# Annual report 2014

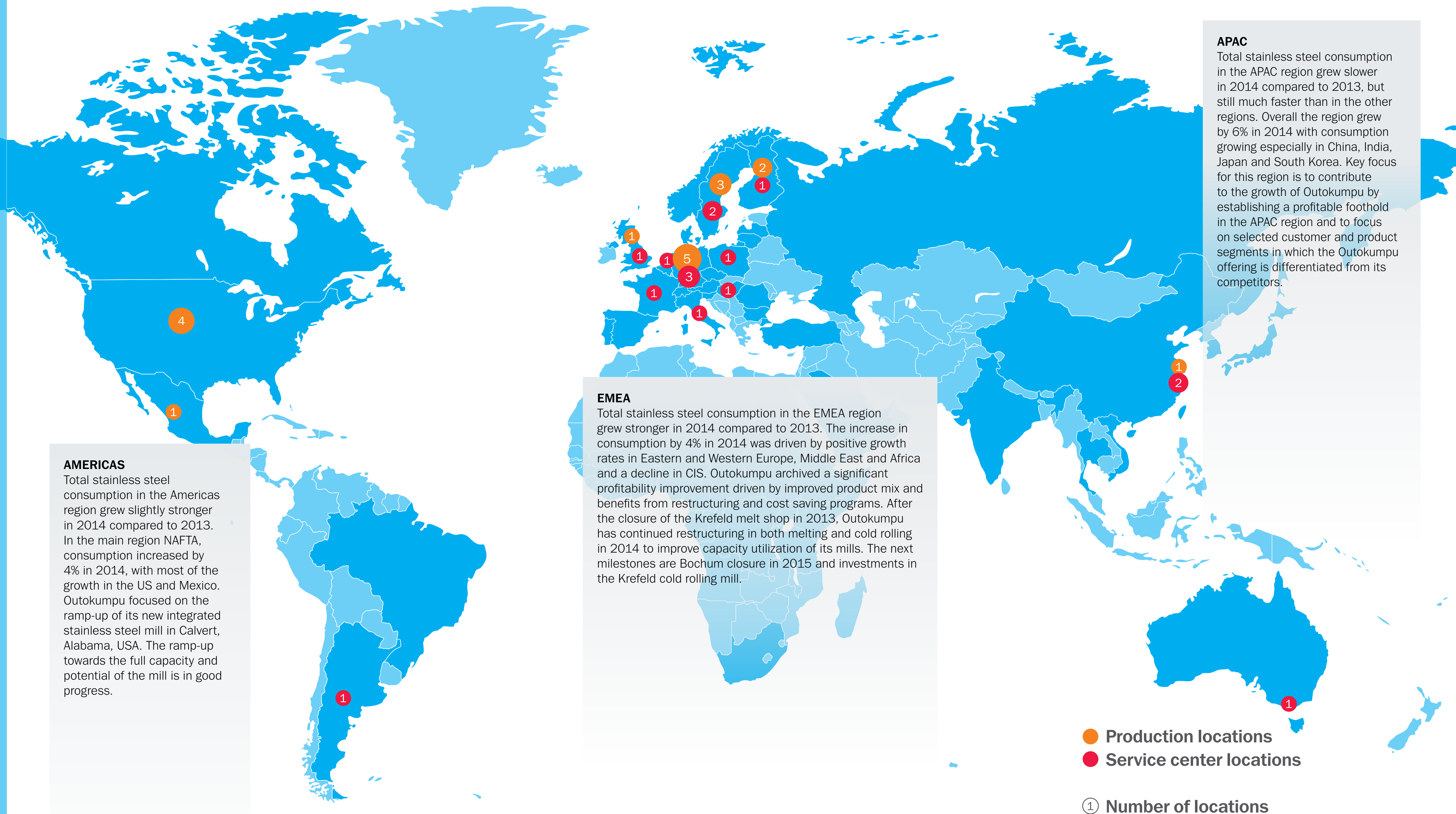
outokumpu
working towards a world that lasts forever

This **Annual report** includes Financial statements and Corporate governance statement. For our environmental and social reporting, please check our **Sustainability report 2014**.

CONTENTS



# Strong presence in key markets



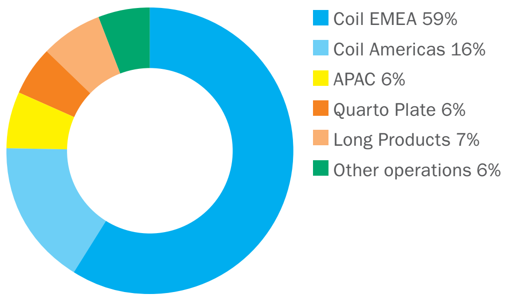

**AMERICAS**
Total stainless steel consumption in the Americas region grew slightly stronger in 2014 compared to 2013. In the main region NAFTA, consumption increased by 4% in 2014, with most of the growth in the US and Mexico. Outokumpu focused on the ramp-up of its new integrated stainless steel mill in Calvert, Alabama, USA. The ramp-up towards the full capacity and potential of the mill is in good progress.

**EMEA**
Total stainless steel consumption in the EMEA region grew stronger in 2014 compared to 2013. The increase in consumption by 4% in 2014 was driven by positive growth rates in Eastern and Western Europe, Middle East and Africa and a decline in CIS. Outokumpu archived a significant profitability improvement driven by improved product mix and benefits from restructuring and cost saving programs. After the closure of the Krefeld melt shop in 2013, Outokumpu has continued restructuring in both melting and cold rolling in 2014 to improve capacity utilization of its mills. The next milestones are Bochum closure in 2015 and investments in the Krefeld cold rolling mill.

**APAC**
Total stainless steel consumption in the APAC region grew slower in 2014 compared to 2013, but still much faster than in the other regions. Overall the region grew by 6% in 2014 with consumption growing especially in China, India, Japan and South Korea. Key focus for this region is to contribute to the growth of Outokumpu by establishing a profitable foothold in the APAC region and to focus on selected customer and product segments in which the Outokumpu offering is differentiated from its competitors.

# Key figures

**Sales, 6 844 € million**




## Group key figures

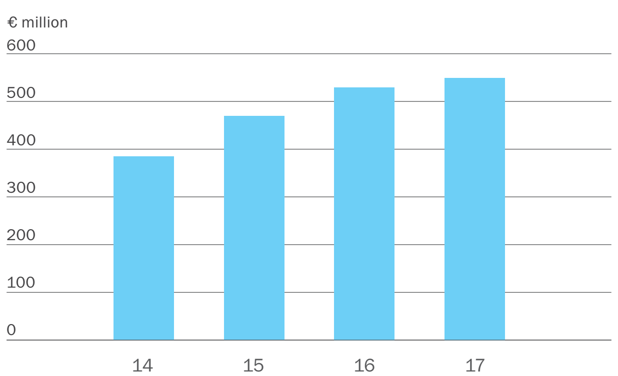
| | 2014 | 2013 |
|---|---|---|
| Sales (€ million) | **6 844** | 6 745 |
| EBITDA (€ million) | **104** | -165 |
| Underlying EBITDA (€ million) | **232** | -32 |
| EBIT (€ million) | **-243** | -510 |
| Underlying EBIT (€ million) | **-88** | -377 |
| Net result (€ million) | **-439** | -1 003 |
| Net cash generated from operating activities (€ million) | **-126** | 34 |
| Capital expenditure (€ million) | **127** | 183 |
| Stainless steel deliveries (1 000 tonnes) | **2 554** | 2 585 |
| Personnel at the end of the period | **12 125** | 12 561 |

## Capital structure

| | 2014 | 2013 |
|---|---|---|
| Non-current debt (€ million) | **1 597** | 3 270 |
| Current debt (€ million) | **569** | 893 |
| Cash and cash equivalents (€ million) | **191** | 607 |
| Net interest-bearing debt at the end of the year (€ million) | **1 974** | 3 556 |
| Debt-to-equity ratio at the end of the year (%) | **92.6** | 188.0 |

Figures presented for continuing operations

**Combined savings***




* 2015–2017 forecast.



