002**	Pro forma Jan-Dec 2001	Change %
Coil Products	**2 328**	2 130	9
Special Products	**1 311**	1 350	-3
North America	**267**	285	-6
Other operations	**1 286**	1 272	1
Intra-group sales	**-2 190**	-2 060	
Total for the Group	**3 002**	2 977	1

The overall improvement in net sales came from the Coil Products division, which reported an increase of 9%. The Special Products division reported a 3% reduction and the North America division a 6% decline in net sales compared to 2001. The performance of the various business units within Special Products varied with Ferrochrome, Hot Rolled Plate and Tubes business units showing clear improvements in net sales, whereas Precision Strip and Fittings reported a decline. The weakening of the US dollar was the main reason for the decline in net sales reported by North America.

Production ran smoothly during most of the year, with the exception of the summer period, when some problems were experienced at the melting shops in Tornio, Avesta and Degerfors. The production of stainless steel slab increased by 8% compared to the previous year, reflecting the commissioning of new capacity from the Tornio Works but also improvements in production performance at the melting shops in Avesta and Sheffield. Cold rolling mill production was up 5%, reflecting an improved market climate and the effect of the new investments at the Avesta Works and at Coil Products Nyby. Production volumes also rose for most business units in Special Products, with the exception of Long Products and Precision Strip. Production volumes in North America remained at 2001 levels.

A fire at the tube plant in Helmond in the Netherlands on 16 January 2002 completely destroyed the tube production facilities and AvestaPolarit's regional stocks, which were stored at a warehouse on the site. As of result of this, it was decided to discontinue production at the Helmond site. No people were injured in the fire.

Profitability improved significantly

The operating profit for 2002 improved by 65% compared to the previous year and amounted to EUR 232 million (EUR 141 million). The improvement in profitability is primarily attributable to higher deliveries and conversion margins. The full-year result was, however, also adversely affected by production difficulties in the third quarter and a sluggish fourth quarter, due to increasing uncertainties in the world economy towards the end of the year. The operating profit for 2002 includes an amortisation of negative goodwill amounting to EUR 41 million (EUR 45 million).

The unusual items include insurance compensation of EUR 20 million for business interruption and property damage caused by the fire in Helmond. Unusual items also include restructuring provisions and impairment losses totalling EUR 32 million (EUR 29 million) and a corresponding additional amortisation of negative goodwill giving a net zero profit effect. These items include the recalculation of UK pension liabilities as at the time of the combination of EUR 12 million, the write down of certain fixed assets in the North America division of EUR 10 million, the restructuring of UK operations of EUR 7 million, an adjustment of the provision for the closure of Degerfors Stainless of EUR 3 million and restructuring provisions in sales companies of EUR 1 million.

The operating profit margin for the financial year was 7.7% (4.7%).

Operating profit EUR million	**Jan-Dec 2002**	Pro forma Jan-Dec 2001	Change %
Coil Products	**162**	83	95
Special Products	**28**	14	100
North America	**3**	-6	150
Other operations	**0**	2	-100
Amortisation of negative goodwill	**41**	45	
Intra-group items	**-2**	3	
Total for the Group	**232**	141	65

Profitability for Coil Products and North America improved significantly compared to 2001. Improvement in Coil Products resulted from increased deliveries and higher conversion margins. North America benefited from improved conversion margins and reduced conversion costs. The operating profit reported for Special Products includes EUR 15 million of the insurance compensation for the Helmond fire. The profitability excluding this unusual item decreased compared to 2001. The poor performance in Special Products resulted mainly from Long Products with Degerfors Stainless reporting heavy losses and Precision Strip, which reported low delivery volumes. The remaining EUR 5 million of the net effect of the insurance compensation, which relates to the Dutch sales company, has been allocated to Other operations.

Equity earnings in associated companies totalled EUR 1 million (EUR 0 million) and net financial expenses amounted to EUR 14 million (EUR 10 million). The higher net financial expenses resulted mainly from the increase in net borrowing, which was partly compensated for by lower interest rates and capitalising interest expenses of EUR 17 million related to investments in Tornio.

