RUUKKI | GROUP

ANNUAL REPORT 2007

# RUUKKI GROUP BUSINESS STRUCTURE

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# INFORMATION FOR SHAREHOLDERS

## FINANCIAL INFORMATION

| EUR million | 2007 | 2006 |
|---|---|---|
| Revenue | 214 | 125 |
| Operating profit | 16 | 13 |
| Profit before taxes | 19 | 12 |
| | | |
| Total assets | 500 | 116 |

| | 2007 | 2006 |
|---|---|---|
| Operating margin (%) | 7.3 % | 10.4 % |
| Return on investment (%) | 8.8 % | 17.7 % |
| Equity ratio | 85.1 % | 60.1 % |

| | 2007 | 2006 |
|---|---|---|
| Personnel, average | 866 | 570 |

## IDENTIFICATION DATA OF THE COMPANY

| | |
|---|---|
| Corporate name: | Ruukki Group Plc |
| Domicile: | Espoo |
| Business ID-number: | 0618181-8 |

**Business:**
Industrials, wood-based and other business operations

**Business units:**
House Building (prefabricated houses), Sawmill Business, Furniture Business, Care Services

**Trading code:**
RUG1V (OMX Nordic Exchange Helsinki)

## RUUKKI GROUP'S FINANCIAL INFORMATION IN 2008

Ruukki Group Plc will publish the following interim reports in 2008:

1 Jan – 31 Mar 2008 (3 months): 6 May 2008
1 Jan – 30 Jun 2008 (6 months): 5 Aug 2008
1 Jan – 30 Sep 2008 (9 months): 4 Nov 2008

Ruukki Group publishes financial information in Finnish and in English.

The annual report, interim reports and stock exchange releases are published on Ruukki Group's website at www.ruukkigroup.fi/in_English. Financial information is published in pdf-format. Publications can be subscribed also by phone +358 10 440 7000 or by email at helena.tuominen@ruukkigroup.fi.

**Annual General Meeting**

The Annual General Meeting of Ruukki Group Plc will be held on Monday March 31 at 10 am in Espoo. The invitation to the meeting has been published in March 2008.

The Board of Directors has decided to propose at the 2008 Annual General Meeting of Ruukki Group Plc, that the company would pay out, from the retained earnings, a dividend of EUR 0.04 per share.

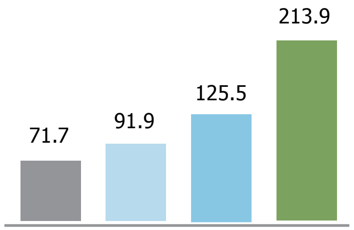
**Disclaimer**

The annual report is a translation from the original annual report in Finnish language. In the event of any discrepancy between the annual report in Finnish and its English translation, the annual report in Finnish shall prevail.

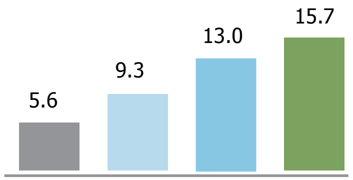
# FINANCIAL PERFORMANCE INDICATORS

2007
2006
2005
2004

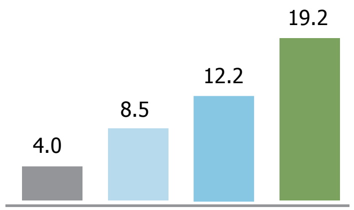
**Revenue, EUR million**



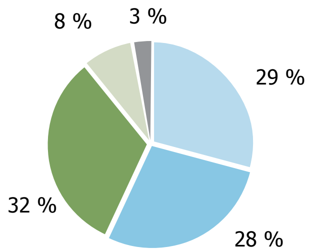

**EBIT, EUR million**




**Profit before taxes, EUR million**

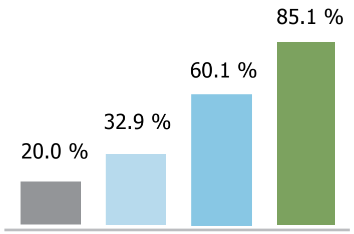



**Revenue split by segment 1-12/2007**

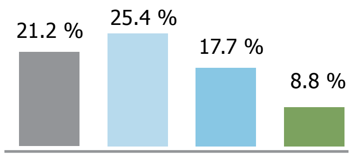



House Building
Sawmill Business
Furniture Business
Care Services
Other Businesses

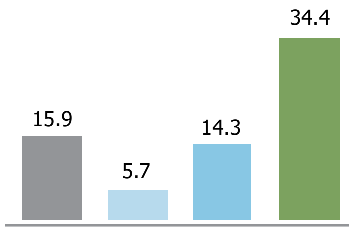
**Equity ratio, 31 Dec, %**



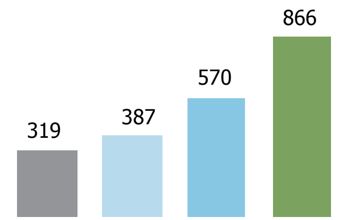

**ROCE-%, p.a.**



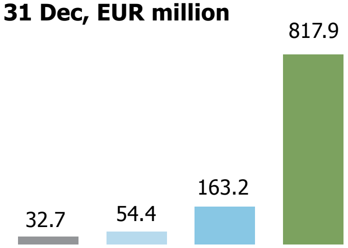

**Gross investments, EUR million**



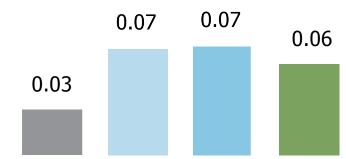

**Personnel, average**



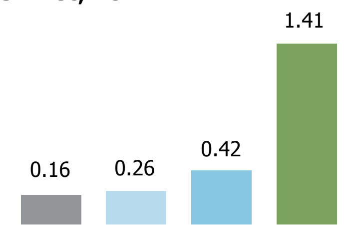

**Market capitalisation, 31 Dec, EUR million**




**EPS (basic), 31 Dec, EUR**




**Equity per share, 31 Dec, EUR**



# CEO'S REVIEW

Dear Ruukki Group Plc's shareholder,

The past year 2007 meant great changes to the company's business and shareholders. The Group decided to focus its business intensively on wood-based industrial business operations and move the emphasis of investments to Russia.

In the summer 2007, an extensive share offering was executed by which the company raised a net total of EUR 339 million in equity. In addition, the company's owner base broadened as several international institutional fund investors became shareholders. As of July 2007, the company's share has been quoted in the OMX Nordic Exchange Helsinki under the Mid Cap segment.

Group businesses had good success during the year 2007 and the Group's operating profit stood at record-high level. Revenue in 2007 totalled EUR 213.9 million (2006: EUR 125.5 million), up about 70 %. Earnings before interest and taxes (EBIT) was EUR 15.7 million (13.0), up about 21 % year-over-year.

In the furniture business, during the last quarter the operative volumes and capacity utilization increased notably and the operations returned to profit for the first time in a long time. However, there has been a turn in the economic conditions, and the demand in the sawmill and house building businesses no longer stands at the same level as last year. Despite that turn in cycle we are confident that the operative profit will continue to develop positively and the profit before interests and taxes in 2008 to be at about same level as during 2007.

Preparations and implementation related to the sawmill and pulp mill projects in Russia have been going on. We have been building own business and project organisations and choosing business partners through tendering processes.

In my opinion, we have succeeded in a fairly short time to make progress with our investment project. However, the evolved disagreements with the Kostroma region regarding the location have been regrettable and have affected the project's planned timetable.

Our growth strategy in Russia is based on the investments in sawmill and pulp businesses. Preparations related to the planned integrated industrial entity will continue as we are re-evaluating location options. I believe that during the second quarter of the current year we can concentrate on deepening the ongoing analysis on more appropriate and competitive territorial options, as well as on negotiating agreements.

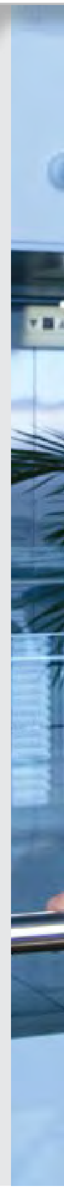
The company's owner structure has significantly changed and expanded during the past year and will probably continue to expand. Versatile and strong owners support the company's goals for expansion and internationalisation.

We operate in a challenging situation, work on our strategy goal-oriented and strongly believe that the chosen strategy will after positive events bring positive effect on shareholder value.

I sincerely thank our clients, employees, stakeholders and shareholders for all your efforts during the past year. Let us make the current year at least equally good despite of the challenging circumstances!

In Espoo on 18 March, 2008

Matti Vikkula



# THE GROUP MANAGEMENT

## BOARD OF DIRECTORS

### Members of the Board of Directors

At the beginning of the financial year the members of the Board of Directors were Fredrik Danielsson, Mikko Haapanen, Timo Honkala, Markku Kankaala, Kai Mäkelä, Matti Vikkula and Ahti Vilppula who all were re-elected by the Annual General Meeting on 20 April 2007. After the Annual General Meeting the Board organised itself and Matti Vikkula was elected as the Chairman of the Board. The extraordinary general meeting held on 12 June 2007 elected Arno Pelkonen and Timo Poranen as new Board members. Simultaneously, Fredrik Danielsson and Timo Honkala left the Board. Matti Vikkula left the Board, as he begun as CEO on 1 September 2007. After that the Board elected Matti Lainema as the Chairman of the Board. Arno Pelkonen left the Board in January 2008, after which the number of Board members has been six.

### Remuneration of the Board members

A decision was made at the Annual General Meeting on 20 April 2007 to pay members of the Board the following annual fees: Chairman of the Board EUR 12,000.00, Vice-chairman EUR 9,000.00, and other Board members EUR 6,000.00.

### Presentation and shareholding of Board members

**Mikko Haapanen**

(born in 1949), M.Sc. (Eng.), served in senior positions in an expert organisation since 1976 and was the founder of ELC Finland (MH-Konsultit) and Chairman of the Board of Directors there for 25 years. Since 1976, he has worked as a teacher of logistics at Helsinki University of Technology. He is also the chairman and CEO of Boardman. Haapanen has been a member of the Ruukki Group Plc Board of Directors since 26 April 2006. On 31 December 2007, Haapanen did not own any Ruukki Group Plc shares.

**Markku Kankaala**

(born in 1963), engineer, branch director at Ruukki Group Plc until 31 August 2006. He was an entrepreneur in the wood product industry for about 10 years, before that holding various positions in companies such as Ahlström and Rautaruukki. He served as the CEO of Ruukki Group Plc from 2003 to 2004. Kankaala has been a member of the Ruukki Group Plc Board of Directors since 2003. He also is a Board member in Ruukki Group's wood product and furniture business companies.

On 31 December 2007, Kankaala owned 9,602,191 Ruukki Group Plc shares.

**Matti Lainema**

(born in 1939), D.Sc. (Econ.), founder of strategy consulting firm S.A.M.I. (in 1982) and CEO of the company for 14 years, then a partner in S.A.M.I. Ernst & Young. Since 2001, he has concentrated on Board duties, and he is a partner in Boardman Oy and a Board member in Electrobit Group Plc. Lainema's area of expertise includes the management of diversified companies. Lainema has been a Ruukki Group Plc Board member since 26 April 2006 and the Chairman of the Board since 1 September 2007. He is also the Chairman of the Audit Committee. Lainema and his related parties owned 47,200 Ruukki Group Plc shares on 31 December 2007.

**Kai Mäkelä**

(born in 1947), M.Sc. (Econ.), CPA, involved in the operations of the Hertta companies he owns – e.g., as Chairman of the Board and CEO of Herttaässä and Herttakakkonen. He is also a Board member in Talentum Plc, a member of the Finnish Association of Professional Board Members, and a partner in Boardman. Mäkelä has been a member of the Ruukki Group Plc Board of Directors since 10 February 2000. On 31 December 2007, Mäkelä held a total of 58,763,447 shares, including those held through entities under his control and forward contracts.

**Timo Poranen**

(born 1943), M.Sc. (Eng.), industrial counsellor, was elected to the Board of Directors in the extraordinary general meeting held on 12 June 2007. Poranen is a member of the Board of Konecranes Oyj and FACTE (the Finnish

In the photo from left to right: Matti Lainema, Markku Kankaala, Mikko Haapanen and Timo Poranen. Missing: Ahti Vilppula and Kai Mäkelä.

Academies of Technology). Mr. Poranen has worked as President of the Finnish Forest Industries Federation in 1998-2005, Vice President of Metsäliitto-Yhtymä in 1996-97 and prior to this, as the CEO of Metsä-Serla Oy and Oy Metsä-Botnia Ab. In addition, he has held various positions of trust, i.e., in interest groups related to domestic and international forest industry and in forest industry co-operation between Finland and Russia. On 31 December 2007, Poranen did not own any Ruukki Group Plc shares.

**Ahti Vilppula**

(born in 1959), director and Board member of Procomex S.A. Vilppula has been a member of the Ruukki Group Plc Board of Directors since 7 June 2005. On 31 December 2007, Vilppula and the entities under his control owned a total of 72,812,715 Ruukki Group Plc shares, including forward contracts.

## THE CEO AND OTHER MANAGEMENT

Matti Vikkula has been the CEO of Ruukki Group Plc since September 2007. Before that Antti Kivimaa served as the CEO and he continues to serve as Executive Vice President. Jukka Havia has served as the CFO since May 2005. Esa Hukkanen has been the business development director since 1 October 2006. Ruukki Group Plc does not have a separate Executive Board. The company's management consists of the people listed above.

The Board of Directors appoints the CEO. The CEO runs the day-to-day administration of the company in accordance with the instructions provided by the Board. The CEO is not a Board member.

**Matti Vikkula, CEO**

(born in 1960), M. Sc. (Econ.), CEO of Ruukki Group Plc since 1 September 2007, until which he acted as the chairman of the Board of Directors. He was a member of the Board from 7 June 2005 until 31 August 2007. Previously he was responsible for Elisa Oyj's Consumer and Small Enterprise Customer business and member of Elisa Oyj's executive board and CEO of Saunalahti Group Oyj. Among other positions he has worked as a business management consulting partner at PwC Consulting Oy. He is also the chairman of the board of Kristina Cruises Oy and a member of the Trainers' House Oyj's board of directors. On 31 December 2007, Vikkula held 3,189,400 shares of the company in total, including those held through entities under his control or by related parties.

**Antti Kivimaa, Executive Vice President**

(born in 1949), M.Sc. (Eng.), B.Sc. (Econ.), Executive Vice President of Ruukki Group Plc since 1 September 2007. Before that he was the CEO of Ruukki Group Plc since 22 November 2004. Also Chairman of the Board and a Board member in Ruukki Group's subsidiaries and associated companies. His previous positions include managing director of Startel, Chairman of the Board of Esmerk Group, managing director of Janton Plc, managing director of E. Ahlström, and branch director of Sponsor. On 31 December 2007, Kivimaa owned a total of 150,000 Ruukki Group Plc shares. He also holds 525,000 Ruukki Group Plc options.

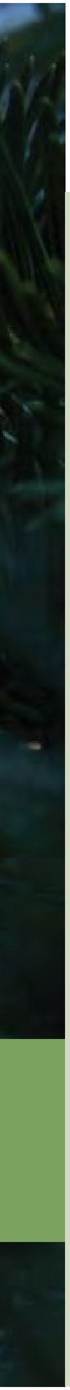
**Jukka Havia, CFO**

(born in 1968), M.Sc. (Econ.), Ruukki Group Plc's CFO since 1 May 2005. Previous positions include Director of Finance at the Student Union of the Helsinki School of Economics. On 31 December 2006, Havia did not own any Ruukki Group Plc shares but held 150,000 Ruukki Group Plc options.

**Esa Hukkanen, Business Development Director**

(born in 1954), engineer, Ruukki Group Plc Business Development Director since 1 October 2006, before that serving as managing director of Ruukki Furniture. Previously an entrepreneur in the wood product industry and a holder of various positions in companies such as Ahlström Eristeet and Saint-Gobain Isover. Hukkanen was a member of the Ruukki Group Plc Board of Directors from 2003 to 2006. On 31 December 2007, he held a total of 5,007,500 Ruukki Group Plc shares.

# BOARD OF DIRECTORS' REPORT



# FINANCIAL PERFORMANCE 2007

## KEY EVENTS DURING THE FINANCIAL YEAR

### General

The company's Board has decided to focus the Group's business more intensively on wood-based operations so that the future industrial operations and investments will be focused on Russia in particular and on a substantially larger scale than before.

Ruukki Group's strategic aim is to concentrate on wood processing within the Northern coniferous wood zone. Group business operations will be focused on mechanical wood processing, and furthermore on pulp business. The target is to reach revenue of over EUR one billion by the first half of the 2010 decade, and the Group EBIT percentage should be in excess of the average profitability within the same industry.

In spring 2007 Group entered into two investment agreements with Russian Kostroma region to construct a sawmill and a pulp mill. These agreements replaced the previous investment agreements signed in December 2007. In case these investment projects are finalised they will have significant effect on Group's operations, its geographical focus and its risk position.

In June and July, the parent company Ruukki Group Plc executed a directed paid share offering and related over-allotment share issue. These share issues were specifically aimed at partial financing of Kostroma investment projects. By the share issues the company raised a net total of approximately EUR 339 million in equity when taking into account the deferred tax effect related to the share offering costs.

### Russian Investments

Ruukki Group targets to implement investment projects in Russia so that as a result a modern integrated forest industry entity will be created. Also third parties will be offered opportunities to join the integrate with their own areas of expertise.

In February 2007, Ruukki Group Plc announced that it had registered investment agreements concerning a sawmill and a chemi-mechanical market pulp (bleached chemi thermo mechanical pulp, BCTMP) mill in the investment project register of the Kostroma region. In May 2007, Ruukki Group made an agreement with the administration of the Kostroma region to expand the BCTMP mill investment agreement with a new agreement that was registered by the Kostroma region's administration at the end of June.

In accordance with the investment agreement registered previously in February 2007, Ruukki Group had the opportunity to invest in a BCTMP mill with an annual production capacity of 300,000-500,000 tons. Pursuant to the expanded investment agreement concluded in May and registered in June, Ruukki Group can either invest in a chemical pulp mill (BKP, bleached kraft pulp) with an annual production capacity of 800,000 tons or alternatively in the BCTMP mill agreed upon earlier.

According to the investment agreements Ruukki Group is able to get tax concessions. The concessions will be given for regional income tax and property tax, and their amount depends on the final timetable, on the investment costs and on the profitability of the investment projects.

In November 2007 Ruukki Group made applications, both for the sawmill project and for the pulp mill project, for the priority investor status related to forest harvesting rights. If Ruukki Group will be granted the priority investor status, a 50 per cent discount on forest rents will be given and the forest areas can be leased without the auction process that would otherwise be followed.

The combined total wood consumption of the 500,000 cubic meters conifer sawmill and the 800,000-ton BKP mill planned by Ruukki Group will, if realised, reach over four million cubic meters of industrially usable wood per year. To enable this, in conjunction with signing the investment agreements it was agreed with the Kostroma region that the annual harvesting rights included in the investment agreements can be increased from the previously agreed 2.5 - 3.1 million cubic meters to a total of 6.0 million cubic meters per year.

The planning and preparations for the pulp mill are currently in process with BKP as the primary alternative. The ongoing pre-engineering study thereby will be finalised during summer 2008. In case the pulp mill will be constructed as a BKP mill, for example the development of special steel prices will be affecting the final amount of the investment.

Based on current information and calculations, Ruukki Group estimates the total investments in the BKP mill and sawmill and in the necessary harvesting and transport machinery to be approximately EUR 1.1 billion. The total investment will however essentially depend on the technical set-up and the annual production capacity of the pulp mill.

It is targeted that the sawmill starts its production at the end of 2008 if needed permits from authorities and required forest resources have been granted promptly. Especially important in relation to the timetable is that the pending priority investor status has been given during the first quarter of 2008. The targeted start-up for the planned pulp mill is at the end of 2010. To be able to reach that timetable, it is also dependant upon the availability of needed permits and raw material resources. The planned location for the pulp mill and sawmill is the city of Manturovo by the Unzha River in the Kostroma region some 600 km northeast of Moscow.

The Sawmill Business segment signed in autumn 2007 purchase agreements with Heinolan Sahakoneet Oy, which belongs to Sorb Industri Ab, for the main production machinery and equipment for the Kostroma sawmill. The annual capacity of the sawmill is set at 500,000 cubic meters of sawn wood per year, to be produced in three shifts. Moreover, Ruukki Group has delivery agreements for the Kostroma sawmill in place for the log sorting and feeder machinery and equipment with Nordautomation Oy, for the kilns with WSAB Oy, for the debarking equipment with Valon Kone Oy and for the bio energy boiler plant utilising the bark of logs for Wärtsilä Biopower Oy.

Furthermore, large-scale frame agreement was signed with John Deere in autumn 2007. This agreement includes the delivery of harvesters and forwarders to the planned harvesting operations in Kostroma region, as well as the related training and spare parts services.

In August 2007 Ruukki Group's Russian sub-

sidiary made rental agreements in Manturovo, Kostroma for the land plots to be used for both the planned sawmill and the pulp mill. In conjunction with the preparations ongoing for the pulp mill project the Group has purchased certain old buildings situated on the site with the purpose of mainly demolishing them later.

The final implementation of the investments also depends on obtaining environmental and other official permits in Russia, as well as a number of other factors. At this time, no assurance can be given that such permits will be obtained or that favourable decisions will be made by the relevant authorities.

**Share Offerings**

On 12 June 2007 Ruukki Group Plc's Extraordinary General Meeting decided on a directed paid share offering, in which a minimum of 100,000,000 and a maximum of 130,000,000 new shares were to be offered. The share offering's success met the company's expectations, and the number of subscription commitments clearly exceeded the number of new shares to be offered. Based on the subscription commitments submitted by institutional investors in the book building process, the final subscription price was confirmed at EUR 2.30 per share. Ruukki Group Plc's Board of Directors decided on 21 June 2007, in accordance with the general meeting's decision, to execute the share offering. In addition, Ruukki Group's Board decided in June, in accordance with the share offering's terms and conditions, to give Evli Bank Plc, the manager of the issue, the right to subscribe for up to 19,500,000 new shares at a subscription price of EUR 2.30 per share to cover the over-allotment. Resulting from the offerings of a total of 149,500,000 shares less the estimated costs net of deferred taxes, Ruukki Group received altogether EUR 339 million in equity.

In the same context, the company's Board approved the allocation of new shares to investors who had made subscription commitments, the total number of who at the final subscription price level were 363. In accordance with the share offering's terms and conditions, at least one third of the minimum amount of new shares offered were reserved for the company's current shareholders and comparable parties.

In accordance with the terms and conditions of the issue, the subscription price was recognised in full in the paid-up unrestricted equity fund. At the end of financial year 2007 the funds received from the share issues are to major extent placed in short-term euro-denominated deposits or diversified money market mutual funds. About one tenth of those funds were at the end of 2007 placed in short-term rouble-denominated deposits.

**Acquisitions and Divestments**

In February 2007, Ruukki Group Plc carried out an ownership arrangement concerning Incap Furniture Oy, the furniture manufacturer, taking part in its directed share issue. After all share and financing transactions finalised during the financial year, Ruukki Group owned altogether 71.0 % of Incap Furniture's shares at the end of the year. At the end of 2006 the corresponding ownership was about 47.3 %. Due to the effect of the joint financing package of shareholders and providers of finance, the financial situation of Incap Furniture was strengthened in this conjunction by about EUR 3 million. Through the options issued by Incap Furniture Oy, Ruukki Group Plc's holding may decrease to about 65 per cent, if all the options are exercised. A total of EUR 0.9 million of Ruukki Group's cash assets was tied up in this arrangement.

Through a transaction carried out in March 2007, Ruukki Group Plc acquired approximately 68 % of Oplax Oy's shares. Oplax Oy had previously been an associated company. After the acquisition Ruukki Group has held the entire stock of Oplax Oy. Oplax Oy is engaged in the production of wooden packaging products and packaging pallets and the provision of logistics services in Oulu, Tornio and Kemi. Oplax Oy annually produces over one million packaging pallets, using about 30,000 $m^3$ of timber. Oplax Oy has been consolidated in the Ruukki Group's Sawmill Business area as a subsidiary since March 2007.

In June, Pohjolan Design-Talo Oy, the parent company of Ruukki Group's House Building business segment, acquired a majority holding in Pohjolan Design-Sähkö Oy, a non-Group electrical contractor company, at a price of EUR 1.5 million. Pohjolan Design-Sähkö has previously been a long-term subcontractor and partner of Pohjolan Design-Talo. After the transaction, Ruukki Group has a consolidated holding of about 63.2 % in Pohjolan Design-Sähkö Oy, which has been renamed as RG Design-Talotekniikka Oy. The company's operating management retains a minority holding in the company.

As part of the Group's strategic restructuring, in December 2007 a letter of intent was signed of the sale of all the shares of Pan-Oston Oy, a subsidiary in Other Businesses, metal industry. The closing of the divestment occured in the beginning of January 2008.

**Other Events**

The Annual General Meeting held in April 2007 decided to pay out a dividend of EUR 0.03 per share, partly amend the Articles of Association, execute a bonus share offering to pay for the additional transaction price liabilities relating to old share exchange agreements and update the terms and conditions of the I/2005 option scheme as enabled by the new Companies Act. The Annual General Meeting re-elected the existing Board in its entirety and the auditors. Additionally, the Annual General Meeting authorised the Board to decide on a share issue and on granting options and other special rights that give entitlement to shares. By virtue of this authorisation, the maximum number of shares to be issued in one or more lots is 25,000,000 new shares or treasury shares held by the company, corresponding to approximately 18 % of total number of registered shares at the moment when decision was made and approximately 8.6 per cent of the total number of shares registered on 31 December 2007. Based on this authorisation the board of directors has issued 300,000 shares to CEO Matti Vikkula in June 2007 and decided in December 2007 to set up new management incentive scheme with a maximum of 7,350,000 share options. The share issue authorisation given by the Annual General Meeting is valid until 20 April 2009.

An Extraordinary General Meeting held in June decided, in accordance with the Board proposal, to execute a paid directed share offering and related over-allotment share issue option primarily to finance part of planned investments in Russia. Arno Pelkonen and Timo Poranen were elected as new members to Ruukki Group Plc's Board of Directors, and Fredrik Danielsson and Timo Honkala left the Board. The company's Articles of Association were amended in part, for example, by adding Ruukki Group Plc as the company's English business name.

In May 2007, Ruukki Group Plc's Board decided to revise the company's dividend distribution policy. The number of dividends distributed by the Company in the future will depend on the Company's financial status, need for capital and other factors. The planned investments to Russia will restrict the company's possibility to distribute dividends in the coming years. It is possible that no dividend at all will be distributed on the company's shares in the next few years.

The Lestijärvi factory of Ruukki Group's Furniture Business segment was to major extent destroyed by a fire that took place at the end of June 2007. The insurance compensations, net of impairment losses, related to the fire totalled EUR 4.3 million in financial year 2007. There are no major pending insurance processes at the end of 2007. The operations and production in Lestijärvi were decided to be terminated. Based on that decision and after the co-determination negotiations process forty employees were given immediate notice due to financial and production-related reasons. The costs related to workforce layoffs or relocating and factory closure were not substantial.

In June, Ruukki Group Plc's Board appointed Matti Vikkula, M.Sc. (Econ.) as the company's new CEO. He commenced as CEO in the beginning of September 2007.

The Extraordinary General Meeting of 12 June 2007 elected Timo Poranen, M.Sc. (Eng.) and Arno Pelkonen, M.Sc. (Econ.) as new members of the company's Board. Mr. Arno Pelkonen resigned from the Board on 25 January 2008.

Ruukki Group Plc's Board of Directors decided in May 2007 to establish an Audit Committee. In August Matti Lainema (committee chairman), Mikko Haapanen and Timo Poranen were appointed as members of the Audit Committee.

**EVENTS AFTER THE BALANCE SHEET DATE**

In January 2008 Ruukki Group acquired a majority interest in Junnikkala Oy and the group it forms. Junnikkala group practices sawmill business in Kalajoki, Ostrobothnia, and its subsidiary Juneropt Oy specialises in further processing of sawn wood targeted especially for prefabricated housing business. The annual production capacity of the Junnikkala sawmill is at present 130,000 cubic meters of sawn wood. At the same time, Junnikkala Oy acquired all shares of Pyyn Saha ja Höyläämö Oy, which operates in Oulainen. The current annual production capacity of Pyyn Saha ja Höyläämö Oy is close to 40,000 cubic meters. The business and investment plans for the newly formatted Junnikkala group are based on increasing the total combined capacity to 300,000 cubic meters during the next two to three years. In addition, further processing will be developed in the planing and painting operations. The Oulainen sawmill will be focusing on sawing smaller logs, whereas Kalajoki sawmill will be concentrating on further processing in addition to sawing operations. The consolidated revenue of the newly formed Junnikkala group totalled nearly EUR 50 million in 2007 and the profitability was positive. As a result of these arrangements, the annual production capacity of Ruukki Group's sawmill business will increase immediately from approximately 200,000 cubic meters to nearly 400,000 cubic meters, and by 2010 the total capacity is to reach 500,000 cubic meters level.

In January 2008 it was announced that the board of directors of Ruukki Group has decided to explore opportunities to make structural arrangements in the House Building segment and in the Care Services segment with a target to dispose of those businesses.

The implementation of the investment agreements is continuing by Ruukki Group and its Russian subsidiary according to the investment agreements. In order to get the needed forest resources in the Kostroma region in accordance with the new Russian Forest Code, Ruukki Group's Russian subsidiary filed in November 2007 applications for the so-called priority investor status within the Kostroma region's administration. At the date of the announcement of these Financial Statements the processes related to these applications are open. On 17 January 2008 initiative was presented by the Kostroma region to make amendments in the investment agreements. For this purpose both parties have nominated experts into joint working groups to handle the issue. The claims by Kostroma region's administration to change the tax concessions and the forest harvesting rights are not based on the registered investment agreements. The priority investor status applications will be actively processed further with the Kostroma region's administration. The confirmation of the priority investor status will be done by the responsible ministry of the Russian Federation.

# DEVELOPMENT BY BUSINESS SEGMENT

# HOUSE BUILDING

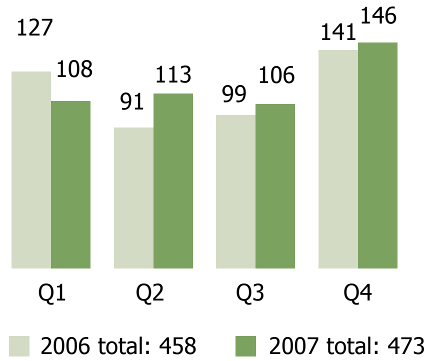
**The House Building business area specialises in the design, manufacture and assembly of ready-to-move-in detached wooden houses in whole Finland. The business area's customers are Finnish families and private persons.**

The steep and rapid climb of the costs of raw materials and supplies in the first half of 2007 weakened the relative operating profitability. The cost increases started to level off in the autumn. The number of houses delivered to customers increased slightly from the previous year. Business area's revenue grew more than the volume of delivered houses due to an increase in the average selling price and since starting from June 2007 the acquired electricity contractor subsidiary has been consolidated into the segment. Deliveries in the House Building business are generally very seasonal, which in practice means that more deliveries are made during the first, and particularly the fourth, quarters than over the summer. However, during 2007 the timing of deliveries differed slightly from the historical seasonal variation.

The business area's order book excluding VAT stood at approximately EUR 17.9 million at the end of 2007 (31 Dec 2006: EUR 36.0 million). The order book contains no significant risks. At the end of the accounting period, the House Building business area's personnel totalled 118 (31 Dec 2006: 101).

The following companies belong to the business area: Pohjolan Design-Talo Oy (Ruukki Group Plc owns 90.1 %) and its subsidiaries Nivaelement Oy (100 %) and RG Design-Talotekniikka Oy (Pohjolan Design-Talo Oy owns 70.1 %).

The House Building business area has delivered wooden ready-to-move-in houses to customers as follows:




The revenue from ready-to-move-in houses delivered by the business area is recognised upon delivery to the customer, for which reason sites in progress have no effect on the Group's revenue or profit.

**Revenue and operating profit of the House Building segment, 12 months:**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 62.4 | 53.7 | 16 % |
| EBIT | 13.3 | 13.4 | 0 % |
| EBIT-% | 21.4 % | 24.9 % | |

**Revenue and operating profit of the House Building segment, 3 months:**

| EUR million | Q4/2007 | Q4/2006 | Change, % |
|---|---|---|---|
| Revenue | 19.9 | 16.0 | 24 % |
| EBIT | 4.8 | 4.1 | 17 % |
| EBIT-% | 23.9 % | 25.4 % | |

# SAWMILL BUSINESS

**The Sawmill Business segment specialises in the efficient processing of softwood logs from Northern Finland into various timber products for both domestic and export markets.**

The construction industry forms the business area's main customer group in both Finland and elsewhere, because the Group's products are very well suited to house building thanks to their strength properties.

Both the market prices of the end-products and the costs of raw materials and transportation have risen, the net result of which the profit and relative profitability have improved during 2007. The log stumpage prices have levelled off during the autumn. Market demand for the products of the business segment has been strong in Finland as well as in export markets, but especially abroad there has been deterioration in the market situation from the end of the financial year 2007. There have been many factors affecting the whole sector that have lowered the profitability of the segment: declining exports prices, weak demand abroad, profound structural changes in the Finnish forest industry and the implications of the introduced Russian round wood duties into the business environment.

The exports accounted about 42 % of the Sawmill Business segment's revenue (1-12/2006: 56 %). The order book excluding VAT was approximately EUR 8.9 million (31 Dec 2006: EUR 13.2 million). There were totally 112 employees employed by the segment at the end of 2007 (31 Dec 2006: 72).

In the segment's operating profit (EBIT) for the 2007 last quarter, there are altogether EUR 0.8 million expenses included related to the Russian projects (10-12/2006: EUR 0.0 m) and about EUR 1.1 million for the full financial year 2007 (1-12/2006: EUR 0.0 m).

Excluding the Russian investment projects' expenses, the operating profit (EBIT) of the Sawmill Business totalled EUR 0.4 million for the last quarter of 2007 (10-12/2006: EUR 0.1 million). The corresponding EBIT margin of the domestic operations was 2.5 % (10-12/2006: 1.3 %) of revenue. For the full financial year 2007 the domestic operations' EBIT totalled EUR 6.4 million (1.4), which is 10.8 % (5.0 %) of revenue. A one-off insurance compensation of EUR 0.4 million was recognised during the first quarter of 2007.

**Revenue and operating profit of the Sawmill Business segment, 12 months:**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 59.4 | 27.8 | 114 % |
| EBIT | 5.4 | 1.4 | 295 % |
| EBIT-% | 9.0 % | 4.9 % | |

**Revenue and operating profit of the Sawmill Business segment, 3 months:**

| EUR million | Q4/2007 | Q4/2006 | Change, % |
|---|---|---|---|
| Revenue | 14.4 | 9.7 | 50 % |
| EBIT | -0.5 | 0.1 | -578 % |
| EBIT-% | -3.3 % | 1.0 % | |

The coniferous sawmill planned in the Kostroma region, Russia, is still at the preparation phase. During 2007 the total costs recognised in the consolidated income statement related to the investment projects in Kostroma were EUR 3.5 million (for the previous financial year EUR 0.5 million). Furthermore, prepayments on the investments have been paid. During the last quarter of 2007, the Kostroma projects' expenses totalled about EUR 0.8 million, which almost fully has been related to the sawmill business.

After the end of the financial year 2007 Junnikkala group has been acquired into the Sawmill Business segment (Ruukki Group's ownership 51 %), which will to a large extent increase the revenue of the segment in 2008. When the new acquired unit is integrated, the target is to intensify the co-operation of various sawmills and to get synergy benefits in i.e. purchases.

The major subsidiaries of the segment are: Lappipaneli Oy (100 %), Tervolan Saha ja Höyläämö Oy (91.4 %), Oplax Oy (100 %) and Ruukki Invest Oy (100 %), which has a Russian subsidiary OOO Ruukki Invest Oy Kostroma.

# FURNITURE BUSINESS

**The Furniture Business segment manufactures wooden, ready-to-assemble furniture.**

The business environment of the furniture business has continued to be very challenging, and the operating result without non-recurring items has remained negative. However, during the last quarter of the financial year, the operative volumes and capacity utilisation increased notably and the business area's profit before non-recurring items returned to profit. During the year 2007 a net insurance compensation in total of approximately EUR 5.4 million has been recognised, by for the same period a EUR 1.1 million impairment of inventories has been booked as well. At the end of the accounting period, the business area's order book excluding VAT stood at approximately EUR 10.4 million. On 31 December 2007, the segment employed a total of 331 people.

The following companies belong to the segment: Incap Furniture Oy (Ruukki Group's ownership 71.0 %) and its subsidiaries.

In the table below the EBIT includes both the shares of profit relating to holdings in associated companies corresponding with the Group's respective holdings and all income statement items corresponding with holdings in subsidiaries. In January and February 2007 the furniture business company Incap Furniture and all of its subsidiaries were associated companies of Ruukki Group, and from March 2007 onwards subsidiaries.

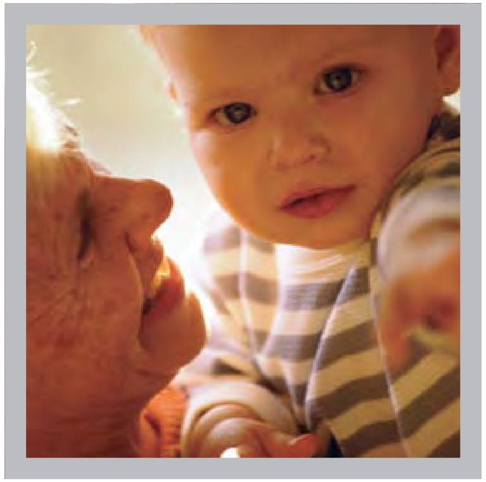
**Revenue and operating profit of the Furniture Business segment, 12 months:**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 68.7 | 25.7 | 168 % |
| EBIT | 2.6 | -5.3 | - |
| EBIT-% | 3.8 % | -20.8 % | |

**Revenue and operating profit of the Furniture Business segment, 3 months:**

| EUR million | Q4/2007 | Q4/2006 | Change, % |
|---|---|---|---|
| Revenue | 25.0 | 0.0 | - |
| EBIT | 3.1 | -1.7 | - |
| EBIT-% | 12.2 % | - | |

# CARE SERVICES



**The Care Services business area provides high-quality care and rehabilitation services for municipalities, cities, communities and businesses.**

During the financial year 2007, the organic growth of the business was strong as a result of new service unit openings and the Mendis acquisition carried out last year. During the last quarter of 2007 the business segment's expenses were above the average due to the autumn salary increases, the personnel and premises costs for new or planned care services units as well as one-off purchases at the existing care homes.

At the end of the accounting period, the business area employed 344 persons (31 Dec 2006: 229). The structure of the subgroup will be simplified further in 2008 by merging one of the subsidiaries into the parent company. The business area has service units in 21 locations, and the combined number of these unit's customers was about 550 at year end (31 Dec 2006: 420).

The comparable increase in the revenue of the Care Services business area was approximately 30 %, when eliminating the effect of the acquisition of Terveyspalvelut Mendis Oy during the 2006 financial year. Correspondingly, the comparable change in operating profit is about -75 %.

The following companies belong to the business area: the parent company of the group Mikeva Oy (100 %) and its subsidiaries Mikon Kuntoutuskodit Oy (100 %) and Terveyspalvelut Mendis Oy (100 %) that also has Mendis Palvelukodit Oy (100 %) as its subsidiary.

**Revenue and operating profit of the Care Services segment, 12 months:**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 16.8 | 9.8 | 71 % |
| EBIT | 0.3 | 0.6 | -55 % |
| EBIT-% | 1.6 % | 6.2 % | |

**Revenue and operating profit of the Care Services segment, 3 months:**

| EUR million | Q4/2007 | Q4/2006 | Change, % |
|---|---|---|---|
| Revenue | 4.5 | 3.3 | 36 % |
| EBIT | -0.4 | -0.1 | -197 % |
| EBIT-% | -8.2 % | -3.7 % | |

# OTHER BUSINESSES

In addition, Ruukki Group has business operations within the metal industry that are not reported as separate segments as well as some holdings in associates.