# CEO foreword

"We still have a lot of work ahead of us, but halving our losses in 2014 shows that the merger, our strategy and efficiency measures are starting to bear fruit."

**Mika Seitovirta, CEO**

In 2014 Outokumpu turned towards the right direction. During the first months of the year we sold the Terni mill and VDM operations to ThyssenKrupp, thereby reducing our net debt by 1.3 billion euro, and carried out comprehensive financing arrangements including a rights issue of 650 million euro that gave us the financial strength to continue our turnaround to profitability. Reaching an agreement with the labor unions regarding the closure of the Bochum melt shop in Germany enabled us to accelerate the restructuring in Europe that is a key lever for improving our financial performance.

In the spring we were relieved of the obligations set by the European Commission to supply our American operations from the Terni mill. Ending the slab deliveries from Europe improved the utilization rates of our Calvert mill and positioned Outokumpu a strong local player, "made in America". Fully united, Calvert and the high-class cold-rolling mill in San Luis Potosí in Mexico gained good momentum on the NAFTA market: our market share in US increased to 18% from 15% in 2013, and in the NAFTA market our market share rose to 22%.

Stainless steel demand picked up from 2013, even in Europe after the negative trend of the previous years. To some extent the joy was short lived as new uncertainties emerged to shadow the European economy and Asian imports reached new heights. Furthermore, the sharp increase in nickel price during the first half of the year plateaued in the summer and turned towards lower levels for the rest of the year. This created a sharp contrast in demand, with distributors digesting their stocks and postponing orders towards 2015.

Despite the market volatility, we continued to improve our financial performance. Our underlying EBIT improved 289 million euro compared to 2013, decreased our net debt and improved our gearing. The net result -439 million euro for the period shows we still have work ahead of us. However, halving our losses in 2014 shows that the merger, our strategy and efficiency measures are starting to bear fruit.

In fact, the progress has given us confidence to raise the bar higher: we intend to reach full synergy savings already this year and reach a total of 550 million euro annual synergy and cost savings by the end of 2017. By end of 2014, we had already reached 385 million euro of these total savings, and well on our way to release 400 million euros of cash through working capital management by the end of 2015.

During 2014 we also reinforced our customer focus. We won our largest duplex delivery ever to a natural gas project in Oman, and signed a deal to deliver 800 tonnes of stainless steel to create the façade of Baosteel's new head offices in China. We flattened our organizational structure to increase accountability and get closer to the customers. The reorganization also lifted quarto plate and long products as business areas, providing more transparency to these businesses.

In 2015 we will further strengthen the customer focus, constantly challenging ourselves to further improve our delivery performance and customer services. We will fight for a strong, profitable market position in our home markets, particularly in Germany, the biggest stainless steel market in Europe. We will also raise the bar on operational efficiency, as we see significant further potential in improving right first time, yield improvement and scrap utilization.

Two years ago we started a new chapter in the Outokumpu history as a truly global leader in stainless steel, with the goal to stop and reverse the downward spiral of losses that had continued for years. This has required tremendous efforts: restructuring our entire industrial footprint in Europe, expanding to America and investing in our future with the doubled ferrochrome production in Finland and world class quarto plate capacity in Sweden.

Due to the scale of the required changes, the headwinds and obstacles in our path, the journey has tested our endurance and the patience of our shareholders. The progress we have made is a testimonial to the perseverance and professionalism of the Outokumpu employees, and we remain unwavering in our commitment to our shareholders: to turn the company back on a track that provides return on investments.

**Mika Seitovirta**
Outokumpu CEO

# Market environment

> SMR estimates that global stainless steel demand will reach 38.5 million tonnes and 40.6 million tonnes in 2015 and 2016, respectively.

## Our market position

In 2014, total global steel production was 1.6 billion tonnes, of which approximately 91% was carbon steel and approximately 2.7% was stainless steel. Stainless steel is a versatile and widely used material that plays a key role in many important areas, including urbanization, transportation, energy, and the production and consumption of food, water and other beverages. Stainless steel's attractive properties, which include corrosion resistance, high strength-to-weight ratio, heat tolerance, aesthetic qualities and the ability to be recycled, have contributed to the increased use of stainless steel in new and existing applications. As a result, stainless steel consumption has been growing more rapidly than that of any other metal in recent decades.

Source: World Steel Association, SMR December 2014

Outokumpu is one of the world's leading stainless steel producers and is widely recognized for its product quality, excellence in both standard and special grades, such as duplex stainless steel grades, and as a global leader in research, development and technical support. Outokumpu operates around the world. Its main production facilities are located in Finland, Germany, Sweden, the UK, the US, Mexico and China. The Group's site in Tornio, Finland is one of the world's most cost-effective and highly-integrated single-site stainless steel production facilities that focus on high-volume standard grades of stainless steel. The Group's production sites in Germany focus on more customized deliveries of ferritic and austenitic grades, including bright annealed surfaces, and the production sites in Sweden focus on special grades. The Group is ramping up a new and fully integrated production site in Calvert, Alabama, USA, which complements the product portfolio of the Mexican plant and supplies it with feedstock material.

The global stainless steel slab production capacity in 2014 totaled approximately 51.4 million tonnes. The largest producers based on this measure are Tsingshan, Tisco, Outokumpu, Posco, Baosteel, Yusco, Acerinox, and Aperam. Global stainless steel production was 34.7 million tonnes in 2014, an increase of 8% compared to 2013. In Europe, stainless steel production was 5.5 million tonnes in 2014, an increase of 2% compared to 2013. Europe has not yet recovered from the impact of the financial crisis and is far away from returning to the 2006 level of 7.4 million tonnes. In China, stainless steel production has increased significantly during the past ten years, from 1.2 million tonnes in 2003 to 19.5 million tonnes in 2014. Outokumpu had an approximately 30% share of cold rolled stainless steel deliveries in Europe and an approximately 8% share globally in 2014.