Profit for the financial year totalled EUR 172 million (EUR 112 million). The return on capital employed was 9.8% (7.0%) and earnings per share amounted to EUR 0.49 (EUR 0.32).

Financial position developed as planned

The cash flow from operating activities fell to EUR 172 million (EUR 214 million). The improved profitability was offset by an increase in working capital. Working capital increased as a result of the rise in sales prices, raw material costs and the commissioning of the Tornio expansion.

As a result of high capital spending, net interest-bearing debt increased during the year by EUR 489 million to EUR 971 million. The debt-to-equity ratio increased to 72.1% (39.7%).

Key financial indicators EUR million	**31 Dec 2002**	Pro forma 31 Dec 2001
Net interest-bearing debt		
Long-term debt	**764**	203
Current debt	**379**	391
Total interest-bearing debt	**1 143**	594
Cash and marketable securities	**107**	105
Interest-bearing receivables	**65**	7
Net interest-bearing debt	**971**	482
Net interest-bearing debt in relation to net sales, %	**32.3**	16.2
Shareholders' equity	**1 336**	1 206
Debt-to-equity ratio (gearing), %	**72.1**	39.7
Equity-to-assets ratio (solvency), %	**36.9**	41.6
Cash provided by operating activities	**172**	214
Net financial expenses	**14**	10
Net financial expenses in relation to net sales, %	**0.5**	0.3

Gearing deteriorated as the Tornio expansion progressed. AvestaPolarit maintained satisfactory liquidity levels throughout the financial year. Outokumpu has assumed responsibility for AvestaPolarit funding as from the beginning of 2003.

Commissioning of Tornio expansion under way

The total capital expenditure for the financial year amounted to EUR 621 million (EUR 408 million). Capital expenditure includes EUR 45 million financial leases for the Tornio expansion. The commissioning of the expansion programme at the Tornio Works in Finland proceeded well despite being some 2 months behind the original timetable. The new melting shop produced its first melt at the end of August and the first slab was successfully cast in early September. The subsequent ramping up has progressed according to schedule. The cold rolling mill started commissioning in February 2003 and commercial deliveries will begin by the end of the first quarter of 2003. The investment to increase hot rolling capacity from 1 million tonnes to 1.7 million tonnes is due to be commissioned in 2004. The melting shop and cold rolling mill are scheduled to reach full production capacity during 2004 and the hot rolling capacity should match the higher cold rolling capacity by the end of 2004. The revised cost estimate for the entire Tornio expansion is EUR 1 billion of which EUR 751 million was spent by the end of 2002.

Other major investment projects in progress in 2002 have been the move to underground mining at the Kemi chromium mine (total investment EUR 73 million) in Finland, the installation of new billet casting equipment at the Sheffield melting shop (EUR 29 million) in the UK and the increase of long products capacity in the USA (EUR 22 million). The Kemi mine project is scheduled to start shaft hoisting in September 2003. The Sheffield billet caster investment has been completed and the new facility is now in a ramp-up phase. A project to increase cold rolling capacity at the Avesta Works (EUR 36 million) was completed during 2002.

In March, the ownership in AvestaPolarit Stainless Tube AB was increased from 75% to 83% through a share issue. In October, AvestaPolarit purchased its Italian agent Commerciale Acciai S.p.A., which had been an exclusive distribution agent for the

Tornio Works in the Italian market. The purchase of the stainless steel quarto plate business of Thyssen Krupp Nirosta GmbH announced in September was completed on 7 February 2003.