The following companies belong to the metal industry sub-group: Alumni Oy (100 %) and its subsidiaries Pan-Oston Oy (100 %), the entire stock of which was sold upon transactions carried out on 2 January 2008, and Selka-line Oy (100 %). During the accounting period 2007, the metal industry sub-group's revenue was EUR 8.2 million (EUR 8.2 million in 2006) of which Pan-Oston Oy generated about 65 %, and operating profit EUR 0.1 million (EUR 0.3 million in 2006).

Ruukki Group Plc also has some minority holdings in Finnish companies that operate in logistics and ICT businesses. The combined profit effect of associates was approximately EUR 0.1 million in 2007 (EUR 0.4 million in 2006). The profit effect of associates belonging to Sawmill and Furniture Business segments is presented within the operating profit of these segments. During the accounting period 2007 Ruukki Group Plc reduced its ownership in Valtimo Components Oyj from 39.2 % to 24.9 %. All the associates have been consolidated in the consolidated financial statements by applying the equity method.

# GROUP EMPLOYEES

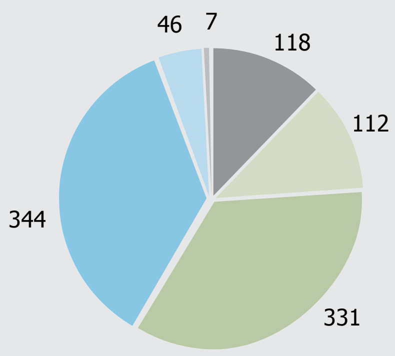
At the end of the financial year Ruukki Group's number of employees was 958 (2006: 452), and accordingly for the parent company 7 (5). The average headcount was 866 (570) during the financial year. Group's personnel expenses for 2007 were EUR 32,037,200.86 (18,368,867.34). There were altogether EUR 576,147.77 (105,304.50) expenses recognised in the income statement based on option and other share-based payments as depicted by IFRS 2 standard.

The Group has several different business areas. The number of personnel, geographical location and tasks vary significantly between the business segments.

In the Care Services business area there are authority requirements in relation to the relative number of personnel (in proportion to the number of customer units) and the educational level of the personnel.

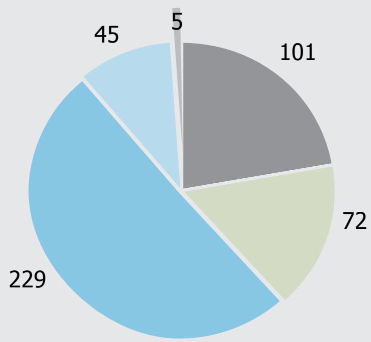
**Personnel 31 Dec 2007**

Group total: 958




**Personnel 31 Dec 2006**

Group total: 452




Incap Furniture Oy was an associate on 31 Dec 2006

House Building · Sawmill Business · Furniture Business · Other Businesses · Group Management · Care Services

# OUTLOOK FOR THE FUTURE

The company's Board has decided to focus the Group's business more intensively on wood-based operations so that the future industrial operations and investments will be focused on Russia in particular and on a substantially larger scale than before.

Ruukki Group's strategic aim is to concentrate on wood processing within the Northern coniferous wood zone. Group business operations will be focused on mechanical wood processing, and furthermore on pulp business. The target is to reach revenue of over EUR one billion by the first half of the 2010 decade, and the Group EBIT percentage should be in excess of the average profitability within the same industry. Ruukki Group Plc's Board of Directors has decided to set a long-term goal of having equity ratio of 40 per cent at the group level.

Considering the Group's size, the planned projects, particularly relating to the planned pulp business, are extremely large and entail a number of different kinds of risks for both implementation and investment processes as well as the business operation phase.

Ruukki Group's consolidated revenue in 2008 is expected to be about 20 per cent higher than the 2007 group revenue. The Group's 2008 operating profit (EBIT) in euros is expected to be at about the same level as during 2007 despite the cyclical changes in the house building and sawmill businesses. Earnings before taxes for the financial year 2008 are expected to increase by approximately one fourth. These guidances are based on forecasts by the Group's and subsidiaries' management, market prognosis in various industries and the Group order book at the end of 2007. Furthermore, the guidance is valid for the current Group structure, which is assumed to be unchanged during the full year 2008.

**FUTURE OUTLOOK FOR EACH SEGMENT'S MARKET DEVELOPMENT:**

**House Building**

- There are signs that the rapid growth of the detached house market in recent years has levelled off; this may affect the number of detached house deliveries during next year, and therefore it is generally expected that the amount of house deliveries will fall from the level achieved in 2007.
- Competition, especially in the ready-to-move-in niche, can be harder and affect the needed marketing resources and the average sales prices.
- Changes in market interest rates or the prices of production inputs may have a negative impact on the short-term and long-term performance of the business.

**Sawmill Business**

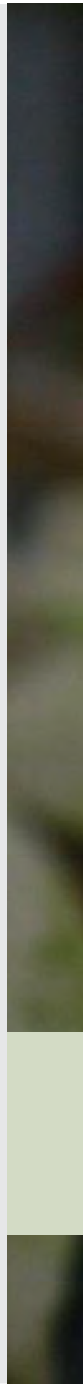
- After the positive markets and rapid hike in the sales prices last year, the future market situation is expected to be challenging. Especially in the export markets a negative change in the prices and demand is expected in the near future.
- The log stumpage prices are expected to stabilise, but it is likely that the proportion of raw material imported from Russia to Finland will decrease, which might have considerable impact on future availability and price of raw materials.
- The volume and geographic distribution of the production capacity in the sector is likely to change, and the focus in new investments probably will be on the areas neighbouring Finland.

**Furniture Business**

- In the furniture business the operating environment is estimated to improve in general from previous years, but possible changes may rapidly affect the situation.
- In short-term, demand is expected to be high, but the conditions can change rapidly during the second half of 2008.

**Care Services**

- The bidding competitions and service outsourcing from the public sector to private operators offer good growth opportunities for the field, particularly in elderly care and mental health services.
- Availability of competent workforce and rise in personnel costs due to given material rises in salaries are factors that can slow down growth in the field and affect the short-term profitability.



**In addition to the issues presented in the following pages, the risks on businesses and investment projects have been described in the share offering prospectus published on 13 June 2007. Risk management has been separately presented in conjunction with "Other notes to the consolidated financial statements" section.**

# RISKS RELATED TO OPERATIONS

## STRATEGIC RISKS

### Competitive Situation and Position in the Production Chain

The competitive situation is expected to remain strong or tighten in the company's key business sectors and main markets. This might affect the Group's profitability through unfavourable development in sales prices and price of raw materials. The Group aims to intensify its production and service processes which will guarantee sustained competitiveness as well as sufficient capacity and quality.

The House Building business area deals directly with customers, which means that it has a responsibility toward the end clients for a package delivery of ready-to-move-in houses. However, in the production and delivery process subcontractors play a significant role as they increase the division's flexibility and ability to react to major market changes. The Sawmill Business area is involved in the relatively early stages of the processing chain and delivers part of its production output to other processing plants or the wholesale industry. This may affect its ability to react to major structural changes affecting the sector.

### Geographic and Political Risks and Customer Concentration

The Group companies' production facilities, personnel, and customers are mainly located in Finland. The Group previously operated mainly in Finnish markets, but a growing share of customers are abroad. Geographical decentralisation has decreased the direct impact of home markets especially in Sawmill and Furniture Business areas. However, the risk arising from unfavourable development in individual market areas or changes in their currencies may continue to be significant.

The Group's new strategy to explore and implement business opportunities in Russia will presumably increase geographical risks related to operating in Russia. The execution and timing of investment projects in Russia are considerably depending on obtaining permits from the Russian Federation, local regional administration and municipal authorities of the locality where the planned production facilities are situated. The execution of the investment projects also requires that the Group obtains the obligatory permits and harvesting and other rights stipulated by law, as well as existence and construction of adequate infrastructure.

The relative importance of Japanese export markets in the Sawmill Business and the House Building business in Finland are high even if individual customers are not very significant. In the pallet manufacturer unit, the number of customers is small but the company has entered into partnerships as well as long-term delivery agreements with the customers. This decreases the risk arising from centralised customers. An individual customer may, however, entail a significant risk in the Furniture Business, which may significantly affect the segment's business. The Care Services business area is subject to licence, and the key customer group consists of Finnish municipalities. If for social or regional policy reasons structural changes were made to the system of outsourcing social services to the private sector, a major impact could be seen in terms of future business opportunities in the care services sector.

### Risks associated with Business Reorganisation

A significant proportion of the Group's operations consist of business reorganisations, which is why the implementation, timing, and pricing of acquisitions and divestments, as well as integration of these activities at Group level, have a key impact on both short- and long-term performance. The estimated synergy benefits related to business reorganisation might be realised in different time frame and in different magnitude than originally planned. Moreover, these operations essentially involve various financing arrangements that typically include covenants that may affect the chances of securing further financing, or the terms and conditions of such financing. The launch of the planned new businesses in Russia involves significant exercising of financing and investment solutions, involving risks that, especially in the Russian business environment, are likely to be greater than average. The terms of the needed financing, especially if the turmoil in the global financial markets, which started in the second half of 2007, would continue, can be affected for the coming months and years by these factors.

**OPERATIONAL RISKS**

**Market Situation in Sectors of Operation**

The sectors in which the Group operates are clearly different in terms of their sensitivity to economic fluctuations, their operational profitability, and volume variations, and the individual divisions have only a very limited amount of direct co-operation. As a result, the dissimilar and mutually independent business operations diversify the Group's market risk and reduce the overall cyclicality of operations. The board's decision to focus on wood-based industrial business operations is expected to increase the risk related to changes in the market prices of timber raw materials, especially soft wood logs. Moreover, the change in the Group structure changes the decentralisation to different market areas and customer groups.

As the planned sawmill and pulp mill projects are completed, the Group will move to new business and market areas which would change the Group's risk profile. Expansion to new business areas will, as realised, have also an effect on customer and market risks. The planned pulp mill operations are large compared to the Group's current businesses.

**Raw Material Price and Availability Risks**

The price risk associated with the Group companies' main raw materials should be relatively easy to manage, and the sales prices can, at least in part, be revised to match the raw material price development. To minimise price and availability risks, Ruukki Group utilises long-term co-operation agreements and extensive partnership and subcontracting networks. The remote location of certain units increases the risks related to customer deliveries on the one hand, but on the other hand it ensures better raw material quality and availability, and it helps in retention of skilled personnel.

The estimated use of timber raw material in the Group's sawmill business in 2008 is in total about 800.000 cubic meters of soft wood log annually when the Junnikkala group is consolidated to Ruukki Group as of February 2008. As a result, a one euro change in the logs' purchase price (EUR/$m^3$) will affect the Group's operating profit EUR 0.8 million if the sales prices stay unchanged.

**Environmental Risks**

The Group companies conduct self-assessment with regard to environmental permits and risks, and they implement revisions and apply for the necessary permits if the business environment or regulations change. Environmental risks have to do firstly with direct potential harm to the environment and secondly with post-production rehabilitation or landscaping obligations. Due to the nature of the business, the group's Sawmill Business has the largest potential exposure to environmental risks. Based on studies carried out, the group does not have any knowledge that any significant environmental risks would exist in its current operations.

**Changes in Regulations**

Some of the Group's business activities are officially regulated. In the House Building business, operations are guided by regulations dealing with the technical quality requirements for construction. Furthermore, activities in the Care Services division require official permits, and certain members of staff must meet specific educational criteria. The Group keeps a close eye on any changes in regulations and attempts to respond to them as early as possible. If the planned Russian investments are realised, future investment claims will arise as well as forestry obligations set by authorities and different security and other permit requirements.

**Personnel**

The work carried out in the Care Services division is particularly labour-intensive and is subject to statutory requirements regarding staff training and education, and concerning the ratio between staff and customers as well as consumer legislation. The potential difficulties in recruiting and retaining skilled personnel may impose some restrictions on future growth in this business area. Moreover, as some of the Group companies are located relatively far from major towns and cities, individual companies may have trouble retaining sufficient personnel. In addition, obtaining skilled personnel will have an effect on the success of the Russian investments. This, however, may be challenging and require major training inputs.

**Intellectual Property Rights**

The Group is not currently involved in any business activity in which intellectual property rights, patents, or product development would be of significance.

**FINANCIAL RISKS**

**Exchange Rate Risks**

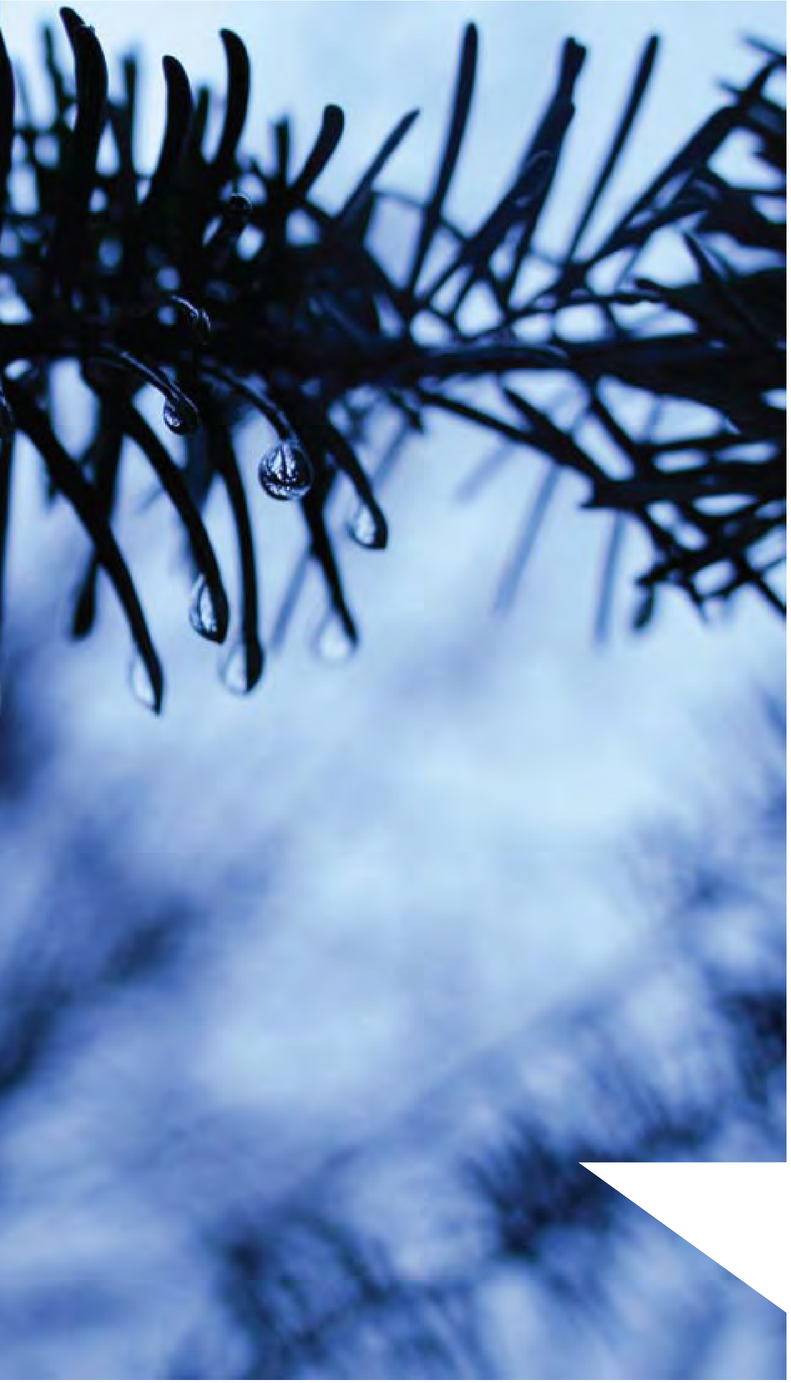
As a rule, short-term forward contracts are used to hedge against direct exchange rate risk exposure of the business segments' exports. The most significant exchange rate risks in export operations currently are linked with the Japanese yen, the Swedish krona, and the UK pound. A large percentage of the sale and purchase agreements are denominated in euros.

If the planned new projects in Russia are carried out, they will affect the Group's currency risks, which by default are going to gain a great deal of significance owing to the risks linked to the Russian rouble and to the growing relative weighting of export markets. At the end of the accounting period 2007 the Group had rouble-denominated deposits totalling about EUR 30 million that are not hedged against exchange rate risk.

**Interest Rate and Financial Risks**

Majority of the company's debt finance involves variable interest, which means that the Group's interest expenses will, without any hedging measures, follow the movements in money market interest rates. As the average weighted maturity of the loans is not very long, the interest rate risk is no different from the standard risk. Furthermore, a considerable proportion of the Group's liabilities, including the acquisitions related earn-out liabilities, are non-interest bearing in nature. The interest rate risk is closely monitored, and hedging measures are taken when necessary. For example, the nominal value of interest rate swaps made to hedge against interest rate risk related to debt finance is about EUR 5 million. To ensure the availability of financing, the Group's parent company has increased its equity-based funding and also taken other measures to expand its range of financing sources and alternatives for future projects.

Carrying out the business operations in Russia will require significant new financing solutions, which will, if finalised, significantly affect Group's financing position, interest rate risk and liquidity issues in short-term and long-term perspective, but the actual timing and financing structure is still not yet finalised.



**Credit Loss Risks**

Some of the credit loss risks of the Sawmill Business segment are hedged against with credit insurance. The House Building business segment generates a considerable proportion of Group's cash flows, which follow a payment scheme prepared in advance following degree of completion. This reduces credit loss risk significantly. In some business segments or companies, individual customers may be particularly important, which is why customer concentration risks could have a negative effect on the value of the Group's receivables and its future business opportunities.

**Risks Related to the Availability and Terms of Financing**

The Group is planning investments and it also has ongoing investment projects. Implementation of these projects requires financing for both the investment and to some extent also for the net working capital tied up with the investment. Especially the planned pulp mill investment in Russia is large compared with the Group's current operations and it will require significant amounts of both equity and debt financing. The overall situation in the financial markets and willingness to take risks and risk pricing may have a significant effect on the Group's ability to implement the projects profitably. The Group has no certainty that it will obtain the debt financing for the pulp mill investments on financially acceptable interest and other terms. The Group has worked on persistent manner with several financers and advisors in order to diminish the risks related to the availability of financing. On balance sheet date, the Group does not have a complete financing arrangement or any financing commitments for the planned pulp mill in Russia. Neither the Group has any certainty of obtaining sufficient debt financing on acceptable terms or in planned schedule.

**DAMAGE RISKS**

**Property and Damage Risks**

Property risks have been as extensively as possible covered with insurance, except for the excess portion. In addition, Ruukki Group has sought to cover indirect liability for damages, for example related to transportation, by insurance. The insurance cover for property risks is reviewed regularly.

**Guarantee Risks**

In number of cases, the products delivered by Ruukki Group companies involve quality or quantity guarantees to customers, consisting of a short-term duty to make repairs, and in the House Building segment, a statutory 10-year guarantee of structural safety issues. These risks are covered only partly, but the Ruukki Group companies pay particular attention to quality assurance and product development. Furthermore, non-group subcontractors are responsible to a certain extent for their own guarantee issues.

**Legal Proceedings**

The Group's parent company has been involved in legal actions related to the company name for a long time. The District Court has in 2007 and the Market Court in 2008 given their rulings for these proceedings dismissing Ruukki Group's claims. According to the Company's view, there are no liabilities relating to these processes that have not been taken into account in the financial statements. The Company has not received reports of the ongoing tax audit. There are no other significant ongoing legal proceedings.

## SPECIFIC RISKS RELATED TO RUSSIAN KOSTROMA INVESTMENT PROJECTS

If the planned projects in Kostroma would not be realised in planned schedule or their implementation would change from the original plans, it may cause delays of cash flows or additional costs. Changes in schedule or implementation may also affect the profitability of the investments or lead to decline in value of the assets and resources that already have been invested.

**Russian Administrative Culture and Political Risks**

The administrative procedures and changes in the Russian decision making mechanisms at the Russian Federation's level, regional level and municipality level may have adverse effect on the implementation possibilities of the projects. Ruukki Group has no certainty of obtaining the so-called priority investor status, which may complicate or delay the implementation or affect the profitability of the projects. Moreover, for instance, changes in implementation of timber export duties that Russian Federation has decided to carry out, may affect the regional price competitiveness from the current estimates.

**Start-up of a New Business Segment**

The planned start-up of a new business segment (pulp business) contains significant risks relating to both the ability to implement the pulp mill project, and the operational risks of the pulp business. Ruukki Group must also have the ability to bring up the complete supply chain on required volume. In addition, Ruukki Group also faces the risk of delays in recruiting and training of employees.

**Adequate Infrastructure**

Obtaining good and high quality functionality of the projects requires clear improvement in infrastructure in Kostroma region. There is no certainty of realising any infrastructure improvement or information on schedule of such projects. The production facilities require adequate electricity-, heat- and gas connections as well as road and railway connections. Moreover, the soil and other examinations of sites chosen for the production plants are not fully completed until near future.

**Market Risks**

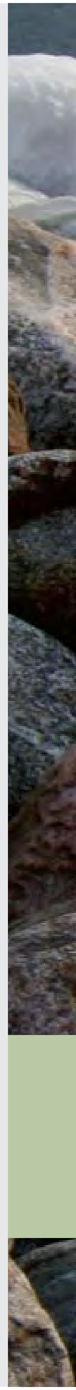
The Russian or world market price changes in the production inputs, end products or investment goods and changes in the availability of these inputs, may affect significantly the profitability. The profitability of the projects may therefore differ from the current estimates of the company and its advisors.

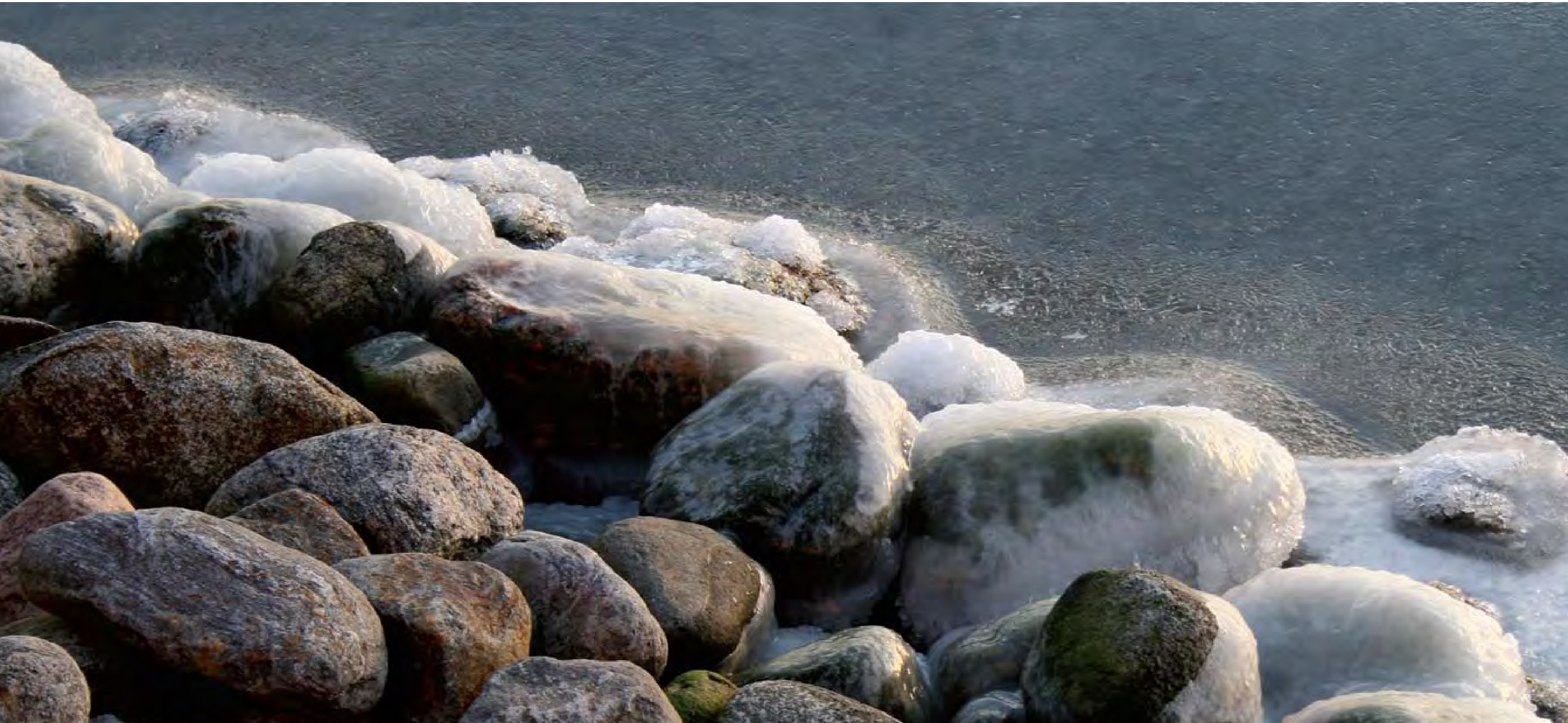
**Environmental Issues**

The planned investments, especially the pulp business, require obtaining environmental licenses and fulfilling environmental requirements stipulated by Russian legislation and official regulations. The environmental impact assessment processes are completed for the planned saw mill and they are in preparation phase for the pulp mill.

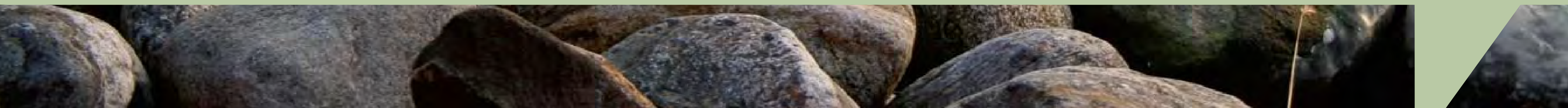
**Contractual Issues**

It is possible that the conditions and schedule of the existing investment and supplier contracts are not met for reasons not depending on Ruukki Group. This may require amendments or expansions for the contracts made with the regional administration of Kostroma or with the suppliers.





# INFORMATION ON SHARES AND SHAREHOLDERS



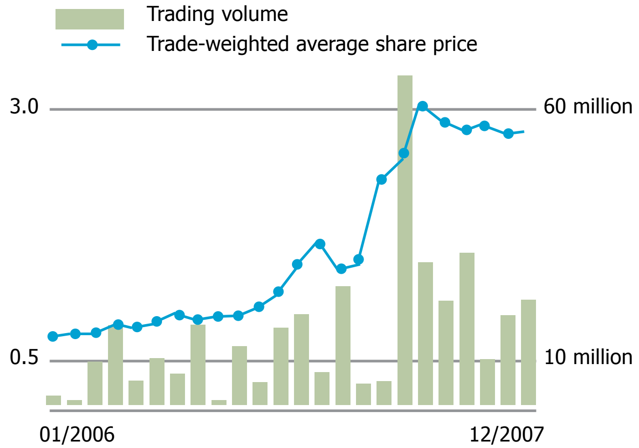
## SHARE CAPITAL

### Changes in share capital, 2005–2007

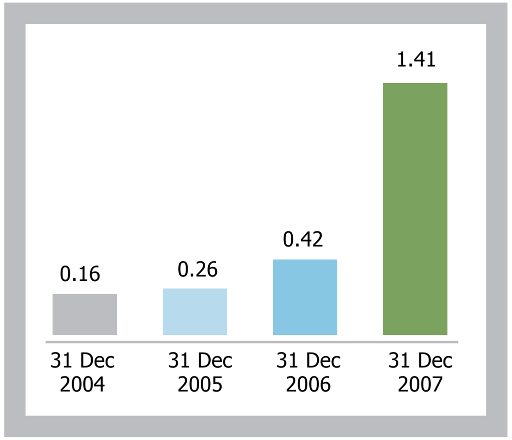
| Changes in share capital (registration date) | Increase, EUR | Number of shares after registration | Share capital, EUR after registration |
|---|---|---|---|
| Share capital on 31 Dec 2004 | | 817,805,476 | 13,819,824.10 |
| 2005 | | | |
| Directed issue (14 Jun) | 218,049.12 | 830,708,807 | 14,037,873.22 |
| Convertible bond conversion (25 Aug) | 1,689.62 | 830,808,810 | 14,039,563.14 |
| Convertible bond conversion (21 Oct) | 253,480.04 | 845,808,810 | 14,293,043.18 |
| Reverse split 10:1 (26 Nov) | 0.00 | 84,580,881 | 14,293,043.18 |
| Convertible bond conversion (12 Dec) | 290,656.94 | 86,300,380 | 14,583,700.12 |
| 2006 | | | |
| Bonus issue (11 Jan) | 87,449.49 | 86,300,880 | 14,671,149.60 |
| Directed issue (13 Jan) | 1,190,000.00 | 93,300,880 | 15,861,149.60 |
| Share issue (6 Apr) | 5,100,000.00 | 123,300,880 | 20,961,149.60 |
| Convertible bond conversion (21 Jul) | 610,810.00 | 126,893,880 | 21,571,959.60 |
| Convertible bond conversion (23 Aug) | 116,110.00 | 127,576,880 | 21,688,069.60 |
| Convertible bond conversion (6 Oct) | 102,000.00 | 128,176,880 | 21,790,069.60 |
| Free directed issue (10 Nov) | 0.00 | 128,741,737 | 21,790,069.60 |
| Convertible bond conversion (12 Dec) | 259,250.00 | 130,266,737 | 22,049,319.60 |
| Convertible bond conversion (27 Dec) | 968,490.00 | 135,963,737 | 23,017,809.60 |
| 2007 | | | |
| Convertible bond conversion (13 Feb) | 620,840.00 | 139,615,737 | 23,638,649.60 |
| Free directed issue (3 May) | 0.00 | 140,214,022 | 23,638,649.60 |
| Convertible bond conversion (29 Jun) | 3,400.00 | 140,234,022 | 23,642,049.60 |
| Paid directed issue (29 Jun) | 0.00 | 270,234,022 | 23,642,049.60 |
| Free directed issue (6 Jul) | 0.00 | 270,534,022 | 23,642,049.60 |
| Paid directed issue (18 Jul) | 0.00 | 290,034,022 | 23,642,049.60 |
| Share capital on 31 Dec 2007 | | 290,034,022 | 23,642,049.60 |

## DEVELOPMENT OF SHARE PRICE AND TRADING VOLUME

### Trade-weighted average share price and trading volume Jan 2006 - Dec 2007




### Equity per share, EUR



## COMPANY SHARES

At the end of the 2007 financial year, the company did not hold any of its own shares nor did the Board have authorisation from the General Meeting to acquire own shares.

## BOARD AUTHORISATION TO INCREASE SHARE CAPITAL

Annual General Meeting held on 20 April 2007 authorised the Board of Directors to decide on a share issue and on granting options and other special rights that give entitlement to shares. By virtue of this authorisation, the maximum number of shares to be issued in one or more lots is 25,000,000 new shares or treasury shares held by the company, corresponding to about 8.6 per cent of the total number of shares outstanding at the end of 2007. The authorisation is valid until 20 April 2009. Based on this authorisation the company issued 300,000 new shares to CEO Matti Vikkula in June 2007, and moreover decided to grant 7,350,000 option rights at the most related to and as part of the share-based incentive schemes that was decided by the board in December 2007.

## INCENTIVE SCHEMES

### Option Scheme I/2005

The company's I/2005 option scheme entitles the option holders to subscribe for a maximum of 2,700,000 new shares in the company. The share subscription period is staggered through the period of 1 July 2007–30 June 2015 for various options denoted with different letters, and the subscription price range is EUR 0.44–0.94. As a result of subscriptions made on the basis of rights under the I/2005 option scheme, Ruukki Group Plc's share capital may be increased by a maximum of EUR 459,000.00 and the number of shares by a maximum of 2,700,000 new shares.

In order to increase the level of commitment and motivation of key persons, these option rights are, deviating from the shareholders' pre-emptive rights, granted to Ruukki Group Plc's CEO and management and other key employees, and furthermore as decided by the Board to the board members, management or employees of group subsidiaries, and potentially for persons having other contractual relationship with the Group. At the end of 2007, altogether 675,000 option rights were granted to Company's management. Of these options, the share subscription period has started on 1 July 2007 for 225,000 options, and will start on 1 July 2008 for another 225,000 options and on 1 July 2009 for 225,000 options.

### Synthetic Option 2007

As part of his incentive scheme, the CEO of Ruukki Group Plc has been granted a so-called synthetic option, i.e. a bonus remuneration that is tied to the future development of altogether 1,000,000 Ruukki Group Plc's shares. This bonus shall be settled and paid in cash. The amount of the bonus is tied to share price development so that there are four reference periods (autumns 2008, 2009, 2010 and 2011), to each of which a bonus shall be calculated based on the share price development of 250,000 Ruukki Group Plc's shares.

### Share-based Incentive Scheme 2007

Ruukki Group Plc's Board of Directors decided on establishing a share-based incentive scheme for key persons in the Company and its group for the years 2008-2010. Ruukki Group Plc's Board of Directors and CEO are not within the scope of the incentive scheme. Key persons will be issued option rights, and new shares in Ruukki Group Plc will be offered to them for subscription, on the basis of the incentive scheme. The Company's Board of Directors decided on the issuing of option rights entitling to shares in the company based on the authorisation issued by the Annual General Meeting held on 20 April 2007. A maximum of 7,350,000 option rights will be issued, which will entitle the recipients to subscribe for a total of 7,350,000 new shares in Ruukki Group Plc. The Company's Board of Directors can, if it so chooses, decide that instead of new shares, option right holders will be offered treasury shares held by the Company, or other shares will be allotted for purchase by option right holders at a price equivalent to the subscription price, in which case the Company's shareholding will not be diluted in this respect. The purpose of the option rights is to encourage commitment in the key persons as well as to reward them for meeting the targets set annually in advance by the Board of Directors for 2008, 2009 and 2010. The targets will be connected to the realisation of Ruukki Group Plc's international expansionary business strategy (e.g. the completion of the Kostroma production facility or the realisation of separately defined financial targets). The number of option rights to be issued to key persons will also depend on each key person's position or duties.

## CONVERTIBLE BOND LOAN

During the financial year the convertible bond loan that was originally issued in November 2004 was fully converted into Company's shares. The original nominal value of the loan was EUR 7,200,000.00 (the balance as of 31 December 2006 stood at EUR 1,652,400.00). Based on these conversions a total of 3,672,000 new shares were issued.

## SELLING THE SHARES IN THE JOINT BOOK-ENTRY ACCOUNT

The Annual General Meeting held on 20 April 2007 accepted the Board's proposition to sell the shares in the joint book-entry account of whose part a registration of ownership to a book-entry account has not been demanded even though five years have passed since the registration date. The balance of the joint book-entry account on 10 April 2007 totalled 47,500 shares that corresponded to about 0.3 per cent of the total number of shares. The Annual General Meeting decided that shares in question shall be sold via the stock exchange in the name of the owners of the shares.

## SHARE ISSUES

### Paid Directed Share Issues

In June 2007 the Company issued 130,000,000 new shares by a paid directed share offering. Due to excess demand, the Company decided to exercise the over-allotment option granted to it in accordance with the terms and conditions of the offering, and thereby in July an additional 19,500,000 new shares were issued.

The subscription price of these share issues was recognised in full in the paid-up unrestricted equity reserve.

### Free Directed Share Issue

In June 2007, in conjunction with the nomination of new CEO, Ruukki Group Plc's Board decided, pursuant to the share offering authorisation given by the Annual General Meeting, on a bonus offering of 300,000 shares to Matti Vikkula to increase his commitment in the company. These shares that were issued in July come with a restriction on the right of disposal, ending on 15 December 2008.

### Share Price Development

Ruukki Group Plc's share (RUG1V) is listed on the OMX Nordic Exchange Helsinki. The company's share was quoted on the OMX Nordic Exchange Helsinki under Small Cap segment till 30 June 2007 and has been quoted under Mid Cap segment since 1 July 2007.

During the year 2007, the price of Ruukki Group's share varied between EUR 1.18 (2006: 0.64) and EUR 3.59 (1.23). A total of 260,096,248 (87,827,858) Ruukki Group shares were traded in the accounting period, representing 89.7 % (64.6 %) of all shares registered at the year end. The closing price of the company's share on 31 December 2007 was EUR 2.82 (1.20). The market capitalisation of the Group's entire capital stock at the closing price on 31 December 2007 was EUR 817.9 million (163.2).

### Shareholders

On 31 December 2007, the company had a total of 4,283 shareholders (3,226 shareholders on 31 Dec 2006), of which 12 were nominee-registered. The number of shares in issue on 31 December 2007 was 290,034,022.

Ruukki Group Plc's board members and CEO owned in total 146,202,923 Ruukki Group Plc shares on 31 December 2007 (83,146,388 on 31 Dec 2006) when including shares and derivative contracts owned either directly, through persons closely associated with them or through controlled companies. This corresponds to approximately 50.4 % (61.2 %) of all outstanding shares that were registered to the Trade Register on 31 December.

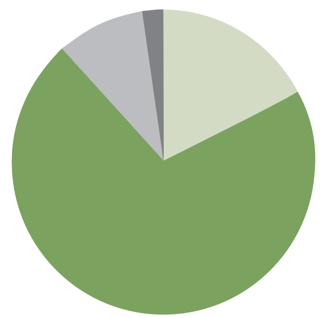
**Largest shareholders,**
**31 December 2007:**

| Shareholder | Shares | % |
|---|---|---|
| Nordea Bank Finland Plc | 75,883,960 | 26.2 % |
| Nordea Bank Finland Plc, nominee-registered | 57,776,322 | 19.9 % |
| Skandinaviska Enskilda Banken, nominee-registered | 43,135,512 | 14.9 % |
| Oy Herttakakkonen Ab | 41,075,297 | 14.2 % |
| Evli Bank Plc | 14,522,884 | 5.0 % |
| Kankaala Markku | 9,601,791 | 3.3 % |
| Svenska Handelsbanken Ab, filialverks., nominee-registered | 8,841,036 | 3.1 % |
| Hukkanen Esa Veikko | 5,007,500 | 1.7 % |
| Procomex S.A. | 4,629,215 | 1.6 % |
| Glitnir Oyj | 3,998,068 | 1.4 % |
| Other shareholders total | 25,562,437 | 8.8 % |
| **Total shares outstanding** | **290,034,022** | **100.0 %** |

**Shareholders by category:**

| Shares | Number of shareholders | % share of shareholders | Number of shares held | % of shares held |
|---|---|---|---|---|
| 1-100 | 584 | 13.6 % | 39,091 | 0.0% |
| 101-1,000 | 2,353 | 54.9 % | 1,287,509 | 0.4% |
| 1,001-10,000 | 1,188 | 27.7 % | 4,002,438 | 1.4 % |
| 10,001-100,000 | 127 | 3.0 % | 3,055,480 | 1.1 % |
| 100,001-1,000,000 | 14 | 0.3 % | 4,896,396 | 1.7 % |
| 1,000,001-10,000,000 | 12 | 0.3 % | 44,311,633 | 15.3 % |
| in excess of 10,000,000 | 5 | 0.1 % | 232,393,975 | 80.1 % |
| **Total** | **4,283** | **100.0 %** | **289,986,522** | **100.0 %** |
| of which nominee-registered | 12 | | 113,305,072 | 39.1 % |
| On joint book-entry account | | | 47,500 | 0.0 % |
| Total shares outstanding | | | 290,034,022 | 100.0 % |

**Shareholders by shareholder type**
**31 Dec 2007**



**Foreign shareholders 2 %**

**Finnish shareholders 98 %**
**of which:**

Companies and business enterprises 17 %

Banking and insurance companies 71 %

Households 10 %

(In addition shares on joint book-entry account: 0.02 %)

# DIVIDEND PAYOUT PROPOSAL OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

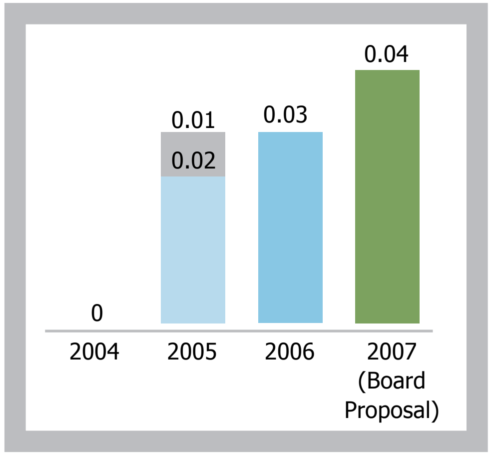
The Company's Board of Directors has decided to propose to the Annual General Meeting, which will be later convened separately, that the company would pay out, from the retained earnings, a dividend of four (4) cents per share. Hence, the total dividend proposed is EUR 11,601,360.88.

