Ruukki UK Limited

Annual Report and Financial Statements

For the year ended 31 December 2006

Registered Number:01874681

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006.

Principal activity

The principal activity of the company is the representation, sales and distribution of the Rautaruukki group's metal products, metal-based components and systems to the mechanical engineering and construction industries in the United Kingdom and Eire.

Business review and future developments

The shareholders funds increased by 5% due to retained earnings. During the year the sale of the Norwegian reinforcement steel business by Rautaruukki Oyj saw a change in business model for Ruukki UK Limited with the cessation of the "buy, stock and resell" model for reinforcement steel products. This changed the business execution of the company to that of a representative agency (with earnings generated from a commission on sales) for all metal products supplied by Ruukki Metals to the mechanical engineering industries, and all metal-based solutions for building construction supplied by Ruukki Construction, in the UK and Eire.

The Corporate Strategy has been central to the activities of Ruukki UK Limited and has enabled the company to distance itself from many of its competitors by focussing on special high strength steel products that continued to be in good demand with prices firming up towards the end of the year, and on major construction projects where we have been able to expand our solutions business once again in the UK. Performance criteria have focussed on Customer satisfaction, and Delivery to time. Customer satisfaction was measured through a customer questionnaire conducted by an independent assessor on behalf of the group, and UK customers rated Ruukki amongst their top suppliers in comparable sectors. Delivery to time improved throughout 2006 and by year end had exceeded the 2005 previous years' performance levels.

The directors are satisfied with the sales volumes and results achieved during the year and remain optimistic for 2007, as demand is expected to hold up well with further developments in high strength steel products coming on stream, and increased penetration by our solutions business into the construction projects sector in the UK.

Principal risks & uncertainties

The group has established risk monitoring requirements, and Ruukki UK reports risks and uncertainties to Group Headquarters on a quarterly basis. The principal risks facing Ruukki UK Limited are competitive and legislative. During 2006 the business faced no significant risks or uncertainties in either category and the directors are confident that with the Business Support model introduced by Rautaruukki Oyj mid year has unified administrative practises and significantly reduced the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk going forward.

Results

The profit on ordinary activities after taxation amounted to £182,000 (2005: profit of £426,000). The directors do not recommend the payment of a dividend (2005: Nil).

Directors' report

Directors

The directors who served during the year were as follows:

A Charman
M Hietanen
T Bäckman
T Kemppi
A Aura (resigned 10 February 2006)
P Holm (appointed 10 February 2006)

There are no directors' interests requiring disclosure under the Companies Act 1985.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be put to the members at the Annual General Meeting.

On behalf of the board

A Charman
Director

26 February 2007

Warwick House
Warwick Road
Solihull
West Midlands
B91 3DG

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the members of Ruukki UK Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Movements in Shareholders' Funds, Balance Sheet, and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

ERNST & YOUNG

Independent auditors' report

To the members of Ruukki UK Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

26 February 2007

Profit and Loss Account
for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Turnover	3	14,194	40,764
Cost of sales		(12,411)	(38,265)
Gross profit		1,783	2,499
Administrative expenses		(1,677)	(1,913)
Operating profit	4	106	586
Interest receivable and similar income	6	112	64
Interest payable and similar charges	7	(8)	(14)
Profit on ordinary activities before taxation		210	636
Tax on profit on ordinary activities	8	(28)	(210)
Profit for the financial year	16	182	426

All activities of the business are continuing.

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	182	426
Actuarial gain/(loss) recognised on the pension schemes	35	(62)
Deferred tax relating to actuarial gain/(loss) on the pension schemes	(9)	19
Total recognised gains and losses relating to the year	208	383

Movements in shareholders' funds
for the year ended 31 December 2006

	2006	*2005*
	£'000	£'000
Profit for the financial year	182	426
Actuarial gain/(loss) recognised on the pension schemes	35	(62)
Deferred tax relating to actuarial gain/(loss) on the pension schemes	(9)	19
Movement in shareholders' funds	208	383
At 1 January	3,753	3,370
Shareholders' funds at 31 December	3,961	3,753

Balance Sheet
at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible assets	10	11	21
Current assets			
Stocks	11	20	990
Debtors	12	4,767	6,189
Cash at bank and in hand		33	615
		4,820	7,794
Creditors: amounts falling due within one year	13	(698)	(3,868)
Net current assets		4,122	3,926
Total assets less current liabilities		4,133	3,947
Net pension assets and liabilities	19	(172)	(194)
Net assets		3,961	3,753
Capital and reserves			
Called-up share capital	15	2,501	2,501
Profit and loss account	16	1,460	1,252
Equity shareholders' funds		3,961	3,753

The financial statements were approved by the Board of directors and signed on its behalf by:

A Charman
Director

26 February 2007

Notes to the Financial Statements

at 31 December 2006

1. Authorisation of financial statements

The financial statements of Ruukki (UK) Limited were authorised for issue by the board of directors on 26 February 2007 and the balance sheet was signed on the board's behalf by Adrian Charman.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The policies are consistent with the previous year.

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Under FRS 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate controlling party includes the company in its own published, consolidated financial statements.