Source: Eurofer and SMR December 2014

### Major stainless steel producers

Estimated slab melting capacity

| Million tonnes | 2014 | 2015 |
|---|---|---|
| Tsingshan | **4.4** | 4.3 |
| Tisco | **4.2** | 4.2 |
| Outokumpu | **4.0** | 3.6 |
| Posco | **3.9** | 3.9 |
| Baosteel | **3.6** | 3.6 |
| Yusco | **2.9** | 2.8 |
| Acerinox | **2.7** | 2.9 |
| Aperam | **1.9** | 1.9 |

Source: SMR December 2014

**End-uses of stainless steel**

- Consumer Goods & Medicals 47%
- Chemical, Petrochemical & Energy 17%
- Automotive & Heavy Transport 11%
- ABC & Infrastructure 15%
- Industrial & Heavy Industry 8%
- Others 3%

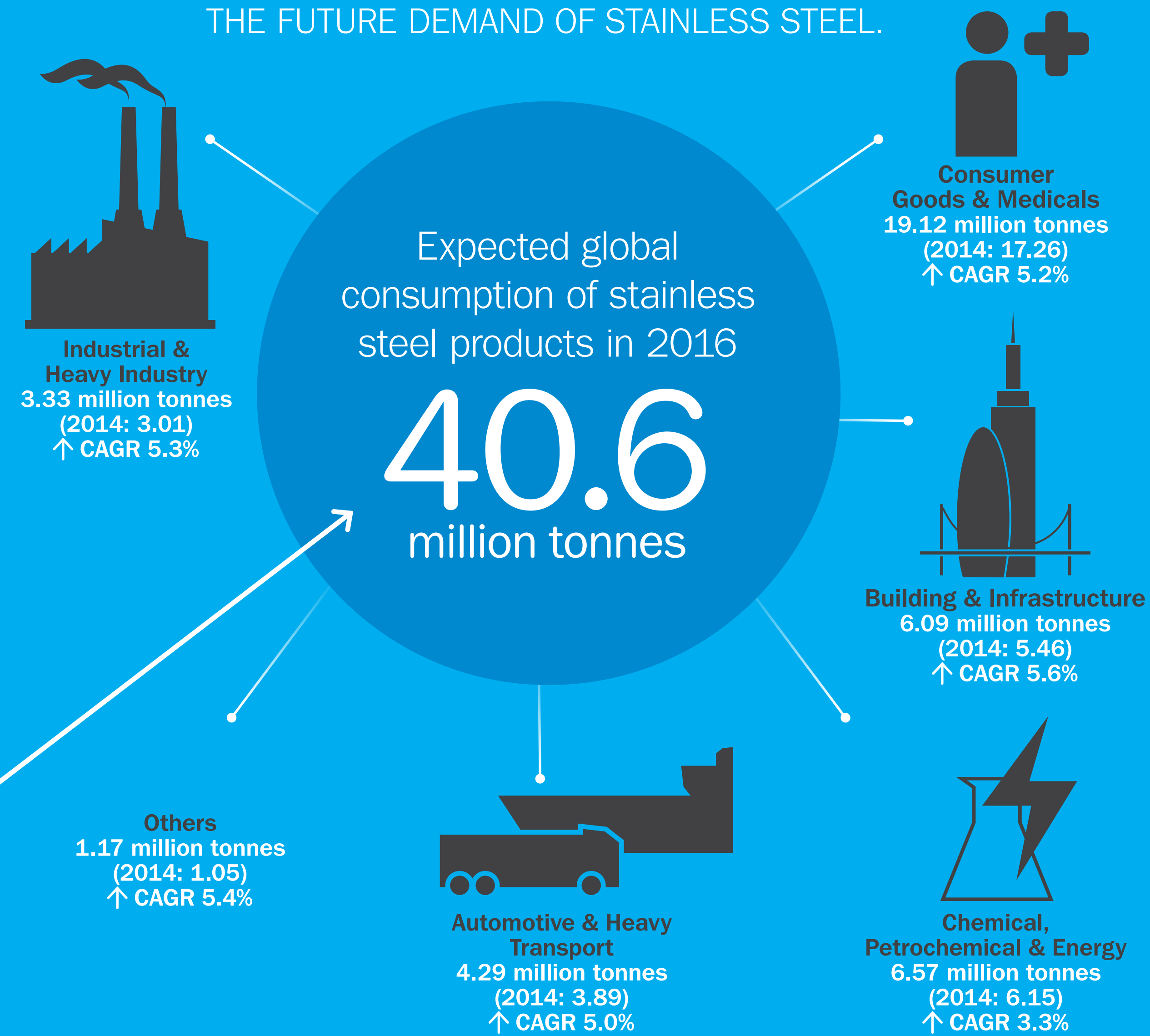
Source: SMR, stainless steel finished products*, December 2014.

* Rolled and forged products excl. 13Cr tubes, profiles.

POPULATION GROWTH AND URBANIZATION, INCREASING MOBILITY, CLIMATE CHANGE, SCARCITY OF RESOURCES AND ENERGY ARE DRIVING THE FUTURE DEMAND OF STAINLESS STEEL.

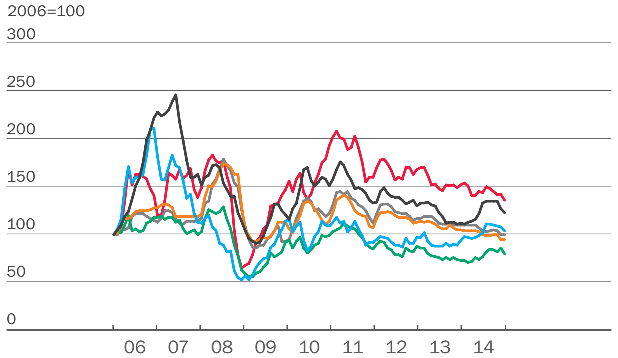
Global consumption of stainless steel products in 2014

36.9 million tonnes




Source: SMR, stainless steel finished products, December 2014
CAGR = Compound Annual Growth Rate

**Market price comparison with competing materials**

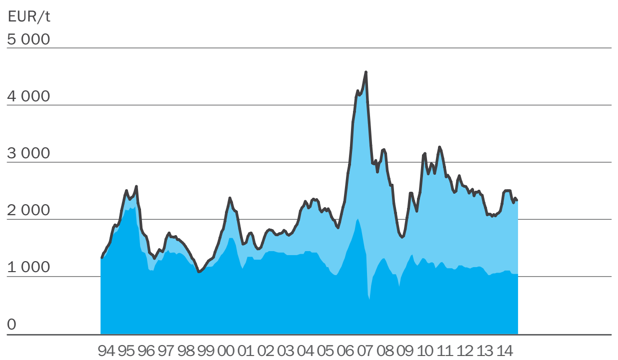



Stainless steel*
Zinc
Carbon steel galvanized sheet
Aluminium
Carbon steel cold rolled coil
Copper

Source: CRU, LME and Metal Bulletin. Including December 2014.

* Stainless steel prices are for grade 1.4301.

**Stainless steel price***




Base price
Transaction price
Alloy surcharge

Source: CRU. Including February 2015.

* Stainless steel reference price for cold rolled 304 2mm sheet in Europe.

## Market review

Global consumption of stainless steel products increased by 6%, from 34.9 million tonnes in 2013 to 36.9 million tonnes in 2014. Global consumption levels in the first quarter of 2014 were positively influenced by the nickel price development, a low inventory basis at the beginning of the year and improved underlying end-use demand. Consumption levels slowed down in the second and third quarter of 2014 due to the decreasing trend of the nickel price, increasing concerns over the developments of the European economy and the reduced growth perspectives of the Chinese economy. Growth dynamics differed significantly from region to region. Some global end-use markets have sensed high growth opportunities in 2014, especially the Chemical, Petrochemical and Energy and Consumer Goods & Medical segments.