Capital expenditure		Pro forma
EUR million	**Jan-Dec 2002**	Jan-Dec 2001
Coil Products	**550**	351
Special Products	**57**	33
North America	**2**	3
Other operations	**12**	21
Total for the Group	**621**	408

Integration with Outokumpu proceeding to plan

Outokumpu Oyj, the majority shareholder of AvestaPolarit, announced on 1 July its intention to acquire all shares of AvestaPolarit, including the ones held by the other principal owner, Corus Group plc. By the end of August, Outokumpu had acquired more than 90% of the shares and by the end of 2002, the company owned more than 99% of AvestaPolarit shares. AvestaPolarit was therefore delisted from the Stockholm Stock Exchange at the end of December and will be delisted from the Helsinki Stock Exchange as soon as Outokumpu has gained title to all shares in AvestaPolarit. Outokumpu has started the legal process to redeem all outstanding AvestaPolarit shares.

On 18 November AvestaPolarit held an extraordinary general meeting of shareholders at which the Articles of Association were changed to reduce the minimum number of Board members from six to three. New Board members were also elected to reflect the change in ownership. Outokumpu Chief Executive Officer Jyrki Juusela (chairman) and Executive Vice Presidents Risto Virrankoski and Esa Lager, and AvestaPolarit's Chief Executive Officer Ossi Virolainen make up the new four-member Board.

AvestaPolarit's Executive Committee composition has also undergone changes as during the year John Newborn, Group Marketing and R&D, retired at the end of October, and Ian Cooper, Chief Financial Officer, opted to leave the company at the end of December 2002. In early February 2003 Leif Helgman left his position as Executive Vice President, Human Resources. New members appointed to succeed them were Kari Saarinen as Executive Vice Presidents - Group Marketing and Technology, Jouni Grönroos as Executive Vice President – Finance, and Katarina Lybeck as Executive Vice President – Human Resources and Communications

As emphasised by Outokumpu when the acquisition plan was first announced, AvestaPolarit will maintain significant independence as it continues to run the Outokumpu Group's stainless steel business, retaining its own name and brand in the market. The acquisition should thus, as such, not change the fundamentals of AvestaPolarit's good further business development prospects. As a part of a larger industrial group, focused on metals and technology, AvestaPolarit is expected to continue to pursue its growth strategy and to further strengthen its position in the global stainless steel business.

The integration of central administrative activities with Outokumpu has proceeded according to plan. The integration has mainly focused on corporate functions, which will be centrally handled by either Outokumpu or AvestaPolarit's office in Espoo. A consequence of this reorganisation is that AvestaPolarit's Stockholm office will be closed in 2003, affecting some 40 people. A provision of EUR 2 million has been made for this.

The employees of AvestaPolarit's UK operations, whose employment dates back to before the AvestaPolarit merger, have remained as beneficiaries of the British Steel Pension Scheme. Following Corus' sale of all its AvestaPolarit shares, the eligibility to membership in that scheme will lapse. Discussions to establish a new pension fund are under way.

Several development initiatives completed and started

The restructuring of the Group's business organisation continued in 2002. In the second quarter, the melting shop and Steckel mill in Avesta were combined with KBR. This integrated mill and business unit has been renamed Avesta Works. Further, the SMACC melting shop in Sheffield was transferred to the Long Products business unit and the Primary Products business unit was discontinued. SMACC is also in the process of refocusing its strategy as the billet and slab producer for Special Products and North America and as a swing slab producer for Coil Products. In the UK, the Panteg cold rolling mill was more closely integrated into the Coil Products Sheffield business unit. The negotiations started in December with employees at Tube and Fittings mills in Pietarsaari and Veteli in Finland to streamline and optimise operations in the Tubes and Fittings business units were finalised in February 2003.

Other development initiatives undertaken during 2002 include the implementation of new leadership processes and increased focus on cost control. In December 2002, the decision was made to establish a shared services concept for financial transactions and to implement Outokumpu's SAP platform for finance.

Marketing and service network developed further

The global presence of AvestaPolarit was developed further in 2002, with improved and more efficient routes to market. The sales and marketing organisation has been developed to meet the challenges of new capacity coming on stream in the next few years.

Local market strategies for main markets were developed with the aim of improving the overall efficiency of the sales and marketing efforts. These local market strategies also focus on strengthening AvestaPolarit's position in project deliveries, where products and expertise from several business units are involved.