**On the balance sheet date 31 Dec 2007 the total distributable equity of the parent company Ruukki Group Plc totalled EUR 357,932,084.55, as detailed below:**

| | |
|---|---|
| Retained earnings 1 Jan 2007 | 6,211,977.35 |
| Dividends paid out during 2007 | - 4,078,912.11 |
| Retained earnings 31 Dec 2007 | 2,133,065.24 |
| Net profit 1 Jan – 31 Dec 2007 | 10,490,343.72 |
| Total retained earnings | 12,623,408.96 |
| Retained earnings | 12,623,408.96 |
| Paid-up unrestricted equity reserve | 345,308,675.59 |
| **Total distributable equity** | **357,932,084.55** |

During 2007 the company has, within the range of total distributable equity, given a loan to the related party the sum of which totalled EUR 1,398,478.66 at the end of 2007 when taking into account the principal and accrued interest.

**Dividend per share 2004 - 2007 ***




* Dividend for each year represents the dividend paid out from that year's retained earnings

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

| EUR '000 | Note | 1 Jan-31 Dec 2007 | 1 Jan-31 Dec 2006 |
|---|---|---|---|
| **Revenue** | | **213,910** | **125,459** |
| Other operating income | G1 | 6,874 | 5,712 |
| Changes in inventories of finished goods and work in progress | | 1,650 | 3,872 |
| Raw materials and consumables used | | -140,802 | -81,835 |
| Employee benefits expense | G2 | -32,037 | -18,369 |
| Depreciation, amortisation and impairment | G3 | -9,055 | -4,757 |
| Other operating expenses | G4 | -24,242 | -16,066 |
| Income from associates | G11 | -623 | -968 |
| **Operating profit** | | **15,674** | **13,048** |
| Finance income | G5 | 7,467 | 826 |
| Finance cost | G5 | -3,983 | -1,717 |
| **Profit before taxes** | | **19,158** | **12,156** |
| Income taxes | G6 | -5,478 | -4,177 |
| **Net profit** | | **13,680** | **7,979** |
| Profit attributable | | | |
| to equity shareholders | | 12,651 | 8,442 |
| to minority interests | | 1,030 | -464 |
| | | 13,680 | 7,979 |
| Earnings per share: | G7 | | |
| basic (EUR) | | 0.06 | 0.07 |
| diluted (EUR) | | 0.06 | 0.06 |

# CONSOLIDATED BALANCE SHEET

| 1000 EUR | Note | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | G8 | 37,516 | 15,855 |
| Goodwill | G9 | 33,422 | 31,237 |
| Other intangible assets | G9 | 5,807 | 4,001 |
| Investments in associates | G10 | 1,702 | 5,568 |
| Other financial assets | G11 | 447 | 332 |
| Receivables | G11 | 1,596 | 196 |
| Deferred tax assets | G12 | 1,136 | 0 |
| | | 81,656 | 57,189 |
| Current assets | | | |
| Inventories | G13 | 29,635 | 17,057 |
| Receivables | G14 | 29,955 | 9,805 |
| Assets held to maturity | G11/G14 | 131,212 | 0 |
| Other financial assets | G11/G14 | 176,112 | 7,271 |
| Cash and cash equivalents | G15 | 48,527 | 24,768 |
| | | 415,440 | 58,901 |
| Assets held for share | G17 | 2,893 | 0 |
| **Total Assets** | | **499,990** | **116,090** |
| EQUITY AND LIABILITIES | | | |
| Shareholders' equity | | | |
| Share capital | G18 | 23,642 | 23,018 |
| Share premium reserve | G18 | 25,740 | 24,712 |
| Revaluation reserve | G18 | 969 | 0 |
| Paid-up unrestricted equity reserve | G18 | 340,690 | 424 |
| Retained earnings | G18 | 18,614 | 9,511 |
| | | 409,655 | 57,665 |
| Minority interest | | 1,995 | 1591 |
| **Total equity** | | **411,650** | **59,256** |
| Non-current liabilities | | | |
| Deferred tax liabilities | G12 | 3,894 | 2,056 |
| Interest-bearing debt | G20 | 23,958 | 9,205 |
| Other non-current debt | G21 | 1,267 | 2,227 |
| Provisions | G22 | 70 | 0 |
| | | 29,188 | 13,489 |
| Current liabilities | | | |
| Trade payables | G21 | 25,099 | 20,548 |
| Deferred income | G21 | 16,481 | 17,576 |
| Provisions | G22 | 119 | 108 |
| Tax liabilities | G21 | 877 | 604 |
| Interest-bearing debt | G20 | 15,991 | 4,510 |
| | | 58,567 | 43,345 |
| Liabilities classified as held for sale | G17 | 585 | 0 |
| **Total liabilities** | | **88,340** | **56,834** |
| **Total Equity and Liabilities** | | **499,990** | **116,090** |

# CONSOLIDATED CASH FLOW STATEMENT

| EUR '000 | 1 Jan-31 Dec 2007 | 1 Jan-31 Dec 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net profit | 12,651 | 8,442 |
| Adjustments to net profit: | | |
| Non-cash items | | |
| Depreciation and impairment | 9,055 | 4,757 |
| Finance income and expense | -3,484 | 891 |
| Income from associates | 623 | 969 |
| Income taxes | 5,478 | 4,177 |
| Option expenses | 576 | 105 |
| Working capital changes: | | |
| Change in trade receivables and other receivables | -8,588 | -3,410 |
| Change in inventories | -4,049 | -2,235 |
| Change in trade payables and other debt | -1,404 | 542 |
| Change in provisions | 12 | 25 |
| Interests paid | -2,028 | -1,718 |
| Interests received | 1,370 | 826 |
| Income taxes paid | -4,429 | -6,313 |
| **Net cash flow from operating activities** | **5,783** | **7,058** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of subsidiaries, net of cash acquired | -6,445 | -6,781 |
| Payments for earn-out liabilities | -8,358 | -8,875 |
| Acquisitions of associated companies | -42 | -6,620 |
| Capital expenditure on non-current assets | -6,337 | -3,249 |
| Other investments, net | 0 | 46 |
| Disposals of subsidiaries, net of cash sold | 355 | 2,183 |
| Disposals of associated companies | 6,713 | 2,000 |
| **Net cash used in investing activities** | **-14,114** | **-21,296** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from share issue | 337,609 | 21,218 |
| Dividends paid | -5,493 | -3,146 |
| Proceeds from borrowings | 10,630 | 5,561 |
| Repayments of borrowings | -5,655 | -2,296 |
| Current investments in financial assets | -307,212 | 0 |
| Interest received on financial assets | 3,940 | 0 |
| Loans given | -1,380 | 0 |
| Repayments of finance leases | -351 | -315 |
| **Net cash used in financing activities** | **32,089** | **21,022** |
| INCREASE IN CASH AND CASH EQUIVALENTS | 23,758 | 6,784 |
| Cash at beginning of period | 24,768 | 17,993 |
| Fair value adjustments | 0 | -9 |
| Cash at end of period | 48,527 | 24,768 |
| **Change in the balance sheet** | **23,758** | **6,784** |

# CHANGES IN SHAREHOLDERS' EQUITY

| | Equity attributable to shareholders | | | | | | | | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| EUR '000 | Share capital | Share issue | Share premium reserve | Revaluation and fair value reserves | Paid-up unrestricted equity reserve | Translation reserves | Retained earnings | Total | | |
| **Shareholders' equity 1 Jan 2006** | **14,584** | **4,340** | **2,144** | **9** | **0** | **0** | **3,380** | **24,457** | **0** | **24,457** |
| Bonus issue 1/2006 | 87 | | -87 | | | | | 0 | | 0 |
| Directed share issue 12/2005 | 1,190 | -4,340 | 3,150 | | | | | 0 | | 0 |
| Share issue 3/2006 | 5,100 | | 16,118 | | | | | 21,218 | | 21,218 |
| Free directed issue 10/2006 | | | | | 424 | | | 424 | | 424 |
| Conversions of convertible bonds | 2,057 | | 3,387 | | | | | 5,444 | | 5,444 |
| Equity component of convertible bonds, change | | | | | | | 123 | 123 | | 123 |
| Dividends | | | | | | | -3,148 | -3,148 | | -3,148 |
| Share options | | | | | | | 105 | 105 | | 105 |
| Other changes | | | | -9 | | | 608 | 600 | 2,055 | 2,654 |
| Net profit 1-12/2006 | | | | | | | 8,442 | 8,442 | -464 | 7,979 |
| **Shareholders' equity 31 Dec 2006** | **23,018** | **0** | **24,712** | **0** | **424** | **0** | **9,512** | **57,665** | **1,591** | **59,256** |
| Free directed issue 4/2007 | | | | | 1,035 | | | 1,035 | | 1,035 |
| Share issues 6/2007 and 7/2007 | | | | | 339,232 | | | 339,232 | | 339,232 |
| Dividends | | | | | | | -4,079 | -4,079 | -1,142 | -5,221 |
| Net profit 1-12/2007 | | | | | | | 12,651 | 12,651 | 1,030 | 13,680 |
| Translation difference | | | | | | -1,080 | | -1,080 | | -1,080 |
| Conversions of convertible bonds | 624 | | 1,028 | | | | | 1,652 | | 1,652 |
| Fair value from acquisitions of subsidiaries | | | | 969 | | | 1,000 | 1,969 | | 1,969 |
| Share options | | | | | | | 576 | 576 | | 576 |
| Net change in minority interest generated by acquisitions and disposals | | | | | | | | | 516 | 516 |
| Equity component of convertible bonds and other changes | | | | | | | 34 | 34 | | 34 |
| **Shareholders' equity 31 Dec 2007** | **23,642** | **0** | **25,740** | **969** | **340,690** | **-1,080** | **19,694** | **409,655** | **1,995** | **411,650** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## COMPANY INFORMATION

Ruukki Group Plc is the parent company of a Group focusing on wood-based industrial business operations. The Group operations are located mainly in Finland, but in future the targeted emphasis is principally in Russia. Ruukki Group operates in several lines of business, such as House Building, Sawmill Business, Furniture Business and Care Services. The Group is to launch business operations in sawmill and pulp industry in Russia. Ruukki Group also has some holdings in associates. The Group's parent company is Ruukki Group Plc (business ID: 0618181-8). The parent company is domiciled in Espoo, and its registered address is Keilasatama 5, FI-02150 Espoo. Copies of the consolidated financial statements are available at Ruukki Group Plc's head office at Keilasatama 5, FI-02150 Espoo.

Ruukki Group Plc is quoted (trading code: RUG1V) on the OMX Group's Nordic Stock Exchange in Helsinki in the industrials group, in the mid cap segment.

## ACCOUNTING POLICIES

### Basis of preparation

These consolidated financial statements of Ruukki Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and in conformity with the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force on 31 December 2007. In the Finnish Accounting Act and the regulations issued on the basis thereof, International Financial Reporting Standards refer to the standards and their interpretations that have been approved for application within the EU in accordance with the procedure prescribed in the EU regulation (EC) 1606/2002. Notes to the consolidated financial statements also meet the requirements set forth in the Finnish accounting and company legislation.

The consolidated financial statements have been prepared on the basis of original acquisition cost, except in the case of investments available for sale and financial assets and liabilities recognised as income or expense with an impact on fair value, and similar items. Share-based payments have been recorded at fair value. For business combinations carried out before 2004, goodwill is the carrying amount according to the previous accounting standards that has been used as the IFRS-compliant default acquisition cost. Figures in the consolidated financial statements are given in EUR thousands.

The preparation of IFRS-compliant consolidated financial statements requires the management to make certain estimates and to use its discretion in the application of the accounting policies. Information regarding management discretion used in applying the accounting policies and that may have an effect on the figures presented in the financial statements is shown in the section 'Accounting policies requiring management discretion and key uncertainty factors for estimates'.

### Principles of consolidation

### Subsidiaries

The consolidated financial statements include the parent company Ruukki Group Plc and its subsidiaries. Subsidiaries refer to companies in which the Group has control. The Group gains control of a company when it holds more than half of the voting rights, or otherwise exercises control. The existence of potential voting rights has been taken into account in assessing the requirements for control in cases where the instruments entitling their holder to potential voting rights can be exercised at the time of assessment. Control refers to the right to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Intra-group shareholding has been eliminated according to the acquisition cost method.

Acquired subsidiaries are consolidated from the time when the Group gained control, and divested subsidiaries until the time when control ceased. All intra-group transactions, receivables, debts, and unrealised profits, as well as internal distribution of profits, are eliminated when the consolidated financial statements are prepared. In cases where losses can be attributed to impairment, unrealised losses are not eliminated. Distribution of profits between parent company owners and minorities is shown in the income statement, and the minority share of equities is shown as a separate item in the balance sheet under shareholders' equity. Minority share of accumulated losses is recorded in the financial statements up to the amount of the investment.

**Associates**

Associates are companies in which Ruukki Group exercises significant influence. The Group exercises significant influence if it holds more than 20 % of the company's voting rights, or if the company in other ways exercises significant influence but not control. Associates have been consolidated in the Group's financial statements using the equity method. If the Group's share of the associate's losses exceeds the carrying amount of the investment, the investment is recognised at zero value in the balance sheet, and losses exceeding the carrying amount are not consolidated unless the Group has made a commitment to fulfil the associates' obligations. Unrealised profits between the Group and the associates have been eliminated in line with the Group's ownership. Investment in associate includes the goodwill arising from its acquisition.

**Translation of foreign currency items**

Figures indicating the profit/loss and financial position of Group entities are measured in the currency of each entity's main operating environment ('functional currency'). Figures in the consolidated financial statements are presented in EUR, which is the functional and presentation currency of the Group's parent company, Ruukki Group Plc. The functional and presentation currency of Finnish Group companies is euro. The functional and presentation currency of Russian Group companies is the Russian rouble. The associates owned by the parent company have some individual foreign Group companies.

Transactions in foreign currencies have been recorded at the functional currency using the exchange rate on the date of the transaction or mid reference rates of central banks. Monetary items denominated in foreign currencies have been translated into the functional currency using the exchange rates for the balance sheet date. Exchange rate gains and losses are included in the corresponding items above operating profit. Hedge accounting has not been applied to forward contracts used for hedging purposes.

**Tangible assets**

Tangible assets have been measured at original acquisition cost less accumulated depreciation and impairment losses. If a tangible asset item consists of several parts with different useful lives, each part is handled as a separate item. In this case, expenses from a part replacement are capitalised. In other cases, subsequent expenses are included in the carrying amount of an item only if it is probable that the future economic benefits from the item will flow to the Group and the acquisition cost of the item can be determined reliably. Other repair and maintenance expenses are recognised after they have occurred.

Assets are depreciated over their useful lives using the straight-line method. Land areas are not depreciated. The estimated useful lives of assets are as follows:

| | |
|---|---|
| Buildings | 15–25 years |
| Machinery and equipment | 3–15 years |
| Other tangible assets | 5–10 years |

The residual value of assets and their useful life are reviewed in connection with each financial statement, and, if necessary, they will be adjusted to reflect the changes that have occurred in the expected financial benefit. The sales gains or losses arising from the decommissioning or divestment of tangible assets are included in other operating income or expenses.

## Public subsidies

Public subsidies for the acquisition of tangible assets have been recorded as depreciation on the carrying amounts of tangible assets. The subsidies are recognised as income in the form of smaller depreciation amounts over the useful life of the asset.

The public transport and development subsidies received have been netted from the relevant expense items in the income statement.

## Intangible assets

### Goodwill and intangible assets identified at acquisitions

Goodwill represents the portion of acquisition cost that exceeds the Group's share of the fair value at the time of acquisition of the net assets of a company acquired after 1 January 2004. Goodwill arising from previous business combinations represents the carrying amount under the previous accounting standards, which has been used as the deemed cost. The classification or accounting process for these acquisitions has not been adjusted in preparation of the Group's opening IFRS balance sheet on 1 January 2004. Instead of regular amortisation, goodwill is tested annually for potential impairment. For this purpose, goodwill has been allocated to cash-generating units or, in the case of an associate; is included in the acquisition cost of the associate in question. Goodwill is measured at original acquisition cost less impairment costs.

Acquisitions made after 1 January 2004 have been recorded in compliance with the IFRS 3 standard, which states that the acquired identifiable assets, liabilities, and contingent liabilities are measured initially by the acquirer at their fair values on the acquisition date. Any intangible assets of the acquired company not included in the company's balance sheet have been separated from goodwill. The remaining residual value is allocated as goodwill from acquisition. In situations when an associate has become a group company, the assets attributable to the previous ownership have been revalued at fair value and recognised in the revaluation reserve.

Efforts have been made to identify intangible assets outside the balance sheet associated with customers, marketing, technology, or intellectual property rights in all acquisitions. On the basis of the analyses conducted, for example trademarks and clientele have been identified as intangible rights to be activated in the balance sheet. Since market prices were not applicable to these items, a cash-flow-based approach was used in their measurement. In addition, the value of work in progress has been reassessed where necessary. The depreciation period used for intangible assets recognised during purchase price allocation analysis is based on the useful life of the assets. The amount of the acquisition price remaining after the allocation of assets has been recorded as goodwill.

For determining the acquisition cost, the assets provided by Ruukki Group companies, liabilities incurred by Ruukki Group or that it has undertaken to answer for, and equity-based instruments issued have been taken into account. In addition to the time of transaction, all future earn-out items have been taken into account on an assessment basis, because the final amount of these items may be different from that recognised in the balance sheet, as the conditional earn-out items are based on the future financial performance of the acquired company. Direct costs arising from the services of experts in connection with business combinations have been recognised in the total acquisition price.

### Research and development costs

Research costs are recorded as expenses in the income statement. Development costs associated with the design of new or more advanced products have been recorded as expenses also, because the Group companies do not actually carry out any extensive R&D activities besides ordinary product improvement measures and the development of business-supporting computer applications.

**Depreciation periods for intangible assets**

Depreciation periods are as follows:

| | |
|---|---|
| Computer software | 3–5 years |
| Other intangible rights | 3–5 years |
| Trademarks | 3 or 10 years |

**Inventories**

Inventories are measured at acquisition cost or a lower probable net realisable value. Acquisition costs are determined using the FIFO method or an average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour expenses, other direct expenses, and an appropriate share of fixed and variable production overheads based on the normal capacity of the production facilities. In ordinary operations, the net realisable value is the estimated selling price that is obtainable, less the estimated costs incurred in completing the product and the selling expenses.

**Lease agreements (the Group as the lessee)**

Leases of tangible assets where the Group possesses a material portion of the risks and benefits of ownership are classified as financial leases. An asset acquired through a financial lease agreement is recorded in the balance sheet at the fair value of the leased object at the beginning of the lease period, or at a lower current value of minimum lease. A significant number of the finance leases recorded in the consolidated balance sheet cover production machinery and equipment as well as production facilities. An asset obtained through a finance lease is depreciated over the useful life of the asset or the lease term, whichever is shorter. The leases payable are divided into financial expenses and loan repayment during the lease term so that the interest rate for the remaining loan is roughly the same each financial year. Leasing obligations are included in interest-bearing liabilities. Lease agreements in which the risks and benefits typical of ownership remain with the lessor are classified as other leases. Leases paid under other lease agreements are recognised as expenses in the income statement on a straight-line basis over the lease term.

**Impairment**

On each balance sheet date, the Group makes an assessment of whether there are any indications of asset impairment. If such indications exist, the recoverable amount of the asset is estimated. In addition, goodwill is assessed annually for its recoverable amount regardless of whether there are any signs of impairment. Impairment is examined at the cash-flow-generating-entity level – in other words, the lowest level of entity that is primarily independent of other entities and whose cash flows can be separated from other cash flows. Goodwill is tested at the segment level. In addition, impairment related to associates and other assets are tested on a company/asset basis.

The recoverable amount is the fair value of an asset less divestment costs, or the higher value in use. Value in use means the present value of estimated future cash flows expected to arise from the asset or cash-flow-generating unit. Value in use is forecast on the basis of circumstances and expectations at the time of testing. The discount rate takes into account the time value of money as well as the special risks involved for each asset, different capital structures in different lines of business, and the investors' return expectations for similar investments, in addition to risks related to company size. An impairment loss is recorded when the carrying amount of an asset is greater than its recoverable amount. Impairment losses are recorded in the income statement. If the impairment loss involves a cash-flow-generating entity, it is allocated first to reduce the goodwill of the entity and subsequently to reduce other assets of the entity in equal amounts. An impairment loss is reversed if a change has occurred in circumstances and the recoverable amount of the asset has changed since the impairment loss was recognised. However, the reversal must not cause the adjusted value to be higher than the carrying amount without the recognition of the impairment loss. An impairment loss recognised for goodwill is not reversed in any circumstances.

Goodwill has been tested for impairment annually at the year's end, for financial year 2007 on 31 December 2007. Impairment testing and the methods used are discussed in more detail elsewhere in 'Notes to the consolidated financial statements'.

### Borrowing costs

Borrowing costs are recognised as expenses in the period in which they were incurred. The issue costs of the convertible bond loan issued by Ruukki Group Plc at the end of 2004 have been included in the acquisition cost to be capitalised. The loan has been fully converted into shares during 2007. Because this loan included the right of conversion, the loan capital has been divided into equity instrument and financial liability components in line with the principles of the IAS 32 standard.

## EMPLOYEE BENEFITS

### Pension liabilities

All pension arrangements in Ruukki Group are classified as defined contribution plans. The group companies do not have any defined benefit plans. Payments for defined contribution plans are recorded in the income statement for the relevant period. Group companies have a few individual pension insurance policies that differ from the statutory insurance under the Finnish Employees' Pensions Act (TyeL), but they have no material impact on the Group's expenses or liabilities.

### Share-based payments

Ruukki Group has applied the IFRS 2 standard Share-based Payments to all option schemes in which the options were granted after 7 November 2002 and which did not vest before 1 January 2005. Prior option arrangements have not been shown as expenses in the income statement. Option rights are measured at fair value at the time they were granted and recorded as expenses in the income statement on a straight-line basis during the vesting period. The expenses at the time the options were granted are determined according to the Group's estimate of the number of options expected to vest at the end of the vesting period.  Fair value is determined on the basis of the Black & Scholes option pricing model.  The effects of non-market-based terms and conditions are not included in the fair value of the option; instead, they are taken into account in the estimated number of options expected to vest at the end of the vesting period. The Group updates the estimated final number of options on each balance sheet date. Changes in the estimates are recorded in the income statement. When the option rights are exercised, the cash payments received from the subscriptions adjusted with potential transaction costs are recorded under share capital and share premium reserve.

In total, 675,000 options were granted and subscribed for by 31 December 2007 under an option scheme that was decided on in parent company Ruukki Group Plc's shareholders' meeting in December 2005. The group's parent company has also given the CEO a so-called synthetic option, which is a cash-settled share-based remuneration arrangement. The company revalues the scheme at each balance sheet and interim report date in accordance with IFRS 2. The Group applies the Black & Scholes model to option arrangements that include employment terms. The expected volatility has been determined by calculating the historical volatility of the company's share price and adjusting it according to generally available factors that are expected to affect historical volatility. Historical volatility was calculated on the basis of changes in the company's share price.

### Provisions

A provision is recognised when the Group has a legal or factual obligation resulting from a previous event, when it is probable that the payment obligation will materialise, and the amount of the obligation can be reliably estimated. If a reimbursement can be obtained from a third party for part of the obligation, the reimbursement is treated as a separate asset but not until the reimbursement is practically certain. Provisions are measured at the current value of the expenses required to fulfil the obligation.

The prefabricated houses manufactured by Ruukki Group's House Building segment involve a one-year repair liability and an additional 10-year structural safety guarantee. On the basis of the historical data of the company operating in the House Building business area, the one-year repair liability has been recorded as expenses in the income statement and as provisions in the balance sheet. No expenses have been recorded in the income statement for the 10-year structural safety guarantee, because such an amount is difficult to estimate, it is unlikely to materialise, and the majority of the guarantee risk ultimately rests with non-Group subcontractors.

### Income taxes

Tax expenses in the income statement consist of the tax based on taxable income for the year, and deferred taxes. Taxes based on taxable income for the year are calculated using the applicable tax rates. Taxes are adjusted with potential taxes from previous years.

Deferred taxes have been calculated for all temporary differences between the carrying amount and taxable amount.  No deferred taxes have been recorded for goodwill impairment, which is non-deductible, nor have deferred taxes been recorded for the subsidiaries' non-distributable profit funds insofar as the difference is unlikely to be revoked in the foreseeable future. Deferred taxes have been calculated using the tax rates prescribed by the balance sheet date. Deferred tax assets have been recognised up to the amount for which there is likely to be taxable income in the future and against which the temporary difference can be used.

## INCOME RECOGNITION PRINCIPLES

### Goods sold and services provided

Income from the sale of goods is recognised once the essential risks and benefits associated with ownership have been transferred to the buyer. Some Group companies sell goods to exports in which case income from export trading is recognised on a case-by-case basis with due attention paid to the terms of delivery in the trade agreements. Income from services is recognised after the service has been provided. Income from services provided is mainly attributable to the Care Services division, where service provision is relatively stable and follows the agreements signed with customers.

### Construction contracts

During the financial year or in the comparison year, Ruukki Group was not involved in any activities that would fall under the definition applied in the IAS 11 standard Construction Contracts. In future financial years, the Group's House Building segment may become involved in operations that can be classified as construction contracts.

### Financial income and expense

Interest income and expense is recognised using the effective interest method, and dividends are recognised when the right to dividends is established.

Unrealised financial gains and losses are recognised in the income statement. These items relate to currency forward contracts, interest rate swaps as well as mutual funds and other instruments used in liquidity management.

### Non-current assets held for sale and discontinued operations

The ownership of shares of Pan-Oston Oy, which was a group company on balance sheet date, has been transferred to an external party on 2 January 2008 when an agreement made on 17 December 2007 was put into force. On the balance sheet, the assets and liabilities of Pan-Oston Oy are carried at book value. Assets and liabilities are presented separately classified as assets and liabilities held for sale. Pan-Oston Oy has not been classified to any business segment and it is presented in the "Other businesses".

The IFRS 5 standard requires that an entity must classify a non-current asset or a disposal group as assets held for sale if the amount equivalent to its carrying amount is accumulated primarily from the sale of the item rather than its continued use. In this case, the asset or disposal group must be available for immediate sale in its present condition under the general and standard terms and conditions for sale for such assets and sale must be highly probable. For sale to be highly probable, the management representing the appropriate organisational level must be committed to a plan to sell the asset or disposal group, and the entity must have initiated an active programme to locate a buyer and to execute the plan. When these requirements are met after the balance sheet date but before the approval of the financial statements for disclosure, the notes required by IFRS 5 will be presented.

The Board of Directors of Ruukki Group Plc has during 2007 decided to focus Group's operations on wood-based industrial businesses and to focus the investments in Russia. Therefore various ownership and financial arrangements will be sorted out and rearrangements of the Group's structure are possible. The Board of Directors of Ruukki Group Plc has also made a decision in 2005 to dispose of the associates related to the company's prior history, except for ILP-Group Ltd Oy. The implementation of this decision has been started and some associated companies have been sold. However, the Group's management sees that these interests in associates have not represented such major line of business or geographical area that they should be presented as discontinued operations in accordance with IFRS 5. Even though the implementation of these decisions continues the sale of the remaining associates or any other potential rearrangements were not highly probable as referred to in IFRS 5 when the financial statements for 2007 were approved for disclosure, therefore they have not been presented separately in disposal group of non-current assets held for sale.

**Financial assets and liabilities**

Financial assets are classified on the basis of the purpose for which the financial asset was acquired, and in connection with the original acquisition. Transaction costs have been included in the original carrying amount of the financial assets where an asset not measured at fair value in the income statement is concerned. The acquisition and disposal of financial assets are recorded on the transaction dates. Derivatives and assets held for trading are measured at fair value in the income statement.

Investments held to maturity include non-derivative financial assets that involve fixed or easily defined payments, that mature on a specified date, and that the Group is determined and able to hold until maturity. Loans and other receivables are non-derivative financial assets that involve fixed or easily defined payments, that are not quoted on active markets, and that the company does not hold for trading purposes. Assets available for sale include non-derivative financial assets that could be disposed of immediately without restrictions or assets that can not be categorised in groups mentioned above.

Cash and cash equivalents consist of cash funds, bank deposits available for withdrawal on demand, and other highly liquid short-term investments that are measured at fair value on the balance sheet date. Items classified as financial assets mature not later than in three months from the date of acquisition.

Through share issues carried out during summer 2007 Ruukki Group Plc received substantial amount of equity. At the end of financial year 2007 these received funds are placed into interest-bearing bank accounts, money market mutual funds as well as euro-denominated and rouble-denominated deposits whose maturities range from 0 to 10 months. The mutual funds are presented in the group balance sheet as short-term assets held for sale, and the deposits have been categorised as short-term assets held to maturity.

In the cash flow statement all other items than those categorised as cash are shown in the cash flow from investment activities. Money market mutual funds used for liquidity management purposes are categorised into cash.

Financial liabilities are included in long- and short-term liabilities, and they may be interest-bearing or interest-free.

**Derivative contracts and hedge accounting**

Derivative contracts are measured at fair value in the income statement. The Group does not apply hedge accounting.

**Operating profit**

IAS 1 Presentation of financial statements does not define the concept of operating profit. Ruukki Group has defined it as follows: Operating profit is the net amount derived by adding to revenue other operating income, less purchase costs adjusted with the change in inventories of finished goods and work in progress and expenses from work performed by the enterprise and capitalised, less costs from employee benefits, depreciation and possible impairment losses, and other operating expenses. All other income statement items are shown below operating profit. Translation differences arising from business items are included in operating profit; otherwise they are recorded under financial items. Income from associates is included in operating profit.

## ACCOUNTING POLICIES REQUIRING MANAGEMENT DISCRETION AND KEY UNCERTAINTY FACTORS FOR ESTIMATES

Preparation of the financial statements requires the management to make estimates, assumptions, and forecasts regarding the future. Future developments may deviate significantly from the assumptions made if changes occur in the business environment and/or business operations. In addition, the management is required to use its discretion in the application of the financial statements' preparation principles. Ruukki Group is engaged in several different lines of business, and each business requires different kinds of estimates and assumptions. Group companies are small and medium-sized companies located in different parts of Finland. Some of the companies operate in capital-intensive and some in labour-intensive sectors. On the balance sheet date, the Group's foreign subsidiaries had only minor operations. The nature of Ruukki Group's operations essentially involves business acquisitions and other arrangements, which often requires the management's discretion in the application of accounting policies.

### Allocation of the cost of a business combination

In accordance with IFRS 3, the acquisition cost of an acquired company is allocated to the assets of the acquired company. The management has to use estimates when determining the fair value of identifiable assets and liabilities. Determining a value for intangible assets such as trademarks or clientele requires estimation and discretion because in most cases no market value can be assigned to these assets. Determining fair value for tangible assets requires particular discretion as well. Especially in cases where the companies are small or geographically situated in areas where there are no active markets for real property, for instance. In these cases, the management has to select an appropriate method for determining the value and must estimate future cash flows. Similarly, determining the discount rate to be used for discounting future cash flows requires discretion.

### Determination of the amount of the earn-out liabilities associated with business acquisitions

The Group has made a significant number of business acquisitions in the past few years. These acquisitions typically have involved additional sale prices calculated and paid on the basis of the future operative profitability of the acquired company (earn-out arrangements), and the estimated additional sale prices have been included in the company's other liabilities at the time of acquisition. The estimates presented in the financial statements may differ from the actual earn-out liability if the real profit or loss of the acquired company is different from the estimated. Furthermore, the estimated earn-out items may differ from the subsequent actual sale prices as a result of the discounting of future liabilities.

The previously presented earn-out liabilities have been reviewed during the financial year 2007 (also in 2006), which has affected the goodwill on the one hand and the corresponding transaction price liability on the other. This is because the companies acquired in the previous financial years have prepared their financial statements for 2007 (2006), thereby helping to specify the additional sale prices more accurately. The assumed additional sale prices payable on the basis of performance in 2008 and in subsequent financial years have not been revised from the previously recorded amounts in connection with the preparation of financial statements for 2007.

### Impairment testing

Goodwill is tested annually for impairment, and assessments of whether there are indications of any other asset impairment are made. The recoverable amounts of cash-flow-generating units have been determined by means of calculations based on value in use. Preparation of these calculations requires the use of estimates after which the cash flow growth rate is, under the principle of prudence, assumed to be zero.

The forecasts used in the testing are based on the budgets and projections of the operative units, which strive to identify any extension investments and rearrangements. Separating extension investments from replacement investments and the elimination of their impact from the projected figures require the use of discretion. To prepare the estimates, efforts have been made to collect background information from the operative business area management as well as from different sources describing general market activity. The risk associated with the estimates is taken into account in the interest used. In addition, in some individual cases some of the forecasts prepared by the operative units have been revised to lower the predicted figures somewhat, on the basis of the historical forecasting accuracy of the units in question. Because the group companies are small and medium-sized companies, estimated components are involved in the interest applied in the impairment testing and the related risk premiums, and the definition of the average capital structures of the markets of the segment in question. An individual accounting interest figure has been calculated for each operative unit in each segment.

**Trade receivables**

The individual companies in Ruukki Group make assessments of their trade receivables based on known facts, previous experience, and foreseeable future events; therefore, the information includes estimates made by the management of the companies in question.

**Operating assets**

Ruukki Group companies operate in dissimilar business conditions and lines of business, which is why on the business segment level the Group's management is required to use its discretion when determining the useful lives of various assets, which affects the amount of depreciation and thereby the balance sheet value of the assets concerned. In addition, when the Group acquires new subsidiaries, assessments have to be made to make the acquired companies' depreciation practices consistent with practice in the rest of the Group wherever applicable. Similarly, the management is required to use its discretion in determining the useful lives of immaterial rights identified in accordance with IFRS 3, and in determining the depreciation period. This affects the financial result for the period through depreciation and change in deferred taxes.

**Inventories**

Those Ruukki Group companies that have inventories make, in case needed, an estimate-based non-marketability provision for inventories, as a result of which the balance sheet value of inventories has been changed somewhat. The estimates are based on stocktaking as well as the predicted future need and inventory turnover rate.

**Guarantee expenses**

The deliveries of prefabricated houses manufactured by Ruukki Group's House Building business area involve repair liabilities. To estimate these liabilities, the management has to prepare estimates based on the historical data of the company operating in the division, as well as on experience of similar realised repair costs.

**Deferred taxes**

The tax expenses in the income statement consist of tax based on taxable income for the period and deferred taxes. In some cases, estimates have to be made to determine deferred taxes. Special consideration is required in the capitalisation of deferred tax assets and in estimating grounds thereof, especially in predicting taxable income for future periods. No deferred taxes have been recorded for goodwill impairment, which is non-deductible, nor have deferred taxes been recorded for the subsidiaries' non-distributable profit funds insofar as the difference is unlikely to be revoked in the foreseeable future. Deferred tax assets have been recognised up to the amount for which there is likely to be taxable income in the future and against which the temporary difference can be used.

**Share-based payments**

For share-based payments, Ruukki Group applies the IFRS 2 standard, according to which option rights are measured at fair value at the time they were granted. Synthetic options or incentive schemes are measured at fair value separately for each period, therefore their value can change. Share-based payments are recorded as expenses in the income statement on a straight-line basis during the vesting period. Expenses on the option grant date are determined according to the Group's estimate of the number of options expected to vest at the end of the vesting period. The Group updates the estimated final number of options on each balance sheet date. Changes in the estimates are recorded in the income statement. Fair value is determined under the Black & Scholes option pricing model. The management is required to assess the parameters of this model in terms of the volatility of the underlying share, which is based on historical volatility data.

**Associates**

Ruukki Group's associates are consolidated using the equity method. Income from associates is recorded in the consolidated income statement. Associates prepare their own financial statements in compliance with the Finnish Accounting Act, and Ruukki Group adjusts the statements to comply with the IFRS standards before recording the associates' earnings information. For this purpose, the management sometimes is forced to make estimates of the required adjustments, and sometimes it may not be possible to identify all of the necessary adjustments. However, this has no material impact on the Group's financial results or its financial position. Determining the value of associates' shares, particularly in consideration of the IAS 36-compliant impairment testing, requires discretion, as it involves an assessment of whether there is any indication of impairment of the balance sheet value of the associates' shares and receivables, and an assessment of how their value in use should be calculated if impairment testing needs to be conducted.

**Application of new or amended IFRS standards**

As a rule, the Group applies all new or amended IFRS standards related to its own business activities since their effective date.

The Group applies IFRS 7 (Financial instruments: Disclosures) as of 1 January 2007, which has resulted in more extensive specification and analysis of the Group's financial items and risks. Similarly, the additional capital management breakdown required by the amended IAS 1 has been made as of the effective date 1 January 2007.

The Group will apply the IFRS 8 standard as of 1 January 2009. IFRS 8 requires operating segments to be identified, among other criteria, on the basis of internal reports so that a segment is the level at which group management reviews the operations in order to allocate resources to the segment and to assess its performance. The introduction of IFRS 8 may affect the definition of business segments as well the content and presentation of the financial information for the various segments.

The Group estimates that of the amended standards IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements and IAS 1 Presentation of Financial Statements will affect the Group's financial statements after their effective date. These amended standards have not yet been approved for application within the EU. The amended standards IFRS 3 and IAS 27 affect the treatment of business combinations in the financial statements and the Group estimates that it particularly affects the initial accounting for the business combination and the amount of goodwill. IAS 1 will change the presentation of financial statements. The Group estimates that it mainly affects the presentation of income statement and the statement of changes in equity.

On the basis of the information currently available, the Group believes that the future introduction of other new or amended standards, or of the IFRS interpretations (IFRIC 11, 12, 13 and 14) available on the balance sheet date, will not have a material impact on the Group's future financial statements.

# SEGMENT INFORMATION

The presentation of information by business segment follows the Group's segmentation by business segment and by geographic area. Business segments represent the Group's primary segment reporting. The segment reporting is based on the Group's internal organisational structure and financial reporting.

The business segments consist of groups of assets and business operations generating products or services that involve risks and profitability that are different from those in other segments. Products and services in specified geographic areas are produced in a specific economic environment in which the risks and profitability related to products and services differ from those inherent in the financial environment of other geographic regions. Inter-segment transactions are carried out at market prices. The significance of inter-segment transactions in Group's operations is minor. The assets and liabilities of the segments represent items that these segments use in their activities or that can be reasonably allocated to them. Investments consist of increases in tangible and intangible assets whose life is longer than one financial year.

## BUSINESS SEGMENTS – PRIMARY SEGMENT

On the balance sheet date 31 December 2007, the Group's business segments were the following:

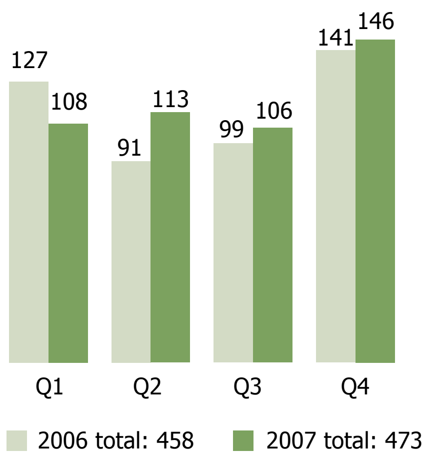
- House Building
- Sawmill Business
- Furniture Business
- Care Services

The Group's other operations are classified under 'Other businesses'. The Board of Directors of Ruukki Group Plc has changed the classification of segments starting as of beginning of 2007; the previously reported Wood Processing segment is from financial year 2007 onwards presented split into two separate segments, namely Sawmill Business and Furniture Business. Moreover, the previously separately reported Metal Industry segment is currently presented under Other businesses. Investments in associates are presented in the segments classified by the nature of their operations.