Related party transactions

As the company is a wholly owned subsidiary of Rautaruukki Oyj, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions and balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Rautaruukki Oyj, within which this company is included, can be obtained from Rautaruukki Oyj, PO Box 138, FIN-00811, Helsinki, Finland.

Fixed assets and depreciation

Fixed assets are shown at original historic cost. Depreciation on tangible fixed assets is provided on a straight line basis calculated to write down the cost of each asset to its estimated residual value over its estimated useful life, as follows:

Fixtures and fittings	-	15%
Computer equipment	-	25%

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax. This is except for deferred tax assets which are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured without discounting at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing

Operating lease rentals are charged to the profit and loss account in equal instalments over the life of the lease.

Notes to the Financial Statements
at 31 December 2006

2. Accounting policies (continued)

Retirement benefits – defined benefit arrangements

The company provides defined retirement benefits for certain former directors and employees funded through contributions to individual insurance policies, in order to pay benefits to them after retirement and to their dependants after their death.

The amounts charged to operating profit are the current service costs and any gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are charged to operating profit immediately if the benefits have vested. If the benefits have not vested immediately, the costs are recognised by equal annual instalments over the period until vesting occurs. The interest cost and the expected return on assets are included as other finance income. Actuarial gains and losses net of deferred tax are recognised immediately in the statement of total recognised gains and losses.

The assets of the scheme are held separately from those of the company. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet. Further details in respect of these pension arrangements are shown in note 19.

Retirement benefits – defined contribution arrangements

The company also makes contributions to serving employees' personal pension plans under the terms of individual employees' contracts of employment. Contributions are charged to the profit and loss account as paid.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

3. Turnover

Turnover represents the invoiced value, exclusive of value added tax, of goods sold to customers during the year.

The turnover is wholly attributable to the company's sole activity which is carried out predominantly in the United Kingdom. The analysis of turnover by geographical market is not shown, as in the opinion of the directors, it would be seriously prejudicial to the interests of the company to do so.

4. Operating profit

	2006	*2005*
	£000	*£000*
Operating profit is stated after charging/(crediting):		
Depreciation	12	16
Auditors' remuneration:		
- Audit services	19	17
Operating lease rentals:		
- Land and buildings	196	170
- Other	43	33
Land and buildings rental income	(109)	(72)

Notes to the Financial Statements
at 31 December 2006

5. Staff numbers and costs

The average monthly number of persons employed by the company during the year was as follows:

	Number of employees	
	2006	*2005*
Administration and office	2	3
Sales	15	15
	17	18

The aggregate payroll costs of these persons were as follows:

	2006	*2005*
	£000	*£000*
Wages and salaries	831	818
Social security costs	81	88
Other pension costs	74	73
	986	979

The total emoluments paid to directors during the year were £ 107,597 (2005: £109,064).

	Number of directors	
	2006	*2005*
Number of directors to whom benefits are accruing under defined benefit pension arrangements	-	-

6. Interest receivable and similar income

	2006	*2005*
	£000	*£000*
Bank interest receivable	4	14
Interest receivable from group cash pool	106	50
Interest received on late payments	2	-
	112	64

7. Interest payable and similar charges

	2006	*2005*
	£000	*£000*
Interest payable on bank loans and overdrafts	4	9
Other finance charges – net finance cost on pension schemes (note 18)	4	5
	8	14

Notes to the Financial Statements

at 31 December 2006

8. Tax on profit on ordinary activities

a) Analysis of tax charge in year

	2006 £000	2005 £000
Current tax		
UK corporation tax	60	202
Adjustment in respect of prior periods	(2)	10
Total current tax	58	212
Deferred tax		
Origination and reversal of timing differences	(30)	(2)
TAX ON PROFIT ON ORDINARY ACTIVITIES	28	210

b) Factors affecting the current tax charge for the year

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

	2006 £000	2005 £000
Profit on ordinary activities before tax	210	636
Current tax at 30% (2005: 30%)	63	190
Effects of:		
Permanently disallowable items	13	14
Other timing differences	(14)	-
Capital allowances in advance of depreciation	(2)	(2)
Timing difference relating to pension cost provision	-	2
Other items	-	(2)
Prior year over provision	(2)	10
Total current tax charge (see above)	58	212

Notes to the Financial Statements
at 31 December 2006

10. Tangible fixed assets

	Fixtures and Fittings £000	*Computer Equipment £000*	*Total £000*
Cost:			
At 1 January 2006	30	88	118
Additions	-	2	2
Disposals	-	-	-
At 31 December 2006	30	90	120
Depreciation:			
At 1 January 2006	29	68	97
Charge for the year	1	11	12
Disposals	-	-	-
At 31 December 2006	30	79	109
Net book value:			
At 31 December 2006	-	11	11
At 31 December 2005	1	20	21

11. Stocks

	2006 £000	*2005 £000*
Goods for resale	20	990

In the opinion of the directors, the current replacement cost of stocks is not materially different from their historical cost.