AvestaPolarit redefined a co-ordinated approach to various customer segments, including automotive, architecture and construction. This work will improve the readiness to exploit future market opportunities as stainless steel, due to its superior properties, continues to gain preference over other materials in these segments.

Focus on change management and people development

At the year-end, the Group employed 9 147 people in 32 countries. The increase of personnel in Coil Products results from employees recruited for the expansions in Avesta and especially in Tornio. The decrease in Special Products results mainly from the closure of the Helmond tube plant and the closure of a manufacturing unit for Fittings in Mexico.

The management assessment and development process was revised in 2002 as part of the overall initiative to develop AvestaPolarit leadership processes. The new process was piloted in 2002 and will be adopted in full scale in 2003 as the basis for talent reviews and organisational development for senior and middle management.

The Tornio expansion has had a significant effect on the organisation. It has increased focus on recruitment and training in Tornio. The change programme at Degerfors Stainless melting shop is progressing according to plan with gradual deshifting. The closure of the melting shop will take place during the summer and autumn. The integration with Outokumpu creates a larger internal labour market, providing development opportunities for personnel and synergies in common processes and programmes.

Improvements in work safety were achieved at the biggest production sites in Sweden, the UK and the USA. A fatal accident occurred at the Tornio cold rolling mill in Finland in November.

Personnel at the year-end	**2002**	2001
Coil Products	**4 262**	4 000
Special Products	**3 414**	3 508
North America	**367**	360
Other operations	**1 104**	1 136
Total for the Group	**9 147**	9 004

Investment in sustainable growth and development

AvestaPolarit units have committed themselves to promoting sustainable development in all operations, balancing and integrating social, economic and environmental factors. Stainless steel is a hygienic, safe, high-strength and environment-friendly material. More than 95% of stainless steel can be recycled and reprocessed without loss of quality.

The key elements of AvestaPolarit’s environmental policy are certifiable management systems, continuous improvement and open communication. Each business unit is obliged to implement and maintain an environmental management system, which is continually audited. At the end of 2002, the majority of business units had a certified environment management system. Eight new certificates were awarded in 2002 and the target is that the remaining sites gain certification by the end of 2003.

In 2002, the Sheffield-based Long Products units SMACC and Alloy Steel Rods, as well as the Tornio Works and the chromium mine in Kemi, were granted new environmental permits for their modified and growing operations. In Finland, the authorities adopted a new approach and defined steel scrap and slag products as waste, a decision which has implications for the Tornio Works. At the chromium mine in Kemi, both barren rock and tailing sand were also defined as waste. AvestaPolarit has appealed to a higher court to question these definitions, which differ from common practice in the European steel and mining industry.

In 2002, the emissions from AvestaPolarit's manufacturing processes remained below the limits set by environmental permits. The melting shop in Sheffield received a special recognition from the British Environment Agency for the improvements made in its fume capture and fume extraction systems, which have resulted in a 38% reduction in the release of fine dust into the air since 2000. At the Tornio Works, the commissioning of the new pickling acid neutralisation plant has contributed to a significant reduction in the metal content of effluents from the plant. Measures to minimise the environmental impact of operations at the Tornio Works have accounted for around EUR 55 million of the capital expenditure in the expansion programme.

Focus on new applications and innovative process development in R&D

Expenditure on research and development amounted to EUR 14 million in 2002, corresponding to 0.5% of net sales (EUR 13 million, 0.4%). The Research and Development operations include some 200 people engaged in the R&D activities of the AvestaPolarit Group and collaborating extensively with universities and EU research projects.

In addition to the more traditional application segments, attention has increasingly been focused on product development for the architecture, building and construction, automotive and white goods segments. The focus in the field of high-alloyed special grades and high temperature materials has been on enhancing the performance properties of high temperature grades and on improving the production performance, yields and efficiency of high-alloyed and duplex grades.

The most important process-related projects in 2002 were connected to the start-up of the new walking beam furnace, new melting shop and continuous caster at the Tornio Works, as well as the new billet casting equipment at the Sheffield melting shop. The unique, integrated cold rolling line (RAP) and the design and modelling of the Steckel/tandem hot rolling mill at the Tornio Works have been the main targets for the process development.