In EMEA, stainless steel consumption increased by 4% to 7.2 million tonnes in 2014. The main driver was an increase in consumption levels in Western European consuming countries. After the sharp drop in consumption levels in 2013, major Western European countries, such as Germany, Italy, United Kingdom and Spain acknowledged a recovery process throughout the year 2014. In Europe, consumption totaled 5.8 million tonnes in 2014, an increase of 4% compared to 2013. Other regions in EMEA besides Western Europe also showed a good performance in 2014 (Eastern Europe +5%, Middle East +6%, Africa +3% and CIS -3% compared to 2013). The increased European demand in 2014 was mainly attributable to higher demand in the Automotive & Heavy Transport and Consumer Goods & Medical segments. A decline in the demand in the Industrial & Heavy Industry segment reduced European demand in 2014.

In Americas, stainless steel consumption increased to 3.6 million tonnes in 2014, with mainly the NAFTA region experiencing growth (+4% to 2.9 million tonnes). After a comparatively slow start to the year 2014 due to weak weather conditions, dynamics in the US market have accelerated from the second quarter of 2014 on, indicating a further stable demand situation in North America. US growth was supported by a strong Mexican market. South America was dominated by the robust Brazilian market, while consumption in other markets such as Argentina, Chile and Uruguay was surprisingly volatile. In NAFTA, growth in 2014 was mainly attributable to increased demand from the Chemical/Petrochemical & Energy, Automotive & Heavy Transport and Industrial & Heavy Industry segments.

In APAC, stainless steel consumption has grown rapidly in recent years (26.0 million tonnes in 2014), which has been the main factor supporting global growth. China's share of APAC demand reached 66% in 2014 (+7% to 17.1 million tonnes in 2014 compared to 2013), followed by India with a share of 12% (+6% to 3.0 million tonnes), Japan with a share of 8% (+3% to 2.1 million tonnes) and South Korea with a share of 7% (+4% to 1.7 million tonnes). Growth in the consumption of the Chemical/Petrochemical & Energy, Consumer Goods & Medical and Automotive & Heavy Transport mainly contributed to increased consumption in China.

Source: SMR Real Demand December 2014

Average transaction prices in 2014 for 2 mm cold rolled 304 stainless steel sheet in the three regions of Europe, the USA and China remained slightly above the significantly low levels of the previous year. While in the first quarter of 2014 price levels in all three regions decreased quarter-on-quarter, transaction prices increased sharply in the second and third quarter.
In the last quarter of 2014, price levels in all three regions declined again. In the second quarter of 2014, small base price increases have been acknowledged in Europe as well as in the USA. Asian price advantages remained high in 2014 and kept up the attractiveness of imported material in the European market. The price advantages result from the high investments of Asian mills in new state-of-the-art facilities with high production capacities, economies of scale and partially significant cost advantages, for example from using alternative raw materials such as nickel pig iron. Outokumpu intends to improve its competitiveness and attractiveness against imported material coming from Asia by optimizing its production network, further developing its raw material strategy, delivering faster, more reliably, more flexibly and with the new daily alloy surcharge pricing system.

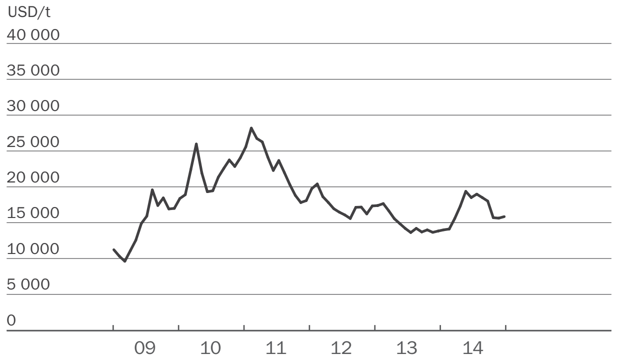
Source: CRU February 2015

## Outlook

The long-term prospects for stainless steel consumption remain robust. Key global megatrends in urbanization, modernization and increased mobility, combined with growing global demand for energy, food and water, will ensure the continuing growth of stainless steel consumption in the future. SMR estimates that global stainless steel demand will reach 38.5 million tonnes and 40.6 million tonnes in 2015 and 2016, respectively. Between 2014 and 2016, global consumption is expected to increase at an annual growth rate of 5% CAGR, while growth is estimated to be mainly driven by increased consumption in APAC (+6% CAGR). In EMEA and Americas, total stainless steel demand is estimated to increase by 2% and 4% CAGR, respectively, from 2014 to 2016. Growth will be mainly supported from increased demand in the ABC & Infrastructure (+6%), the Industrial & Heavy Industries (+5%) and the Consumer Goods & Medical (+5%) segments. Between 2014 and 2016, the Automotive & Heavy Transport and the Chemical, Petrochemical & Energy segments are expected to grow at average annual growth rates of 5% and 3%, respectively.

Source: SMR Real Demand December 2014

**Nickel price**

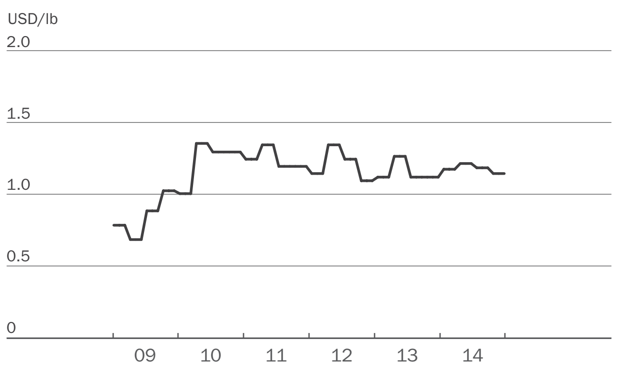



Source: LME settlement, monthly average prices, including December 2014.

**Molybdenum price**


Source: Metal Bulletin – Molybdenum Drummed molybdic oxide. Free market $ per lb Mo in warehouse.

**Ferrochrome price**




Source: Quarterly contract prices agreed between South African ferrochrome producers and European buyers, including Q4/2014.

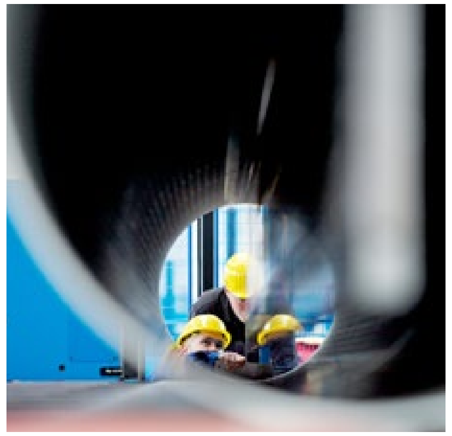
# Highlights

In 2014 Outokumpu turned towards the right direction. On the second year since the merger, tangible results of the strategy started to show: profitability was clearly improved, debt was reduced and strengthened customer focus was reflected in improved delivery performance and number of new customer projects. Work continues to return Outokumpu back to sustainable profitability.

## Q1


### 50% more ore reserves

New underground drilling at the Kemi, Finland chromium mine showed that proved ore reserves are 50% larger than estimated earlier. The mineral resources of the mine total 97.8 million tonnes, while annual production is around 2.5 million tonnes.



### The largest duplex delivery ever

Outokumpu delivers 22,000 tonnes of duplex stainless steel to a natural gas field project in Oman. The deal is the single largest duplex delivery by Outokumpu. Duplex is used by Sosta and Inox Tech to produce welded tube.