12. Debtors

	2006 £000	*2005 £000*
Trade debtors	622	6,095
Amounts due from group undertakings	3,948	-
Corporation Tax	100	-
Deferred taxation excluding pensions (note 14)	30	-
Prepayments and accrued income	67	94
	4,767	6,189

Notes to the Financial Statements
at 31 December 2006

13. Creditors: amounts falling due within one year

	2006 *£000*	*2005* *£000*
Trade creditors	31	180
Amounts owed to group undertakings	-	2,897
Corporation tax	-	111
Other taxes and social security costs	63	170
Accruals and deferred income	604	510
	698	3,868

14. Deferred taxation

The (asset)/liability in respect of deferred taxation is set out below:

	2006		*2005*	
	Provided *£000*	*Unprovided* *£000*	*Provided* *£000*	*Unprovided* *£000*
Difference between accumulated depreciation and capital allowances	(15)	-	-	(16)
Losses transferred from group company		-	-	-
Other timing differences	(15)	-	-	(30)
	(30)	-	-	(46

The deferred tax asset relating to the actuarial loss on pension schemes of £74,000 (2005: £83,000) is included within 'net pension assets and liabilities' on the balance sheet (see note 19).

The movement in deferred tax assets during the year is as follows:

	£000
At 1 January 2006	83
Movement on deferred tax on actuarial gain/loss included in STRGL(note 16)	(9)
Deferred tax credit recognised in the year (note 8)	30
At 31 December 2006	104

15. Share capital

	2006 *£000*	*2005* *£000*
Authorised, allotted, called up and fully paid:		
2,501,000 ordinary shares of £1 each	2,501	2,501

Notes to the Financial Statements
at 31 December 2006

16. Reserves

	Profit and loss account £000
At 1 January 2006	1,252
Profit for the financial year	182
Actuarial gain recognised on pension schemes	35
Deferred tax relating to actuarial gain on the pension schemes	(9)
At 31 December 2006	1,460

17. Contingencies
As at 31 December 2006 there is a guarantee of £1m to HMRC.

18. Commitments
There were no capital commitments at the end of this or the preceding financial year.

Annual commitments under non-cancellable operating leases are as follows:

	2006		*2005*	
	Land and buildings £000	*Other £000*	*Land and buildings £000*	*Other £000*
Operating leases which expire:				
Within one year	15	10	-	1
In the second to fifth years inclusive	188	52	196	22
Over five years	-	-	-	-
	203	62	196	23

Notes to the Financial Statements
at 31 December 2006

19. Pensions

The company provides defined retirement benefits for certain of its former directors and employees funded through contributions to individual insurance policies.

The pension costs relating to these arrangements have been assessed as at 31 December 2006 in accordance with the advice of a qualified independent actuary using the projected unit method to meet the requirements of FRS17.

The major assumptions used by the actuary were:

	2006	*2005*	*2004*
Rate of increase in pensionable salaries	n/a	n/a	2.8%
Rate of increase to pensions (where applicable)	n/a	n/a	0.0%
Discount rate	5.1%	4.8%	5.3%
Inflation assumption	3.3%	3.0%	2.8%

The assets of the schemes and the expected rate of return were:

		2006		*2005*		*2004*
		£000		*£000*		*£000*
With - profits policies	5.5%	199	5.5%	193	6.0%	180
Equities	8.0%	301	8.0%	259	8..0%	200
Total market value of assets		500		452		380
Actuarial value of liability		(746)		(729)		(602)
Deficit		(246)		(277)		(222)
Related deferred tax credit		74		83		66
Net pension liability		(172)		(194)		(156)

Analysis of amount charged to operating profit

	2006	*2005*
	£000	*£000*
Current service cost	-	13

Analysis of amount charged to other finance costs

	2006	*2005*
	£000	*£000*
Expected return on pension scheme assets	31	27
Interest on pension scheme liabilities	(35)	(32)
Net finance costs	4	(5)

Notes to the Financial Statements
at 31 December 2006

19. Pensions (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2006 £000		2005 £000	
Actual return less expected return on assets	17	3% of scheme assets	20	4% of scheme assets
Experience gains and losses on the scheme liabilities 2006	5	1% scheme liabilities	0	0% of scheme liabilities
Changes in assumptions	23	3% of scheme liabilities	(82)	11% of scheme liabilities
Actuarial gain/(loss) recognised in STRGL	35	5% of scheme liabilities	(62)	9% of scheme liabilities

Movement in the net deficit in the schemes during the year

	2006 £000	2005 £000
Deficit in schemes at beginning of year	(277)	(222)
Movements in year		
Current service cost	-	(13)
Contributions	-	25
Other finance costs	(4)	(5)
Actuarial (loss)/gain	35	(62)
Deficit in schemes at end of year	(246)	(277)

In addition, during the year, the company made contributions to employees' personal pension plans. Contributions were charged to the profit and loss account as paid and amounted to £74,075 (2005: £73,275).

20. Ultimate controlling party

The ultimate controlling party is Rautaruukki Oyj, a company incorporated in Finland. The only group of which Ruukki UK Limited is a member and for which group financial statements are drawn up is that headed by Rautaruukki Oyj. Copies of the group financial statements can be obtained from Rautaruukki Oyj, Suolakivenkatu 1, P O Box 138, FI-00811, Helsinki, Finland.