Short-term outlook remains uncertain

There are no clear signs of rapid improvement in the current economic environment. The interest rate cuts in the USA and Europe, coupled with another major fiscal stimulus in the USA and more modest ones elsewhere, suggest that world economic activity ought to improve during 2003. Conditions in all three major regions are, however, fragile and many key indicators are discouraging. Therefore, a significant recovery looks unlikely before the summer of 2003.

The market prospects for cold rolled stainless steel look rather uncertain for the first half of 2003. Although underlying consumption for stainless steel is estimated to grow long-term at a rate of at least 5% per annum, any improvement in demand over the next few months is likely to be modest in the current economic climate.

The market for long products is expected to remain depressed in the short-term. The market outlook for precision strip is more promising than in 2002. For tubular products, the market outlook varies in different customer segments.

In 2003, the key issues affecting the Group's profitability, apart from market conditions, will be the commissioning and ramp up of the Tornio investments, the change program in Degerfors and transfer of billet production to the Sheffield melt shop and the continuation of initiatives to enhance internal efficiency.

Board of Directors' proposal for profit distribution

Based on the financial statements as at 31 December 2002, the Group's distributable funds are EUR 285 million and those of the Parent Company EUR 146 million.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.12 per share be distributed and that the remaining distributable funds be allocated to retained earnings.

Espoo, 17 February 2003

AvestaPolarit Oyj Abp

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

INCOME STATEMENT (summary) EUR million	**Oct-Dec 2002**	Oct-Dec 2001	**Jan-Dec 2002**	Pro forma[1] Jan-Dec 2001	Jan-Dec 2001[2]
Net sales	**739**	679	**3 002**	2 977	2 851
Cost and expenses	**-719**	-673	**-2 832**	-2 888	-2 764
Unusual items	**-**	-	**20**	-	-
Amortisation of negative goodwill	**10**	12	**41**	45	45
Other operating income and expenses	**-2**	5	**1**	7	7
Operating profit	**28**	23	**232**	141	139
Equity earnings in associated companies	**-1**	-0	**1**	-0	-0
Financial income and expenses	**-5**	-2	**-14**	-10	-10
Profit before extraordinary items	**22**	21	**219**	131	129
Extraordinary items	**-**	-	**-**	-	-
Income taxes	**-1**	8	**-44**	-18	-16
Minority interest in earnings	**-**	0	**-3**	-1	-1
Profit for the financial period	**21**	29	**172**	112	112
Earnings per share [3], EUR	**0.06**	0.08	**0.49**	0.32	0.33

1) In the pro forma figures, Avesta Sheffield has been consolidated into AvestaPolarit for the whole period.
2) Avesta Sheffield has been consolidated into AvestaPolarit as from 23 January 2001.
3) Diluted and undiluted earnings per share figures are the same.

BALANCE SHEET (summary)

EUR million	**31 Dec 2002**	31 Dec 2001
Fixed assets and other long-term investments		
Intangible assets	**27**	18
Property, plant and equipment	**1 971**	1 505
Long-term financial assets [1)]	**53**	58
	2 051	1 581
Current assets		
Inventories	**848**	664
Receivables [1)]	**653**	572
Marketable securities	**31**	49
Cash and bank	**76**	56
	1 608	1 341
Total assets	**3 659**	2 922
Shareholders' equity	**1 336**	1 206
Minority interest	**11**	8
Negative goodwill	**328**	401
Long-term liabilities		
Interest-bearing	**764**	203
Non interest-bearing	**295**	285
	1 059	488
Current liabilities		
Interest-bearing	**379**	391
Non interest-bearing	**546**	428
	925	819
Total shareholders' equity and liabilities	**3 659**	2 922

[1)] Includes interest-bearing assets of EUR 65 million at 31 Dec 2002 and EUR 7 million at 31 December 2001.