### Terni and VDM sold

Outokumpu concluded sale of the Terni, Italy assets and high-performance alloys business (VDM) to ThyssenKrupp. The deal decreased significantly Outokumpu's net debt and fulfilled the remedy requirements set by the European Commission related to the Inoxum acquisition.

## Segment highlight: Automotive industry

While people are increasingly moving and cities are growing, new and ever more stringent environmental requirements put car manufacturers under a lot of pressure. The need to decrease emissions means that the manufacturers need to reduce the weight of their vehicles. Here stainless steel, which is an extremely strong and safe material even with thin walls, offers many opportunities for car manufacturers.

Outokumpu's sales and R&D teams work in cooperation with the customers to create ever lighter yet strong components such as fuel tanks for cars. For instance, Outokumpu's stainless steel has been used by TechRoi Fuel Systems to manufacture a pioneering stainless steel fuel tank for Saab 9-3.

## Q2


### EUR 640 million from an equity issue

Outokumpu raised EUR 640 million of net proceeds in an oversubscribed rights issue. The rights issue was part of a comprehensive set of measures that significantly strengthened Outokumpu's balance sheet and credit profile, thus enabling the company to carry out its turnaround to profitability.


### First deal for high-chromium ferritic grade

Outokumpu announced the first deal for its newly launched high-chromium ferritic stainless steel grade. HEAT-IT manufactures rescue chambers, used by employees of the mines and underground construction sites in case of an emergency. The grade is maintenance free and strong, and there rescue chambers are durable and have a long life cycle.

### Degerfors quarto plate investment completed

In June 2014 customers visited the Degerfors mill in Sweden to see the results of the EUR 100 million quarto plate investment. The investment expanded the mill's capacity, increased cost efficiency and improved the surface quality of the products.

### EMEA restructuring negotiations concluded

Outokumpu and German labor unions reached an agreement over the earlier closure of the Bochum melt shop and additional job reductions in Germany. This meant that Outokumpu was able to accelerate the EMEA restructuring – a major milestone since the plan will bring savings of EUR 100 million by 2017.

### Outokumpu wins ISSF sustainability award

A more than 30-year study by Outokumpu's Chief Medical Officer Markku Huvinen won the sustainability award of the International Stainless Steel Forum. The pioneering study is the first ever study on exposure to dust containing chromium and nickel in the stainless steel industry.

## Segment highlight: Building & construction

As the standard of living rises and with people increasingly living in cities, cities are getting bigger and growing upwards. This trend sets new requirements for buildings. Durable, yet aesthetic façades and a longer service life are required from these tall buildings. In many cases, the world's population is concentrated in high-corrosion areas with exposure to coastal climate and high pollution levels.

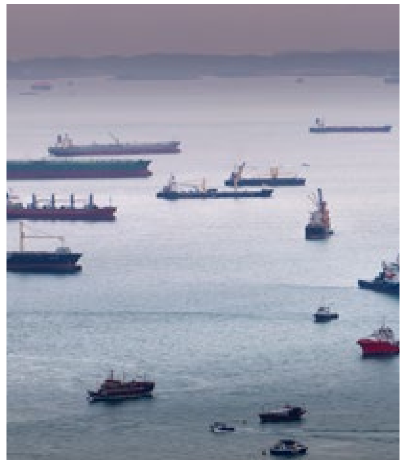
The sustainable design and construction of skyscrapers almost require the use of stainless steel – for instance in façades, in reinforcing concrete structures, in escalators and elevators. Outokumpu has several showcases in skyscrapers for example in China, Dubai, Singapore and USA spanning several decades and in many cases in corrosive coastal areas.

## Segment highlight: Energy

Every year, the world uses more resources than the planet actually has. As resources are limited, there is a huge demand for environmental responsibility and renewable energy sources. Solar power, wind power and products for higher fuel efficiency require materials that are durable and withstand high temperatures. The depletion of raw materials is increasing the need for materials with high recyclability.

Outokumpu's stainless steel is a good example of both. In a desert in Nevada, there is a pioneering solar power plant with panels in Outokumpu's stainless steel. It is also used, for example, in the harsh environment of flue-gas cleaning equipment in power plants, where it helps to keep sulfur dioxide emissions at a minimum. Moreover, as it is maintenance free, durable and fully recyclable, stainless steel keeps application life cycles very high and the carbon footprint of the product as small as possible.

## Q3



### Superduplex for flue-gas cleaning

Outokumpu delivers superduplex grades for Valmet's flue-gas cleaning equipment where sulfur, seawater and heat require a lot from the materials used. Flue-gas cleaning is used in ships to comply with the sulfur directive by the European Commission, effective from 2015.

### Coil Americas' profitability improving

The single biggest profitability lever in Outokumpu is the ramp of the Calvert, USA stainless steel mill in business area Coil Americas. In the second quarter of 2015, Coil Americas reached positive EBITDA for the first time.

### New bond, expanded efficiency programs

Outokumpu issued a new bond to refinance the existing indebtedness, including the redemption of the bond maturing in June 2015. Outokumpu also expanded its efficiency programs, targeting now annual savings of altogether EUR 550 million in 2017 and release of cash from net working capital of EUR 400 million, both compared to 2012 level.

### Reverse split of shares

Outokumpu concluded a reverse split of shares to decrease the number of its shares by merging twenty-five shares into one share. The purpose of the reverse split was to rationalize the number of shares, increase the value of individual share and therefore enhance trading conditions and improve price formation on the stock market.

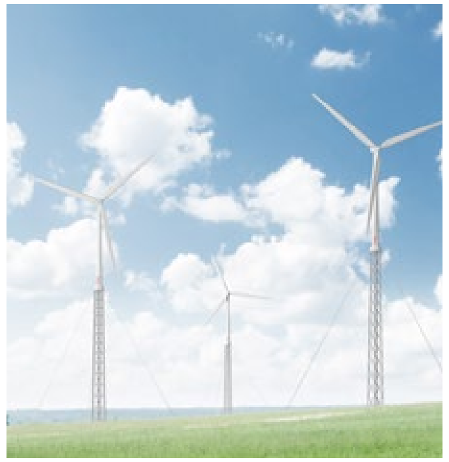
### Duplex lengthens water heaters life

Outokumpu delivers LDX 2101® to PVI Industries. Customer was able to lengthen water heater life and reduce the amount of waste. The state of Texas, USA awarded PVI Industries for pollution prevention in its Environmental Excellence Awards in 2014.

## Q4

### First-ever maintenance-free boat

Outokumpu's stainless steel was used to produce a first-ever maintenance-free boat in Sweden by Swedish Steel Yachts. Stainless steel gives the boat an extremely thin, yet strong surface, which does not require any maintenance.

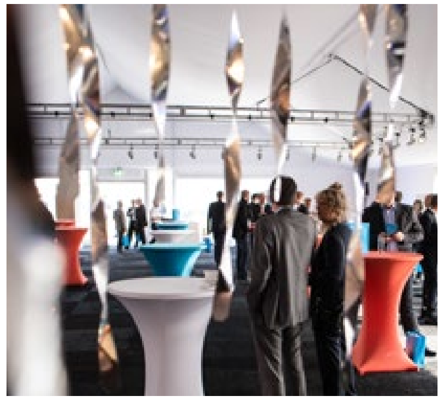


### New heights for wind power towers

Outokumpu's duplex grades help wind power towers reach new heights. With the help of stainless steel, Stalatube designed hybrid towers that can reach heights up to 140–160 meters or more. Above 100 meters, the energy output of the tower increases by an average of one percent every additional meter.