## HOUSE BUILDING

The House Building business area specialises in the design, manufacture and assembly of ready-to-move-in detached wooden houses in whole Finland. The business area's customers are Finnish families and private persons.

The House Building business area has delivered wooden ready-to-move-in houses to customers as follows:




The revenue from ready-to-move-in houses delivered by the business area is recognised upon delivery to the customer, for which reason sites in progress have no effect on the Group's revenue or profit.

The steep and rapid climb of the costs of raw materials and supplies in the first half of 2007 weakened the relative operating profitability. The cost increases started to level off in the autumn. The number of houses delivered to customers increased slightly from the previous year. Business area's revenue grew more than the volume of delivered houses due to an increase in the average selling price and since starting from June 2007 the acquired electricity contractor subsidiary has been consolidated into the segment. Deliveries in the house building business are generally very seasonal, which in practice means that more deliveries are made during the first, and particularly the fourth, quarters than over the summer. However, during 2007 the timing of deliveries differed slightly from the historical seasonal variation.

The business area's order book excluding VAT stood at approximately EUR 17.9 million at the end of 2007 (31 Dec 2006: EUR 36.0 million). The order book contains no significant risks. At the end of the accounting period, the House Building business area's personnel totalled 118 (31 Dec 2006: 101).

The following companies belong to the business area: Pohjolan Design-Talo Oy (Ruukki Group Plc owns 90.1 %) and its subsidiaries Nivaelement Oy (100 %) and RG Design-Talotekniikka Oy (Pohjolan Design-Talo Oy owns 70.1 %).

**Revenue and operating profit of the House Building segment,**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 62.4 | 53.7 | 16 % |
| EBIT | 13.3 | 13.4 | 0 % |
| EBIT-% | 21.4 % | 24.9 % | |

## SAWMILL BUSINESS

The Sawmill Business segment specialises in the efficient processing of softwood logs from Northern Finland into various timber products for both domestic and export markets. The construction industry forms the business area's main customer group in both Finland and elsewhere, because the Group's products are very well suited to house building thanks to their strength properties.

Both the market prices of the end-products and the costs of raw materials and transportation have risen, the net result of which the profit and relative profitability have improved during 2007. The log stumpage prices have levelled off during the autumn. Market demand for the products of the business segment has been strong in Finland as well as in export markets, but especially abroad there has been deterioration in the market situation from the end of the financial year 2007. There have been many factors affecting the whole sector that have lowered the profitability of the segment: declining exports prices, weak demand abroad, profound structural changes in the Finnish forest industry and the implications of the introduced Russian round wood duties into the business environment.

The exports accounted about 42 % of the Sawmill Business segment's revenue (1-12/2006: 56 %). The order book excluding VAT was approximately EUR 8.9 million (31 Dec 2006: EUR 13.2 million). There were totally 112 employees employed by the segment at the end of 2007 (31 Dec 2006: 72).

**Revenue and operating profit of the Sawmill Business segment,**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 59.4 | 27.8 | 114 % |
| EBIT | 5.4 | 1.4 | 295 % |
| EBIT-% | 9.0 % | 4.9 % | |

The coniferous sawmill planned in the Kostroma region, Russia, is still at the preparation phase. During 2007 the total costs recognised in the consolidated income statement related to the investment projects in Kostroma were EUR 3.5 million (for the previous financial year EUR 0.5 million). Furthermore, prepayments on the investments have been paid. During the last quarter of 2007, the Kostroma projects' expenses totalled about EUR 0.8 million, which almost fully has been related to the sawmill business.

After the end of the financial year 2007 Junnikkala group has been acquired into the Sawmill Business segment (Ruukki Group's ownership 51 %), which will to a large extent increase the revenue of the segment in 2008. When the new acquired unit is integrated, the target is to intensify the co-operation of various sawmills and to get synergy benefits in i.e. purchases.

The major subsidiaries of the segment are: Lappipaneli Oy (100 %), Tervolan Saha ja Höyläämö Oy (91.4 %), Oplax Oy (100 %) and Ruukki Invest Oy (100 %), which has a Russian subsidiary OOO Ruukki Invest Oy Kostroma.

## FURNITURE BUSINESS

**Revenue and operating profit of the Furniture Business segment,**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 68.7 | 25.7 | 168 % |
| EBIT | 2.6 | -5.3 | |
| EBIT-% | 3.8 % | -20.8 % | |

The Furniture Business segment manufactures wooden, ready-to-assemble furniture.

In the above table the EBIT includes both the shares of profit relating to holdings in associated companies corresponding with the Group's respective holdings and all income statement items corresponding with holdings in subsidiaries. In January and February 2007 the Furniture Business company Incap Furniture and all of its subsidiaries were associates of Ruukki Group, and from March 2007 onwards subsidiaries.

The business environment of the furniture business has continued to be very challenging, and the operating result without non-recurring items has remained negative. However, during the last quarter of the financial year, the operative volumes and capacity utilisation increased notably and the business area's profit before non-recurring items returned to profit. During the year 2007 a net insurance compensation in total of approximately EUR 5.4 million has been recognised, by for the same period a EUR 1.1 million impairment of inventories has been booked as well. At the end of the accounting period, the business area's order book excluding VAT stood at approximately EUR 10.4 million. On 31 December 2007, the segment employed a total of 331 people.

Incap Furniture Oy (Ruukki Group's ownership 71.0 %) and its subsidiaries belong to the segment.

## CARE SERVICES

**Revenue and operating profit of the Care Services segment,**

| EUR million | 1-12/2007 | 1-12/2006 | Change, % |
|---|---|---|---|
| Revenue | 16.8 | 9.8 | 71 % |
| EBIT | 0.3 | 0.6 | -55 % |
| EBIT-% | 1.6 % | 6.2 % | |

The Care Services business area provides high-quality care and rehabilitation services for municipalities, cities, communities and businesses.

During the financial year 2007, the organic growth of the business was strong as a result of new service unit openings and the Mendis acquisition carried out last year. During the last quarter of 2007 the business segment's expenses were above the average due to the autumn salary increases, the personnel and premises costs for new or planned care services units as well as one-off purchases at the existing care homes.

At the end of the accounting period, the business area employed 344 persons (31 Dec 2006: 229). The structure of the subgroup will be simplified further in 2008 by merging one of the subsidiaries into the parent company. The business area has service units in 21 locations, and the combined number of these unit's customers was about 550 at year end (31 Dec 2006: 420).

The comparable increase in the revenue of the Care Services business area was approximately 30 %, when eliminating the effect of the acquisition of Terveyspalvelut Mendis Oy during the 2006 financial year. Correspondingly, the comparable change in operating profit is about -75 %.

The following companies belong to the business area: the parent company of the group Mikeva Oy (100 %) and its subsidiaries Mikon Kuntoutuskodit Oy (100 %) and Terveyspalvelut Mendis Oy (100 %) that also has Mendis Palvelukodit Oy (100 %) as its subsidiary.

## OTHER BUSINESSES

In addition, Ruukki Group has business operations within the metal industry that are not reported as separate segments as well as some holdings in associates.

The following companies belong to the metal industry sub-group: Alumni Oy (100 %) and its subsidiaries Pan-Oston Oy (100 %), the entire stock of which was sold upon transactions carried out on 2 January 2008, and Selka-line Oy (100 %). During the accounting period 2007, the metal industry sub-group's revenue was EUR 8.2 million (EUR 8.2 million in 2006) of which Pan-Oston Oy generated about 65 %, and operating profit EUR 0.1 million (EUR 0.3 million in 2006).

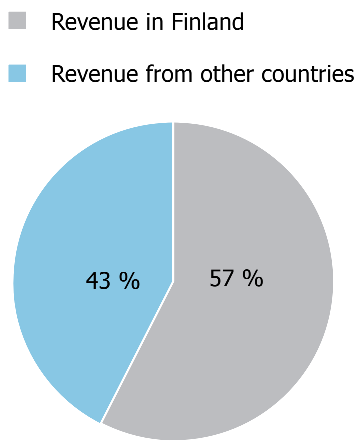
Ruukki Group Plc also has some minority holdings in Finnish companies that operate in logistics and ICT businesses. The combined profit effect of associates was approximately EUR 0.1 million in 2007 (EUR 0.4 million in 2006). The profit effect of associates belonging to Sawmill and Furniture Business segments is presented within the operating profit of these segments. During the accounting period 2007 Ruukki Group Plc reduced its ownership in Valtimo Components Oyj from 39.2 % to 24.9 %. All the associates have been consolidated in the consolidated financial statements by applying the equity method.

## GEOGRAPHICAL SEGMENTS – SECONDARY SEGMENT

Ruukki Group's divisions carry out operations in Finland and in Russia. Products manufactured by the Group are exported from Finland to foreign customers. The Group's key export areas are Japan, the Nordic region and other EU countries, and northern African countries. Most of the Group's assets, investments, personnel, and production operations are in Finland and in continously increasing amounts in Russia. The significance of Russia is increasing in the future. Revenue figures for the various geographic regions are based on the geographic location of the customers, and similarly the assets and investments for particular geographic regions are based on the location of assets.

In 2007, the Group's revenue in Finland amounted to approximately EUR 123 million and revenue from other countries to about EUR 91 million.

**Geographical segments**




| 2007, EUR '000 | Finland | Russia | Other countries | Group |
|---|---|---|---|---|
| Revenue | 122,875 | 672 | 90,362 | 213,910 |
| Assets | 468,245 | 31,734 | 10 | 499,990 |
| Capital Expenditure | 33,855 | 587 | 0 | 34,442 |

| 2006, EUR '000 | Finland | Russia | Other countries | Group |
|---|---|---|---|---|
| Revenue | 85,526 | 590 | 39,343 | 125,459 |
| Assets | 110,521 | 0 | 0 | 110,521 |
| Capital Expenditure | 14,330 | 0 | 0 | 14,330 |

## SEGMENT INFORMATION FOR 2007, BUSINESS SEGMENTS

| EUR '000 | House Building | Sawmill Business | Furniture Business | Care Services | Others | Eliminations and unallocated items | Group |
|---|---|---|---|---|---|---|---|
| External sales | | | | | | | |
| Services | 2,160 | 350 | 0 | 16,816 | 260 | 0 | 19,586 |
| Goods sold | 60,227 | 57,243 | 68,716 | 0 | 8,138 | 0 | 194,323 |
| Total external sales | 62,387 | 57,593 | 68,716 | 16,816 | 8,398 | 0 | 213,910 |
| Intra-group sales | 0 | 1,835 | 0 | 0 | 269 | -2,104 | 0 |
| Revenue | 62,387 | 59,428 | 68,716 | 16,816 | 8,667 | -2,104 | 213,910 |
| Income from associates | 0 | 74 | -807 | 0 | 110 | 0 | -623 |
| Segment's operating profit | 13,337 | 5,362 | 2,627 | 274 | -5,916 | -9 | 15,674 |
| Unallocated items | | | | | | | 0 |
| Operating profit | | | | | | | 15,674 |
| Unallocated items | | | | | | | -1,993 |
| Net profit | | | | | | | 13,680 |
| Segment's assets | 30,128 | 75,917 | 38,369 | 9,523 | 415,947 | -71,596 | 498,288 |
| Investments in associates | 0 | 0 | 0 | 0 | 1,702 | 0 | 1,702 |
| Unallocated assets | | | | | | | 0 |
| Total assets | | | | | | | 499,990 |
| Segment's liabilities | 23,643 | 69,452 | 39,556 | 9,050 | 7,395 | -60,758 | 88,340 |
| Unallocated items | | | | | | | 0 |
| Total liabilities | | | | | | | 88,340 |
| Gross capital expenditure | 360 | 11,501 | 21,441 | 936 | 204 | 0 | 34,442 |
| Depreciation | -293 | -3,737 | -2,959 | -887 | -146 | 0 | -8,022 |
| Impairment | 0 | 0 | -1,058 | 0 | -567 | 0 | -1,625 |
| Other non-cash items: | | | | | | | |
| Provisions | 119 | 70 | 0 | 0 | 0 | | 189 |

## SEGMENT INFORMATION FOR 2006, BUSINESS SEGMENTS

| EUR '000 | House Building | Sawmill Business | Furniture Business | Care Services | Others | Eliminations and unallocated items | Group |
|---|---|---|---|---|---|---|---|
| External sales | | | | | | | |
| Services | 2,540 | 0 | 0 | 9,820 | 551 | -400 | 12,511 |
| Goods sold | 51,208 | 27,818 | 25,683 | 0 | 8,239 | 0 | 112,949 |
| Total external sales | 53,748 | 27,818 | 25,683 | 9,820 | 8,790 | -400 | 125,459 |
| Intra-group sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue | 53,748 | 27,818 | 25,683 | 9,820 | 8,790 | -400 | 125,459 |
| Income from associates | 0 | -27 | -1,682 | 0 | 742 | 0 | -968 |
| Segment's operating profit | 13,380 | 1,411 | -5,395 | 610 | 2,915 | 126 | 13,048 |
| Unallocated items | | | | | | | 0 |
| Operating profit | | | | | | | 13,048 |
| Unallocated items | | | | | | | -4,605 |
| Net profit | | | | | | | 8,442 |
| Segment's assets | 34,027 | 27,067 | 287 | 10,319 | 68,799 | -29,978 | 110,521 |
| Investments in associates | 0 | 0 | 939 | 0 | 4,629 | 0 | 5,568 |
| Unallocated assets | | | | | | | 0 |
| Total assets | | | | | | | 116,090 |
| Segment's liabilities | 22,923 | 25,179 | 1,789 | 10,095 | 16,713 | -19,973 | 56,726 |
| Unallocated items | | | | | | | 0 |
| Total liabilities | | | | | | | 56,726 |
| Gross capital expenditure | 561 | 7,161 | 0 | 4,038 | 2,569 | 0 | 14,330 |
| Depreciation | -176 | -1,188 | -2,438 | -380 | -221 | 0 | -4,403 |
| Impairment | 0 | -5 | 0 | 0 | -317 | -32 | -354 |
| Other non-cash items: | | | | | | | |
| Warranty provisions | 108 | 0 | 0 | 0 | 0 | | 108 |

# BUSINESS COMBINATIONS

## FINANCIAL YEAR 2007

Ruukki Group has carried out the following business combinations in financial year 2007:

### Group companies

In February the Group acquired the majority of the shares of Incap Furniture Oy, which previously was an associate. At the end of 2007, Ruukki Group held about 71.3 % of shares of Incap Furniture Oy.

In March Ruukki Group Plc acquired all of the shares of pallet producer Oplax Oy. Before the transaction Ruukki Group Plc held approximately 32 % of Oplax shares.

Pohjolan Design-Talo Oy, the parent company of the House Building business segment of Ruukki Group Plc, acquired the majority of Pohjolan Design-Sähkö Oy in June. After the transaction, Ruukki Group has a 70.1 % stake in Pohjolan Design-Sähkö Oy. The management of the acquired company holds the minority.

In August 2007, Ruukki Group Plc increased its ownership in Alumni Oy, the parent company of the metal industry business sector, to 100 % by purchasing the shares corresponding to approximately 30.6 % ownership from a person formerly belonging to the Alumni management. This acquisition did not have a material effect on Ruukki Group's profit or financial performance since Ruukki Group already previously had a controlling interest in Alumni Oy. Moreover, Alumni Oy has been loss-making and therefore no minority interest has been recognised. Based on the acquired company's equity at the moment of the transaction, and taking into account Ruukki Group's previous ownership, the total equity related to this acquisition was zero. As no other assets or liabilities were recognised relating to the acquisition, the total acquisition cost, approximately EUR 0.3 million, was recognised as goodwill.

Ruukki Group's subsidiaries have sold all of their holdings in the Russian OOO Sever-Trust to third parties during the financial year. Prior to the transaction the Group held 100 % of the equity capital of OOO Sever-Trust. The transaction had only a minor effect to financial performance or financial position of the Group.

The ownership of shares of Pan-Oston Oy, which was a group company on balance sheet date, has been sold to an external party on 2 January 2008 based on an agreement made on 17 December 2007. Pan-Oston Oy has been presented in the "Other businesses" category for the financial year 2007.

### Associates

Ruukki Group Plc has decreased its interest in the associate Valtimo Components Oyj from 39.2 % to 24.9 % during 2007. Ruukki Group sold all of its holdings in ID Express Oy (40 % share) and Neopolar Oy (33.9 % share) in December 2007.

### Incap Furniture Oy

In February, Ruukki Group became the majority owner of Incap Furniture Oy through a directed share issue. See below for more specific information. As a result of the share issue, Ruukki Group's ownership increased from about 47.1 % to 70.3 %. Incap Furniture has been consolidated to Ruukki Group as a group company as of 1 March 2007. In January and February Incap Furniture was treated as an associate.

Incap Furniture's share subscription was paid for by setting off former subordinated loan receivables. However, prior this share issue, Ruukki Group invested some 0.9 million euros by a subordinated loan arrangement. If a corresponding proportional holding of 70.3 % in Incap Furniture would have been valid as of 1 January 2007, its net effect on the reported Ruukki Group's income statement main items would have been the following: consolidated revenue would have increased by some EUR 8,907 thousand (+4 %), consolidated EBIT* decreased by roughly EUR 714 thousand (-5 %) and consolidated net profit* decreased by about EUR 885 thousand (-6 %) (all these figures compared with the reported interim figures).

* when taking into account the purchase price allocation, the related depreciation and amortisation, and the actual balance sheet as of 28 February 2007

**The following assets and liabilities were recognised relating to the acquisition:**

**Phase 3: Acquisition of 23.3 % share**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Clientele | 814 | 0 |
| Other intangible assets | 555 | 607 |
| Property, plant and equipment | 18,193 | 18,284 |
| Inventories | 8,185 | 7,810 |
| Receivables | | |
| Trade receivables | 5,902 | 5,902 |
| Other receivables | 2,502 | 2,444 |
| Cash and cash equivalents | 369 | 369 |
| **Total assets** | **36,521** | **35,415** |
| Interest bearing debt | | |
| Leasing liabilities | 3,200 | 3,200 |
| Current and non-current debt | 23,041 | 23,041 |
| Non-interest bearing debt | | |
| Trade payables | 7,742 | 7,742 |
| Other debt | 3,842 | 3,669 |
| Deferred tax liability | 1,295 | 986 |
| **Total liabilities** | **39,120** | **38,638** |
| **Net assets** | **-2,600** | **-3,223** |
| Acquisition cost | 1,171 | |
| Net assets 28 Feb 2007 (100 %) | -2,600 | |
| Acquired net assets 28 Feb 2007 (23.3 %) | -604 | |
| **Goodwill** | **1,775** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 886 | |
| Acquired cash and cash equivalents 23.3 % | 86 | |
| **Cash flow** | **800** | |

### Oplax Oy

In March, the company decided to finalise a cash transaction to increase its holding in Oplax Oy, manufacturer of packaging pallets in Oulu, Kemi and Tornio, from 32 % to 100 %. The latest of these transactions increased Ruukki Group's ownership by 61.7 %, which is reflected in the table below, where also more specific information relating to this transaction is presented. Oplax Oy has been consolidated to Ruukki Group's Sawmill Business segment as of March.

If the corresponding 100 % holding in Oplax Oy would have been valid as of 1 January 2007, its net effect on the reported Ruukki Group's income statement main items would have been the following: consolidated revenue would have increased by roughly EUR 1,428 thousand (+0.6 %), consolidated EBIT* decreased by some EUR 269 thousand (-1.7 %) and consolidated net profit* been decreased by about EUR 261 thousand (-1.9 %) (all these figures compared with the reported interim figures).

* when taking into account the purchase price allocation, the related depreciation and amortisation, and the actual balance sheet as of 12 March 2007

**The following assets and liabilities were recognised relating to the acquisition:**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Clientele | 2,061 | 0 |
| Property, plant and equipment | | |
| Land and buildings | 525 | 78 |
| Machinery and equipment | 1,628 | 273 |
| Investments | 1,446 | 1,434 |
| Other assets | | |
| Inventories | 1,226 | 1,142 |
| Trade receivables | 70 | 707 |
| Other receivables | 125 | 125 |
| Accruals | 2 | 2 |
| Cash | 9 | 9 |
| **Total assets** | **7,728** | **3,769** |
| Non-interest bearing debt | | |
| Trade payables | 429 | 429 |
| Other debt | 216 | 216 |
| Deferrals | 80 | 80 |
| Deferred tax liability | 1,029 | 0 |
| Interest bearing debt | 114 | 114 |
| **Total liabilities** | **1,869** | **839** |
| **Net assets** | **5,859** | **2,930** |
| Acquisition cost | 4,852 | |
| Net assets 12 Mar 2007 (100 %) | 5,859 | |
| Net assets 12 Mar 2007 (61.66 %) | 3,613 | |
| **Goodwill** | **1,239** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 4,772 | |
| Acquired cash and cash equivalents | -9 | |
| **Cash flow** | **4,763** | |

**Pohjolan Design-Sähkö Oy (RG Design-Talotekniikka Oy)**

In June 2007, the House Building business area acquired a 70.1 % holding in Pohjolan Design-Sähkö Oy (Ruukki Group's effective holding approximately 63.2 %), an electrical contractor company. The management of the acquired company holds the minority. As a consequence of the transaction, the name of the company was changed into RG Design-Talotekniikka Oy.

If this acquisition had taken place with a corresponding holding already on 1 January 2007, this would have changed the consolidated figures reported by Ruukki Group for the review period as follows: consolidated revenue would have increased by about EUR 1,828 thousand (+0.8 %), consolidated EBIT would have increased by about EUR 221 thousand (+1.4 %), and consolidated net profit would have increased by about EUR 175 thousand (+1.3 %).

**The following assets and liabilities were recognised relating to the acquisition:**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Intangible rights | 2 | 2 |
| Property, plant and equipment | | |
| Machinery and equipment | 93 | 93 |
| Other assets | | |
| Inventories | 687 | 662 |
| Trade receivables | 670 | 670 |
| Other receivables | 44 | 44 |
| Accrued income | 152 | 152 |
| Marketable securities | 316 | 302 |
| Cash and cash equivalents | 431 | 422 |
| **Total assets** | **2,395** | **2,346** |
| Non-interest bearing liabilities | | |
| Trade payables | 52 | 52 |
| Other liabilities | 123 | 123 |
| Accruals | 292 | 292 |
| Deferred tax liabilities | 13 | 0 |
| **Total liabilities** | **479** | **466** |
| **Net assets** | **1,916** | **1,880** |
| Acquisition cost | 1,524 | |
| Net assets 15 June 2007 (70.1 %) | 1,343 | |
| **Goodwill** | **181** | |
| Cash flow effect: | | |
| Consideration paid in cash | 1,500 | |
| Acquired cash and cash equivalents | -431 | |
| **Cash flow** | **1,069** | |

## ACQUISITIONS FINALISED AFTER THE END OF THE FINANCIAL YEAR 2007

**Junnikkala Oy**

After the end of the accounting period in January 2008, the Group's Sawmill Business area acquired a majority interest in Junnikkala Oy and the group it forms. Junnikkala Oy practises sawmilling business in Kalajoki, Ostrobothnia, and its subsidiary Juneropt Oy specialises in further processing of sawn wood targeted especially for prefabricated housing business. The annual production capacity of the Junnikkala sawmill is at present 130,000 cubic meters of sawn wood. At the same time, Junnikkala Oy acquired all shares of Pyyn Saha ja Höyläämö Oy, which operates in Oulainen.

If this acquisition had taken place with a corresponding holding already on 1 January 2007, this would have changed the consolidated figures reported by Ruukki Group for the accounting period 1 January - 31 December 2007 as follows: consolidated revenue would have increased by about EUR 47,651 thousand (+22 %), consolidated EBIT* would have increased by about EUR 2,338 thousand (+15 %), and consolidated net profit would have increased by about EUR 928 thousand (+7 %) (all these figures compared with the accounting period 2007 figures reported by the Group). If Junnikkala group had been consolidated into Ruukki Group's sawmill business area already on 1 January 2007, the business area's revenue would have been about EUR 107 million (+80 % compared with the business segment's accounting period 2007 revenue) and EBIT about EUR 7.7 million (+44 % compared with the business segment's accounting period 2007 EBIT).

* when (i) taking into account the depreciations and deferred taxes related to purchase price allocations, and (ii) assuming 31 January 2008 fair values to be valid for the earlier periods as well

**Preliminary purchase price allocation has been made on the acquisition. The following assets and liabilities were recognised relating to the acquisition which also gives information about the contribution of this transaction to the group balance sheet at the date of the transaction:**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Clientele | 3,869 | 0 |
| Emission allowances | 795 | 0 |
| Order book | 104 | 0 |
| Other intangible assets | 906 | 906 |
| Property, plant and equipment | | |
| Land and water | 7,235 | 7,235 |
| Machinery and equipment | 13,942 | 13,942 |
| Investments | 59 | 59 |
| Other non-current assets | 687 | 687 |
| Current assets | | |
| Inventories | 11,761 | 10,873 |
| Trade receivables | 4,953 | 4,953 |
| Accruals | 788 | 788 |
| Cash and cash equivalents | 415 | 415 |
| **Total assets** | **45,513** | **39,858** |
| Interest-bearing debt | | |
| Non-current loans from financial institutions | 12,962 | 12,962 |
| Current loans from financial institutions | 4,796 | 4,796 |
| Non-interest bearing liabilities | | |
| Trade payables | 6,244 | 6,244 |
| Convertible notes | 400 | 400 |
| Accruals | 1,754 | 1,745 |
| Other liabilities | 2,549 | 2,549 |
| Deferred tax liability | 1,470 | |
| **Total liabilities** | **30,167** | **28,697** |
| **Net assets** | **15,346** | **11,161** |
| Acquisition cost | 24,811 | |
| Net assets | 15,346 | |
| **Goodwill** | **9,465** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 5,740 | |
| Acquired cash and cash equivalents | -415 | |
| **Cash flow** | **5,326** | |

**Financial year 2006**

Ruukki Group has carried out the following business combinations in financial year 2006:

**Group Companies**

- Terveyspalvelut Mendis Oy, and its subsidiary Mendis Palvelukodit Oy, have been consolidated from 1 Sep 2006 onwards into the Care Services segment;
- Tervolan Saha ja Höyläämö Oy, and its subsidiary VK Timber Oy, have been consolidated from 1 Oct 2006 onwards into the Wood Processing segment;
- Nivaelement Oy has been consolidated from 1 Dec 2006 onwards into the House Building segment;
- Of the shares of House Building segment's parent company Pohjolan Design-Talo Oy 9.9 % wee sold on 2 Jan 2006 to the company's managing director whereby Ruukki Group's ownership has fallen to 90.1 %;
- The management of Metal Industry segment's parent company has exercised call options and purchased new Alumni Oy shares in January 2006; therefore Ruukki Group's ownership in Alumni Oy has fallen from 100 % to approximately 69.4 %;
- Ruukki Group Plc's subsidiary Balansor Oy (previously Magentasites Oy) has sold its business operations to a third party at the end of the second half of 2006;
- Ruukki Group Plc has, based on an option agreement signed in 2004, acquired 50 % of Hirviset Group Oy shares in May 2006 increasing its ownership to 100 %. This included a cash consideration of EUR 3.0 million. Based on that call option, Hirviset Group Oy has been consolidated into Ruukki Group from 30 Sep 2004;
- Hirviset Group Oy has, as part of larger furniture business restructuring, sold its subsidiary Hirviset Oy to Incap Furniture Oy via a stock swap arrangement in May 2006;
- Ruukki Group's Finnish group company Ruukki Invest Oy established at the end of 2006 a new Russian subsidiary OOO Ruukki Kostroma which in turn later acquired another Russian limited liability company called OOO Sever-Trust. These companies did have only immaterial business operations in 2006.

**Associates**

Ruukki Group has finalised the following transactions related to associates during 2006:

- A 39.1 % share of Incap Furniture Oy's shares was acquired on 3 Feb 2006. In May 2006 ownership interest was raised to 47.2 %. During 1 May - 30 Sep 2006 Incap Furniture was consolidated as a group company based on call options related potential voting rights. During 1 Feb - 30 Apr and 1 Oct - 31 Dec Incap Furniture Oy has been treated as an associate. At the year end 2006, Ruukki Group's combined ownership was decreased to 47.1 %. In the beginning of financial year 2007 Ruukki Group published that a transaction was agreed upon whereby Ruukki Group's ownership in Incap Furniture will be increased to approximately 70.3 %;
- In March Ruukki Group acquired a 27.6 % stake in Container-Depot Oy; these shares were sold in September, which realised a EUR 4.6 million gain on disposal;
- Ruukki Group sold all of its Logium Oy shares (34.0 %) in June 2006;
- In October Ruukki Group increased its Oplax Oy stake to 31.95 % (previously 24.53 %)

### Terveyspalvelut Mendis Oy

Ruukki Group's Care Services segment acquired all shares of Terveyspalvelut Mendis Oy on 1 Sep 2006. Terveyspalvelut Mendis Oy, including its subsidiary, has a total of roughly 150 customers in 11 locations in Osthrobotnia area and Central Finland providing services for e.g. mentally retarded and elderly people. This transaction considerably strengthened the Care Services segment. Terveyspalvelut Mendis Oy group's revenue in 1 Jan – 31 Dec 2006 totalled approximately EUR 5,080 thousand and the corresponding net profit close to EUR 459 thousand.

Terveyspalvelut Mendis Oy acquisition included a cash consideration of EUR 2.0 million paid out in 2006. Moreover, transaction has earn-out components based on the next three years profitability on the acquired operations. In the purchase price allocation clientele and trade mark were identified as assets and thereby activated on Ruukki Group balance sheet. In addition a considerable goodwill was recognised. This goodwill is based on and related to expected synergy gains on the Care Services segments' different units being integrated as operations quality and knowhow, on personnel training and backup arrangements, and on more efficient utilisation of geographically dispersed customer seats.

**The following assets and liabilities were recognised and booked for the acquisition:**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Goodwill | 0 | 200 |
| Trade marks | 213 | 0 |
| Other intangible assets | 1,070 | 0 |
| Property, plant and equipment | 174 | 174 |
| Receivables | 475 | 475 |
| Other assets | 3 | 3 |
| Cash and cash equivalents | 159 | 159 |
| **Total assets** | **2,092** | **1,010** |
| Current liabilities | | |
| Trade payables | 386 | 386 |
| Other payables | 339 | 6 |
| **Total liabilities** | **725** | **392** |
| **Net assets** | **1,366** | **617** |
| Acquisition cost | 3,732 | |
| Net assets | 1,366 | |
| **Goodwill** | **2,365** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 2,032 | |
| Acquired cash and cash equivalents (23.3 %) | -159 | |
| **Cash flow** | **1,874** | |

**Tervolan Saha ja Höyläämö Oy**

During the final quarter of 2006 Ruukki Group acquired 91.4 % majority stake in Tervolan Saha ja Höyläämö Oy (TSH), and its subsidiary VK Timber Oy (VKT). These two companies were included thereafter into the Sawmill Business segment that previously consisted mainly of Lappipaneli Oy. TSH old owners Kalervo and Hannu Vuokila have the remaining minority and they will continue in the management role. This acquisition strengthened in its part the active sawmilling business development carried out by Ruukki Group in Northern Finland.

TSH and VKT have been consolidated from the beginning of October 2006 in the group figures. Tervolan Saha ja Höyläämö subgroup's revenue for the period 1 Feb – 31 Dec 2006 totalled roughly EUR 10,780 thousand and the corresponding net profit EUR 1,218 thousand. VK Timber Oy's separate 14 month revenue for the period 13 Oct 2005 – 31 Dec 2006 was EUR 2,759 thousand and net profit about EUR 207 thousand. Cash consideration paid in 2006 totalled EUR 6.1 million including third party advisors' fees and applicable transaction taxes. Furthermore, there are additional earn-out purchase price components that will depend on future financial performance of TSH subgroup. These earn-out components are expected to total roughly EUR 1.8 million. Purchase price allocation lead to realisation of EUR 109 thousand goodwill; the rest of the purchase price was allocated to clientele, property, plant and equipment and inventory. Goodwill is based on expected synergy gains on the co-operation and coordination in raw material purchases and sales processes within the Sawmill Business area.

**The following assets and liabilities were recognised and booked for the acquisition:**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Goodwill | 0 | 458 |
| Clientele | 1,595 | 0 |
| Other intangible assets | 146 | 146 |
| Property, plant and equipment | 4,893 | 2,691 |
| Inventories | 898 | 766 |
| Receivables | | |
| Trade receivables | 1,409 | 1,409 |
| Other receivables | 278 | 278 |
| Other assets | 1,516 | 1,516 |
| Cash and cash equivalents | 1,516 | 1,516 |
| **Total assets** | **12,249** | **8,778** |
| Non-current liabilities | 290 | 290 |
| Current liabilities | | |
| Trade payables | 747 | 747 |
| Other payables | 2,466 | 1,445 |
| **Total liabilities** | **3,503** | **2,482** |
| **Net assets** | **8,746** | **6,296** |
| Acquisition cost | 8,105 | |
| Net assets | 7,995 | |
| **Goodwill** | **109** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 6,182 | |
| Acquired cash and cash equivalents | 1,516 | |
| **Cash flow** | **4,666** | |

**Nivaelement Oy**

House Building segment of Ruukki Group acquired all shares of Nivaelement Oy, a company producing wooden house elements, in December 2006. Nivaelement Oy has operated from summer 2006 as a subcontractor for Pohjolan Design-Talo Oy and it has not had any other source of revenue; therefore the acquisition will not have any material effect on Ruukki Group revenue, net income or balance sheet. Nivaelement was acquired by EUR 8 thousand cash consideration. The resulted minor goodwill was booked as cost.

If Nivaelement Oy had been acquired in the beginning of financial year 2006, it would have had no effect on revenue, since revenue would have been intra-group, and only minor effect on net profit.

**The following assets and liabilities were recognised and booked for the acquisition:**

| EUR ‘000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Property, plant and equipment | 467 | 467 |
| Inventories | 474 | 474 |
| Receivables | | |
| Trade receivables | 99 | 99 |
| Other receivables | 156 | 156 |
| Cash and cash equivalents | 24 | 24 |
| **Total assets** | **1,220** | **1,220** |
| Non-current liabilities | 800 | 800 |
| Current liabilities | | |
| Trade payables | 403 | 403 |
| Other payables | 63 | 63 |
| **Total liabilities** | **1,267** | **1,267** |
| **Net assets** | **-46** | **-46** |
| Acquisition cost | 8 | |
| Net assets | -46 | |
| **Goodwill** | **54** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 8 | |
| Acquired cash and cash equivalents | -24 | |
| **Cash flow** | **-16** | |

## Incap Furniture Oy

In February 2006 Ruukki Group Plc took part in significant restructuring of Finnish furniture business, and acquired ca. 39.1 % of the shares of Incap Furniture Oy, which is the biggest Finnish furniture manufacturing services company. The transaction was finalised in May when Hirviset Group Oy sold its subsidiary Hirviset Oy to Incap Furniture Oy via a share swap agreement. In conjunction with this transaction, Ruukki Group Plc exercised an old 2004 dated call option and bought 50.0 % of Hirviset Group Oy shares with EUR 3.0 million cash payment from Vettenmaa Oy. After this option exercise Ruukki Group Plc has owned all Hirviset Group Oy's shares.

Based on all the abovementioned transactions, Ruukki Group Plc and Hirviset Group Oy had totally ca. 47 % ownership in Incap Furniture Oy. During 1 May – 30 Sep 2006 Incap Furniture was consolidated as group company due to potential voting right; before May it was treated as an associate. Ruukki Group sold its Incap Furniture Oy call option in October 2006, and therefore from 1 Oct 2006 onwards Incap Furniture has been again treated as an associate.

**The following assets and liabilities were recognised and booked on the acquisition carried out in stages:**
**Phase 1: Acquisition of 39.1 % share**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Other intangible assets | 1,792 | 105 |
| Property, plant and equipment | 22,082 | 22,082 |
| Inventories | 5,157 | 4,889 |
| Receivables | | |
| Trade receivables | 3,906 | 3,906 |
| Other receivables | 532 | 532 |
| Other assets | 924 | 924 |
| Cash and cash equivalents | 266 | 266 |
| **Total assets** | **34,658** | **32,703** |
| Interest-bearing debt | | |
| Finance leases | 5,570 | 5,570 |
| Current and non-current debt | 13,281 | 13,281 |
| Non-interest bearing debt | | |
| Trade payables | 2,392 | 2,392 |
| Other payables | 2,455 | 2,455 |
| Deferred tax liability | 2,141 | 1,633 |
| **Total liabilities** | **25,839** | **225,330** |
| **Net assets** | **8,819** | **7,373** |
| Acquisition cost | 2,455 | |
| Net assets on 31 Jan 2006 (100 %) | 8,819 | |
| Acquired net assets on 31 Jan 2006 (39.1 %) | 3,448 | |
| **Goodwill** | **-993** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 2,455 | |
| Acquired cash and cash equivalents (39.1 %) | 104 | |
| **Cash flow** | **2,351** | |

**Phase 2: Acquisition of 47.2 % share (increasing the ownership from 39.1 % to 47.2 %)**

| EUR '000 | Fair value of acquired assets | Book value before acquisition |
|---|---|---|
| Intangible assets | | |
| Other intangible assets | 2,131 | 98 |
| Property, plant and equipment | 21,100 | 21,100 |
| Inventories | 5,347 | 5,086 |
| Receivables | | |
| Trade receivables | 3,818 | 3,818 |
| Other receivables | 413 | 413 |
| Other assets | 1,174 | 1,174 |
| Cash and cash equivalents | 106 | 106 |
| **Total assets** | **34,089** | **31,795** |
| Interest-bearing debt | | |
| Finance leases | 5,351 | 5,351 |
| Current and non-current debt | 13,712 | 13,712 |
| Non-interest bearing debt | | |
| Trade payables | 2,878 | 2,878 |
| Other payables | 2,343 | 2,343 |
| Deferred tax liability | 2,152 | 1,555 |
| **Total liabilities** | **26,436** | **25,839** |
| **Net assets** | **7,653** | **5,955** |
| Acquisition cost | 5,005 | |
| Net assets on 31 Jan 2006 (100 %) | 7,653 | |
| Acquired net assets on 31 Jan 2006 (47.2 %) | 3,612 | |
| **Goodwill** | **1,394** | |
| Net cash outflow on the acquisition: | | |
| Consideration paid in cash | 2,455 | |
| Acquired cash and cash equivalents (47.2 %) | 50 | |
| **Cash flow** | **2,405** | |

In February 2007 a further ownership restructuring was finalised where after Ruukki Group owns approximately 70.3 % of Incap Furniture Ltd.

If Incap Furniture Ltd had been acquired on 1 Jan 2006 and been consolidated for the full year, consolidated revenue would have been roughly EUR 26,533 thousand higher and corresponding net profit EUR 3,491 thousand lower.

## CHANGES IN EARN-OUT PAYMENTS

To significant extent the Group has in its acquisitions used earn-out structures that are typically being based on future profitability of the acquired companies. These conditional future-related earn-outs have been estimated using judgment and information available at the time of acquisitions, and re-estimated at the year-end closing. Changes in these earn-out payments are shown in the table below detailing the change in the total corresponding earn-out liabilities at 31 Dec 2007 vis-à-vis the corresponding earn-out liabilities at 31 Dec 2006:

| Segment | Earn-out liabilities change, m€ / % |
|---|---|
| Sawmill Business | + 0.5 / 5.0 % |
| Care Services | - 0.06 / -1.1 % |

# IMPAIRMENT TESTING

**General principles of impairment testing**

Ruukki Group has carried out impairment testing on goodwill and other assets as of 31 December 2007. Group assesses at each balance sheet date whether there is any indication that assets may be impaired. If any such indication exists, the recoverable amount of these assets is estimated. Moreover, the recoverable amount of any goodwill will be estimated annually irrespective of whether there is an indication of impairment. For reporting segments the impairment tests are carried out at the segment level. For associates and other assets related impairment tests are done by company or by asset.