CASH FLOW STATEMENT (summary)

EUR million	**Oct-Dec 2002**	Oct-Dec 2001	**Jan-Dec 2002**	Pro forma[1)] Jan-Dec 2001	Jan-Dec 2001[2)]
Income financing	**63**	9	**296**	123	126
Change in working capital	**-61**	-5	**-124**	91	97
Cash provided by operating activities	**2**	4	**172**	214	223
Capital expenditure	**-155**	-151	**-578**	-408	-405
Cash provided by other investing activities	**-63**	34	**-60**	40	70
Cash flow before financing activities	**-216**	-113	**-466**	-154	-112
Cash provided by financing activities	**254**	184	**469**	145	143
Adjustments	**-1**	-2	**-1**	-3	-2
Change in cash and marketable securities	**37**	69	**2**	-12	29

1) In the pro forma figures, Avesta Sheffield has been consolidated into AvestaPolarit for the whole period.
2) Avesta Sheffield has been consolidated into AvestaPolarit as from 23 January 2001.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´EQUITY

EUR million	Share capital	Other restricted	Translation difference	Retained earnings	Total
Balance at 31 Dec 2000	104	212	-	360	676
Targeted share issue	84	390			474
Dividend				-52	-52
Translation differences			-4		-4
Net income				112	112
Balance at 31 Dec 2001	188	602	-4	420	1 206
Balance at 31 Dec 2001	188	602	-4	420	1 206
Dividend				-28	-28
Translation differences			-14		-14
Net income				172	172
Balance at 31 Dec 2002	188	602	-18	564	1 336

KEY FIGURES

	Oct-Dec 2002	Oct-Dec 2001	**Jan-Dec 2002**	Pro forma[1] Jan-Dec 2001	Jan-Dec 2001[2]
Operating profit margin, %					
- excl. negative goodwill [3]	**2.4**	1.6	**6.4**	3.2	3.3
- incl. negative goodwill	**3.8**	3.4	**7.7**	4.7	4.9
Return on capital employed, %					
- excl. negative goodwill [3]	**2.8**	2.2	**8.1**	4.8	6.6
- incl. negative goodwill	**4.4**	4.5	**9.8**	7.0	9.8
Capital employed [4], EUR million	**2 646**	2 097	**2 646**	2 097	2 097
Net interest bearing debt [4], EUR million	**971**	482	**971**	482	482
Equity-to-assets ratio [4], %	**36.9**	41.6	**36.9**	41.6	41.6
Debt-to-equity ratio [4], %	**72.1**	39.7	**72.1**	39.7	39.7
Return on shareholders' equity, %	**6.3**	9.8	**13.7**	9.5	11.9
Earnings per share (excl. extraordinary items) [5], EUR					
- excl. negative goodwill [3]	**0.03**	0.05	**0.38**	0.19	0.20
- incl. negative goodwill	**0.06**	0.08	**0.49**	0.32	0.33
Earnings per share [5], EUR					
- excl. negative goodwill [3]	**0.03**	0.05	**0.38**	0.19	0.20
- incl. negative goodwill	**0.06**	0.08	**0.49**	0.32	0.33
Adjusted average number of shares outstanding, '000s	**348 942**	348 942	**348 942**	348 942	338 312
Shareholders' equity per share [4], EUR	**3.83**	3.46	**3.83**	3.46	3.46
Adjusted number of shares outstanding [4], '000s	**348 942**	348 942	**348 942**	348 942	348 942
Capital expenditure, EUR million	**198**	151	**621**	408	405
Depreciation [6], EUR million	**34**	29	**127**	123	120
Average number of employees	**9 143**	8 996	**9 076**	9 003	8 855

[1] In the pro forma figures, Avesta Sheffield has been consolidated into AvestaPolarit for the whole period.
[2] Avesta Sheffield has been consolidated into AvestaPolarit as from 23 January 2001.
[3] Amortisation of negative goodwill deducted from profit.
[4] At the end of the period.
[5] Diluted and undiluted earnings per share figures are the same.
[6] Amortisation of negative goodwill not included.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Principles applied in the financial statements
AvestaPolarit prepares its financial statements in accordance with generally accepted accounting principles in Finland.