### Kloster operations closed

The Kloster thin strip mill in Sweden was closed down on December as announced at the beginning of 2014. Outokumpu continues to serve its thin strip customers from its German units. For 43 people, Outokumpu found new positions in other units in Sweden.



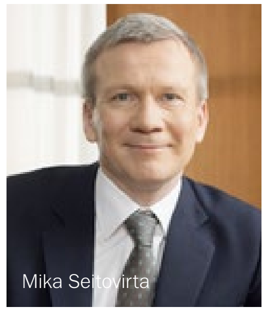
### 800-tonne stainless steel façade

Outokumpu's SKS mill in Shanghai, China delivers 800 tonnes of 316L stainless steel for Baosteel's new head offices in China. Pelli Clarke Pell Architects had strict requirements for the materials used, including their quality and appearance. In September, Outokumpu showcased its expertise in skyscraper façades at the Tall Building Conference in Shanghai, and surface finishes at a customer event in Dillenburg, Germany.

### Yet again climate disclosure leader

Outokumpu was again included in the Nordic Climate Disclosure Leadership Index, for the fifth consecutive year. This year, Outokumpu's score rose to 95 out of 100 and the Group was among the top 10% of the organizations. High scores indicate the provision of robust climate data upon which decisions that will catalyze progress towards low carbon economies can be made.

# Leadership Team on Dec 31, 2014





## Mika Seitovirta

b. 1962, Finnish citizen
M.Sc. (Econ.)
CEO 2011–
Chairman of the Outokumpu Leadership Team 2011–
Responsibility: Group management, strategy and sustainability, legal and internal audit
Employed by the Outokumpu Group since 2011

**Work experience**
President and CEO: Glaston Corporation (formerly Kyro Corporation) 2007–2009
Managing Director: Hartwall Oy 2003–2006
Managing Director: Volvo Auto 1998–2003
Finance Director, Deputy to Sales Company President: Volvo Deutschland 1994–1998
Several positions at Volvo Auto 1986–1994
Business Development Manager: Aro-Yhtymä 1989–1990

**Positions of trust**
Chairman of the Board: Association of Finnish Steel and Metal Producers 2015– (Board member 2011–)
Deputy Chairman of the Board: Shanghai Krupp Stainless Co. Ltd. 2013–
Board member: Eurofer 2014–
Board member: East Office of Finnish Industries 2013–
Board member: Federation of Finnish Technology Industries 2013–
Board member: World Steel Association 2013–
Board member: International Stainless Steel Forum 2011–
Member of the Supervisory Board: Varma Mutual Pension Insurance Company 2011–
Board member: Are 2009–2011
Senior Advisor, Advisory Group: Ratos 2008–2011
Board member: Aro-Yhtymä 2006–2011
Board member: Handelsbanken Finland 2004–2011

## Reinhard Florey

b. 1965, Austrian citizen
M. Sc. (Eng.), M.A.
CFO 2013–
Member of the Outokumpu Leadership Team 2012–
Responsibility: Finance and control, treasury and risk management, taxation, integration and M&A, corporate affairs and compliance, and investor relations
Employed by the Outokumpu Group since 2012

**Work experience**
Executive Vice President – Integration and Strategy: Outokumpu Oyj 2012–2013
CFO: Inoxum GmbH 2011–2012
Member of Executive Board: ThyssenKrupp Steel Americas, LLC 2010–2011
CFO – Steel Americas business area: ThyssenKrupp AG 2009–2011
SVP – Corporate Center Mergers and Acquisitions: ThyssenKrupp AG 2005–2009
SVP – Corporate Development/M&A: ThyssenKrupp Steel AG 2002–2005
Various positions at McKinsey & Company 1995–2002

**Positions of trust**
Board member: Shanghai Krupp Stainless Co. Ltd. 2011–
Executive Member of the Board: Acciai Speciali Terni S.p.A. 2011–2014

## Pekka Erkkilä

b. 1958, Finnish citizen
M.Sc. (Eng.)
Executive Vice President, Chief Technology Officer 2013–
Member of the Outokumpu Leadership Team 2013–
Responsibility: Global production and technology strategy, capital investment optimization, R&D, raw material and general procurement and energy
Employed by the Outokumpu Group since 2013 (and in 1983–2000 and 2004–2010)

**Work experience**
President, Ferrous Solutions business area: Outotec Oyj 2010–2013
Executive Vice President, General Stainless and Production Operations: Outokumpu Oyj 2004–2010
Executive Vice President, later President: AvestaPolarit Oyj 2001–2004
President: Outokumpu Chrome Oy 1996–2000
Various management positions: Outokumpu Tornio Works 1983–1995

**Positions of trust**
Chairman of the Board: Manga LNG Oy 2013–
Board member: Voimaosakeyhtiö SF 2014–
Board member: University of Oulu 2009–
Board member: Grängesberg Iron AB 2009–2014

## Austin Lu

b. 1971, Chinese citizen (People's Republic)
MBA, B.Sc. (Econ.)
President – APAC 2012–
Member of the Outokumpu Leadership Team 2012–
Responsibility: APAC business area
Employed by the Outokumpu Group since 2012

**Work experience**
Senior Vice President – APAC Focus Area: Outokumpu Oyj 2012
Vice President, Regional General Manager, China: General Electric 2009–2011
Business Leader, Life Science Ingredient: Lonza Group 2008–2009
Marketing Director: General Electric Plastics, China 2005–2008
Various positions in General Electric Plastics in China 1996–2005
Various positions in China MinMetals Co. 1993–1996

## Kari Parvento

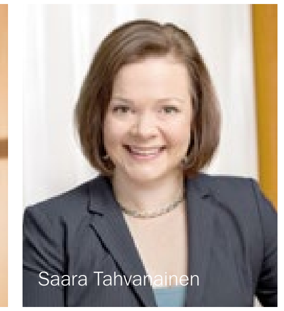
b. 1957, Finnish citizen
M.Sc. (Eng.)
President – Quarto Plate 2014–
Member of the Outokumpu Leadership Team 2010–
Responsibility: Quarto Plate business area
Employed by the Outokumpu Group since 2010

**Work experience**
President – Stainless Americas 2012–2014
Executive Vice President – Ferrochrome, Group R&D and Environment and Quality: Outokumpu 2012
Executive Vice President – Group Sales and Marketing: Outokumpu Oyj 2010–2011
President, Underground Mining: Sandvik Group 2009–2010
President, Underground Hard Rock Mining: Sandvik Group 2007–2009
Managing Director, Sandvik Mining and Construction Oy ("SMC Oy"): Sandvik Group 2007–2010
Managing Director, SMC Australia and Sandvik Materials Handling Pty Ltd. Australia: Sandvik Group 2005–2007
Business Development Manager, Sandvik Tamrock Finland: Sandvik Group 2004–2005
Managing Director: Kuusakoski Sverige AB 2003–2004
Country Manager, Scandinavia: Kuusakoski Group 2000–2004
Managing Director: Kuusakoski AB 2000–2003