**Goodwill by segment and changes during 2007**

During financial year 2007, the total goodwill of Ruukki Group has increased by EUR 3,645 thousand compared to the end of financial year 2006 mainly due to acquisitions in Sawmilling and Furniture Business segments. There are earn-out liabilities in certain previously carried out transactions, and these earn-outs are conditional upon the target company's future years' results. Therefore, the earn-out payments are revised when the actual target company results are finalised and also otherwise in case there is reason to believe the basis for original assumptions has been altered.

Goodwill of group companies was the following (in EUR '000):

| Segment | 31 Dec 2007 | % | 31 Dec 2006 | % | Change, EUR '000 |
|---|---|---|---|---|---|
| House Building | 19,518 | 56 % | 19,337 | 62 % | 181 |
| Sawmill Business | 6,554 | 19 % | 4,786 | 15 % | 1,768 |
| Furniture Business | 1,681 | 5 % | 0 | 0 % | 1,681 |
| Care Services | 5,669 | 16 % | 5,726 | 18 % | -57 |
| Other Businesses | 1,460 | 4 % | 1,389 | 4 % | 72 |
| **TOTAL** | **34,882** | **100 %** | **31,237** | **100 %** | **3,645** |

During financial year 2007, an impairment of EUR 198 thousand has been booked related to Other Businesses, Metal Industry subgroup.

Goodwill as a ratio of group equity has been the following at 31 December 2007 and 31 December 2006:

| | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Goodwill | 34,882 | 31,237 |
| Equity | 411,650 | 59,256 |
| Goodwill/equity, % | 8 % | 53 % |

The goodwill to equity ratio has diminished mainly due to financial year 2007 increases in Group equity.

**Impairment on other assets during 2007**

In the Furniture Business segment, a total of EUR 600 thousand impairments on fixed assets and EUR 458 thousand impairments on inventory have been recognised in 2007 due to the fire that took place in the Lestijärvi factory during the summer 2007. Related to these impairments, the Group received insurance compensations, the total amount of which, taking into account the indirect losses, were clearly in excess of the impairment losses on these assets.

In the Other Businesses, Metal Industry subgroup a total impairment of EUR 369 thousand has been recognised on fixed assets and other assets based on the results of the impairment tests.

**The methodology applied in impairment testing**

For all cash generating units, which have been tested for impairment, the value in use has been calculated by discounting estimated future net cash flows that have been based on the conditions and assumptions prevailing at the end of 2007. Future cash flows have been projected for a 5-year period after which a conservative zero percent growth assumption has been used. For the terminal year after the 5-year estimation period the essential assumptions (revenue, variable costs and fixed costs) have been based at the estimation period's last year figures excluding inflation adjustments.

The weighted average cost of capital (WACC) has been calculated separately for each segment and testable asset taking into account unit-specific risk factors, each businesses typical capital structures, investors' average required rate of return for similar investments and company size related factors. These pre-tax discount rates used in 31 December 2007 impairment testing were the following:

| Segment | Pre-tax discount rate |
|---|---|
| House Building | 13.6 % |
| Sawmill Business | 13.8 % |
| Furniture Business | 15.6 % |
| Care Services | 13.9 % |

In the Other Businesses, Metal Industry subgroup, discount rate of 16.1 % was used.

The results of impairment testing have been evaluated by comparing the cash generating units' recoverable amount to the corresponding carrying amount based on the following judgment rules:

| Recoverable amount / carrying amount | Conclusion |
|---|---|
| < 0 % | Impairment |
| 1-20 % | Slightly above |
| 21-50 % | Clearly above |
| > 51 % | Significantly above |

**Results of the impairment testing done at 31 December 2007**

The results of the impairment testing were the following:

| Segment | Goodwill (EUR '000) | Total carrying amount* (EUR '000) | Conclusion |
|---|---|---|---|
| House Building | 19,518 | 16,979 | Significantly above |
| Sawmill Business | 6,554 | 35,391 | Slightly above |
| Furniture Business | 1,681 | 27,244 | Clearly above |
| Care Services | 5,669 | 7,903 | Significantly above |

* Total carrying amount in the table above is equal to the sum of: goodwill + intangible and tangible assets + net working capital

**Sensitivity analysis of the impairment testing**

Group has analysed the sensitivity of the impairment testing results by estimating how the essential assumptions should change in order for the recoverable value to be equal to the corresponding carrying amount. The results of this sensitivity analysis are shown below:

| **Segment** | **Discount rate (WACC) change** (% units, compared to the level used in testing) | **Free cash flow change** (%, on average, compared to the used estimated values) | **Segment's average profit margin* change** (% units) |
|---|---|---|---|
| House Building | + 44.0 % | - 71 % | - 12.9 % |
| Sawmill Business | + 1.8 % | - 6 % | - 0.6 % |
| Furniture Business | + 8.7 % | - 27 % | - 1.7 % |
| Care Services | + 19.9 % | - 48 % | - 3.5 % |

* Profit margins used in the table above:
  - EBIT margin for House Building and Care Services segments
  - Operative sales margin for Sawmill Business and Furniture Business segments

# RELATED PARTY TRANSACTIONS

* Minority shareholders of Tervolan Saha ja Höyläämö Oy have a call option to buy back a maximum of about 11.6 % of the Tervolan Saha ja Höyläämö shares from Ruukki Yhtiöt Oy during the last quarter of 2009. In case the minority shareholders will exercise the maximum amount of call options, Ruukki Group's ownership will fall to 80.0 %.

**Group structure 31 Dec 2007**

| Group company name and domicile | Group ownership -% and share of votes | Ruukki Group Plc direct ownership-% and share of votes % |
|---|---|---|
| **House Building** | | |
| Pohjolan Design-Talo Oy, Oulunsalo | 90.10 | 90.10 |
| Nivaelement Oy, Nivala | 90.10 | 0 |
| RG Design-Talotekniikka Oy, Ii | 63.16 | 0 |
| **Sawmill Business** | | |
| Ruukki Yhtiöt Oy, Espoo | 100 | 100 |
| Ruukki Wood Oy, Espoo | 100 | 0 |
| Woodproc Finland Oy, Siikajoki | 100 | 0 |
| Ruukki Components Oy, Siikajoki | 100 | 0 |
| Ruukki Invest Oy, Espoo | 100 | 0 |
| OOO Ruukki Invest Oy Kostroma, Kostroma, Russia | 100 | 0 |
| OOO Ruukki Harvest, Kostroma, Russia | 100 | 0 |
| OOO Ruukki Lesopilnyj Zavod, Kostroma, Russia | 100 | 0 |
| Utawood Oy, Utajärvi | 100 | 0 |
| Lappipaneli Oy, Kuusamo | 100 | 0 |
| Airisniemen Energia Oy, Kuusamo | 100 | 0 |
| Laptimber Oy, Kuusamo | 100 | 0 |
| Tervolan Saha ja Höyläämö Oy, Keminmaa | 91.42 * | 0 |
| VK Timber Oy, Kittilä | 91.42 * | 0 |
| Oplax Oy, Oulu | 100 | 0 |
| **Furniture Business** | | |
| Hirviset Group Oy, Espoo | 100 | 100 |
| Incap Furniture Oy, Oulu | 71.01 | 11.27 |
| Incap Furniture Trading Oy, Hollola | 71.01 | 0 |
| KOY Jokilaaksojen kiinteistöt, Kärsämäki | 71.01 | 0 |
| Incap Furniture Inc, USA | 71.01 | 0 |
| OOO Incap Furniture, Russia | 71.01 | 0 |
| **Care Services** | | |
| Mikeva Oy, Oulunsalo | 100 | 100 |
| Mikon Kuntoutuskodit Oy, Parkano | 100 | 0 |
| Terveyspalvelut Mendis Oy, Seinäjoki | 100 | 0 |
| Mendis Palvelukodit, Seinäjoki | 100 | 0 |

**Group Structure 31 Dec 2007**

| Group company name and domicile | Group ownership -% and share of votes | Ruukki Group Plc direct ownership-% and share of votes % |
|---|---|---|
| **Other operations** | | |
| Alumni Oy, Nastola | 100 | 100 |
| Pan-Oston Oy, Nastola | 100 | 0 |
| Selka-line Oy, Nastola | 100 | 0 |
| Balansor Oy, Espoo | 99.99 | 99.99 |
| Mobilecrm Oy, Espoo | 99.99 | 0 |
| Rekylator Oy, Helsinki | 100 | 100 |
| Hoivaala Oy, Somero | 100 | 100 |

After the end of the accounting period in January 2008, the Group has acquired a majority interest (about 51 %) in Junnikkala Oy. Junnikkala Oy and the group it forms have been consolidated into Ruukki Group's Sawmill Business area as of 1 February 2008. In addition, Ruukki Group has a call option and Junnikkala Oy's minority shareholders a put option to carry out transactions after which Ruukki Group would have all shares of Junnikkala Oy. The realisation time of the options begins in spring 2010 and partly in spring 2011 and ends in spring 2013 for all options. Junnikkala Oy has two subsidiaries: Pyyn Saha ja Höyläämö Oy (100 %) and Juneropt Oy (75 %). Junnikkala Oy has a right to redeem the shares of Juneropt Oy's minority shareholders.

Ruukki Group Plc defines the related party consisting of:

- companies or entities having common control or considerable voting power in Ruukki Group
- subsidiaries
- associates
- Ruukki Group Plc's and the abovementioned entities' top management

In Ruukki Group's operations, entrepreneurs have a significant role. These entrepreneurs might, as private individuals or through companies or entities directly or indirectly controlled by them, or with other parties have considerable control or voting power, have transactions classified as related party transactions with any companies belonging to Ruukki Group or its subsidiaries. As well their close family members might, as private individuals or through companies or entities directly or indirectly controlled by them, or with other parties have considerable control or voting power, have transactions classified as related party transactions with any companies belonging to Ruukki Group or its subsidiaries. These individuals or entities might have had existing agreements or business operations with Ruukki Group companies prior to the date that Ruukki Group has obtained control in the entities controlled by these entrepreneurs.

IAS 24 standard defines top management as those company employees that have direct or indirect power, authority and responsibility to affect company operations planning, management and control functions. This definition includes board members and company top management team. The information presented below will in this respect be above the minimum IAS 24 required level.

Related party transactions have been analysed in three stages: group level, segment level and group company level.

**Related party transactions with top management**

Finnish accounting legislation, KPA 2:8 § 4 mom disclosure

| EUR '000 | 2007 | | 2006 | |
|---|---|---|---|---|
| | Salaries | Fees | Salaries | Fees |
| Fredrik Danielsson, Board member 26 Apr 2006 - 20 Apr 2007 | | 2 | | 4 |
| Mikko Haapanen, Board member 26 Apr 2006 onwards | | 6 | | 4 |
| Juha Halttunen, Board chairman till 6 Apr 2006 | | | | |
| Timo Honkala, Board member 26 Apr 2006 - 12 Jun 2007 | | 3 | | 4 |
| Esa Hukkanen, Board member till 6 Apr 2006 | | | 19 | |
| Markku Kankaala, Board member 30 Jun 2003 onwards | | 6 | 48 | 4 |
| Antti Kivimaa, CEO until 31 Aug 2007 ; executive VP 1 Sep 2007 onwards | 162 | | 133 | |
| Matti Lainema, Board member 26 Apr 2006 onwards; chairman 1 Sep 2007 onwards | | 8 | | 4 |
| Kai Mäkelä, Board member 10.2.2000 onwards, vice chairman 26 Apr 2006 onwards | | 9 | | 6 |
| Arno Pelkonen, Board member 20 Apr 2007 - 24 Jan 2008 | | 3 | | |
| Timo Poranen, Board member 20 Apr 2007 onwards | | 21 | | |
| Matti Vikkula, Board member 7 Jun 2005 onwards, chairman 6 Apr 2006 - 31 Aug 2007 | | 6 | | 8 |
| Matti Vikkula, CEO 1 Sep 2007 onwards | 1,640 | | | |
| Ahti Vilppula, Board member 7 Jun 2005 onwards | | 5 | | |
| **Total** | **1,802** | **69** | **200** | **34** |

In addition to the above mentioned salaries, Kivimaa has Ruukki Group Plc call options based on which a total of EUR 135 thousand has been booked as options expenses for fiscal year 2007 income statement (EUR 86 in 2006). Vikkula has, in addition to the above mentioned and based on his CEO contract, a synthetic option arrangement and 300,000 free shares received as incentive on which a total of EUR 411 thousand has been recorded according to IFRS 2 standard as expenses in the 2007 income statement (2006: 0). Moreover, CEO Vikkula is entitled to additional pension insurance that, combined with statutory pension coverage, will ensure the CEO a monthly pension corresponding to sixty percent of his monthly salary.

However, on 31 December 2007, the company does not have a valid contract regarding this additional pension insurance. The CEO has the right to retire at the age of 60 years.

Based on their membership in the Ruukki Group Plc board, the board members received a total of EUR 51 thousand as board membership fees during 2007 (EUR 34 thousand in 2006). In addition, board members received fees on other basis a total of EUR 18 thousand (0).

Management remuneration, including the individuals detailed above as well as other Ruukki Group Plc management:

**Management remuneration**

IAS 24.16 disclosure

| (EUR '000) | 2007 | 2006 |
|---|---|---|
| Short-term remuneration | 1,391 | 441 |
| Pensions | 139 | 57 |
| Total | 1,530 | 498 |

The information above includes IFRS 2 standard based options expenses and other similar share-based expenses a total of EUR 576 thousand in 2007 (EUR 105 thousand in 2006).

For group companies' managing directors and board members a total of EUR 807 thousand has been paid as salaries and board membership fees in 2007 (EUR 418 thousand in 2006). In addition, as additional pension insurance payments a total of EUR 120 thousand has been paid to these persons (2006: EUR 20 thousand).

The parent companies of the subgroups are the following:

Pohjolan Design-Talo Oy; House Building
Ruukki Yhtiöt Oy; Sawmill Business
Hirviset Group Oy; Furniture Business
Mikeva Oy; Care Services
Alumni Oy; Metal industry

For many Ruukki Group acquisitions future earn-out structures, based on future profitability of target companies, have been typical. These earn-out liabilities have been settled either by cash or by Ruukki Group own shares. Within Certain Ruukki Group Plc's group companies are and/or have been lessees in operating or financial lease contracts for premises at which they operate. In these agreements the lessor has been either an individual characterised as belonging to related party at the group level or group company level, or an entity controlled by him/her. Typically these rental agreements have been made prior to Ruukki Group acquiring the majority stake.

Moreover, Ruukki Group companies have a few rental agreements with individuals or entities that have in the past been counterparties in transactions with Ruukki Group. These kinds of transactions have been excluded from the following table if these individuals or entities controlled by them are not currently in any role within or with Ruukki Group.

**Rents paid to related parties**

| (EUR '000) | 2007 | 2006 |
|---|---|---|
| Segment management and their related parties in total | 138 | 103 |
| Ruukki Group employees and their related parties in total | 461 | 331 |
| Total | 599 | 434 |

**Paid / accrued earn-outs**

The period on which the earn-out is based

| EUR '000 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|
| Juha Halttunen, board chairman up until 6.4.2006 | 176 | 273 | 287 | 233 | | | |
| Segment management and their related parties in total | 226 | 2,281 | 3,522 | 7,079 | | | |
| Other Ruukki Group employees and their related parties in total | | 1,614 | 229 | 2,045 | 1,157 | 1,181 | 789 |
| **Total** | **402** | **4,168** | **4,039** | **9,357** | **1,157** | **1,181** | **789** |

## OTHER RELATED PARTY TRANSACTIONS IN 2007

### Earn-out payments

Ruukki Group Plc's annual general meeting decided on 20 April 2007 to carry out a free directed share issue to the sellers of Pan-Oston Oy and Lappipaneli Oy in order to settle fiscal year 2006 related earn-outs for these companies. Therefore totally 598,285 new shares were issued.

### Acquisitions and disposals

Ruukki Group Plc has paid a EUR 260 thousand acquisition cost to a person belonging to metal industry sub group's management when acquiring metal industry's parent company's shares in autumn 2007.

Ruukki Group Plc has sold its associate's Valtimo Components Oyj's shares to an entity controlled by a person belonging to the associate's management. The acquisition cost totalled EUR 61 thousand of which EUR 6 thousand has been paid to Ruukki Group Plc during 2007.

From the sale of 9.9 % of the shares of a subsidiary in House Building segment carried out in 2006, the managing director who bought the shares has paid according to the agreement an acquisition cost of EUR 354 thousand which was presented as a receivable on the balance sheet on 31 December 2006.

During 2007, Furniture Business segment company Incap Furniture Oy's subsidiary, consolidated to Ruukki Group's Furniture Business segment in February 2007, has purchased Incap Furniture Oy shares from persons previously belonging to the company's management by a total of EUR 69 thousand.

### Property transactions

A subsidiary in Ruukki Group's Sawmill Business segment carried out property transactions in 2007 by which the subsidiary has purchased by EUR 500 thousand the land plots rented by a Sawmill Business unit and in the use of the sawmill from a real estate company controlled by the subsidiary's management.

### Dividend payout

Ruukki Group Plc has paid to the management and board members, and their close family members, and entities controlled by them in total EUR 1,642 thousand in dividends in 2007. Moreover about EUR 3 thousand was paid to segment level management and about EUR 31 thousand to other persons being employed by and belonging to related party of Ruukki Group companies. Ruukki Group's subsidiaries have paid dividends in total EUR 1,415 thousand to the minority stakeholders of the subsidiaries in question.

### Financing arrangements

In the 2007 share issue, Ruukki Group's management, their close family members, or entities controlled by them, acquired new Ruukki Group Plc shares in cash for a total of EUR 101,699 thousand. Moreover, these previously mentioned parties converted their subordinated convertible loans into equity worth of totally EUR 703 thousand. The interest paid to related parties for this loan totalled EUR 3 thousand in 2007.

### Loans to related parties

In September Ruukki Group Plc has granted Matti Vikkula a loan of approximately EUR 1,380 thousand to finance the purchase of the company shares as a part of his incentive scheme. Ruukki Group Plc has approximately EUR 1,513 thousand in loan and other receivables from persons belonging to the Group management or entities controlled by related parties.

### Consultancy fees to entities controlled by related parties

Ruukki Group Plc has paid a total of EUR 94 thousand in 2007 as consultancy fees to companies controlled by related party individuals of the company.

### Other related party transactions

A person belonging to Ruukki Group's Sawmill

Business area's management has made an agreement with Ruukki Group's House Building business area regarding a delivery of a prefabricated house of which this person has made prepayments a total of EUR 80 thousand in 2007. A Sawmill Business segment's company has purchased timber raw material from the related party of a person belonging to the management worth of about EUR 33 thousand in 2007, and from persons that during previous accounting periods have been sellers in share transactions by which a company later consolidated to Ruukki Group has bought a subsidiary worth of about EUR 180 thousand.

Ruukki Group's Care Service business has made a rental agreement related to its premises which has been guaranteed by a rental deposit of EUR 45 thousand. A manager of a service unit in Care Services business segment has bought from the group company in question a car allowance with EUR 19 thousand. Related to this purchase, on 31 December 2007 a company belonging to Ruukki Group's Care Services business segment has a receivable of EUR 3 thousand.

## OTHER RELATED PARTY TRANSACTIONS AFTER THE END OF ACCOUNTING PERIOD IN 2008

### Loans to related parties

After the end of the accounting period, Ruukki Group Plc has invested EUR 10,000 thousand of liquid funds in short-term in a way that the counterparty of this transaction is an entity controlled by a person belonging to the group management. Ruukki Group Plc has received collaterals for the loan.

### Options related to acquisition

In January 2008, Ruukki Group's Sawmill Business segment's subsidiary Ruukki Yhtiöt Oy has acquired a 51 % majority interest in Junnikkala Oy. As a part of the arrangement, an agreement has been signed between the shareholders according to which Ruukki Yhtiöt Oy has a call option and Junnikkala Oy's minority shareholders a put option regarding approximately 49 % minority ownership. As collateral for these options, Junnikkala Oy's minority shareholders have pledged the shares in question. The exercise time of the options begins either in spring 2010 or in spring 2011 and ends in spring 2013.

## OTHER RELATED PARTY TRANSACTIONS IN 2006

### Earn-out payments

Ruukki Group Plc's Extraordinary General Meeting decided on 27 October 2006 to carry out a free directed share issue to the sellers of Pan-Oston Oy and Lappipaneli Oy in order to settle fiscal year 2005 related earn-outs for these companies. Therefore totally 564,857 new shares were issued, and these new shares were registered on 10 November 2006.

### Acquisitions and disposals

Ruukki Group Plc sold 9.9 % of the shares of its subsidiary Pohjolan Design-Talo Oy to Kimmo Kurkela, the managing director of Pohjolan Design-Talo Oy. The aim of the transaction is to incentivise managing director for the positive development of the company and its financial results. The total price per share of the transaction is roughly five percent higher than the price that Ruukki Group will pay, including all earn-outs, for the all, previously acquired Pohjolan Design-Talo shares. The final price is determined after fiscal year 2006 end. No significant gain on disposal is realised through this sale. Ruukki Group had, at 31 December 2006, a receivable of EUR 354 thousand related to this sale. After this transaction, Ruukki Group owns 90.1 % of Pohjolan Design-Talo Oy shares.

Ruukki Group Plc made an acquisition on 19 October 2006 and bought roughly 7.42 % of associate Oplax Oy shares from Esa Hukkanen. The cash consideration related to this transaction was EUR 670 thousand.

Ruukki Group Plc exercised in February 2006 a call option of an agreement signed in 2004 and thereby acquired 50.0 % of Hirviset Group Oy shares from Vettenmaa Oy, a company controlled by Hirviset Group Oy ex managing director. The purchase price totalled EUR 3,000 thousand, and was paid in cash. After this transaction, Ruukki Group Plc owns all Hirviset Group Oy's shares.

**Conversion of subsidiary's convertible bond into shares**

Ruukki Group Plc's subsidiary Alumni Oy issued a convertible bond in 2003. Two thirds of this loan was converted into shares in January 2006. The aim of this loan structure has been to create incentives for segment management for long-term development of metal industry business. The managing director and segment management member Olli-Pekka Salovaara converted his holdings into shares whereby Alumni Oy equity increased by roughly EUR 44 thousand. Due to this transaction Ruukki Group Plc's ownership in Alumni Oy decreased from 100 % to ca. 69.44 % which has been reflected in segment goodwill being adjusted down by approximately EUR 577 thousand. This is shown in the group income statement in the other expenses, which in turn has fully reduced both EBIT and net profit for fiscal year 2006.

**Consultancy fees to entities controlled by related parties**

Ruukki Group Plc has paid a total of EUR 25 thousand in 2006 as consultancy fees to companies controlled by related party individuals of the company.

**Dividend payout**

Ruukki Group Plc has paid to the management and board members, and their close family members, and entities controlled by the previously mentioned individuals in total EUR 1,646 thousand in dividends in 2006. Moreover about EUR 4 thousand was paid to segment level management and about EUR 22 thousand to other persons being employed by and belonging to related party of Ruukki Group companies. A dividend payout has been proposed by the board and based on fiscal year 2006 balance sheet equity, but that will be decided by the company's annual general meeting in April.

**Financing arrangements**

In the 2006 share issue, Ruukki Group's management, their close family members, or entities controlled by them, acquired new Ruukki Group Plc shares in cash for a total of EUR 3,497 thousand. Moreover, these previously mentioned parties converted their subordinated convertible loans into equity worth of totally EUR 2,575 thousand.

# PLEDGES AND CONTINGENT LIABILITIES

**Mortgages and guarantees pledged as security**

On 31 December 2007, Group companies had given business mortgages as collateral for loans and other liabilities totalling approximately EUR 13.3 million (EUR 5.7 million on 31 December 2006). Of the parent company's EUR 4.2 million business mortgages, EUR 1.7 million had been pledged as security with external financial institutions on 31 December 2007 (2006: EUR 1.7 million). Real estate mortgages amounted to approximately EUR 11.1 million (EUR 2.2 million on 31 December 2006). The Group's parent company has given a total of EUR 5.0 million in direct-liability guarantees for the financing of Group companies (EUR 6.6 million on 31 December 2006). Segments' parent companies have given to secure their subsidiaries' financing pledges to external parties totalling some EUR 0.3 (0.4) million. Moreover, a group company has given cash deposit of EUR 1.0 million as a security with an external financial institution.

Machinery financing typically involves the acquired machinery to be pledged as a guarantee with the debt repayment. The Group's long term machinery financing liabilities totalled EUR 2,281 thousand on 31 December 2007 (EUR 2,692 thousand on 31 December 2006).

**Pledges and guarantees given by Ruukki Group Plc**

**For own behalf**

| | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Corporate mortgage | 1,682 | 1,682 |
| Pledged subsidiary shares | 9,263 | 0 |
| Other collaterals | 1,423 | 0 |

**Absolute guarantees for behalf of subsidiaries**

| | credit limit in use/loan 31 Dec 2007 | Maximun liability 31 Dec 2007 | Maximun liability 31 Dec 2006 |
|---|---|---|---|
| Guarantees for group companies' financing: | | | |
| Cheque account | 0 | 0 | 50 |
| Leasing limit | 0 | 0 | 0 |
| **Total** | **0** | **0** | **50** |

**Other guarantees for behalf of subsidiaries**

| | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Payment guarantees for subsidiaries | 23,961 | 0 |
| Pledges for subsidiaries' liabilities | 2,000 | 0 |

The amount of payment guarantees presented above represents the maximum liability. However, the Group's management finds it unlikely that the liability would realise in full.

| | credit limit in use/loan 31 Dec 2007 | Maximun liability 31 Dec 2007 | Maximun liability 31 Dec 2006 |
|---|---|---|---|
| Guarantees given to financial institutions for group companies' financing: | | | |
| Guarantees for bank guarantee limits | 0 | 1,400 | 1,400 |
| Guarantees for equipment financing | 1,479 | 1,840 | 1,840 |
| Guarantees given to financial institutions for group companies' loans: | | | |
| Bank loans | 1,671 | 1,764 | 2,452 |
| **Total** | **3,150** | **5,004** | **6,592** |

**Covenants included in the Group's financing agreements**

Some of the Group's debt financing agreements feature covenants tied to the Group's or individual Group companies' solvency or profitability figures, or covenants that restrict the payment of Group company liabilities to the parent company or that require the parent company not to divest significant parts of the business operations without consulting the financier first.

**Investment commitments**

Based on the delivery agreements the direct irrevocable liabilities related to the equipment of the planned Kostroma sawmill amount to about EUR 30 million at the end of financial year 2007. The liabilities of these investment made and to be made are expected to change during 2008 in line with the final timetable to be achieved in the sawmill, harvesting and pulp mill projects and their progress.

**Earn-out liabilities related to acquisitions**

The earn-out liabilities related to Group acquisitions have been recognised in the consolidated financial statements as either short-term or long-term liabilities, depending on when the earn-out liabilities are due for payment. Furthermore, potential earn-out items based on option rights have been recognised in the balance sheet under liabilities. Short-term earn-out liabilities on 31 December 2007 totalled EUR 1.2 million (on 31 December 2006, EUR 9.0 million) and long-term liabilities EUR 1.3 million (EUR 2.4 million).

**Rental agreements**

Liabilities associated with rental and operating lease agreements totalled roughly EUR 14 million at 31 Dec 2007. In the future no material changes are expected to materialise with these liabilities. Care Services segment's premises units' rental liabilities account for majority of the total rental liabilities. Most of other group companies have also rented their production facilities and offices. Typically the rental agreements maturity varies between three to eight years, and normally there is possibility to continue these agreements after the end of original maturity date. For these contacts their price indexing, renewing and other terms differ contract by contract.

As guarantee for these rental agreements group companies have at year end made cash deposits for approximately EUR 0.2 million.

**Other liabilities and commitments**

A real estate company belonging to the Group has approximately EUR 17 thousand VAT return liability.

Certain group companies have entered into agreements that oblige them to make raw material purchases in the future with fixed terms and that are typical in their line of business.

A supplier has received a guarantee totalling EUR 0.1 (0.1) million for obligations of a group company.

**Received guarantees and pledges**

The Group has received a total of EUR 0.7 million payment guarantees for down payments made for purchase contracts related to the machinery and equipment for the planned sawmill in Kostroma, Russia.

At the end of the financial year, Ruukki Group Plc has a receivable from a sale of shares in an associate. All the shares sold are pledged for the benefit of Ruukki Group Plc up until the receivable has been fully paid.

# OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## G1. Other operating income

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Gain on disposal of property, plant and equipment | 149 | 107 |
| Gain on disposal of investments | 6 | 5,151 |
| Government grants | 97 | 196 |
| Insurance compensations | 5,778 | 132 |
| Other | 844 | 125 |
| **Total** | **6,874** | **5,712** |

## G2. Employee benefits

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Salaries and wages | 25,183 | 14,524 |
| Share-based payments | 576 | 105 |
| Pensions, defined contribution plans | 4,482 | 2,583 |
| Other employee related costs | 1,796 | 1,156 |
| **Total** | **32,037** | **18,369** |

Average personnel during the accounting period by segment

| EUR '000 | 2007 | 2006 |
|---|---|---|
| House Building | 120 | 88 |
| Sawmill Business | 106 | 54 |
| Furniture Business | 283 | 193 |
| Care Services | 305 | 180 |
| Others | 54 | 55 |
| **Total** | **866** | **570** |

Personnel at the end of the accounting period by segment

| EUR '000 | 2007 | 2006 |
|---|---|---|
| House Building | 118 | 101 |
| Sawmill Business | 112 | 72 |
| Furniture Business | 331 | 0 |
| Care Services | 344 | 229 |
| Others | 53 | 50 |
| **Total** | **958** | **452** |

### G3. Depreciation, amortisation and impairment

| EUR '000 | 2007 | 2006 |
| --- | --- | --- |
| **Depreciation by asset category** | | |
| Intangible assets | | |
| Trade marks (IFRS3) | 183 | 169 |
| Clientele (IFRS3) | 1,722 | 532 |
| Other intangible assets | 328 | 228 |
| **Total** | **2,233** | **930** |
| Property, plant and equipment | | |
| Buildings and constructions | 1,296 | 227 |
| Machinery and equipment | 4,322 | 3,112 |
| Other tangible assets | 171 | 134 |
| **Total** | **5,789** | **3,473** |
| **Impairment by asset category** | | |
| Buildings and constructions | 274 | 0 |
| Machinery and equipment | 510 | 0 |
| Goodwill | 198 | 0 |
| Trade marks (IFRS3) | 35 | 0 |
| Other intangible assets | 17 | 0 |
| Other assets | 0 | 354 |
| **Total** | **1,034** | **354** |

Of the 2007 impairment losses altogether EUR 600 thousand are related to the Furniture Business segment's buildings and machinery that were destroyed by fire. Moreover, EUR 433 thousand impairment losses for tangible and intangible assets were recognised based on impairment testing. In 2006 impairment losses were recognised on following items: associate's convertible bonds EUR 3 thousand, other convertible bonds EUR 80 thousand, investments in associates EUR 244 thousand, other investments EUR 5 thousand and EUR 23 thousand on goodwill related to the subsidiary Balansor Oy.

### G4. Other operating expense

| EUR '000 | 2007 | 2006 |
| --- | --- | --- |
| Loss on disposal of property, plant and equipment | -1 | -4 |
| Loss on disposal of investments | 0 | -576 |
| Research and development expenditure | -14 | -8 |
| Rental costs | -3,592 | -1,938 |
| External services | -4,136 | -2,132 |
| Other | -16,499 | -11,407 |
| **Total** | **-24,242** | **-16,066** |

## G5. Finance income and expense

| EUR '000 | 2007 | 2006 |
|---|---|---|
| **Finance income** | | |
| Income on assets available for sale | 2,715 | 1 |
| Interests from held-to-maturity investments | 2,438 | 297 |
| Interests from loans and trade receivables | 1,717 | 93 |
| Foreign exchange gains | 3 | 0 |
| Other finance income | 19 | 435 |
| **Total** | **6,891** | **826** |
| **Finance expense** | | |
| Interests on loans | -2,566 | -1,523 |
| Impairment losses | -135 | 0 |
| Foreign exchange losses | -202 | 0 |
| Other finance expense | -244 | -194 |
| **Total** | **-3,148** | **-1,717** |
| **Changes in fair value** | **-259** | **0** |
| **Net finance income/expense** | **3,484** | **-891** |

## G6. Income taxes

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Income tax for the period | -6,505 | -4,589 |
| Income tax for previous years | -29 | 353 |
| Deferred taxes | 1,057 | 58 |
| **Total** | **-5,478** | **-4,177** |

| EUR '000 | 2007 | 2006 |
|---|---|---|
| **Profit before taxes** | **19,158** | **12,156** |
| **Income tax calculated at income tax rate** | **-4,981** | **-3,161** |
| Tax exempt income | 159 | 65 |
| Income tax for previous years | -29 | 366 |
| Income from associates | -162 | -252 |
| Impairment | -147 | -242 |
| Tax losses not recognised as deferred tax assets | -327 | -1,123 |
| Non-tax deductible expenses | -504 | -20 |
| Previously unrecognised tax losses now recognised | 740 | 58 |
| Change of deferred tax assets and liabilities and other adjustments * | -225 | 131 |
| Total adjustments | -497 | -1,017 |
| **Income tax recognised** | **-5,478** | **-4,177** |

* other adjustments relate mainly to acquisitions and the items generated thereby as well as to the possibility of utilising group contributions only after the financial year following the year of acquisition

## G7. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to shareholders of the parent company by weighted average number of shares during the financial year.

When calculating diluted earnings per share, all convertible securities are assumed to be converted in preferred shares. The group has had two types of securities with potential dilution effect: share options and convertible bond notes. All the convertible bond notes have been converted into shares during the financial year 2007. Share options have a dilution effect if the exercise price is lower than share price. The diluted number of shares is the number of shares, which will be issued free of charge when share options are exercised, because with the funds received from exercising options, the company is not able to issue the same number of shares at fair value. The fair value of shares is based on average share price of the period. Convertible bonds have been converted into shares and the profit has been adjusted for interest savings after tax.

| | 2007 | 2006 |
|---|---|---|
| Profit attributable to equity holders of parent company (EUR ‘000) | 12,651 | 8,442 |
| Weighted average number of shares, basic (1 000) | 217,889 | 118,052 |
| Basic earnings per share (EUR) total | 0.06 | 0.07 |

| | 2007 | 2006 |
|---|---|---|
| Profit attributable to equity holders of parent company (EUR ‘000) | 12,651 | 8,442 |
| Interests for convertible bonds, adjusted with taxes (EUR ‘000) | 25 | 294 |
| Earnings used in calculation of diluted earnings per share (EUR ‘000) | 12,676 | 8,736 |
| Weighted average number of shares, basic (1 000) | 217,889 | 118,052 |
| Shares deemed to be issued in respect of convertible bonds (1 000) | 3,542 | 17,944 |
| Weighted average number of shares, diluted (1 000) | 221,432 | 135,996 |
| Diluted earnings per share (EUR) total | 0.06 | 0.06 |

## G8. Property, plant and equipment

| EUR '000 | Land and water property | Buildings and constructions | Machinery and equip-ment | Other tangi-ble assets | Total |
|---|---|---|---|---|---|
| Balance at 1 Jan 2007 | 130 | 5,226 | 17,088 | 969 | 23,412 |
| Additions | 497 | 214 | 4,107 | 306 | 5,124 |
| Acquisitions through business combinations | 42 | 13,203 | 8,298 | 188 | 21,731 |
| Disposals | 0 | -9 | -839 | -68 | -916 |
| **Balance at 31 Dec 2007** | **669** | **18,635** | **28,653** | **1,394** | **49,351** |
| Accumulated depreciation and impair-ment 1 Jan 2007 | 0 | -531 | -6,752 | -275 | -7,557 |
| Depreciation | 0 | -1,296 | -4,322 | -171 | -5,789 |
| Impairment | 0 | -274 | -510 | 0 | -784 |
| **Accumulated depreciation and impairment 31 Dec 2007** | **0** | **-2,100** | **-11,584** | **-446** | **-14,130** |
| **Carrying amount 1 Jan 2007** | **130** | **4,695** | **10,336** | **694** | **15,854** |
| **Carrying amount 31 Dec 2007** | **669** | **16,534** | **17,069** | **948** | **35,221** |
| Balance at 1 Jan 2006 | 47 | 3,771 | 11,692 | 546 | 16,056 |
| Additions | 0 | 0 | 2,762 | 368 | 3,129 |
| Acquisitions through business combinations | 123 | 2,220 | 24,234 | 55 | 26,632 |
| Disposals | -41 | -765 | -21,600 | 0 | -22,406 |
| **Balance at 31 Dec 2006** | **130** | **5,226** | **17,088** | **969** | **23,412** |
| Accumulated depreciation and impair-ment 1 Jan 2006 | 0 | -304 | -3,640 | -140 | -4,084 |
| Depreciation | 0 | -227 | -3,112 | -134 | -3,473 |
| **Accumulated depreciation and impairment 31 Dec 2006** | **0** | **-531** | **-6,752** | **-275** | **-7,557** |
| **Carrying amount 1 Jan 2006** | **47** | **3,466** | **8,052** | **406** | **11,972** |
| **Carrying amount 31 Dec 2006** | **130** | **4,695** | **10,336** | **694** | **15,854** |

In the property, plant and equipment there are assets purchased through finance leases as follows:

### Equipment under finance lease

| EUR '000 | Machinery and equipment | Buildings | Total |
|---|---|---|---|
| 31 Dec 2007 | | | |
| Balance | 119 | 2,869 | 2,998 |
| Accumulated depreciation | -56 | -327 | -383 |
| **Carrying amount** | **63** | **2,542** | **2,605** |
| 31 Dec 2006 | | | |
| Balance | 1,275 | 0 | 1,275 |
| Accumulated depreciation | -1,115 | 0 | -1,115 |
| **Carrying amount** | **160** | **0** | **160** |

## G9. Intangible assets

| EUR '000 | Goodwill | Intangible assets identified acc. to IFRS3 | Other intangible assets | Total |
|---|---|---|---|---|
| Balance at 1 Jan 2007 | 32,072 | 5,051 | 724 | 37,938 |
| Additions | 0 | 0 | 589 | 589 |
| Disposals | -1,460 | 0 | -191 | -1,652 |
| Acquisitions through business combinations | 3,843 | 2,872 | 821 | 7,536 |
| **Balance at 31 Dec 2007** | **34,454** | **7,922** | **1,943** | **44,411** |
| Accumulated amortisation and impairment 1 Jan 2007 | -834 | -1,418 | -356 | -2,608 |
| Amortisation | 0 | -1,904 | -328 | -2,232 |
| Impairment | -198 | -35 | -17 | -250 |
| **Accumulated amortisation and impairment 31 Dec 2007** | **-1,033** | **-3,357** | **-701** | **-5,091** |
| **Carrying amount 1 Jan 2007** | **31,237** | **3,633** | **368** | **35,238** |
| **Carrying amount 31 Dec 2007** | **33,422** | **4,565** | **1,242** | **39,278** |
| Balance at 1 Jan 2006 | 31,738 | 1,891 | 392 | 34,020 |
| Additions | 1,791 | 0 | 187 | 1,978 |
| Disposals | -3,931 | -3,438 | 0 | -7,369 |
| Acquisitions through business combinations | 2,474 | 6,598 | 146 | 9,218 |
| **Balance at 31 Dec 2006** | **32,072** | **5,051** | **724** | **37,847** |
| Accumulated amortisation and impairment 1 Jan 2006 | -812 | -717 | -127 | -1,656 |
| Amortisation | 0 | -701 | -229 | -930 |
| Impairment | -23 | 0 | 0 | -23 |
| **Accumulated amortisation and impairment 31 Dec 2006** | **-834** | **-1,418** | **-356** | **-2,608** |
| **Carrying amount 1 Jan 2006** | **30,927** | **1,173** | **265** | **32,364** |
| **Carrying amount 31 Dec 2006** | **31,237** | **3,633** | **368** | **35,238** |

## G10. Investments in associates

| Movements in 2007, EUR '000 | |
|---|---|
| **1 Jan 2007** | **5,568** |
| Disposals | |
| Incap Furniture Oy | -133 |
| Oplax Oy | -1,656 |
| ID Express Oy | -3 |
| Valtimo Components Oyj | -19 |
| Share of profit | -623 |
| Impairment | 0 |
| **31 Dec 2007** | **1,702** |

| Movements in 2006, EUR '000 | |
|---|---|
| **1 Jan 2006** | **3,848** |
| Additions | |
| Container Depot Oy | 3,500 |
| Incap Furniture Oy | 2,567 |
| Oplax Oy | 681 |
| Disposals | |
| Logium Oy | -201 |
| Container Depot Oy | -3,559 |
| Share of profit | -968 |
| Dividends | -84 |
| Impairment | -216 |
| **31 Dec 2006** | **5,568** |

During the financial year 2007 Ruukki Group increased its ownership in Incap Furniture Oy and Oplax Oy so that these companies became subsidiaries. Ruukki Group Plc's share in Valtimo Components Oyj fell from 39.2 % to 24.9 % via share issue and sale of shares. Moreover, during the financial year Ruukki Group fully disposed of its ownership in ID Express Oy and Neopolar Oy.

| EUR '000 | Domicile | Balance sheet date | Assets | Liabilities | Revenue | Profit/ loss | Ownership (%) |
|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | |
| Arc Technology Oy | Helsinki | 30 Nov 2007 | 710 | 389 | 1,523 | 206 | 37.4 |
| Cybersoft Oy Ab | Tampere | 31 Oct 2007 | 541 | 191 | 977 | 29 | 37.5 |
| ILP-Group Ltd Oy * | Helsinki | 30 Sep 2007 | 6,571 | 4,519 | 13,198 | 549 | 33.4 |
| Lanux Oy | Helsinki | inactive | | | | | 47.0 |
| Loopm Oy | Helsinki | inactive | | | | | 28.4 |
| Orienteq Capital Oy | Helsinki | 31 Dec 2007 | 42 | 34 | 330 | 31 | 30.0 |
| Rivest Oy | Helsinki | 30 Sep 2007 | 6 | 10 | 11 | -5 | 40.0 |
| SG Systems Oy | Helsinki | inactive | | | | | 35.0 |
| Sportslink Group Oy | Helsinki | inactive | | | | | 25.0 |
| Stellatum Oy | Helsinki | 31 Dec 2007 | 286 | 224 | 1,410 | 65 | 34.0 |
| Valtimo Components Oyj | Valtimo | 30 Sep 2007 | 2,153 | 2,723 | 1,707 | -274 | 24.9 |
| Widian Oy | Espoo | 30 Nov 2007 | 467 | 1,043 | 633 | -349 | 39.6 |
| | | | **10,776** | **9,134** | **19,789** | **252** | |
| **2006** | | | | | | | |
| Arc Technology Oy | Helsinki | 31 Dec 2006 | 672 | 557 | 1,053 | 21 | 37.4 |
| Cybersoft Oy Ab | Tampere | 31 Oct 2006 | 563 | 131 | 1,022 | 254 | 37.5 |
| ID Express Oy | Helsinki | 30 Nov 2006 | 22 | 5 | 17 | 7 | 40.0 |
| ILP-Group Ltd Oy * | Helsinki | 31 Dec 2006 | 4,926 | 3,349 | 11,081 | 525 | 33.4 |
| Incap Furniture Oy | Oulu | 31 Dec 2006 | 32,090 | 31,221 | 47,474 | -5,864 | 47.1 |
| Lanux Oy | Helsinki | inactive | | | | | 47.0 |
| Loopm Oy | Helsinki | 30 Sep 2006 | 52 | 255 | 58 | 24 | 28.4 |
| Neopolar Oy | Utajärvi | 31 May 2006 | 793 | 773 | 406 | -151 | 33.9 |
| Oplax Oy | Oulu | 31 Dec 2006 | 6,976 | 783 | 7,989 | 856 | 32.0 |
| Orienteq Capital Oy | Helsinki | 30 Nov 2006 | 160 | 149 | 487 | 3 | 30.0 |
| Rivest Oy | Helsinki | 31 Dec 2006 | 6 | 10 | 11 | -5 | 40.0 |
| SG Systems Oy | Helsinki | inactive | | | | | 35.0 |
| Sportslink Group Oy | Helsinki | inactive | | | | | 25.0 |
| Stellatum Oy | Helsinki | 30 Sep 2006 | 498 | 440 | 1,036 | 89 | 34.0 |
| Valtimo Components Oyj | Valtimo | 31 Dec 2006 | 2,369 | 2,247 | 3,451 | 52 | 39.2 |
| Widian Oy | Espoo | 31 Dec 2006 | 773 | 1,000 | 758 | 8 | 39.6 |
| | | | **49,900** | **40,919** | **74,841** | **-4,181** | |

* ILP-Group Ltd Oy group's figures at 30 Sep 2007; consolidated financial statements at 31 Dec 2007 not available when these statements have been prepared

The balance sheet date of certain associates differs from Group's balance sheet date, since all of the associated companies' financial statements were not available when Group's financial statements have been prepared. Certain associates are also inactive.