Board of Directors' authority to increase share capital
The Board of Directors is authorised to increase the share capital by issuing new shares and by taking out convertible loans, in one or more instances. The increase may amount to a maximum of EUR 37 685 767.86 or 69 788 459 shares. The authorisation is valid for a period of one year from the date of the Annual General meeting held on 9 April 2002.

Note to the income statement				Pro forma[1]	
EUR million	**Oct-Dec 2002**	Oct-Dec 2001	**Jan-Dec 2002**	Jan-Dec 2001	Jan-Dec 2001[2]
Unusual items					
Provisions and impairment losses	**-16**	-29	**-32**	-29	-29
Net profit of the insurance compensation for Helmond fire [3]	**-**	-	**20**	-	-
Additional amortisation of negative goodwill	**16**	29	**32**	29	29
	-	-	**20**	-	-
Income taxes					
Current taxes	**0**	-10	**-28**	-49	-47
Deferred taxes	**-1**	18	**-16**	31	31
	-1	8	**-44**	-18	-16

1) In the pro forma figures, Avesta Sheffield has been consolidated into AvestaPolarit for the whole period.
2) Avesta Sheffield has been consolidated into AvestaPolarit as from 23 January 2001.
3) The total insurance compensation is EUR 40 million, of which EUR 7 million has been accounted for in net sales and EUR 33 million in unusual items. The corresponding costs are EUR 7 million in cost of sales and EUR 13 million in unusual items. These items have been accounted for during the period April to June 2002.

The positive effect on result of market price adjustment to inventories was EUR 0 million for 2002 and EUR 4 million for 2001.

Commitments EUR million	**31 Dec 2002**	31 Dec 2001
Mortgages and pledges to secure borrowings of Group companies	**55**	43
Guarantees on behalf of Group companies and other parties	**39**	15
Minimum future lease payments on operating leases	**44**	104

Financial indicators by quarter EUR million	**Oct-Dec 2002**	July-Sep 2002	Apr-June 2002	Jan-Mar 2002	Oct-Dec 2001	July-Sep 2001	Apr-June 2001	Pro forma[1)] Jan-Mar 2001
Net sales	**739**	671	823	769	679	631	837	830
Operating profit	**28**	26	103	75	23	4	80	34
Profit before extraordinary items	**22**	21	104	72	21	2	76	32
Earnings per share (excluding extraordinary items) [3)], EUR	**0.06**	0.05	0.21	0.17	0.08	0.02	0.15	0.07
Earnings per share [3)], EUR	**0.06**	0.05	0.21	0.17	0.08	0.02	0.15	0.07

Key financial figures by division EUR million	**Oct-Dec 2002**	Oct-Dec 2001	**Jan-Dec 2002**	Pro forma[1)] Jan-Dec 2001	Jan-Dec 2001[2)]
Net sales					
Coil Products	**584**	502	**2 328**	2 130	2 053
Special Products	**312**	300	**1 311**	1 350	1 277
North America	**64**	63	**267**	285	269
Other operations	**314**	288	**1 286**	1 272	1 198
Intra-group sales	**-535**	-474	**-2 190**	-2 060	-1 946
Total for the Group	**739**	679	**3 002**	2 977	2 851
Operating profit					
Coil Products [4)]	**32**	25	**162**	83	77
Special Products [4)]	**-8**	-14	**28**	14	10
North America	**-2**	-3	**3**	-6	-5
Other operations [4)]	**-3**	-5	**0**	2	6
Amortisation of negative goodwill	**10**	12	**41**	45	45
Intra-group items	**-1**	8	**-2**	3	6
Total for the Group	**28**	23	**232**	141	139

1) In the pro forma figures, Avesta Sheffield has been consolidated into AvestaPolarit for the whole period.
2) Avesta Sheffield has been consolidated into AvestaPolarit as from 23 January 2001.
3) Diluted and undiluted earnings per share figures are the same.
4) Restructuring and other provisions and impairment losses on assets originated from Avesta Sheffield made in 2002 and 2001 have been netted with the corresponding additional amortisation of negative goodwill. Accordingly, the operating profit for each division is presented with a net income effect of zero for these two items.