**Positions of trust**
Chairman of the Board: SMC Austria GmbH 2009–2010
Board member: SMC Corporation Finland 2007–2010







## Olli-Matti Saksi

b. 1967, Finnish citizen
M.Sc. (Eng.)
President – Coil EMEA 2014–
Member of the Outokumpu Leadership Team 2014–
Responsibility: Coil EMEA business area
Employed by Outokumpu Group since 2013

**Work experience**
Senior Vice President – Head of Sales EMEA: Outokumpu 2013–2014
SVP and General Manager, Division Rolled Products: Aleris 2011–2013
VP, Sales and Marketing: Aleris 2008–2011
VP, Sales and Marketing: ArcelorMittal 2004–2008
VP, Sales: Rautaruukki 2000–2004
Business Development and Corporate Planning: Fundia 1998–2000
Various positions: Rautaruukki 1991–1998

## Johann Steiner

b. 1966, German citizen
M.Sc. (Econ.)
Executive Vice President – Human Resources, IT, Health and Safety 2013–
Member of the Outokumpu Leadership Team 2013–
Responsibility: Human resources, IT, health and safety
Employed by the Outokumpu Group since 2013

**Work experience**
Executive Vice President – Human Resources and Health, Safety and Sustainability: Outokumpu Oyj 2013
Group HR Director: SAG Group GmbH 2012
Operating Partner: Humatica AG 2010–2012
Group HR Director: Clariant International AG 2002–2008
VP Executive Policies: EADS (former DaimlerChrysler Aerospace AG) 1999–2002
Senior Consultant: Towers Perrin 1993–1998

## Saara Tahvanainen

b. 1974, Finnish citizen
M.Sc. (Soc.) in communications
Executive Vice President – Communications & Marketing 2014–
Member of the Outokumpu Leadership Team 2014–
Responsibility: Communications and marketing
Employed by the Outokumpu Group since 2012

**Work experience**
Vice President – Communications: Outokumpu Oyj 2013–2014
Director – External Communications: Outokumpu Oyj 2012
Senior Communications Manager: Nokia 2007–2012
Communications Manager: Nokia 2006–2007
Communications Manager: Fazer 2004–2006
Project Manager, change and leadership communications: Ericsson 2001–2004
Communications Officer: Ericsson 2000–2001

## Kari Tuutti

b. 1970, Finnish citizen
M.Sc. (Econ.)
President – Long Products 2014–
Member of the Outokumpu Leadership Team 2012–
Responsibility: Long Products business area
Employed by the Outokumpu Group since 2011

**Work experience**
Executive Vice President – Marketing, Communications and Sustainability: Outokumpu Oyj 2013–2014
Executive Vice President – Marketing, Communications and IR: Outokumpu Oyj 2012–2013
Senior Vice President – Marketing, Communications and IR: Outokumpu Oyj 2011–2012
Director, Marketing Creation: Nokia Oyj 2009–2011
Vice President, Communications: Nokia Oyj 2008
Director, Communications, Multimedia Business Group: Nokia Oyj 2002–2007
Senior Manager, Investor Relations: Nokia Oyj 1999–2002
Manager, Treasury, Finland and Geneva: Nokia Oyj 1995–1999
Analyst, Treasury: Merita Bank 1994–1995

**Positions of trust**
Chairman of the Board: Fagersta Stainless AB 2014–
Chairman of the Board: Euro Inox 2013–

## Michael Wallis

b. 1960, British citizen
BA (Hons) Business Studies
President – Coil Americas 2014–
Member of the Outokumpu Leadership Team 2014–
Responsibility: Coil Americas business area
Employed by the Outokumpu Group since 2013

**Work experience**
Senior Vice President – Stainless Coil Americas: Outokumpu Oyj 2013–2014
Chief Executive Officer: Outokumpu Stainless USA (former ThyssenKrupp Stainless USA) 2012–2013
VP & President, North America Rolled Products: Alcoa Inc. 2004–2012
General Manager: Alcoa Europe 2002–2004
Managing Director: British Aluminium (part of Luxfer Group) 1996–2002
Managing Director: British Alcan Plate 1993–1996
Finance Director: British Alcan Aerospace 1991–1993
Chief Accountant: British Alcan 1990–1991

# Board of Directors on Dec 31, 2014

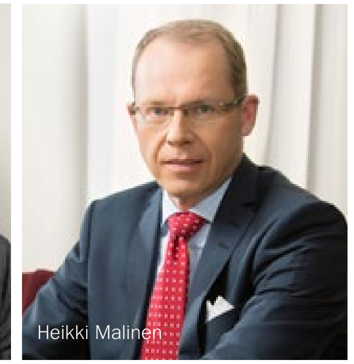

Jorma Ollila

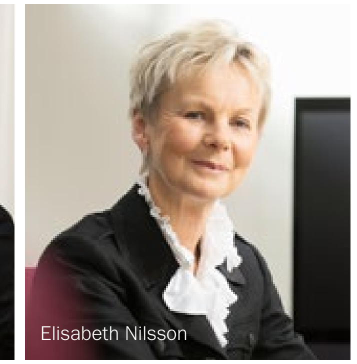

Olli Vaartimo

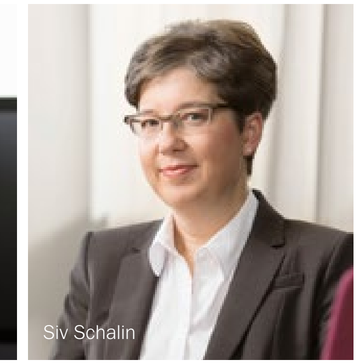

Markus Akermann


Roberto Gualdoni


Stig Gustavson


Heikki Malinen


Elisabeth Nilsson


Siv Schalin

## Jorma Ollila

**Chairman of the Board of Directors**
b. 1950, Finnish citizen
M.Sc. (Pol.) (University of Helsinki 1976)
M.Sc. (Econ.) (London School of Economics 1978)
M.Sc. (Eng.) (Helsinki University of Technology 1981)
Outokumpu Board member 2013–
Chairman of the Board 2013–
Chairman of the Remuneration Committee

**Work experience**
Chairman of the Board: Nokia Corporation 2006–2012
Chairman and Chief Executive Officer: Nokia Corporation 1999–2006
President and Chief Executive Officer: Nokia Corporation 1992–1999
President: Nokia Mobile Phones 1990–1992
Senior Vice President, Finance: Nokia 1986–1989
Various managerial positions within corporate banking: Citibank 1978–1985

**Positions of trust**
Chairman of the Board: Royal Dutch Shell Plc 2006–
Vice Chairman of the Board: Otava Books and Magazines Group 1996–
Board member: Tetra Laval Group 2013–
Board member: University of Helsinki 2009–
Chairman of the Boards of Directors and the Supervisory Boards: The Research Institute of the Finnish Economy ETLA and Finnish Business and Policy Forum EVA 2005–
Advisory Partner: Perella Weinberg Partners 2014–

Independent of the company and its significant shareholders.