All subordinated loans are included into associated companies' liabilities.

## G11. Financial assets

### 31 Dec 2007

| EUR '000 | Assets available-for-sale | Assets held-to-maturity | Loans and other receivables | Assets at fair value through profit and loss | Total |
|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | |
| Non-current interest bearing receivables | | 304 | 1,682 | | 1,986 |
| Derivatives | | | | 161 | 161 |
| Other financial assets | 13 | | | | 13 |
| **Current financial assets** | | | | | |
| Current interest bearing receivables | | 131,361 | 102 | | 131,462 |
| Trade and other receivables | | | 29,704 | | 29,704 |
| Shares in mutual funds | 176,112 | | | | 176,112 |
| **Total financial assets** | **176,124** | **131,664** | **31,489** | **161** | **339,438** |

### 31 Dec 2006

| EUR '000 | Assets available-for-sale | Assets held-to-maturity | Loans and other receivables | Assets at fair value through profit and loss | Total |
|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | |
| Non-current interest bearing receivables | | | 495 | | 495 |
| Derivatives | | | | | 0 |
| Other financial assets | 5 | | 27 | | 32 |
| **Current financial assets** | | | | | |
| Current interest bearing receivables | | | 7,242 | | 7,242 |
| Trade and other receivables | | | 9,833 | | 9,833 |
| Shares in mutual funds | | | | | 0 |
| **Total financial assets** | **5** | **0** | **17,598** | **0** | **17,603** |

### Non-current receivables

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Trade receivables | 0 | 27 |
| Loan receivables | 1,589 | 168 |
| Deferred tax assets | 1,136 | 0 |
| Other receivables | 7 | 0 |
| **Total** | **2,732** | **195** |

Balance sheet values of receivables closely corresponds to the monetary value of maximum credit risk excluding the fair value of received guarantees in the potential case where the counterparties cannot fulfil their commitments. There is no significant credit risk concentration related to receivables.

## G12. Deferred tax assets and liabilities

### Movements in deferred taxes in 2007

| EUR '000 | 31 Dec 2006 | Recognised in P&L or deferred taxes from fair value adjustments | Recognised in equity | 31 Dec 2007 |
|---|---|---|---|---|
| **Deferred tax assets:** | | | | |
| Unrealised expenses | | 379 | | 379 |
| Non-tax deductible depreciation | | 130 | | 130 |
| From translation difference | | | 379 | 379 |
| Group eliminations | | 107 | 73 | 180 |
| Other items | | 30 | 37 | 67 |
| **Total** | **0** | **646** | **490** | **1,136** |
| **Deferred tax liabilities:** | | | | |
| Assets at fair value in acquisitions | 1,487 | -856 | 1,337 | 1,968 |
| Accumulated difference between actual and tax deductible depreciation | 531 | -4 | 915 | 1,442 |
| Financial assets and investments at fair value | | 142 | | 142 |
| Other items | 38 | 304 | | 342 |
| **Total** | **2,056** | **-415** | **2,253** | **3,894** |

### Movements in deferred taxes in 2006

| EUR '000 | 31 Dec 2005 | Recognised in P&L or deferred taxes from fair value adjustments | Recognised in equity | 31 Dec 2006 |
|---|---|---|---|---|
| **Deferred tax assets:** | | | | |
| Provisions | 22 | -22 | | |
| Impairment | 69 | -69 | | |
| Other items | 31 | | -31 | |
| **Total** | **122** | **-91** | **-31** | **0** |
| **Deferred tax liabilities:** | | | | |
| Assets at fair value in acquisitions | 316 | 1,171 | | 1,487 |
| Accumulated difference between actual and tax deductible depreciation | 312 | 219 | | 531 |
| Financial assets and investments at fair value | 2 | -2 | | |
| Other items | 2 | 36 | | 38 |
| **Total** | **632** | **1,424** | | **2,056** |

During the financial year 2007 about EUR 1.1 million impairments on inventory were recognised. Furthermore, approximately EUR 0.5 million impairment has been booked on the inventory destroyed by fire.

Prepaid expensed and accruals mainly relate to rental contracts and accrued interest for loans. Balance sheet values of receivables closely corresponds to the monetary value of maximum credit risk excluding the fair value of received guarantees in the potential case where the counterparties cannot fulfil their commitments. There is no significant credit risk concentration related to receivables.

## G13. Inventories

| EUR ‘000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Goods and supplies | 6,437 | 2,683 |
| Unfinished products | 10,964 | 11,106 |
| Finished products | 9,707 | 2,387 |
| Prepayments | 2,527 | 882 |
| **Total** | **29,635** | **17,057** |

## G14. Trade receivables and other current receivables

| EUR ‘000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Trade receivables | 18,917 | 7,425 |
| Loan receivables | 147 | 2 |
| Interest-bearing receivables | 131,462 | 7,271 |
| Prepaid expenses and accrued income | 4,295 | 1,537 |
| Other receivables | 6,345 | 841 |
| **Total** | **161,166** | **17,075** |

### The aging of trade receivables at the balance sheet date

| EUR ‘000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Not past due | 13,061 | 5,220 |
| Past due 0-30 days | 4,644 | 1,335 |
| Past due 31-60 days | 915 | 456 |
| Past due 61-90 days | 80 | 42 |
| Past due more than 90 days | 63 | 373 |
| Impairment | 154 | 0 |
| **Trade receivables total** | **18,917** | **7,425** |

## G15. Cash and cash equivalents

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Cash and bank balances | 48,279 | 24,768 |
| Pledged deposits: | 1,720 | 478 |

Cash and cash equivalents in the cash flow statement:

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Cash, bank balances and deposit certificates | 48,279 | 24,768 |
| Short-term money market investments | 248 | 0 |
| **Total** | **48,527** | **24,768** |

## G16. Derivate agreements

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| **Forward contracts, contract values** | | |
| Foreign exchange forward contracts | 853 | -2,740 |
| Interest rate swaps | 5,241 | 0 |
| Other derivatives | 3,195 | 0 |
| **Forward contracts, fair value** | | |
| Foreign exchange forward contracts | -2 | 82 |
| Interest rate swaps | 161 | 0 |
| Other derivatives | -833 | 0 |

The maturity of foreign exchange rate and other derivatives is less than 6 months. Interest rate swaps relate to long-term loan agreements, and swaps' maturity is in excess of 12 months.

## G17. Assets and liabilities classified as held for sale

The ownership of shares of Pan-Oston Oy, which was a group company on balance sheet date, has been transferred to an external party on 2 January 2008 when an agreement made on 17 December 2007 was put into force. On the balance sheet, the assets and liabilities of Pan-Oston Oy are carried at book value and presented separately classified as assets and liabilities held for sale. The sales price of the shares totalled EUR 3.0 million. The gain on disposal, approximately EUR 0.7 million, will be recognised in 2008 and therefore it had no effect on the profit for financial year 2007. Pan-Oston Oy has not been classified to any business segment and it is presented in the "Other businesses".

| EUR '000 | 31 Dec 2007 |
|---|---|
| Non-current assets classified as held for sale | |
| Goodwill | 1 460 |
| Other intangible assets | 21 |
| Property, plant and equipment | 73 |
| **Non-current assets classified as held for sale** | **1 554** |
| Current assets classified as held for sale | |
| Inventories | 459 |
| Trade and other receivables | 692 |
| Cash and cash equivalents | 188 |
| **Current assets classified as held for sale** | **1 339** |
| **Assets classified as held for sale** | **2 893** |
| Liabilities associated with assets held for sale | |
| Leasing liabilities | 6 |
| Trade payables | 232 |
| Other current liabilities | 347 |
| **Liabilities associated with assets held for sale** | **585** |

## G18. Share capital

| EUR '000 | Increase | Number of shares | Share capital after registration |
|---|---|---|---|
| **31 Dec 2005** | | **86,300,380** | |
| Bonus issue (11 Jan) | 87 | 86,300,880 | 14,671 |
| Directed issue (13 Jan) | 1,190 | 93,300,880 | 15,861 |
| Directed issue (6 April) | 5,100 | 123,300,880 | 20,961 |
| Conversion of convertible bonds (21 July) | 611 | 126,893,880 | 21,572 |
| Conversion of convertible bonds (23 Aug) | 116 | 127,576,880 | 21,688 |
| Conversion of convertible bonds (6 Oct) | 102 | 128,176,880 | 21,790 |
| Directed free issue (10 Nov) | | 128,741,737 | 21,790 |
| Conversion of convertible bonds (12 Dec) | 259 | 130,266,737 | 22,049 |
| Conversion of convertible bonds (27 Dec) | 968 | 135,963,737 | 23,018 |
| **31 Dec 2006** | | **135,963,737** | |
| Conversions of convertible bonds (13 Feb) | 621 | 139,615,737 | 23,639 |
| Directed free issue (3 May) | 0 | 140,214,022 | 23,639 |
| Conversions of convertible bonds (29 Jun) | 3 | 140,234,022 | 23,642 |
| Share issue (29 Jun) | 0 | 270,234,022 | 23,642 |
| Directed free issue (6 Jul) | 0 | 270,534,022 | 23,642 |
| Share issue (18 Jul) | 0 | 290,034,022 | 23,642 |
| **31 Dec 2007** | | **290,034,022** | |

Based on the option scheme I/2005 altogether a maximum of 2,700,000 option rights can, in steps, be exercised with predetermined step-wise increasing exercise prices. Moreover, the Board of the Company has on 12 December 2007 decided to establish a share-based incentive scheme in which there are 7,350,000 option rights at the most. At the balance sheet date 31 December 2007 the Company did not have any convertible notes outstanding.

**Own shares**

During the 2007 financial year, the company or any of its subsidiaries did not hold any of its own shares. The subsidiary of the Furniture Business segment acquired about 0.9 % of the shares of the Incap Furniture Oy, the Ruukki Group's Furniture Business subsidiary.

**Paid-up unrestricted equity reserve**

In an extraordinary shareholders' meeting held on 27 October 2006, a decision was made in line with the Board's proposal to deviate from the shareholders' pre-emptive rights and to issue 564,857 new shares free of charge in a directed issue to the sellers of Pan-Oston Oy and Lappipaneli Oy as a supplement to the purchase price in consideration of the companies' good financial performance in 2005. The shares issued, EUR 423.6 thousand, were booked into paid-up unrestricted equity reserve. Accordingly, based on 20 April 2007 Annual General Meeting's decision, 598,285 shares were issued to the same parties, and the paid-up unrestricted equity reserve thereby increased by EUR 1,035 thousand. Finally, the funds gained by the share issue in June 2007 and by the related additional over-allotment share issue in July were fully booked in the paid-up unrestricted equity reserve of which the expenses of these issues were netted out. The net change by these two issues when taking into account the expenses and the related deferred taxes was EUR 339,232 thousand.

**Dividends**

During 2007 a dividend of EUR 0.03 per share was distributed. In 2006, EUR 0.02 dividend per share was paid based on the decision of Annual General Meeting, and additionally, EUR 0.01 dividend per share was paid based on the decision by the extraordinary shareholders' meeting. After the balance sheet date the Board of Directors has proposed the Annual General Meeting to be convened later four cents (EUR 0.04) per share dividend.

**G19. Share-based payments**

The company's I/2005 option scheme entitles option holders to subscribe for a maximum of 2,700,000 shares in the company. The share subscription period is 1 July 2007 through 30 June 2015 for various options denoted with different letters, and the subscription price range is EUR 0.50 – 1.00. As a result of subscriptions made with the I/2005 options, Ruukki Group Plc's share capital may be increased by a maximum of EUR 459,000.00 and the number of shares by a maximum of 2,700,000 new shares.

In order to increase the level of commitment and motivation of key persons, option rights are, deviating from shareholders' pre-emptive rights, granted to Ruukki Group Plc's CEO and management and other key employees, and furthermore as decided by the Board to the board members, management or employees of group subsidiaries, and potentially for persons having other contractual relationships with the Group. At the end of 2007, altogether 675,000 option rights were granted to Company's management.

Of options on A, B and C series of the option scheme I/2005, 225,000 option rights of each have been issued to Ruukki Group's management totalling 675,000 options altogether. All options that have been granted after 7 Nov 2002 and that have not been vested prior to 1 Jan 2005 have been treated according to the principles set forth in IFRS2 Share-based Payments standard. Share options will be expired if not redeemed as agreed in the terms of options. Options are forfeited if the option holder leaves the company prior to the effective date of the options. During the financial period one option arrangement was carried out with company management; the terms of this option arrangement are detailed in the following table.

During 2007 the CEO of Ruukki Group Plc has been granted a synthetic option scheme which has four parts and which will be settled in cash. The CEO will receive a monetary compensation according to the terms of the scheme based on the difference between the actual share price on each check date and the reference share price, provided that the market price of the share is at the level specified in the scheme.

In addition, the Board of Ruukki Group Plc has decided to establish a share-based incentive scheme on 12 December 2007 based on the authorisation by the Annual General Meeting of 20 April 2007. At the balance sheet date 31 December 2007 the Board has not made any decisions to grant any option rights or share subscription rights based on this 12 December 2007 scheme. In the option programme related to this scheme there are altogether 7,350,000 option rights.

| Share option plan | Share based options, granted to employees in 2007 | Share based options, granted to employees in 2006 | Share based options, granted to employees in 2005 | Synthetic options granted to CEO 2007 |
|---|---|---|---|---|
| Nature of the plan | Share options issued | Share options issued | Share options issued | Cash settled share-based incentive scheme (four stages) |
| Grant date | 17 Oct 2007 | 14 Aug 2006 | 14 Dec 2005 | 30 Sep 2007 |
| Number of options | 225,000 | 225,000 | 225,000 | 1,000,000 shares (250,000 each) |
| Options series | C (I/2005) | B (I/2005) | A (I/2005) | N/A |
| Exercise period | 1 Jul 2009 - 30 Jun 2012 | 1 Jul 2008 - 30 Jun 2011 | 1 Jul 2007 - 30 Jun 2010 | Annually on Sep 30 in 2008, 2009, 2010 and 2011 |
| Dividend adjustment | Yes | Yes | Yes | No |
| Exercise price | 0.64 | 0.54 | 0.44 | Comparison price 2.30 |
| Share price at grant date (EUR) | 2.86 | 0.69 | 0.63 | 2.87 |
| Option life (years) | 3 | 3 | 2 | 1, 2 , 3 and 4 years |
| Conditions | Employment until the vesting date | Employment until the vesting date | Employment until the vesting date | Employment |
| Execution | In shares | In shares | In shares | In cash |
| Expected volatility | 44 % | 89 % | 130 % | 46 % |
| Expected option life at grant date (years) | 4.7 years | 4.9 years | 4.5 years | 1, 2 , 3 and 4 years |
| Risk free rate, Euribor 12 months | 4.10 % | 3.65 % | 2.79 % | 4.73 % |
| Expected dividend yield | 1.40 % | 2.20 % | 0.00 % | 1.40 % |
| Expected personnel reductions | 0 | 0 | 0 | 0 |
| Fair value at grant date (EUR) | 2.22 | 0.53 | 0.54 | - |
| Fair value at balance sheet date | - | - | - | EUR 3.07; 3.28; 3.45 and 3.59 |
| Valuation model | Black & Scholes | Black & Scholes | Black & Scholes | Black & Scholes |

The Group applies the Black & Scholes model to option arrangements that include employment terms. The expected volatility has been determined by calculating the historical volatility of the company's share price and adjusting it according to generally available factors that are expected to affect historical volatility. Historical volatility was calculated on the basis of changes in the company's share price.

Changes in share options issued and in weighted average exercise prices:

| | Weighted average exercise price EUR/share | Number of options (Option Scheme I/2005) | Number of synthetic options |
|---|---|---|---|
| At the beginning of 2006 | 0.44 | 225,000 | 0 |
| Granted new options | 0.54 | 225,000 | 0 |
| Exercised options | 0.0 | 0 | 0 |
| Forfeited options | 0.0 | 0 | 0 |
| At the end of 2006 | 0.49 | 450,000 | 0 |
| Exercisable at the end of 2006 | 0.0 | 0 | 0 |
| At the beginning of 2007 | 0.49 | 450,000 | 0 |
| Granted new options | 0.64 | 225,000 | 1,000,000 |
| Exercised options | 0.0 | 0 | 0 |
| Forfeited options | 0.0 | 0 | 0 |
| At the end of 2007 | 0.54 | 675,000 | 1,000,000 |
| Exercisable at the end of 2007 | 0.44 | 225,000 | 0 |

No share options were exercised in 2007.

The exercise prices of existing share options and their years of forfeiting are presented below:

| Year of forfeiting | Exercise price (EUR) | Number of shares (Option Scheme I/2005) | Synthetic options (CEO's incentive) |
|---|---|---|---|
| 2008 | - | - | 250,000 |
| 2009 | - | - | 250,000 |
| 2010 | 0.44 | 225,000 | 250,000 |
| 2011 | 0.54 | 225,000 | 250,000 |
| 2012 | 0.64 | 225,000 | - |

The fair value of shares has been based on share price quotations.

## G20. Interest-bearing debt

| EUR '000 | 31 Dec 2007 Book values | 31 Dec 2006 Book values |
|---|---|---|
| **Non-current** | | |
| Bank loans | 17,281 | 6,367 |
| Subordinated loans (liability component for convertibles) | 1,894 | 75 |
| Equipment financing | 2,281 | 2,692 |
| Finance lease liabilities | 2,502 | 70 |
| **Total** | **23,958** | **9,205** |
| **Current** | | |
| Subordinated loans (liability component for convertibles) | 0 | 1,576 |
| Bank loans and equipment financing | 15,733 | 2,874 |
| Finance lease liabilities | 258 | 60 |
| **Total** | **15,991** | **4,510** |

### Finance lease liabilities

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| **Finance lease liabilities, minimum lease payments** | | |
| No later than 1 year | 258 | 60 |
| Later than 1 year and not later than 5 years | 2,502 | 70 |
| | **2,760** | **130** |
| **Finance lease liabilities, present value of minimum lease payments** | | |
| No later than 1 year | 255 | 60 |
| Later than 1 year and not later than 5 years | 2,325 | 67 |
| | **2,580** | **127** |
| **Future finance charges** | **180** | **12** |
| Total finance lease liabilities | 2,760 | 139 |

## G21. Trade payables and other liabilities

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Current | | |
| Trade payables | 12,394 | 5,752 |
| Prepayments | 16,481 | 17,575 |
| Accrued expenses and deferred income | 9,791 | 2,801 |
| Income tax liability | 877 | 604 |
| Other liabilities | 2,911 | 11,996 |
| **Total** | **42,454** | **38,727** |
| Non-current | 1,262 | 2,227 |

Material items included into accrued expenses are related to personnel expenses and interests. Received prepayments are advance payments made by clients of House Building business segment.

### G22. Provisions

| EUR '000 | Warranty provisions | Other provisions | Total |
|---|---|---|---|
| Balance at 1 Jan 2007 | 108 | 0 | 108 |
| Additions | 11 | 70 | 81 |
| Reductions | 0 | 0 | 0 |
| **Balance at 31 Dec 2007** | **119** | **70** | **189** |

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Long-term provisions | 70 | 0 |
| Short-term provisions | 119 | 108 |
| **Total** | **189** | **108** |

The House Building segment gives a quality guarantee for its products. Short-term liabilities for repair have been recorded as expenses in the income statement and as provisions in the balance sheet. Defects discovered during the warranty period are repaired by the company or the product is replaced with equal product. At the end of 2007 warranty provisions amounted to EUR 119 thousand (EUR 108 thousand in 2006). The provision is based on expected number of defective products based on previous experience. Provisions are expected to be used within the next year.

### G23. Summary on financial assets and loan arrangements

**Financial assets 31 Dec 2007**

The Group's financial assets have considerably increased during financial year 2007 especially due to the share issues finalised in June and July 2007. At the balance sheet date 31 December 2007 the funds received by the share issues have been invested in short-term euro- and rouble-denominated fixed-term deposits and money market mutual funds. The Group also has part of the funds in interest-bearing avista accounts that have been categorised into cash and cash equivalents.

The financial assets comprise of the euro- and rouble-denominated deposits, mutual funds investments and pledged deposits as follows:

- Euro-denominated fixed-term deposits for EUR 100.0 million. The annualised average interest rate is 4.8 % p.a. The deposits have been made in autumn 2007 and their maturity dates are in January 2008;
- Rouble-denominated deposits for RUB 1,000.0 million (EUR 28.8 million converted at the exchange rate at the balance sheet date). These deposits have an average interest rate of 7.8 % p.a., and the maturity is in January 2008 for RUB 500 million and in October 2008 for another RUB 500 million;
- Mutual fund investments in money market funds totalling EUR 173.5 million in fair value. Of these mutual fund units EUR 150 million has been redeemed and moved into euro-denominated fixed-term deposits for 3-12 months in the beginning of January 2008 so that the counterparty has been a Finnish financial institution;
- Interest-bearing deposits pledged; when not taking into account the pledges for rented premises, the group companies have given pledged deposits for altogether EUR 3.6 million

Money market mutual funds have been categorised into other financial assets than cash at the balance sheet date 31 December 2007 since the majority of these funds have been moved or is intended to be moved into short-term fixed-period deposits based on the investment policies previously agreed upon.

**Interest-bearing debt 31 Dec 2007**

- Floating rate loans from financial institutions totalling EUR 29.0 million, of which loans with pledges EUR 27.5 million. Fixed rate loans altogether EUR 4.5 million;
- The interest rates of the loans are to major extent tied to euribor rates. The weighted average interest rate at the balance sheet date 31 December 2007 was, based on market interest rates at that date, about 5.8 % when the impact of interest rate swaps have been taken account. The average interest

rate margin for floating rate notes was 1.2 % p.a. (over the reference rates of the loans). The range of the annualised interest rates was 1.3 % p.a. – 14.0 % p.a. The loans will mature in years 2008 – 2019;

- Instalment payment debts totalled EUR 3.1 million, of which EUR 2.3 million were long-term;
- Finance lease debts totalled EUR 3.3 million

The debt finance package of the Furniture Business segment has been renegotiated at the turn of the year 2007 into 2008, partly related to the implications of the June 2007 fire. At the balance sheet date 31 December 2007, the parent company of the Furniture Business segment had about EUR 1.5 million overdue debt that has been refinanced as a part of larger package implemented in January 2008 by the owners and the financiers.

## G24. Management of financial risks

### Management of capital

The Board of Directors of Ruukki Group Plc has set a long-term goal for the Group's equity ratio to be 40 %. In the short term the objective is that equity financing accounts one third and debt financing two thirds of the needed funding for acquisitions and capital expenditures. The audit committee of Ruukki Group Plc follows the fulfilment of the equity ratio goal.

At the balance sheet date 31 December 2007, group's equity ratio stood at 85.1 % level based especially on the substantial increase in equity by the share issues carried out during the financial year 2007. These funds are primarily dedicated to partial funding of the planned forest industry investments in Russia.

### Management of strategic and operative risks

Ruukki Group has in year 2006 and 2007 operated in various businesses, which has diversified Group's total risk. For example the rise in sawn wood prices has been enhancing the profitability of the Sawmill Business segment, but at the same time it has had negative effect on the profitability of Furniture Business and House Building segments. Moreover, since the relative significance of export has increased, the impact of changes in various markets is lower than previously.

Ruukki Group Plc's Board of Directors has decided to focus the operations stronger than previously into wood-based industrial operations. The aim is that new investments would to major extent be in Russia which can, if realised, increase the total risk level.

Balance sheet structure at 31 Dec 2007 and 31 Dec 2006 were the following:

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Equity | 409,655 | 57,665 |
| Minority interest | 1,995 | 1,591 |
| (1) Total Equity | 411,650 | 59,256 |
| Balance sheet total | 499,990 | 116,090 |
| ./. Prepayments received | -16,481 | -17,575 |
| (2) Balance sheet total excluding prepayments received | 483,509 | 98,514 |
| (3) Equity ratio = (1)/(2) | 85.1 % | 60.1 % |

As part of the ongoing change process into wood processing group, the Board and management of the Group's parent company have in co-operation with external advisor carried out a separate risk analysis and risk management study of the planned Russian investment projects.

Acquisitions have played a key role in the implementation of the growth strategy followed by the group. In order to ensure the success of new acquisitions the Group aims at tying the business unit managers to the long-term business development via incentive schemes. In addition, the synergy benefits can be reached more easily than before due to the strategic concentration in the wood-based industries.

Operative business risks are part of normal operations. Long-term planning and flexible business model have key role in managing those risks. Moreover, the larger size of the group will enhance the level of risk tolerance. Via new investment projects the group will be exposed to project management risks to larger extent than previously, which is targeted to be facilitated by education, expert resources and thorough planning. In case the investments projects, as planned in Kostroma Russia, would not be finalised or would be delayed, significant financial damage can be caused. These planned Russian projects' preparation expenses, investment prepayments or irrevocable order commitments can be larger, if the project is not successfully implemented, than the combined cash flow from compensations received or assets sold.

Ruukki Group Plc's Board is responsible for comprehensive management of strategic risks. Probably Group's business is more risky and more dynamic in nature than the average risk profile in the industry.

The success of the group's business is also dependant upon recruitment and holding on to professional and motivated personnel. When Ruukki Group's operations has been growing larger the relative importance of any one key employee has gone down. The dependence on key persons is therefore lower than before. On the other hand, the changes in strategic focus and the targeted international expansion will bring about specific competence requirements. In order to commit the key employees at the Group headquarters and segment management there are for example share-based incentives schemes in place. In addition, part of business unit management does have earn-out structures in place.

The damage and liability risks are covered by insurances. In applicable parts group has used insurances brokers and international insurance experts to build insurance packages that are needed to fulfil risk management needs.

The internal audit function, whose practical operations have been outsourced to an external specialist, will in its part be involved in ensuring the implementation of risk management activities and the appropriate follow-up on business processes and instructions.

**Management of financial risks**

In its normal operations the group is exposed to various financial risks. The objective of group risk management is to minimise the adverse effects of the changes in the financial markets on the group result. The main financial risks are foreign exchange rate risk, interest rate risk, liquidity risk and credit risk.

The general risk management principles are accepted by Ruukki Group Plc's Board of Directors, and the management of the business segments is responsible for the implementation. The group has not for the time being a centralised group risk management organisation. When analysing risks mainly group's financial and operational information is utilised; the group has not used e.g. VaR (Value at Risk) tools for risk measurement.

As a partial consequence of the change in the group's business model it is anticipated that the principles, guidance and reporting of the financial risk management will be specified in accordance with the business changes. The progress of the planned Russian investment projects will essentially influence the quantity and form of financial risks.

Group business operations expose the group and its business units to the following market risks:

(i) foreign exchange rate risk
(ii) interest rate risk
(iii) credit risk
(iv) liquidity risk

**(i) Foreign exchange rate risk**

Group operates internationally, and therefore has foreign exchange rate risks due to various currency positions. Foreign exchange rate risks arise from commercial transactions and monetary balance sheet items that affect the conversion differences based on converting foreign currency denominated items into the functional currency of the parent company.

Currency positions are mainly looked into on a monthly basis for the next rolling twelve months. Short-term forward contracts are to major extent used to manage foreign exchange rate risks related to the coming cash flow of currency denominated trade receivables. The largest direct foreign exchange rate risks are related to the export trade of the Sawmill Business segment, where the Japanese yen is the most significant single currency. For the applicable part, the currency cash flows of sales and purchases are matched so that the net currency position would be as small as possible; this way group's Sawmill Business segment has managed the US dollar risks. At the end of the financial year the maturity of the forward contracts was less than six months. The forward contracts are both by the amount and by the maturity as close as possible matched with the commercial cash flows in order to minimise the net foreign exchange rate risk. The commercial business agreements in the Sawmill Business segment are typical made for six months' period; therefore, the management of foreign exchange rate risks are managed primarily for the same period.

In addition to direct foreign exchange rate risks, the wood-based industrial operations of the group are indirectly exposed to foreign exchange rate risk in case the neighbouring countries' currencies values, which are not directly linked to euro, change. These market or other changes in the value of currencies can significantly affect the short-term and long-term price competitiveness and relative profitability of the group's business units.

Russian rouble (RUB), Japanese yen (JPY) and US dollar (USD) are the most significant currencies for the group. As invoicing currency only the unit's own functional currency or generally used currencies are used. Mostly used currencies, other than the euro, used as export sales currency are the JPY, USD and British pound (GBP), which particularly affect the Group's Sawmill Business segment that do have some invoicing in Swedish crowns (SEK) as well.

At the balance sheet date 31 December 2007, the group did have altogether about one billion roubles, i.e. about EUR 27.8 million, placed in short-term rouble-denominated deposits. In addition the group has about hundred million roubles, i.e. about EUR 2.8 million, in rouble-denominated cash and cash equivalents. These financial assets in roubles represent about slightly less than nine per cent of all group cash and deposits. The Board of Directors at Ruukki Group Plc has decided that the EUR/RUB foreign exchange risk of the RUB deposits is not hedged. There are significant rouble investment and other commitments related to the planned Russian investments, in case these investments are carried out in the planned time frame and magnitude, and this has been taken into account when the decision not the hedge the rouble risk was made. Consequently, considerable foreign exchange rate differences might be realised, especially if the amount of rouble-denominated deposits would increase, even though over the long term the net effect of rouble would be partially or fully eliminated. The group's Sawmill Business segment has units that have currency bank accounts, on which there were altogether EUR 76 thousand cash at 31 Dec 2007 (31 Dec 2006: EUR 211 thousand).

The effect on 31 Dec 2007 balance sheet's currency denominated items by changes in foreign exchange rates vis-à-vis the rates used in the group balance sheet consolidation has been presented below. To the extent that the group has internally financed foreign subsidiaries with foreign currency loans these loans has, in accordance with IAS 21 standard, been presented as long-term investment into the subsidiary, and therefore the corresponding foreign exchange rate difference has been recognised as conversion difference in the group equity.

At the balance sheet of 31 December 2007 the major open foreign exchange rate risk related to currency denominated items is the risk of change in the euro value of the rouble-denominated cash and deposits, which might have considerable influence on the realised effective total return at the expiry date (interest income in currency +/- effect of the foreign exchange rate change).

In the table below the currency composition of receivables and debt, and changes thereby vis-a-vis the previous year-end, have been presented.

31 Dec 2007

| ('000) | EUR | RUB | JPY | USD |
|---|---|---|---|---|
| Trade receivables | 18,239 | | 89,369 | 337 |
| Loans and other receivables | 135,813 | 1,013,437 | | |
| Trade payables | -12,370 | -870 | | |
| Other liabilities | -71,258 | -464 | | |
| Currency derivatives | | | -89,369 | |
| **Currency exposure, net** | **70,424** | **1,012,103** | **0** | **337** |

31 Dec 2006

| ('000) | EUR | RUB | JPY | USD |
|---|---|---|---|---|
| Trade receivables | 7,070 | | 79,323 | |
| Loans and other receivables | 9,800 | | | |
| Trade payables | 6,153 | | | |
| Other liabilities | 48,517 | | | |
| Currency derivatives | | | -79,323 | |
| **Currency exposure, net** | **-37,000** | **0** | **0** | **0** |

**Sensitivity analysis, group balance sheet 31 Dec 2007**

| ('000) | RUB | JPY | USD |
|---|---|---|---|
| receivables in currency | 1,013,437 | 89,369 | 337 |
| cash in currency | 106,890 | 11,239 | 11 |
| **net assets in currency** | **1,120,328** | **100,607** | **347** |
| net assets in EUR | 31,132 | 610 | 236 |

**Sensitivity analysis compared with the actual conversion rates**

| ('000) | EUR/RUB | EUR/JPY | EUR/USD |
|---|---|---|---|
| change in currency value vs. euro | | | |
| 10 % strengthening | 32,387 | 148,437 | 1,325 |
| 5 % strengthening | 34,187 | 156,684 | 1,398 |
| 0 % no change | 35,986 | 164,930 | 1,472 |
| -5 % weakening | 37,785 | 173,177 | 1,546 |
| -10 % weakening | 39,585 | 181,423 | 1,619 |
| | | | |
| the effect of the change in currency rates compared with the actual rates | change in balance sheet value, EUR thousand | | |
| 10 % strengthening | 3,459 | 68 | 26 |
| 5 % strengthening | 1,639 | 32 | 12 |
| 0 % no change | 0 | 0 | 0 |
| -5 % weakening | -1,482 | -29 | -11 |
| -10 % weakening | -2,830 | -55 | -21 |

The group management's view is that the currency distribution at the balance sheet date does not necessarily describe the real direct or indirect foreign exchange rate risk, since the year-end situation  does not reflect the average situation during the ended or coming financial years. Furthermore in case the group business will during the coming years expand in the planned way in Russia and/or into pulp business, the foreign exchange rate risks are presumably increased by a considerable degree at least for the rouble and US dollar. Generally group's foreign exchange rate risks have increased during financial year 2007 vis-à-vis 2006, and they are expected to increase in the future.

**(ii) Interest rate risk**

The group is exposed to interest rate risk when the group companies take loans or make other financing agreements or deposits and investments related to liquidity management. Moreover, changes in interest rates can indirectly affect the conditions in which the business units operate since for example the demand for ready-to-move-in houses is dependant upon the prevailing interest rate level and customers' possibilities to get debt financing. In addition, the changes in interest rates can influence the profitability of the finalised investments or the changes can alter the market values of group assets via the IFRS impairment tests.

To manage interest rate risks group uses both fixed and floating rate debt instruments and when needed derivative instruments, like interest rate swaps. Group's objective is also to match the loan maturities with businesses' needs and to have the maturities spread over various periods whereby group's financial risks are diversified and their total amount is affected. Floating rate financing is mainly tied to 3 – 12 months euribor interest rates, the changes of which will then influence group's total financing cost and cash flows.

The short-term receivables of the group are to major extent fixed rate deposits made for predetermined periods, whose length varies. Short-term investments into money market mutual funds expose the group to interest rate risk. At the balance sheet date of 31 December 2007 these fund investments amounted to about EUR 176 million (31 Dec 2006: EUR 0 million), of which approximately 85 % have immediately after the balance sheet date been deposited for

3 – 12 months into fixed term deposit with fixed interest rates.

Group revenue and operative cash flows are mainly independent of the changes in market interest rates.

The group can borrow money either with fixed or floating interest rates. Most of groups interest-bearing debt are based on floating interest rates. The interest rate risk has partially been hedged by interest rate swaps, whose nominal value totalled EUR 5.2 million at 31 December 2007 (31 Dec 2006: EUR 0.0 million). In the table next page the rough effect on group's income statement by changes in market interest rates have been presented in case the deposits' and loans' interest rates would change. The changes in interest rates have been taken into account in floating rate items. The sensitivity analysis below is illustrative in nature and primarily takes into account the coming twelve months period, if those periods' balance sheet structure would be equal to that of 31 December 2007. Therefore, the analysis is primarily applicable to assessing the variation in the financial year 2008 interest income and expenses. Especially due to the shares issues carried out during summer 2007 the group's liquid financial assets have considerably increased, which has influenced the significant increase in interest income during the second half of 2007. Moreover, any potential acquisition or investment can alter group's capital structure to a major extent.