Production of main products

1000 tonnes	**Oct-Dec 2002**	Oct-Dec 2001	**Jan-Dec 2002**	Pro forma[1)] Jan-Dec 2001	Jan-Dec 2001[2)]
Coil Products					
Steel slabs	**435**	359	**1 594**	1 487	1 435
- of which Long Products' share	**115**	73	**501**	481	447
Cold rolling mill production					
- cold rolled	**201**	192	**807**	766	746
- white hot strip	**104**	99	**385**	337	324
Special Products					
Ferrochrome	**63**	63	**248**	236	236
Tubes and tube fittings	**19**	15	**70**	60	57
Quarto plate	**25**	20	**95**	65	61
Long products [3)]	**53**	64	**180**	178	167
Precision strip	**5**	5	**21**	25	23
North America					
Quarto plate, bar and tubes	**17**	17	**74**	75	71

[1)] In the pro forma figures, Avesta Sheffield has been consolidated into AvestaPolarit for the whole period.
[2)] Avesta Sheffield has been consolidated into AvestaPolarit as from 23 January 2001.
[3)] Excluding slabs.

Open derivative instruments	Carrying value	Fair value	Contract amounts	
EUR million	**31 Dec 2002**	**31 Dec 2002**	**31 Dec 2002**	31 Dec 2001
Financial derivatives				
- Forward foreign exchange contracts	**-7**	**-5**	**455**	201
Metal derivatives				
- Forward nickel contracts [1)]	**-**	**0**	**1 662**	3 126
Electricity derivatives				
- Forward electricity contracts [2)]	**-**	**23**	**887 273**	43 185

[1)] Contract amounts of nickel derivatives in tonnes.
[2)] Contract amounts of electricity derivatives in MWh.

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 fair value of forward electricity contracts is due to the substantial increase in electricity prices in the latter part of 2002 and the increased amount of the electricity derivative contracts.

Euro exchange rates	**Oct-Dec 2002**	Oct-Dec 2001	Change %	**Jan-Dec 2002**	Jan-Dec 2001	Change %
Average rates						
USD	**1.00**	0.90	11.1	**0.95**	0.90	5.6
SEK	**9.09**	9.48	-4.4	**9.16**	9.26	-1.1
GBP	**0.64**	0.62	3.2	**0.63**	0.62	1.6
Closing rates						
USD				**1.05**	0.88	19.3
SEK				**9.15**	9.30	-1.6
GBP				**0.65**	0.61	6.9

The exchange rates are quoted by the European Central Bank.

Metal market prices Average prices		**Oct-Dec 2002**	Oct-Dec 2001	**Jan-Dec 2002**	Jan-Dec 2001	Change %
Stainless steel						
- transaction price	EUR/kg	**1.76**	1.53	**1.72**	1.65	4.2
- base price	EUR/kg	**1.45**	1.30	**1.41**	1.28	10.2
- conversion margin	EUR/kg	**1.01**	0.87	**0.97**	0.86	12.8
Ferrochrome (Cr-content)	USD/lb	**0.35**	0.29	**0.31**	0.32	-3.1
	EUR/kg	**0.77**	0.72	**0.73**	0.79	-7.6
Nickel	USD/lb	**3.22**	2.29	**3.07**	2.70	13.7
	EUR/kg	**7.11**	5.64	**7.16**	6.64	7.8

Sources:
Stainless steel: CRU – German transaction price, base price and conversion margin (2mm cold rolled 304 sheet). CRU estimated prices for deliveries made in Germany during the period.
Ferrochrome: CRU – High carbon ferrochrome, 50-55% Cr.
Nickel: London Metal Exchange (LME) cash quotations.

Definitions of key figures
For definitions of key figures, see AvestaPolarit's Annual Report 2001 at www.avestapolarit.com.