**Sensitivity analysis**

**Main assumptions:**

- Deposit interests (for new deposits) change equally to loan interest rates when market interest rates are changed, in other words both are based on market rates; the interest rates on fixed-rate deposits and loans are however unchanged, as well the de facto fixed rates via interest rate swap agreements

The split of interest-bearing debt receivables and debt into fixed rate and floating rate instruments were the following on balance sheet dates 31 December 2007 and 31 December 2006:

**Interest rate profile of interest bearing financial instruments**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Fixed rate instruments | | |
| Financial assets | 131,623 | 6,793 |
| Financial liabilities | -4,475 | -2,465 |
| **Fixed rate instruments, net** | **127,148** | **4,328** |
| Variable rate instruments | | |
| Financial assets | 1,865 | 168 |
| Financial liabilities | -35,474 | -11,121 |
| **Variable rate instruments, net** | **-33,609** | **-10,952** |
| **Interest bearing net debt** | **93,540** | **-6,624** |
| (+ = net receivable; - = net debt) | | |

- Group's deposits and loans are, as measured in EUR, constant for the whole year based on 31 Dec 2007 prevailing situation
- The interest rates in deposits and loans denominated in various currencies will change fully in parallel with each other
- All companies, and their deposits and loans constant as of 31 Dec 2007 situation, and assumed to be taken into account for full 12 months
- The effect of interest rate change on cash not taken into account
- The average maturity of deposits expected to be 6 months, the change in interest rates will be for the full year on loans' interest expenses and for the half of the year for the deposits interest income; in reality the changes in loans' euribor base rates not realising in the beginning of the year

In a separate section covering the impairment testing there is a sensitivity analysis about the changes in impairment tests' values due to changes in interest rates used in the calculations. One component affecting the used weighted average cost of capital is the market interest rate and changes in it. Any changes in the impairment tests' outcome can changes group's financial result and assets value in the group balance sheet.

**Effect of changes in interest rate on interest expense and income**

**Group balance sheet 31 Dec 2007**

| average change in average rate of 2007 compared with the interest rates on 31 Dec 2007 percentage points, % p.a. | change in interest income full year | change in interest expense full year | net effect full year |
|---|---|---|---|
| -1.00 % | -968,299 | 233,861 | -734,438 |
| -0.75 % | -726,224 | 175,396 | -550,828 |
| -0.50 % | -484,149 | 116,931 | -367,129 |
| -0.25 % | -242,075 | 58,465 | -183,609 |
| 0.00 % | 0 | 0 | 0 |
| 0.25 % | 242,075 | -58,465 | 183,609 |
| 0.50 % | 484,149 | -116,931 | 367,129 |
| 0.75 % | 726,224 | -175,396 | 550,828 |
| 1.00 % | 968,299 | -233,861 | 734,438 |

**(iii) Credit risk**

Credit risk can be realised in case the counterparties in commercial, financial or other agreements cannot take care of its obligations, which therefore would cause financial damage to the group. The group's operational policies define the creditworthiness requirements for customers and for counterparties in financial and derivate transactions, as well as the principles followed when investing liquidity. In all the major sales agreements, the counterparty's creditworthiness information is checked.

The House Building segment of the group gets prepayments from its customers in accordance with the completion rate of the houses, which clearly diminishes potential credit risks.

In the Furniture Business segment there is a substantial dependence on one customer. The segment has been doing business with that customer for many years, but there is no certainty that in all circumstances the business operations will in future be at the same level. According to the view of the group no credit risk is attached with this customer concentration risk, but potential loss of the customer or fall in business volume with the customer could cause significant financial harm in short and long term.

The Sawmill Business segment has two major market segment concentrations: on the one hand the domestic house building industry and on the other hand the Japanese export market. Changes in demand in these market areas can considerably affect segment's profitability, if no other customers from other segments cannot be find to replace the lost sales. The pallet business belonging to the Sawmill Business segment has sizable dependence on few major customers, but written delivery agreements covering the period up until 2011 essentially decrease the risk. In the export operations, the Sawmill Business segment has covered the credit risk with credit insurance.

The group does not have any other substantial concentrations of credit risk, since there are many customers, which moreover are geographically widely spread across various locations. In addition, the group sell with credit only to those companies that have good creditworthiness. Group's Care Services business segment gets its revenue mostly from Finnish municipalities.

During the financial year credit losses booked through the income statement were not significant. The maximum credit risk is equal to the balance sheet value of the receivables as of 31 December 2007.

**(iv) Liquidity risk**

The group constantly assesses and monitors the investment and working capital needs and financing thereby so that the group has enough liquidity to serve and finance the operations and to pay back loans. The availability and flexibility of financing are targeted to be guaranteed by using multiple financial institutions in the financing and financial instruments and to agree on financial limit arrangements. Cash flow forecasts on both incoming and outgoing cash flows are taken into account when group's companies make decisions on liquidity management and investments as well as when they plan short-term and long-term financing needs.

If liquidity risks would be realised, it would probably cause overdue interest expenses and possibly would make the co-operation with goods and services suppliers more difficult. Consequently, the pricing and other terms for input goods and services and for financing, could be affected.

Maturities of financial liabilities, including interest payments

31 Dec 2007

| EUR '000 | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Secured bank loans | 31,931 | -36,976 | -8,059 | -3,030 | -4,649 | -10,363 | -10,875 |
| Unsecured bank loans | 1,553 | -1,984 | -68 | -39 | -1,138 | -739 | 0 |
| Convertible loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance lease liabilities | 3,321 | -3,321 | -410 | -410 | -626 | -1,877 | 0 |
| Trade and other payables | 42,454 | -42,713 | -38,788 | -1,552 | -922 | -741 | -710 |
| Bank overdraft | 3,704 | -4,799 | -130 | -107 | -214 | -643 | -3,704 |
| **Derivatives** | | | | | | | |
| Currency derivatives | | | | | | | |
| Outflow | -839 | -4,055 | -4,055 | | | | |
| Inflow | 4 | 849 | 489 | | | | |
| Interest rate swaps | 161 | 161 | 17 | 36 | 72 | 36 | |
| **Total** | **82,291** | **-92,839** | **-50,644** | **-5,102** | **-7,477** | **-14,327** | **-15,289** |

31 Dec 2006

| EUR '000 | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Secured bank loans | 9,145 | -10,954 | -1,853 | -1,349 | -3,060 | -4,029 | -662 |
| Unsecured bank loans | 51 | -56 | 0 | 0 | -56 | 0 | 0 |
| Convertible loans | 1,585 | -1,768 | -1,768 | 0 | 0 | 0 | 0 |
| Finance lease liabilities | 130 | -155 | -33 | -30 | -48 | -44 | 0 |
| Trade and other payables | 43,709 | -44,635 | -38,928 | -1,384 | -1,941 | -2,045 | -339 |
| Bank overdraft | 50 | -50 | -50 | 0 | 0 | 0 | 0 |
| **Derivatives** | | | | | | | |
| Currency derivatives | | | | | | | |
| Outflow | -13,462 | -12,329 | -12,329 | 0 | 0 | 0 | 0 |
| Inflow | 10,792 | 9,589 | 9,589 | 0 | 0 | 0 | 0 |
| Interest rate swaps | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **52,000** | **-60,358** | **-45,370** | **-2,763** | **-5,106** | **-6,117** | **-1,002** |

**Risks related to input material prices and availability**

The group is exposed to price risks on various input materials and commodities.

The price risks on input materials and commodities are managed by pricing policies so that changes in input materials and commodities could be moved into sales prices. This however is not always possible, or there might be delays due to contractual or competitive reasons. Presumably the group's Furniture Business segment will in the future tie the development of its sales prices tighter than previously into the main raw materials' cost development.

The group units having industrial production operations are exposed to the availability, quality and price fluctuations in raw materials and commodities. To diminish these risks group business units make to major extent long-term agreements with known counterparties. Moreover, group's Sawmill Business segment has during financial year 2007 increased the own procurement of logs. Mostly it is not possible or economically feasible to hedge commodity price risks with derivative contracts, so the group do not have any commodity derivate contracts in place as of 31 December 2007.

In 2008, taken into account the acquisition of Junnikkala Oy in January 2008, group's usage of coniferous logs as a raw material is expected to be about 800,000 cubic meters a year. Then an average cost increase of EUR 1 per cubic meter in the mill price of coniferous logs would decrease the group's EBIT about EUR 800 thousand assuming that sales prices and other costs would be unchanged. The group's Sawmill Business segment's target sales volume for 2008 is approximately 400,000 cubic meters of coniferous sawnwood. Then an average fall of EUR 1 per cubic meter for the ex works sales price would decrease group's EBIT by EUR 400 thousand assuming that costs would be unchanged. In practice the changes in purchase and sales prices go to the same direction, even though the correlation is not perfect and even though there might be differences in the timing of the changes. Furthermore, Ruukki Group's Furniture Business and House Building segments use a lot of processed wood, which would presumably partly eliminate the previously mentioned simulated EBIT changes in the Sawmill Business segment.

The availability and cost level of employees affect all the group's companies operations. In the wood-based businesses the relative share of personnel costs is clearly lower than in employee-intensive Care Services segment, in which the agreed and potentially coming salary increases can significantly affect the profitability.

During the financial year 2007 group's realised personnel expenses totalled EUR 32,037 thousand. If during 2008 the group's personnel expenses would on average be one per cent higher than in 2007, would this one per cent average increase lead to about EUR 3,200 thousand decrease in the group EBIT. This is based on the assumption that the amount and productivity of personnel would be constant and that the increased costs would not have any effect on sales prices.

# FINANCIAL INDICATORS

| | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Revenue, EUR '000 | 213,910 | 125,459 | 91,936 | 71,705 |
| Operating profit / loss, EUR '000 | 15,674 | 13,048 | 9,340 | 5,603 |
| % of revenue | 7.3 % | 10.4 % | 10.2 % | 7.8 % |
| Profit / loss before taxes, EUR '000 | 19,158 | 12,156 | 8,465 | 3,985 |
| % of revenue | 9.0 % | 9.7 % | 9.2 % | 5.6 % |
| Return on equity, % | 5.8 % | 19.1 % | 29.9 % | 19.9 % |
| Return on investment, % | 8.8 % | 17.7 % | 25.4 % | 21.2 % |
| Equity ratio, % | 85.1 % | 60.1 % | 32.9 % | 20.0 % |
| Gross capital expenditure, EUR '000 | 34,442 | 14,330 | 5,696 | 15,919 |
| % of revenue | 16.1 % | 11.4 % | 6.2 % | 22.2 % |
| Personnel, average | 866 | 570 | 387 | 319 |
| Earnings per share, basic, EUR | 0.06 | 0.07 | 0.07 | 0.03 |
| Earnings per share, diluted, EUR | 0.06 | 0.06 | 0.05 | 0.02 |
| Equity per share, EUR | 1.42 | 0.42 | 0.26 | 0.16 |
| Dividends, EUR '000 | | 4,079 | 3,148 | 0 |
| Dividend per share, EUR | | 0.03 | 0.02 | 0.00 |
| Dividend per earnings, % | | 41.9 % | 34.7 % | 0.0 % |
| Effective dividend yield, % | | 2.5 % | 3.7 % | 0.0 % |
| Price to earnings | 48.6 | 16.8 | 9.4 | 15.7 |
| Highest share price, EUR | 3.59 | 1.23 | 0.70 | 0.50 |
| Lowest share price, EUR | 1.18 | 0.64 | 0.30 | 0.30 |
| Average share price, EUR | 2.40 | 0.84 | 0.54 | 0.41 |
| Market capitalisation, EUR '000 | 817,896 | 163,156 | 54,370 | 32,712 |
| Turnover, EUR '000 | 623,228 | 84,819 | 24,709 | 8,605 |
| Turnover, % | 89.7 % | 86.0 % | 53.7 % | 25.7 % |
| Average number of shares, (1 000) | 217,889 | 118,052 | 83,188 | 80,317 |
| Average number of shares, diluted, (1 000) | 221,432 | 135,996 | 106,468 | 84,939 |
| Number of shares at the end of the period (1 000) | 290,034 | 135,964 | 93,301 | 81,781 |

**Formulae for calculation of indicators**

| | |
|---|---|
| Return on equity | Net profit / Total equity (average for the period) * 100 |
| Return on capital employed | Profit before taxes + financing expenses / (balance sheet total - non-interest bearing liabilities) average * 100 |
| Equity ratio | Total equity / balance sheet - prepayments received * 100 |
| Earnings per share (basic) | Profit attributable to shareholders of the parent company / Average number of shares during the period |
| Earnings per share (diluted) | Profit attributable to shareholders of the parent company / Average number of shares during the period, diluted |
| Equity per share | Shareholders' equity / Average number of shares during the period |
| Dividend per share | Dividends / Number of shares at the end of the period |
| Dividend per earnings | Dividend per share / Earnings per share * 100 |
| Effective dividend yield | Dividend per share / Share price at the end of the period |
| Price to earnings | Share price at the end of the period / Earnings per share |
| Average share price | Total value of shares traded in euro / Number of shares traded during the period |
| Market capitalisation | Number of shares * Share price at the end of the period |
| Operating profit | Operating profit is the net of revenue plus other operating income, minus cost of goods sold adjusted with finished goods inventory change, minus employee benefits expense, minus depreciation, amortisation and impairment and minus other operating expense. Foreign exchange gains or losses are included in operating profit when generated from ordinary activities. Exchange gains or losses related to financing activities are recognised as financial income or expense. |

# PARENT COMPANY'S FINANCIAL STATEMENTS

# PARENT COMPANY'S INCOME STATEMENT (FAS)

| EUR '000 | Note | 1 Jan 2007 - 31 Dec 2007 | 1 Jan 2006 - 31 Dec 2006 |
|---|---|---|---|
| **Revenue** | P1 | **567** | **298** |
| Other operating income | P2 | 37 | 4,978 |
| Materials and services | | | |
| Goods,materials and supplies | | | |
| Purchases of the period | | -158 | -110 |
| Goods, materials and supplies total | | -158 | -110 |
| Materials and services total | | -158 | -110 |
| Personnel expenses | | | |
| Salaries and wages | | -1,015 | -391 |
| Social security expenses | | | |
| Pension expenses | | -178 | -58 |
| Other social security expenses | | -52 | -29 |
| Social security expenses total | | -231 | -87 |
| Personnel expenses total | | -1,246 | -479 |
| Depreciation, amortisation and impairment | P3 | | |
| Depreciation and amortisation according to plan | | -54 | -26 |
| Impairment of non-current assets | | -1,193 | -2,919 |
| Depreciation, amortisation and impairment total | | -1,247 | -2,945 |
| Other operating expenses | | -10,505 | -2,049 |
| **Operating profit (loss)** | | **-12,553** | **-306** |
| Financial income and expenses | P4 | | |
| Income from group companies | | | |
| Dividends from subsidiaries | | 10,622 | 858 |
| Dividends from associates | | 1,433 | 84 |
| Other financial income | | 0 | 0 |
| From group companies | | 974 | 271 |
| From others | | 5,725 | 410 |
| Interests and other financial expenses | | 0 | 0 |
| To group companies | | -1 | -6 |
| To others | | -1,126 | -482 |
| Interest and other finacial expenses total | | 17,628 | 1,135 |
| **Profit (loss) before extraordinary items** | | **5,075** | **829** |
| Extraordinary items | P5 | | |
| Extraordinary income | | 5,600 | 0 |
| Extraordinary items total | | 5,600 | 0 |
| **Profit before taxes** | | **10,675** | **829** |
| Income taxes | P6 | | |
| Income taxes | | -185 | -329 |
| **Net profit** | | **10,490** | **500** |

# PARENT COMPANY'S BALANCE SHEET (FAS)

| EUR '000 | Note | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | P7 | | |
| Intangible rights | | 111 | 5 |
| Total intangible assets | | 111 | 5 |
| Property, plant and equipment | | | |
| Machinery and equipment | P7 | 90 | 95 |
| Other tangible assets | P7 | 2 | 2 |
| Total property, plant and equipment | | 92 | 97 |
| Investments | P8 | | |
| Shares in group companies | | 38,541 | 29,941 |
| Investments in associates | | 1,280 | 4,781 |
| Receivables from group companies | | 2,701 | 1,947 |
| Receivables from associated companies | | 50 | 50 |
| Other receivables | | 0 | 0 |
| Total investments | | 42,571 | 36,719 |
| **Total non-current assets** | | **42,775** | **36,821** |
| Receivables | P9 | | |
| Non-current receivables | | | |
| Receivables from group companies | | 56,727 | 15,750 |
| Other interest-bearing receivables | | 1,380 | 0 |
| Total non-current receivables | | 58,107 | 15,750 |
| Current receivables | | | |
| Trade receivables | | 0 | 74 |
| Receivables from group companies | | 3,799 | 552 |
| Receivables from associated companies | | 0 | 21 |
| Other interest-bearing receivables | | 1,509 | 6,812 |
| Other non interest-bearing receivables | | 749 | 596 |
| Prepaid expenses and accrued income | | 4,182 | 1,460 |
| Total current receivables | | 10,239 | 9,516 |
| Financial assets | | | |
| Other financial assets | | 275,056 | 0 |
| Total financial assets | | 275,056 | 0 |
| Cash and cash equivalents | | 28,384 | 3,493 |
| **Total current assets** | | **371,787** | **28,759** |
| **Total assets** | | **414,561** | **65,580** |

| EUR '000 | Note | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Shareholders' equity** | P10 | | |
| Share capital | | 23,642 | 23,018 |
| Share issue | | 25,223 | 24,195 |
| Paid-up unrestricted equity reserve | | 345,309 | 424 |
| Retained earnings | | 2,133 | 5,712 |
| Profit for the period | | 10,490 | 500 |
| Total shareholders' equity | | 406,797 | 53,848 |
| **Liabilities** | P11 | | |
| Non-current liabilities | | | |
| Convertible bonds | | 0 | 9 |
| Loans from financial institutions | | 4,005 | 1,235 |
| Loans from group companies | | 0 | 28 |
| Loans from associated companies | | 5 | 5 |
| Total non-current liabilities | | 4,010 | 1,278 |
| Current liabilities | | | |
| Convertible bonds | | 0 | 1,643 |
| Loans from financial institutions | | 1,280 | 380 |
| Loans from group companies | | 0 | 5 |
| Trade payables | | 379 | 160 |
| Payables to group companies | | 7 | 1 |
| Other debt | | 692 | 7,937 |
| Accrued expenses and deferred income | | 1,397 | 328 |
| Total current liabilities | | 3,754 | 10,454 |
| Total liabilities | | 7,764 | 11,732 |
| **Total equity and liabilities** | | **414,561** | **65,580** |

# CASH FLOW STATEMENT (FAS)

| EUR '000 | 1 Jan - 31 Dec 2007 | 1 Jan - 31 Dec 2006 |
|---|---|---|
| CASH FLOW USED IN OPERATING ACTIVITIES | | |
| Profit for the period | 10,490 | 500 |
| Adjustments: | | |
| Depreciation and amortisation | 54 | 26 |
| Capital gains and losses from investments | -11 | -4,961 |
| Impairment | 1,193 | 2,919 |
| Financial revenue and expense excluding impairment | -17,628 | -1,135 |
| Group contributions | -5,600 | 0 |
| Income taxes | 185 | 681 |
| Other adjustments | 1 | 0 |
| Cash flow before change in working capital | -11,315 | -1,970 |
| Change in working capital: | | |
| Change in current trade receivables | -2,388 | -2,107 |
| Change in current non interest-bearing receivables | 1,072 | 1,254 |
| Interests paid and other financing items | 0 | -2 |
| Income taxes paid | -102 | -3,477 |
| Cash flow used in operating activities | -12,734 | -6,302 |
| CASH FLOW USED IN INVESTING ACTIVITIES | | |
| Capital expenditure on non-current assets | -156 | -11 |
| Disposals of non-current assets | 0 | 0 |
| Investments in other investments | -5,772 | -9,702 |
| Payments for earn-out liabilities | -7,070 | -5,793 |
| Disposals of other investments | 7,154 | 4,183 |
| Interests paid on investments | 0 | -6 |
| Dividends received | 12,055 | 942 |
| Cash flow used in investing activities | 6,212 | -10,387 |

| EUR '000 | 1 Jan - 31 Dec 2007 | 1 Jan - 31 Dec 2006 |
|---|---|---|
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from share issue | 343,850 | 21,600 |
| Proceeds from borrowings | 4,500 | 1,900 |
| Repayments of borrowings | -830 | -285 |
| Repayments of non-current loans to group companies | -33 | 0 |
| Current loans to group companies | 0 | -1,625 |
| Repayments of current borrowings from group companies | 0 | 1,625 |
| Non-current loans to group companies | -41,601 | -8,650 |
| Repayments of non-current loans | 138 | 0 |
| Non-current loans to others | -1,380 | 0 |
| Current deposits | -103,478 | 0 |
| Investments in money market mutual funds | -173,056 | 0 |
| Dividends paid | -4,077 | -3,146 |
| Group contributions received | 3,100 | 0 |
| Interests received and income from money market investments | 4,667 | 325 |
| Interests paid | -386 | -553 |
| Cash flow from financing activities | 31,412 | 11,191 |
| CHANGE IN CASH AND CASH EQUIVALENTS | 24,890 | -5,497 |
| Cash at the beginning of the period | 3,493 | 8,991 |
| Cash at the end of the period | 28,384 | 3,493 |
| Change in the balance sheet | 24,890 | -5,497 |

## NOTES TO THE FINANCIAL STATEMENTS OF PARENT COMPANY

### Scope of financial statements and accounting principles

The parent company has prepared its separate financial statements in accordance with Finnish Accounting Standards. Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Consolidated financial statements are presented separately as a part of these financial statements.

Information on holdings in subsidiaries and associates and information on their consolidation is presented in notes to the financial statements.

### Valuation principles and methods

Investments in associates and debt instruments are valued at acquisition cost, less eventual impairment. Dividends received from group companies and associates have been recorded as financial income.

The balance sheet value of property, plant and equipment is stated at acquisition cost, less accumulated depreciation. Other assets have been stated at acquisition cost.

### Depreciation methods

Acquisition costs of property, plant and equipment are depreciated over their useful lives according to plan. Depreciation plans have been defined based on practice and experience.

| Asset | Depreciation method/ period |
|---|---|
| Intangible rights | 5 years |
| IT equipment | 2 years |
| Machinery and equipment | 5 years |
| Other machinery and equipment | 5 years |
| Vehicles | 6 years |

In the depreciation of IT equipment and other machinery and equipment the company has moved from declining balance depreciation method to straight-line depreciation method since with the straight-line depreciation method the depreciation corresponds better to the useful life and value of the assets.

### Translations of foreign currency items

Transactions in foreign currencies are recorded at the rates of the transaction date. At the end of the accounting period the company has no material assets or liabilities in foreign currencies. Generally, the significance of foreign currencies for the company is minor.

### Comparability of the reported financial year and the previous year

Financial year reported and previous year have both been calendar years and are thus comparable.

The financial structure of the company has changed significantly in 2006 and 2007 due to equity and debt financing transactions carried out in order to strengthen the company's financial position. By share issue carried out in March 2006, the company raised capital for approximately EUR 21.6 million. In October 2006 the extraordinary shareholders' meeting of the company decided to establish a new equity fund, i.e. paid-up unrestricted equity reserve in accordance with renewed Companies Act. By share issues carried out in June-July 2007, the company raised approximately EUR 343.8 million in equity. The company's financial structure has significantly strenghtened due to these transactions. As a result of the summer 2007 share issues, the company's financial income has distinctly increased during the latter half of 2007.

In 2006, the company has recognised significant one-off impairment losses on holdings in subsidiaries and associates, mainly related to furniture business. Impairment is presented in income statement above operating profit, which meets the presentation in group financial statements. In 2007, the company has recognised some impairment losses on holdings in subsidiaries based on expected returns.

The development company status may require various ownership and financial arrangements, which may have significant non-recurring or recurring effects on company's income statement, balance sheet and financial position, which makes comparison of financial statements and estimating future more difficult.

**Earn-out liabilities associated with business acquisitions**

On 31 December 2007, the company did not have contingencies on which the company would be obliged to pay earn-out liabilities from the companies it holds.

**Summary of acquisitions and divestments carried out in 2007**

Group companies:

- Increase of ownership in Incap Furniture Oy, when taking into account the effect of the company's subsidiary Hirviset Group Oy; through transactions carried out in 2/2007 (47.3 % => 70.3 %) and later as a result of the transactions carried out by Incap Furniture (70.3 % => 71.0 %)
- Increase of ownership in Oplax Oy 3/2007 (24.53 % => 100 %)
- Increase of ownership in Alumni Oy 9/2007 (69.44 % => 100 %)

Associates:

- Valtimo Components Oyj's share issue 1/2007 and partial disposal 3/2007 (39.2 % => 24.9 %)

## NOTES TO INCOME STATEMENT

### P1. Revenue

**By business line**

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Wood components | 183 | 78 |
| Services | 297 | 168 |
| Other revenue | 87 | 52 |
| Total | 567 | 298 |

**By geography**

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Finland | 384 | 220 |
| EU countries | 183 | 78 |
| Total | 567 | 298 |

### P2. Other operating income

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Gain on disposal of subsidiary shares | 0 | 266 |
| Gain on disposal of associated companies shares | 16 | 4,695 |
| Rental income | 21 | 17 |
| Total | 37 | 4,978 |

## P3. Depreciation, amortisation and impairment

### Depreciation and amortisation according to plan

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Intangible rights | -12 | -2 |
| Machinery and equipment | -42 | -25 |
| Total | -54 | -26 |

### Impairment on investments

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Impairment on holdings in subsidiaries | -627 | -1,492 |
| Impairment on loans to group companies | -565 | 0 |
| Impairment on holdings in associates | 0 | -1,345 |
| Impairment on loan receivables from associates | 0 | -1 |
| Impairment on loan receivables from others | 0 | -80 |
| **Total** | **-1,193** | **-2,919** |

Impairment has been presented above operating profit, which meets the presentation of share of associates' earnings. The basis of valuation for the aforementioned impairment has been, in addition to other criteria, to record the parent company's balance sheet values according to IFRS valuation principles.

## P4. Financial income and expense

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Dividends from group companies | 10,622 | 858 |
| Dividends from associated companies | 1,433 | 84 |
| Other financial income | 0 | 0 |
| From group companies | 974 | 271 |
| From others | 5,725 | 410 |
| Other financial expense | 0 | 0 |
| To group companies | -1 | -6 |
| To others | -1,126 | -482 |
| **Total** | **17,628** | **1,135** |

## P5. Extraordinary items

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Group contributions | 5,600 | 0 |
| **Total** | **5,600** | **0** |

## P6. Income taxes

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Profit for the period | 10,490 | 500 |
| Adjustments for tax calculation | -9,983 | 2,119 |
| Taxable income | 507 | 2,619 |
| Tax advances paid | 10,490 | 500 |
| Tax deferral based on taxable income | 1,899 | 1,350 |
| Income tax of the period | -132 | -681 |
| Taxes of previous years | | |
| Returned taxes from previous year | | 352 |
| Additional taxes from previous years | -53 | |
| Net income taxes | -185 | -329 |
| Tax receivable 31 Dec | 1,899 | 1,350 |
| Tax liability 31 Dec | 0 | 0 |

## NOTES TO ASSETS

### P7. Property, plant and equipment

| EUR ‘000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| **Intangible rights** | | |
| Acquisition cost Jan 1 | 35 | 33 |
| Additions | 118 | 2 |
| Disposals | 0 | 0 |
| Acquisition cost Dec 31 | 154 | 35 |
| Accumulated depreciation Jan 1 | 31 | 29 |
| Depreciation for the period | 12 | 1 |
| Accumulated depreciation Dec 31 | 42 | 31 |
| Book value Dec 31 | 111 | 5 |
| **Machinery and equipment** | | |
| Acquisition cost Jan 1 | 170 | 167 |
| Additions | 37 | 3 |
| Disposals | 0 | 0 |
| Acquisition cost Dec 31 | 208 | 170 |
| Accumulated depreciation Jan 1 | 75 | 55 |
| Depreciation for the period | 42 | 20 |
| Accumulated depreciation Dec 31 | 118 | 75 |
| Book value Dec 31 | 90 | 95 |
| **Other tangible assets** | | |
| Book value Jan 1 | 2 | 2 |
| Book value Dec 31 | 2 | 2 |

**P8. Investments**

| EUR ‘000 | Shares in group companies | Shares in associated companies | Receivables from group companies | Receivables from associated companies | Other receivables | Total |
|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan 2007 | 32,000 | 9,560 | 1,947 | 169 | 80 | 66,027 |
| Additions | 5,729 | 42 | 33 | | | 11,492 |
| Disposals | | -46 | | | | |
| Transfers between categories | 3,497 | -3,497 | 1,286 | | | 8,281 |
| Acquisition cost 31 Dec 2007 | 41,226 | 6,059 | 3,266 | 169 | 80 | 85,800 |
| Accumulated depreciation and impairment 1 Jan 2007 | -2,058 | -4,779 | 0 | -120 | -80 | -4,197 |
| Disposals | | | | | | 0 |
| Depreciation for the period | | | | | | 0 |
| Impairment | -627 | | -565 | | | -1,820 |
| Accumulated depreciation and impairment 31 Dec 2007 | -2,686 | -4,779 | -565 | -120 | -80 | -6,017 |
| Revaluations | | | | | | |
| **Book value 31 Dec 2007** | **38,541** | **1,280** | **2,701** | **50** | **0** | 79,783 |

## Holdings in other companies

### Subsidiaries

| Company name and domicile | Group ownership 31 Dec 2007 (%) | Parent company's direct ownership 31 Dec 2007 (%) | Joined the group | Accounting period | Movements in parent company's holding in 2007 |
|---|---|---|---|---|---|
| **Mikeva Oy, Oulunsalo** | **100.0** | **100.0** | **1 Jul 2003** | **1 Jan-31 Dec 2007** | |
| Mikon Kuntoutuskodit Oy, Parkano | 100.0 | 0.0 | 30 Sep 2005 | 1 Jan-31 Dec 2007 | |
| Terveyspalvelut Mendis Oy, Seinäjoki | 100.0 | 0.0 | 1 Sep 2006 | 1 Jan-31 Dec 2007 | |
| Mendis Palvelukodit Oy, Seinäjoki | 100.0 | 0.0 | 1 Sep 2006 | 1 Jan-31 Dec 2007 | |
| **Ruukki Yhtiöt Oy, Espoo** | **100.0** | **100.0** | **1 Jul 2003** | **1 Jan-31 Dec 2007** | |
| Ruukki Wood Oy, Espoo | 100.0 | 0.0 | 1 Jul 2003 | 1 Jan-31 Dec 2007 | |
| Woodproc Finland Oy, Siikajoki | 100.0 | 0.0 | 1 Jul 2003 | 1 Jan-31 Dec 2007 | |
| Ruukki Components Oy, Siikajoki | 100.0 | 0.0 | 1 Jul 2003 | 1 Jan-31 Dec 2007 | |
| Ruukki Invest Oy, Espoo | 100.0 | 0.0 | 1 Jul 2003 | 1 Jan-31 Dec 2007 | |
| Ruukki Harvest Oy, Espoo | 100.0 | 0.0 | 17 Oct 2007 | 1 Jan-31 Dec 2007 | |
| Ruukki Sawmill Oy, Espoo | 100.0 | 0.0 | 17 Oct 2007 | 1 Jan-31 Dec 2007 | |
| Utawood Oy, Utajärvi | 100.0 | 0.0 | 1 Jul 2003 | 1 Jan-31 Dec 2007 | RY: 67.7 % -> 100 % |
| OOO Ruukki Invest Oy Kostroma, Kostroma (Russia) | 100.0 | 0.0 | 30 Sep 2006 | 1 Jan-31 Dec 2007 | |
| OOO Ruukki Harvest, Kostroma (Russia) | 100.0 | 0.0 | 31 Oct 2007 | 1 Jan-31 Dec 2007 | established in 2007 |
| OOO Ruukki Lesopilnyj Zavod, Kostroma (Russia) | 100.0 | 0.0 | 31 Oct 2007 | 1 Jan-31 Dec 2007 | established in 2007 |
| Lappipaneli Oy, Kuusamo | 100.0 | 0.0 | 31 Dec 2003 | 1 Jan-31 Dec 2007 | |
| Airisniemen Energia Oy, Kuusamo | 100.0 | 0.0 | 31 Dec 2003 | 1 Jan-31 Dec 2007 | |
| Laptimber Oy, Kuusamo | 100.0 | 0.0 | 31 Dec 2003 | 1 Jan-31 Dec 2007 | |
| Tervolan Saha ja Höyläämö Oy, Keminmaa | 91.4 | 0.0 | 31 Dec 2003 | 31 Jan-31 Dec 2007 | |
| VK Timber Oy, Kittilä | 91.4 | 0.0 | 31 Dec 2003 | 1 Jan-31 Dec 2007 | |
| **Oplax Oy, Oulu** | **100.0** | **100.0** | **15 Feb 2007** | **1 Jan-31 Dec 2007** | |
| **Alumni Oy, Nastola** | **100.0** | **100.0** | **1 Aug 2003** | **1 Jan-31 Dec 2007** | **RG Plc: 69.44 % -> 100 %** |
| Pan-oston Oy, Nastola | 100.0 | 0.0 | 1 Aug 2003 | 1 Jan-31 Dec 2007 | |
| Selka-Line Oy, Nastola | 100.0 | 0.0 | 30 Jun 2004 | 1 Jan-31 Dec 2007 | |
| **Pohjolan Design-Talo Oy, Oulunsalo** | **90.1** | **90.1** | **1 Jan 2004** | **1 Jan-31 Dec 2007** | |
| Nivaelement Oy, Nivala | 90.1 | 0.0 | 1 Dec 2006 | 1 Jan-31 Dec 2007 | |
| RG Design-Talotekniikka Oy, Ii | 63.2 | 0.0 | 1 Jul 2007 | 1 Jan-31 Dec 2007 | P D-T: 0 % -> 63.2 % |
| **Balansor Oy, Espoo** | **100.0** | **100.0** | **1 Nov 2003** | **1 Jan-31 Dec 2007** | |
| MobileCRM Oy, Espoo | 100.0 | 0.0 | 1 Nov 2003 | 1 Jan-31 Dec 2007 | |
| **Rekylator Oy , Helsinki** | **100.0** | **100.0** | **1 Jul 2003** | **1 Jan-31 Dec 2007** | |
| **Hoivaala Oy, Somero** | **100.0** | **100.0** | **31 Jan 2004** | **1 Jan-31 Dec 2007** | |
| **Hirviset Group Oy, Espoo** | **100.0** | **100.0** | **1 May 2006** | **1 Jan-31 Dec 2007** | |
| Incap Furniture Oy, Oulu | 71.0 | 11.3 | 28 Feb 2007 | 1 Jan-31 Dec 2007 | RG Plc/HG: 47.3 %-> 71.0 % |
| Incap Furniture Trading Oy, Hollola | 71.0 | 0.0 | 28 Feb 2007 | 1 Jan-31 Dec 2007 | RG Plc/HG: 47.3 %-> 71.0 % |
| Kiinteistö Oy Jokilaaksojen Kiinteistöt, Kärsämäki | 71.0 | 0.0 | 28 Feb 2007 | 1 Jan-31 Dec 2007 | RG Plc/HG: 47.3 %-> 71.0 % |
| Incap Furniture Inc., United States | 71.0 | 0.0 | 28 Feb 2007 | 1 Jan-31 Dec 2007 | RG Plc/HG: 47.3 %-> 71.0 % |
| OOO Incap Furniture, Russia | 71.0 | 0.0 | 28 Feb 2007 | 1 Jan-31 Dec 2007 | RG Plc/HG: 47.3 %-> 71.0 % |

### Associates

| | Ownership (%) | Book value, parent company | Closing date | | Equity * 31 Dec 2007 | Net profit 1 Jan - 31 Dec 2007 |
|---|---|---|---|---|---|---|
| Stellatum Oy, Helsinki | 34.0 | 238 | 31 Dec 2007 | | 62 | 65 |
| Valtimo Components Oyj, Valtimo | 24.9 | 96 | 30 Sep 2007 (9 months) | | -570 | -274 |
| Oy Cybersoft Ab, Tampere | 37.5 | 88 | 31 Oct 2007 | ** | 350 | 29 |
| Arc Technology Oy, Helsinki | 37.4 | 312 | 30 Nov 2007 (11 months) | | 320 | 206 |
| Widian Oy, Espoo | 39.6 | 71 | 30 Nov 2007 (11 months) | | -576 | -349 |
| ILP-Group Ltd Oy | 33.4 | 473 | 30 Sep 2007 (9 months) | | 1,934 | 549 |
| Orienteq Capital Oy | 30.0 | 3 | 31 Dec 2007 | | 8 | 31 |
| LoopM Oy, Helsinki | 28.4 | 0 | | | | |
| Lanux Oy, Helsinki | 47.0 | 0 | | | | |
| SG Systems Oy, Helsinki | 35.0 | 0 | | | | |
| Sportslink Group Oy, Helsinki | 25.0 | 0 | | | | |
| Total | | 1,280 | | | | |

* Equity excluding subordinated loans

** Oy Cybersoft Ab's accounting period ends on 31 October

## P9. Receivables

### Receivables from group companies

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Non-current | | |
| Trade receivables | 61 | 61 |
| Loan and other receivables | 55,160 | 14,704 |
| Accrued income | 1,506 | 985 |
| Total | 56,727 | 15,750 |
| Current | | |
| Trade receivables | 615 | 245 |
| Accrued income | 3,184 | 307 |
| Total | 3,799 | 552 |

### Other interest-bearing receivables

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Non-current | | |
| Other receivables | 1,380 | 0 |
| Total | 1,380 | 0 |
| Current | | |
| Rental deposits | 31 | 19 |
| Receivable from disposal of associated company shares | 55 | 6,793 |
| Other collaterals | 1,423 | 0 |
| Total | 1,509 | 6,812 |

### Other non-interest bearing receivables

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| VAT receivable | 697 | 219 |
| Receivable from disposal of group company shares | 0 | 375 |
| Receivables from related parties | 52 | 0 |
| Other receivables | 0 | 2 |
| Total | 749 | 596 |

### Prepaid expenses and accrued income

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Deferred tax assets | 1,899 | 1,350 |
| Accrued interest income | 1,318 | 30 |
| Other prepaid expenses and accrued income | 965 | 80 |
| Total | 4,182 | 1,460 |

## NOTES TO EQUITY AND LIABILITIES

### P10. Shareholders' equity

### Shareholders' equity

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Share capital 1 Jan | 23,018 | 14,584 |
| Bonus issue 11 Jan 2006 | | 87 |
| Directed issue 13 Jan 2006 | | 1,190 |
| Share issue 6 Apr 2006 | | 5,100 |
| Increase in share capital 21 Jul 2006 | | 611 |
| Convertible bond conversion 23 Aug 2006 | | 116 |
| Convertible bond conversion 6 Oct 2006 | | 102 |
| Convertible bond conversion 12 Dec 2006 | | 968 |
| Convertible bond conversion 27 Dec 2006 | | 259 |
| Convertible bond conversion 13 Feb 2007 | 621 | |
| Convertible bond conversion 19 Jun 2007 | 3 | |
| Share capital 31 Dec | 23,642 | 23,018 |

### Share issue

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Share issue 1 Jan | 0 | 0 |
| Share issue 9 Mar 2006 shareholders' meeting | 0 | 21,600 |
| Registration of share issue 6 Apr 2006 | 0 | -21,600 |
| Share issue 31 Dec | 0 | 0 |

### Share premium reserve

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Share premium reserve 1 Jan | 24,195 | 1,245 |
| Bonus issue 11 Jan 2006 | | -87 |
| Directed issue 13 Jan 2006 | | 3,150 |
| Share issue 6 Apr 2006 | | 16,500 |
| Increase in share capital 21 Jul 2006 | | 1,006 |
| Convertible bond conversion 23 Aug 2006 | | 191 |
| Convertible bond conversion 6 Oct 2006 | | 168 |
| Convertible bond conversion 12 Dec 2006 | | 427 |
| Convertible bond conversion 27 Dec 2006 | | 1,595 |
| Convertible bond conversion 13 Feb 2007 | 1,023 | |
| Convertible bond conversion 19 Jun 2007 | 6 | |
| Share premium reserve 31 Dec | 25,223 | 24,195 |

### Paid-up unrestricted equity reserve

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Paid-up unrestricted equity reserve 1 Jan | 424 | |
| Free directed issue, registered 27 Oct 2006 | 1,035 | 424 |
| Share issue, registered 29 Jun 2007 | 299,000 | |
| Share issue, registered 16 Jul 2007 | 44,850 | |
| Paid-up unrestricted equity reserve 31 Dec | 345,309 | 424 |

### Retained earnings

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Retained earnings 1 Jan | 5,712 | 1,031 |
| Profit for the previous financial year | 500 | 7,829 |
| Dividends | -4,079 | -3,148 |
| Retained earnings 31 Dec | 2,133 | 5,712 |

### Profit for the financial year

| EUR '000 | 2007 | 2006 |
|---|---|---|
| Profit for the financial year | 10,490 | 500 |

### Shareholders' equity

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Total shareholders' equity | 406,797 | 53,848 |

### Distributable funds

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Retained earnings 1 Jan | 6,212 | 8,860 |
| Dividends | -4,079 | -3,148 |
| Profit for the financial year | 10,490 | 500 |
| Retained earnings 31 Dec | 12,623 | 6,212 |
| Paid-up unrestricted equity reserve | 345,309 | 424 |
| Distributable funds 31 Dec | 357,932 | 424 |

During 2007 the company has, within the range of total distributable equity, given a EUR 1,380,000.00 loan to the related party. The accrued interest for the loan amount to EUR 18,478.66.

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Non-restricted equity of consolidated balance sheet (IFRS) excluding paid-up unrestricted equity reserve and equity portion of appropriations according to FAS (74 %) | 16,382 | 11,636 |

### P11. Liabilities

### Non-current liabilities

### Non-current interest bearing debt

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Convertible subordinated bonds | 0 | 9 |
| Loans from financial institutions | 4,005 | 1,235 |
| Loans from group companies | 0 | 28 |
| Total | 4,005 | 1,272 |

**Non-current non-interest bearing debt**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Loans from associated companies | 5 | 5 |
| Total | 5 | 5 |

**Current liabilities**

**Current interest bearing debt**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Convertible subordinated bonds | 0 | 1,643 |
| Loans from financial institutions | 1,280 | 380 |
| Loans from group companies | 0 | 5 |
| Total | 1,280 | 2,028 |

**Current non-interest bearing debt**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Trade payables | 379 | 160 |
| Payables to group companies | 7 | 1 |
| Other debt | 692 | 7,937 |
| Accrued expenses and deferred income | 1,397 | 328 |
| Total | 2,474 | 8,426 |

**Other current non-interest bearing debt**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Income taxes | 633 | 0 |
| Earn-out liabilities | 0 | 7,907 |
| Other current liabilities | 59 | 30 |
| Total | 692 | 7,937 |

**Convertible bonds and options**

**Convertible bonds and convertible subordinated loans**

The company issued a convertible bond loan of EUR 7,200,000.00 on 18 November 2004. During the financial years 2005-2007, the bond has been fully converted into new shares of the company. Currently the company does not have convertible bonds or option loans.

**Options**

The company has registered an option scheme I/2005 (decision made on general meeting 8 Dec 2005), which entitles option holders to subscribe for a maximum of 2,700,000 shares in the company. The share subscription period is 1 July 2007 through 30 June 2015 for various options denoted with different letters, and the subscription price  range is EUR 0.44–0.94.  As a result of subscriptions made with the I/2005 options, Ruukki Group Plc's share capital may be increased by a maximum of EUR 459,000.00 and the number of shares by a maximum of 2,700,000 new shares. A total of 675,000 options had been offered to company executives.

The Company's board of directors has on 12 December 2007 decided on the issuing of option rights entitling to shares in the company based on the authorisation issued by the annual general shareholders' meeting held on 20 April 2007. A maximum of 7,350,000 option rights will be issued, which will entitle the recipients to subscribe for a total of 7,350,000 new shares in Ruukki Group Plc. The Company's board of directors can, if it so chooses, decide that instead of new shares, option right holders will be offered treasury shares held by the Company, or other shares will be allotted for purchase by option right holders at a price equivalent to the subscription price, in which case the Company's shareholding will not be diluted in this respect.

## Pledges and contingent liabilities

### Business mortgages

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| In company's holding | 2,523 | 2,523 |
| Pledged as security with financial institutions | 1,682 | 1,682 |
| Total | 4,205 | 4,205 |

### Guarantees for direct subsidiaries financing

| EUR '000 | maximum liability 31 Dec 2007 | maximum liability 31 Dec 2006 |
|---|---|---|
| Guarantees for group companies' financing: | | |
| Cheque account | 0 | 50 |
| Leasing limit | 0 | 100 |
| Total | 0 | 150 |

### Guarantees for other group companies' financing

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Guarantee for trade payables | 102 | 114 |
| Total | 102 | 114 |

Guarantees for group companies financing limits

| EUR '000 | credit limit in use / loan 31 Dec 2007 | maximum liability 31 Dec 2007 | maximum liability 31 Dec 2006 |
|---|---|---|---|
| Guarantees for bank guarantee limits | 0 | 1,400 | 1,400 |
| Guarantees for equipment financing | 1,479 | 1,840 | 1,840 |
| Factoring | 0 | 0 | 900 |
| Total | 1,479 | 3,240 | 4,140 |

During 2007 the company has made a EUR 2,000,000.00 fixed-term deposit that has been pledged as collateral for a group company's bank guarantee limit related to raw material purchases.

Guarantees for group companies loans

| EUR '000 | credit limit in use/loan 31 Dec 2007 | maximun liability 31 Dec 2007 | maximun liability 31 Dec 2006 |
|---|---|---|---|
| Bonds | 1,671 | 1,764 | 2,452 |
| Total | 4,630 | 8,244 | 10,732 |

Ruukki Group Plc has given payment guarantees in total of EUR 23,961,100.00 to liabilities related to group company's machinery and equipment purchases.

**Leasing liabilities**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Leasing liabilities | | |
| Within the next financial year | 32 | 7 |
| After the next financial year | 85 | 21 |
| Total | 117 | 28 |

**Other liabilities**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Rental deposits, paid in cash | 31 | 19 |
| Other collateral, paid in cash | 1,423 | 0 |
| Total | 1,454 | 19 |

**Rental liabilities**

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Unlimited term contracts, liability for term of notice | 11 | 25 |

After the end of the accounting period, the company has given notice to the above presented unlimited term rental contract.

Fixed-term contracts

| EUR '000 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Within the next financial year | 38 | 65 |
| After the next financial year | 0 | 38 |
| Total | 38 | 103 |

After the end of the accounting period, the company has made a fixed-term rental agreement. The rental liabilities are as follows:

| | |
|---|---|
| Rents due within the next financial year | 151 |
| Rents due after the next financial year | 469 |
| Total | 620 |

**Other commitments and liabilities**

Ruukki Group Plc has given guarantees for group companies for their loans and other financing agreements.

Some of the liability-based financing agreements include covenants that are tied to Group key figures or that restrict the payment of Group company liabilities to the parent company or that require the parent company not to divest significant parts of the business operations without consulting the financiers first.

**Received guarantees**

The company has received pledged shares and absolute guarantees as a security for current interest-bearing receivables. Considering their amount and grade, guarantee can be regarded as sufficient.

## Subordinated loans and terms

### Convertible subordinated bond

The company issued a convertible bond loan of EUR 7,200,000.00 on 18 November 2004.

| EUR ‘000 | 2007 | 2006 |
|---|---|---|
| Convertible bonds 1 Jan | 1,652 | 7,097 |
| Convertible bond conversion 21 Jul 2006 | | -1,617 |
| Convertible bond conversion 23 Aug 2006 | | -307 |
| Convertible bond conversion 6 Oct 2006 | | -270 |
| Convertible bond conversion 12 Dec 2006 | | -686 |
| Convertible bond conversion 27 Dec 2006 | | -2,564 |
| Convertible bond conversion 13 Feb 2007 | -1,643 | |
| Convertible bond conversion 19 Jun 2007 | -9 | |
| Convertible bonds 31 Dec | 0 | 1,652 |

Interests for the convertible bond have been recognised as an expense: in 2007 EUR 4,336.99 and in 2006 EUR 396,580.95. Interests paid in 2007 were EUR 167,018.36.

### Earn-out liabilities related to share-swap agreements

All shares given based on earn-out liabilities related to share purchase agreements made during previous accounting periods have been registered in the Trade Register during the accounting period. No new share-swap agreements have been made during the accounting period that would obligate the company to pay earn-out liabilities.

### Earn-out liabilities related to share purchase agreements

During the accounting period, the company has settled all earn-out liabilities related to previous share purchase agreements. No earn-out liabilities are related to the share purchase agreements carried out during 2007.

### Pension liabilities

The company does not have any pension liabilities in excess of the statutory TEL-system on 31 December 2007.

The CEO has the right to retire at the age of 60 years. Moreover, the CEO is entitled to additional pension insurance that, combined with statutory pension coverage, will ensure the CEO a monthly pension corresponding to sixty percent of his monthly salary.

### Related party loans

The company has granted CEO Matti Vikkula a loan of EUR 1.380.000 as a part of his incentive scheme. The interest is 12 months euribor. Loan period ends on 30 September 2012. The loan will be due earlier in case Matti Vikkula terminates his employment or sells the Ruukki Group Plc shares acquired with the loan. Vikkula has the right to retire the loan or repay a part of it before the agreed due date. The loan has no guarantees.

### Additional information on personnel

Personnel, annual average (all employees)

| | 2007 | 2006 |
|---|---|---|
| Employees | 7 | 5 |

Management remuneration

| | 2007 | 2006 |
|---|---|---|
| Chief Executive Officer | 1,750 | 133 |
| Board members | 69 | 34 |

**Share capital**

| Registered | Class | number of shares | votes/share |
|---|---|---|---|
| Number of shares 1 Jan 2006 | A | 86,300,880 | 1 |
| Bonus issue 11 Jan 2006 | A | 0 | 1 |
| Directed issue 13 Jan 2006 | A | 7,000,000 | 1 |
| Share issue 6 Apr 2006 | A | 30,000,000 | 1 |
| Increase in share capital 21 Jul 2006 | A | 3,593,000 | 1 |
| Convertible bond conversion 23 Aug 2006 | A | 683,000 | 1 |
| Convertible bond conversion 6 Oct 2006 | A | 600,000 | 1 |
| Directed free issue 10 Nov 2006 | A | 564,857 | 1 |
| Convertible bond conversion 12 Dec 2006 | A | 1,525,000 | 1 |
| Convertible bond conversion 27 Dec 2006 | A | 5,697,000 | 1 |
| **Number of shares 31 Dec 2006** | **A** | **135,963,737** | **1** |
| Convertible bond conversion 13 Feb 2007 | A | 3,652,000 | 1 |
| Directed issue 20 Apr 2007 | A | 598,285 | 1 |
| Convertible bond conversion 19 Jun 2007 | A | 20,000 | 1 |
| Share issue 29 Jun 2007 | A | 130,000,000 | 1 |
| Directed issue 6 Jul 2007 | A | 300,000 | 1 |
| Share issue 18 Jul 2007 | A | 19,500,000 | 1 |
| **Number of shares 31 Dec 2007** | | **290,034,022** | **1** |

The registered share capital of the company was on 31 Dec 2007 EUR 23,642,049.60. After the end of accounting period 2007 the company has not issued new shares.

The maximum dilution effect of valid commitments is presented below:

| | |
|---|---|
| **Number of shares 31 Dec 2007** | **290,034,022** |
| option scheme I/2005, options, max. | 2,700,000 |
| incentive scheme 2007, options, max * | 7,350,000 |
| **Number of shares 31 Dec 2007, diluted** | **300,084,022** |

* only options are included, not potential shares, that according to the terms of incentive scheme 2007 will potentially be issued

**Information obligated to a group company:**

The company is the group parent company: Ruukki Group Plc, domicile Espoo (Keilasatama 5, 02150 Espoo)

## Other notes

### Market value of securities held

| EUR '000 | Book value 31 Dec 2007 | Market value 31 Dec 2007 | Book value 31 Dec 2006 |
|---|---|---|---|
| Other securities | 173,056 | 173,470 | 0 |
| Mutual funds | | 413 | |
| Difference between market and book values | | 413<br>0.24 % | |

### Information on shareholders

On 31 December 2007, the company had a total of 4,283 shareholders, of which 12 were nominee-registered. The number of shares in issue on 31 December 2007 was 290,034,022.

### Largest shareholders, 31 December 2007

| Shareholder | Shares | % |
|---|---|---|
| Nordea Bank Finland Plc | 75,883,960 | 26.2% |
| Nordea Bank Finland Plc, nominee-registered | 57,776,322 | 19.9% |
| Skandinaviska Enskilda Banken, nominee-registered | 43,135,512 | 14.9% |
| Oy Herttakakkonen Ab | 41,075,297 | 14.2% |
| Evli Bank Plc | 14,522,884 | 5.0% |
| Kankaala Markku | 9,601,791 | 3.3% |
| Svenska Handelsbanken Ab, nominee-registered | 8,841,036 | 3.1% |
| Hukkanen Esa Veikko | 5,007,500 | 1.7% |
| Procomex S.A. | 4,629,215 | 1.6% |
| Glitnir Oyj | 3,998,068 | 1.4% |
| Other shareholders | 25,562,437 | 8.8% |
| Total shares registered | 290,034,022 | 100.0% |

## Share ownership distribution

### Shareholders by shareholder type on 31 December 2007:

| | % of shares |
|---|---|
| Finnish shareholders | 97.83% |
| of which: | |
| Companies and business enterprises | 17.45% |
| Banking and insurance companies | 70.79% |
| Non-profit organisations | 0.00% |
| Households | 9.59% |
| Foreign shareholders | 2.15% |
| Shares on common account | 0.02% |
| **Total** | **100.00%** |
| Of which nominee-registered | 39.07% |

### Share ownership distribution on 31 December 2007:

| Shares | Number of shareholders | % share of shareholders | Number of shares held | % of shares held |
|---|---|---|---|---|
| 1-100 | 584 | 13.6 % | 39,091 | 0.0 % |
| 101-1.000 | 2,353 | 54.9 % | 1,287,509 | 0.4 % |
| 1.001-10.000 | 1,188 | 27.7 % | 4,002,438 | 1.4 % |
| 10.001-100.000 | 127 | 3.0 % | 3,055,480 | 1.1 % |
| 100.001-1.000.000 | 14 | 0.3 % | 4,896,396 | 1.7 % |
| 1.000.001-10.000.000 | 12 | 0.3 % | 44,311,633 | 15.3 % |
| yli,10.000.000 | 5 | 0.1 % | 232,393,975 | 80.1 % |
| Total | 4,283 | 100.0 % | 289,986,522 | 100.0 % |
| of which nominee-registered | 12 | | 113,305,072 | 39.1 % |
| On common account | | | 47,500 | 0.0 % |
| Total outstanding | | | 290,034,022 | 100.0 % |

### Board members' and CEO's ownership

| 31 Dec 2007 | Shares | Forward contracts | Total |
|---|---|---|---|
| BOARD | | | |
| Mikko Haapanen | 0 | 0 | 0 |
| Markku Kankaala | 9,602,191 | 0 | 9,602,191 |
| Matti Lainema | 47,200 | 0 | 47,200 |
| Kai Mäkelä | 41,075,317 | 19,473,100 | 60,548,417 |
| Timo Poranen | 0 | 0 | 0 |
| Arno Pelkonen | 0 | 0 | 0 |
| Ahti Vilppula | 4,634,215 | 68,181,500 | 72,815,715 |
| CEO | | | |
| Matti Vikkula | 3,189,400 | 0 | 3,189,400 |
| **Board + CEO total** | **58,548,323** | **87,654,600** | **146,202,923** |
| All shares outstanding | | | 290,024,022 |
| Proportion of all shares | | | 50.4 % |

Ruukki Group board members and CEO owned in total 146,202,923 Ruukki Group Plc shares on 31 Dec 2007 (31 Dec 2006: 83,146,388) when including both shares and forward contracts owned either directly, through persons closely associated with them or controlled companies. This corresponds to approximately 50.4 % (61.2 %) of all outstanding shares that were registered to the Trade Register on 31 December.

### Auditors' fees

| EUR '000 | 2007 | 2006 |
|---|---|---|
| KPMG Oy Ab | | |
| Audit | 61 | 22 |
| Other services | 289 | 101 |

### Board's proposition of dividend payout

Board of directors proposes the annual general meeting, to be summoned later and separately, to pay out of the retained earnings 31 Dec 2007 a dividend of EUR 0.04 per share totalling EUR 11,601,360.88.

# SIGNATURES TO THE FINANCIAL STATEMENTS AND REPORT OF THE BOARD OF DIRECTORS

**Espoo 26 February 2008**

**Matti Lainema**
Chairman of the Board

**Kai Mäkelä**
Vice chairman of the Board

**Mikko Haapanen**
Member of the Board

**Timo Poranen**
Member of the Board

**Markku Kankaala**
Member of the Board

**Ahti Vilppula**
Member of the Board

**Matti Vikkula**
CEO

**THE AUDITORS' NOTE**

The above Report of the Board of Directors and the financial statements have been prepared in accordance with generally accepted accounting principles.

Our auditors' report has been issued today.

Espoo February 27, 2008

**Reino Tikkanen**
Authorised Public Accountant

**KPMG Oy Ab**

**Antti Kääriäinen**
Authorised Public Accountant

# AUDITORS´ REPORT (TRANSLATION)

**To the shareholders of Ruukki Group Plc**

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Ruukki Group Plc for the period 1 Jan – 31 Dec 2007. The Board of Directors and the Chief Executive Officer have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Limited Liability Companies Act.

**Consolidated financial statements**

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

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

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

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

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

Espoo February 27, 2008

KPMG Oy Ab

Antti Kääriäinen
Authorised Public Accountant

Reino Tikkanen
Authorised Public Accountant

# CORPORATE GOVERNANCE

## GOVERNING PRINCIPLES IN BRIEF

### General

In its operations, Ruukki Group complies with the current legislation and the regulations issued pursuant to it, and with generally accepted practices. Ruukki Group adheres to the corporate governance recommendations for public companies listed on the Helsinki Stock Exchange, with the major deviations that the parent company's Board of Directors does not yet have written standing orders, rather the Board of Directors' operations are based on established courses of action and according to the Board's own view, exactly half of the Board members are independent from the company and its major shareholders.

General and business management within Ruukki Group are based on a clearly defined organisational structure, clearly specified duties and responsibilities, consistent planning and reporting systems, and coherent operating instructions.  Ruukki Group operates in various lines of business, in which the customers, earnings logic, and other key elements may be highly dissimilar, which is why the operations are organised into separate business segments, in which most of the operative decisions are made. Ruukki Group Plc's Board of Directors has decided to change the Group's strategy so that in future the targeted emphasis is on wood-based industrial operations which may significantly change the Group's management and governing principles.

### Annual General Meeting

Before an Annual General Meeting, sufficient information regarding the issues to be addressed is provided to Ruukki Group's shareholders, primarily in the form of stock exchange releases. Material presented at the AGM is available to the shareholders at the company's head office in Espoo. Copies of the material may be delivered to shareholders on request.

The AGM will be organised in a way that allows the shareholders to exercise their rights as shareholders effectively. The CEO and Chairman of the Board attend the AGM, as do a sufficient number of Board members in view of the nature of the issues to be discussed. First-time candidates for Board membership are, as a rule, present at the AGM.

### Board of Directors

The Board of Directors is in charge of the company's management and of the appropriate arrangement of the business activities. The Board is responsible for the tasks specified in the Finnish Companies Act and in the company's Articles of Association. The Board's duty is to direct the company's activities so as to generate maximum long-term added value for the capital invested. The Board's operations are based on established courses of action.

**To fulfil its duties, the Board:**

- Devises a business strategy for the Group
- Supervises the strategy's implementation
- Makes decisions on the Group's capital structure
- Makes decisions on significant investments, credits, guarantees, and other commitments
- Reviews and adopts interim reports, financial statements, reports on operations, and forecasts
- Determines the Group's organisational structure
- Appoints the CEO of the parent company and determines the salary and other benefits offered to the CEO
- Appoints the members of the Board of Directors in each of the key subsidiaries

- Makes proposals to the Annual General Meeting and calls the AGM
- Determines the general guidelines for the Group's operation

Members of the Board are elected at the Annual General Meeting. According to the Articles of Association, the Board consists of three to nine members. Board members are elected for a term that ends at the end of the Annual General Meeting following their appointment. The Board elects a chairman from among its members. The composition of the Board must meet the requirements set by the company's size, market position, and line of business.

The board of directors decided to establish an audit committee in May 2007. The members of the committee are Matti Lainema (chairman), Mikko Haapanen and Timo Poranen.

In 2007 the Board of Directors met 24 times, with an average attendance rate of 89 %.

Corporate governance recommendations state that majority of the Board members should be independent from the company and two of this majority also independent from the major shareholders. The Board estimates that of the six members of the Board, three are independent from the company. Each of these three is also independent from the major shareholders in the manner that the corporate governance recommendations indicate. The Board estimates that the independent members of the Board are Mikko Haapanen, Matti Lainema and Timo Poranen.

**The CEO and other management**

The Board of Directors appoints the CEO. The CEO runs the day-to-day administration of the company in accordance with the instructions provided by the Board. The CEO is not a Board member.

The company does not have a separate Executive Board, group's management consists of CEO Matti Vikkula, Executive Vice President Antti Kivimaa, CFO Jukka Havia and Business Development Director Esa Hukkanen.

**Remuneration**

A decision was made at the Annual General Meeting of the company on 20 April 2007 to pay members of the Board the following annual fees: Chairman of the Board EUR 12,000.00, Vice-chairman EUR 9,000.00, and other Board members EUR 6,000.00.

All matters related to remuneration payable to the CEO must be approved by the Board of Directors. In determining the remuneration payable, the time needed to carry out the duties, the general situation of the company, and current standard practices are taken into account. The terms and conditions of the CEO's employment are specified in a written contract approved by the Board. During 2007 Antti Kivimaa was the CEO between 1 January and 31 August and Matti Vikkula from 1 September onwards. In 2007, the CEO's salary, including fringe benefits, amounted to EUR 238,158.00 compared with EUR 133,338.00 in 2006. In addition, gross amount of bonus salaries paid to the CEO totalled EUR 824,275.00 in 2007 (2006: EUR 0.00).

The remuneration of other senior management is determined by the Board.

**Synthetic option**

CEO Matti Vikkula will be entitled to a monetary bonus that will be tied, based on various steps, to the value development of one million Ruukki Group shares up until 2011. The costs recognised in the Group's financial statements for this synthetic option scheme totalled EUR 126,628.90.

**Option scheme I/2005**

The company's I/2005 option scheme (decided at general meeting 8 Dec 2005, specified at general meeting 20 Apr 2007) entitles the option holders to subscribe for a maximum of 2,700,000 new shares in the company. The share subscription period is staggered through the period of 1 July 2007–30 June 2015 for various options denoted with different letters, and the subscription price range is EUR 0.44–0.94. As a result of subscriptions made on the basis of rights under the I/2005 option scheme, Ruukki Group Plc's share capital may be increased by a maximum of EUR 459,000.00 and the number of shares by a maximum of 2,700,000 new shares. Of these options a total of 675,000 options (representing about 0.2 %

of the registered number of shares) have been issued to key personnel of the company, consisting of 225,000 A-options, 225,000 B-options and 225,000 C-options. So far none of these options have been exercised. The share subscription period for A-options has started on 1 Jul 2007 and will expire on 30 Jun 2010. For B-options the share subscription period is 1 Jul 2008 – 30 Jun 2011 and for C- options 1 Jul 2009 – 30 Jun 2012.

Option expenses related to option rights granted to the CEO and recognised in the consolidated income statement 2007 (during 1 Jan – 31 Aug 2007) amounted to EUR 64,837.89. During the previous year (1 Jan – 31 Dec 2006) these expenses totalled EUR 81,903.50.

**Share-based incentive scheme 2007**

Ruukki Group Plc's board of directors decided on 12 December 2007 to establish a share-based incentive scheme for key persons in the Company and its group for the years 2008-2010. Ruukki Group Plc's board of directors and CEO are not within the scope of the incentive scheme. Key persons will be issued option rights, and new shares in Ruukki Group Plc will be offered to them for subscription, on the basis of the incentive scheme.

The Company's board of directors decided on the issuing of option rights entitling to shares in the company based on the authorisation issued by the Annual General Meeting held on 20 April 2007. A maximum of 7,350,000 option rights will be issued, which will entitle the recipients to subscribe for a total of 7,350,000 new shares in Ruukki Group Plc. The Company's board of directors can, if it so chooses, decide that instead of new shares, option right holders will be offered treasury shares held by the Company, or other shares will be allotted for purchase by option right holders at a price equivalent to the subscription price, in which case the Company's shareholding will not be diluted in this respect.

The purpose of the option rights is to encourage commitment in the key persons as well as to reward them for meeting the targets set annually in advance by the board of directors for 2008, 2009 and 2010. The targets will be connected to the realisation of Ruukki Group Plc's international expansionary business strategy (e.g. the completion of the Kostroma production facility or the realisation of separately defined financial targets). The number of option rights to be issued to key persons will also depend on each key person's position or duties.

**Internal control and risk management**

The principles of internal control are confirmed by the Board of Directors. The internal control has been outsourced to an external professional organisation. The Group's management and subsidiaries' boards of directors are in charge of day-to-day business management and administrative control. The internal control and risk management needs and implementation are monitored on a continuous basis for consistency with developments in the company and its business operations, and development projects will be launched if deemed necessary. In addition, as a part of the preparation of the Group's investment projects, external specialist organisations have been hired for separate risk planning and management.

**Insiders**

The company complies with the Guidelines for Insiders issued by the Helsinki Stock Exchange.

The company's permanent public insider register consists of the members the Board of Directors of Ruukki Group Plc, and its Chief Executive Officer, Executive Vice President and Chief Financial Officer, as well as the auditors of the company. All permanent public insiders and the statutory information about them, their related parties and the entities controlled by them or in which they exercise influence, have been entered into Ruukki Group Plc's register of public insiders, and is published on the company's website.

Ruukki Group imposes a restriction on trading for insiders which forbids trading with the company's shares by insiders for fourteen days before the publication of financial reports. Observation of insider regulations is monitored by taking samples at certain intervals of trading by insiders in the company's shares.

In addition to the public insider register, the company holds a company-specific insider register of persons that regularly receive insider company information that essentially affect the share price. These persons include all Ruukki Group Plc employees (excluding those belonging to the public insider register) as well as all other employees of the Group or third-party service providers that regularly obtain insider information.

When necessary, Ruukki Group sets up a separate insider register for major projects. Insiders for a specific project are considered to be those who, in connection with the insider project, obtain information about the company that might have a significant impact on the value of the company's shares if it were published. The establishment of a project is decided by the Board of Directors or the CEO.

**Audit**

According to the Articles of Association, the company has at least one and no more than three auditors. If there is only one auditor, the company must have one deputy auditor also. The auditor and his/her deputy must be an auditor or an auditing firm approved by the Central Chamber of Commerce. Auditors are elected for a term covering one financial year. As of 7 June 2005, the company auditors are Reino Tikkanen and the auditing firm KPMG, with Antti Kääriäinen as the principal auditor. Audit-related services in 2007 generated costs of approximately EUR 115 thousand (2006: EUR 63 thousand) to the company and the subsidiaries. Costs for non-audit services in the 2007 financial year amounted to approximately EUR 303 thousand (2006: EUR 93 thousand).

**Communications**

The company ensures that adequate and correct information regarding the company and its shares is available to the markets. Financial indicators, corporate governance principles, stock exchange releases, and stock exchange notifications are posted on the company's Web site. Information included in the public insider register is available on the company's Web site, at http://www.ruukkigroup.fi/in_English/Investors/Insiders.iw3.

The address of the company's Web site is **www.ruukkigroup.fi**

## SHAREHOLDERS' MEETINGS IN 2007

### Annual General Meeting of 20 April 2007 in Espoo

The Annual General Meeting approved the financial statements for the financial year 1 January 2006 - 31 December 2006. The Annual General Meeting decided to pay out a dividend of EUR 0.03 per share from company's retained earnings. However the new shares issued in February 2007 in conjunction with the conversions of convertible bond notes are not entitled to the dividend. Also, the new shares which will be issued through the free directed issue decided today by the Annual General Meeting are not entitled to this dividend.

The Annual General Meeting discharged the Board of Directors and the Chief Executive Officer from liability.

The number of Board members was decided to be eight. The existing members of the Board were fully re-elected, including the following individuals: Fredrik Danielsson, Mikko Haapanen, Timo Honkala, Markku Kankaala, Matti Lainema, Kai Mäkelä, Matti Vikkula and Ahti Vilppula. After the Annual General Meeting the Board organised itself so that Matti Vikkula continues as the Chairman of the Board and Kai Mäkelä as the Vice Chairman of the Board.

The Annual General Meeting resolved the compensation of the Board of Directors as follows: Chairman of the Board EUR 12,000/year, Vice-chairman EUR 9,000/year, and Member EUR 6,000/year.

The Annual General Meeting re-elected the current Auditors KPMG Ltd and Mr. Reino Tikkanen, APA.

The Annual General Meeting decided that the Articles of Association of the Company will be partly amended in accordance with the Board of Directors' proposition.

The Annual General Meeting decided in accordance with the Board proposition to carry out directed free share issue totalling 598,285 new shares by deviating from the shareholders' pre-emptive right of subscription so that new shares are issued to sellers of Pan-Oston Ltd and Lappipaneli Ltd. This directed share issue relates to earn-out liabilities based on above mentioned companies' financial year 2006 performance.

The Annual General Meeting decided to authorise the Board of Directors to decide on share issue, as well as on granting option rights and other special rights that entitle to shares. At the maximum 25,000,000 new or existing shares, equalling approximately 17.9 per cent of the total number of shares, may be issued by virtue of this authorisation. The authorisation is valid for two years.

It was decided that the terms of the option program I/2005 shall be updated taking into account the new Companies Act.

The Annual General Meeting decided that the shares in the joint book-entry account, of whose part a registration of ownership to a book-entry account has not been demanded even though five years have passed since the registration date, shall be sold. The balance of the joint book-entry account on 10 April 2007 totals 47,500 shares that correspond to approximately 0.3 per cent of the total number of shares. The shares in question shall be sold via the stock exchange in the name of the owners of the shares.

**Extraordinary General Meeting of 12 June 2007 in Espoo**

Arno Pelkonen and Timo Poranen were elected as new board members.

Mikko Haapanen, Markku Kankaala, Matti Lainema, Kai Mäkelä, Matti Vikkula and Ahti Vilppula will continue in Ruukki Group's Board. Board members Timo Honkala and Fredrik Danielsson have announced that they will leave the board as of 12 June 2007.

The extraordinary general meeting decided that the articles of association of the company will be partly amended in accordance with the board of directors' proposition so that the business definition of the company was decided to be amended, and moreover, the company's English business name was decided to be Ruukki Group Plc.

The extraordinary general meeting decided in accordance with the board of directors' proposition that a directed share issue against payment is to be carried out, and furthermore, the board was authorised to decide on an additional share issue. The funds are primarily intended to finance the construction of a sawmill and a chemi-mechanical market pulp mill or alternatively a chemical pulp mill in the Kostroma region in Russia. In the share issue a minimum of 100,000,000 and a maximum of 130,000,000 new shares will be offered against payment for company's shareholders and corresponding parties and to institutional investors. The subscription price will be a minimum of EUR 1.90 and a maximum of EUR 2.90 per share. In addition, the board of directors is authorized to offer a maximum of 20,000,000 new shares to cover any possible over-allotments.

## FLAGGING NOTICES

Notices issued under Chapter 2, section 10 of the Securities Market Act in the period from 1 January 2007 to 26 February 2008.

- Mandatum Securities Oy's ownership of the share capital and voting rights of Ruukki Group Plc exceeded one twentieth (1/20) on 2 January 2007.
- Mandatum Securities Oy's ownership of the share capital and voting rights of Ruukki Group Plc fell below one twentieth (1/20) on 16 March 2007.
- Nordea Bank Finland Plc's ownership of the share capital and voting rights of Ruukki Group Plc exceeded three twentieths (3/20) on 16 March 2007. At the time of this disclosure, Nordea Bank Finland Plc also announced that its ownership will fall below one tenth (1/10) as the forward contracts mature in April 2007.

- Nordea Bank Finland Plc acquired Ruukki Group Plc shares and made forward contracts concerning the shares on 20 April 2007, with the forward agreements maturing in June 2007, December 2007 and January 2008. As the forward contracts mature in January 2008, the ownership of Nordea Bank Finland Plc will fall below one twentieth (1/20).
- Evli Bank Plc's ownership of the share capital and voting rights of Ruukki Group Plc fell below one twentieth (1/20) upon the transactions made on 21 June 2007.
- Markku Kankaala's ownership of the share capital and voting rights of Ruukki Group Plc fell below one twentieth (1/20) upon the transactions made on 21 June 2007.
- Oy Herttakakkonen Ab's ownership of the share capital and voting rights of Ruukki Group Plc fell below one fifth (1/5) as a result of the share issue decisions and share subscriptions made on 21 June 2007.
- The combined ownership of Helsingin Mekaanikontalo Oy and Procomex S.A. of the share capital and voting rights of Ruukki Group Plc fell below one quarter (1/4) as a result of share issue decisions and share subscriptions made on 21 June 2007. At the same time, Helsingin Mekaanikontalo Oy announced that its ownership of the share capital and voting rights of Ruukki Group Plc fell below one tenth (1/10).
- Nordea Bank Finland Plc's ownership of the share capital and voting rights of Ruukki Group Plc fell below three twentieths (3/20) upon the share lending agreement made on 25 June 2007. As the forward contracts mature in January 2008, the ownership will fall below one twentieth (1/20).
- JPMorgan Chase & Co has announced that its subsidiaries have acquired 12,666,818 Ruukki Group Plc shares in a share issue commencing on 25 June 2007. JPMorgan Chase & Co's ownership of the share capital and voting rights of Ruukki Group Plc exceeded one twentieth (1/20) as a result of the transactions.
- Nordea Bank Finland Plc's ownership of the share capital and voting rights of Ruukki Group Plc has, upon the share transaction made on 26 June 2007 and considering the share lending agreement concerning 9,500,000 Ruukki Group Plc's RUG1V shares made on 25 June 2007 with a value date of 29 June 2007, exceeded three twentieths (3/20). Upon the maturity of the forward contracts maturing in December 2007, the ownership will fall below three twentieths (3/20). Upon the maturity of Ruukki Group Plc's forward contracts in January 2008, the ownership will fall below one tenth (1/10).
- Nordea Bank Finland Plc announced on 16 July 2007 that its ownership of the share capital and voting rights of Ruukki Group Plc has exceeded one fifth (1/5). Upon the maturity of forward contracts maturing in December 2007, the ownership of Nordea Bank Finland Plc will fall below three twentieths (3/20), and upon the maturity of forward contracts maturing in January 2008 the ownership will fall below one twentieth (1/20).
- Moncheur & Cie SA (registration number 660.0.096.997-7, Geneva) and Pierre Moncheur announced in August that as a result of share transactions concluded on 27 June 2007, the combined ownership of Moncheur & Cie SA, Pierre Moncheur and their controlled or related parties in Ruukki Group Plc now represents less than one twentieth (1/20) of the share capital and voting rights of Ruukki Group Plc.
- According to the announcement of Oy Herttakakkonen Ab (business ID number 0761602-7) its ownership exceeded one fifth (1/5) of the share capital and voting rights of Ruukki Group Plc in consequence of forward contract transactions carried out on 11 September 2007.
- JPMorgan Chase & Co. (English registration number 2711006) announced that ownership of its subsidiaries exceeded one tenth (1/10) of the share capital and voting rights of Ruukki Group Plc in consequence of transactions carried out on 20 September 2007.
- Nordea Bank AB (publ) (Swedish registration number 516406-0120) announced on 22 November 2007 that the ownership of its Finnish subsidiary Nordea Bank Finland Plc (business ID 1680235-8) has exceeded 1/4 of the share capital and voting rights of Ruukki Group Plc. At the same time Nordea Bank AB (publ) announced that Nordea Bank Finland Plc has entered into Ruukki Group share forward contracts of which 271,991 expire in December 2007, 493,257 in January 2008 and 30,000 in June 2008. As the December 2007 forward contracts ex-

pire, the ownership of Nordea Bank Finland Plc will fall below 1/5, and as the January forward contracts expire, below 1/20 of the share capital and voting rights of Ruukki Group Plc.

- Evli Bank Plc's (business ID 0533755-0) ownership of the share capital and voting rights of Ruukki Group Plc exceeded one twentieth (1/20) upon the transactions made on 7 December 2007.
- Procomex S.A (registration number R.C. Luxembourg B 57.877) announced that its ownership exceeds three twentieth (3/20) of the share capital and voting rights of Ruukki Group Plc in consequence of forward contract transactions carried out on 19 and 21 December 2007. Procomex S.A. also announced that the combined ownership of Procomex S.A. and Helsingin Mekaanikontalo Oy (business ID number 1076761-9) together exceeds one fourth (1/4) of the share capital and voting rights of Ruukki Group Plc.
- In its flagging notice given on 28 December 2007 Nordea Bank AB (publ) (Swedish registration number 516406-0120) referred to announcement that was made on 22 November 2007. Nordea Bank AB (publ) announced then that as forward contracts expire in December, the ownership of its Finnish subsidiary Nordea Bank Finland Plc (business ID 1680235-8) will fall below 1/5 of the share capital and voting rights of Ruukki Group Plc. Nordea Bank AB (publ) announced that forward contracts that were due in December have been rolled forward to longer maturities. Consequently the ownership did not fall below 1/5 but remained over 1/4. Nordea Bank Finland Plc has entered into Ruukki Group share forward contracts of which 518,507 (51,850,700 shares) expire in January 2008, 214,531 (21,453,100 shares) in March 2008 and 30,000 (3,000,000 shares) in June 2008. As the January 2008 forward contracts expire, the ownership of Nordea Bank Finland Plc will fall below 1/10, and as the March forward contracts expire, below 1/20 of the share capital and voting rights of Ruukki Group Plc.
- In its flagging notice given on 21 January Nordea Bank AB (publ) (Swedish registration number 516406-0120) referred to announcement given on 28 December 2007. At that time, Nordea Bank AB (publ) announced that as forward contracts expire in January, the ownership of its Finnish subsidiary Nordea Bank Finland Plc (business ID 1680235-8) will fall below 1/10 of the share capital and voting rights of Ruukki Group Plc. Nordea Bank AB (publ) announced that forward contracts that were due in January have been rolled forward to longer maturities. Consequently the ownership did not fall below 1/10 but remained over 1/4. Nordea Bank Finland Plc has entered into Ruukki Group share forward contracts of which 25,250 (2,525,000 shares) expire in February 2008, 465,155 (46,515,500 shares) in March 2008, 30,000 (3,000,000 shares) in June 2008 and 289,196 (28,919,600 shares) in January 2009. As the March 2008 forward contracts expire, the ownership of Nordea Bank Finland Plc will fall below 3/20, and as the June forward contracts expire, below 1/10 and as the January 2009 forward contracts expire, below 1/20 of the share capital and voting rights of Ruukki Group Plc.
- Moncheur & CIE S.A. (register number 660.0.096.997-7, Geneva) announced on 23 January 2008 that its ownership exceeds 1/20 of the share capital and voting rights of Ruukki Group Plc in consequence of transactions carried out on 21 January 2008.
- Procomex S.A. (register number R.C. Luxembourg B 57.877) announced on 13 February 2008 that its ownership will fall below 1/10 based on agreement entered into 12 February 2008. As the agreement will be fully implemented, the combined ownership of Procomex S.A. and Helsingin Mekaanikontalo Oy (Business ID 1076761-9) will fall below 1/5.
- The Russian JSC VTB Bank (register number 102773960939) announced on 15 February 2008 that its or its affiliate's ownership in Ruukki Group Plc will exceed 1/10 in case agreements entered into 12 February 2008 will be fully implemented.

## CONTACTS

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