## Olli Vaartimo

**Vice Chairman of the Board of Directors**
b. 1950, Finnish citizen
M.Sc. (Econ.)
Outokumpu Board member 2010–
Vice Chairman of the Board 2011–
Chairman of the Audit Committee

**Work experience**
CFO: Metso Oyj 2003–2010
Executive Vice President, Deputy to the President and CEO: Metso Oyj 2003–2010
Member of the Executive Team 1999–2010 and Vice Chairman of the Executive Team 2004–2010: Metso Oyj
President and CEO (acting): Metso Oyj 2003–2004
President and CEO: Metso Minerals Oy 1999–2003
President and CEO: Nordberg Group, Rauma Oyj 1993–1999
Executive Vice President: Rauma Oyj 1991–1998

**Positions of trust**
Chairman of the Board: Valmet Automotive Oy 2003–2014
Board member: Valmet Automotive Oy 2014–
Board member: Kuusakoski Oy 2008–
Board member: Kuusakoski Group Oy 2008–
Board member: Alteams Oy 2008–2014
Board member: Northland Resources SA 2013–2014

Independent of the company and its significant shareholders.

## Markus Akermann

b. 1947, Swiss citizen
M.Econ. (University of St.Gallen, Switzerland)
Outokumpu Board member 2013–
Member of the Audit Committee

**Work experience**
Chief Executive Officer: Holcim Group 2002–2012
Chairman of the Board: Holcim Group Support Ltd 2002–2012
Member of the Board: Holcim Ltd 2002–2013
Member of the Group Executive Committee with responsibility for Latin America, international trading activities and Corporate Human Resources and Training: Holcim Group 1993–2001
Member of the Board and Managing Director: Holcim Apasco SA de CV, Mexico 1993–2012
Area Manager Central America, Andean Countries and international trading activities: Holcim Group 1986–1993

**Positions of trust**
Member of the Board: Votorantim Cimentos S.A. 2013–
Member of the Board: ACC Mumbai, India 2005–2012
Member of the Board: Ambuja Cements Ltd, Mumbai, India 2006–2012
Member of the Executive Board: World Business Council for Sustainable Development (WBCSD) 2008–2011

Independent of the company and its significant shareholders.

## Roberto Gualdoni

b. 1956, German citizen
MBA, M.Sc. (Eng.)
Outokumpu Board member 2014–
Member of the Remuneration Committee

**Work experience**
Chief Executive Officer: Styrolution Group 2011–2014
President, Styrenics: BASF SE 2010–2011
Senior Vice President, Global Procurement Raw Materials: BASF SE 2007–2010
Senior Vice President, Global Procurement Basic Products: BASF SE 2006–2007
Group Vice President, Business Unit Engineering Plastics Europe: BASF SE 2001–2005
Group Vice President, Business Unit Foam Products Europe: BASF SE 1998–2001
Chief Controller, Regional Division Central Europe: BASF SE 1996–1998
Controlling, Sales Division Germany: BASF SE 1994–1996
European Market Coordinator – Specialty Chemicals: BASF SE 1991–1994
Market Coordinator North Europe/Germany – Specialty Chemicals: BASF SE 1991
Product manager, Superabsorbers and Dispersing Agents: BASF SE 1990–1991
Marketing Manager, Textile, Leather, Paper and Specialty Chemicals: BASF Argentina S.A. 1988–1989
Assistant to the General Manager: BASF Argentina S.A. 1987–1989
Commercial Coordinator: Tenaris 1983–1986

**Positions of trust**
Chairman of the Supervisory Board: Styrolution Europe and Styrolution Americas 2012–2014
Chairman of the Board: BGS, Schwarzheide, 2001–2005
Member of the Steering Board: PlasticsEurope, Brussels/Belgium, 2012–2014
Board member: FIW, Munich, 1998–2001
Board member: BASF Intertrade AG, Zug/Switzerland, 2006–2007
Vice President: EXIBA, Brussels, 1998–2001

Independent of the company and its significant shareholders.

## Stig Gustavson

b. 1945, Finnish citizen
M.Sc. (Eng.)
Dr.Tech. (hon.) Tampere University of Technology
Dr.Tech. (hon.) Aalto University Helsinki
Finnish Honorary title Vuorineuvos
Outokumpu Board member 2014–
Member of the Remuneration Committee

**Work experience**
President and CEO: Konecranes Plc 1994–2005
President: KONE Oy/KONE Cranes 1988–1994
President: KONE Oy/KONE Wood 1985–1988
Director: KONE Oy/KONE Roxon, 1982–1985
Various executive positions within leading Finnish and Swedish companies, 1970–1982

**Positions of trust**
Board Memberships and Chairmanships in over 20 major Finnish and Scandinavian companies and over 10 Finnish, Scandinavian and European organizations, trusts and charities, including present positions:
Chairman of the Board: Ahlstrom Capital OY 2011–
Chairman of the Board and Executive Committee of Technology Academy (Finland) 2007–
Chairman of the Board: Konecranes Plc 2005–
Chairman of the Board: Svenska Handelsbanken, Finland 2004–
Chairman of the Executive Committee: Strategic Centers for Science, Technology and Innovation (SHOKs) 2012–
Vice Chairman of the Supervisory Board: Tampere Technical University 2013–
Supervisory Board Member: Varma Mutual Pension Insurance Company 2000–
Special Advisory Assignment: All Tampere-based Universities 2014–
Senior Advisor of IK Investment Partners 1997–
Past Chairman 2005–2011 and present Vice Chairman 2011– of the Board of Dynea Oy
Past Chairman 2002–2007 and present Vice Chairman 2007– of the Board of Mercantile Oy Ab

Independent of the company and its significant shareholders.

## Heikki Malinen

b. 1962, Finnish citizen
M.Sc. (Econ.), MBA (Harvard)
Outokumpu Board member 2012–
Member of the Audit Committee

**Work experience**
President and CEO: Posti Group Corporation (formerly Itella Corporation) 2012–
President and CEO: Pöyry PLC 2008–2012
Executive Vice President, Strategy, member of the UPM Executive Team: UPMKymmene Corporation, Helsinki, Finland 2006–2008
President: UPM North America, Chicago, USA 2004–2005
President of Sales: UPM North America, Chicago, USA 2002–2003
Managing Partner: Jaakko Pöyry Consulting, New York, USA 2000–2001
Engagement Manager: McKinsey & Co, Atlanta, USA 1997–1999
Director, Business Development UPM Paper Divisions, Helsinki, Finland 1994–1996

**Positions of trust**
Chairman: American Chamber of Commerce (AmCham Finland) 2009–2014
Board member: Ilmarinen Mutual Pension Insurance Company 2014–
Board member: Service Sector Employers PALTA 2013–
Board member: East Office of Finnish Industries 2012–
Board member: Federation of Finnish Technology Industries 2011–2012
Board member: Botnia Oy 2006–2008
Supervisory Board Member: Finnish Fair Corporation 2014–
Supervisory Board member: Ilmarinen Mutual Pension Insurance Company 2013

Independent of the company and its significant shareholders.

## Elisabeth Nilsson

b. 1953, Swedish citizen
M.Sc. (Tech.)
Outokumpu Board member 2011–
Member of the Remuneration Committee

**Work experience**
Governor: Östergötlands län 2010–
President: Jernkontoret (Swedish Steel Producers' Association) 2005–2010
General Manager, Metallurgy Division: SSAB Oxelösund 2003–2005
Managing Director: SSAB Merox 2001–2003
Manager, Department for Environment, Health and Safety: SSAB 1996–2001
Manager, Continuous Casting Department: SSAB Oxelösund 1991–1996

**Positions of trust**
Chairman of the Board: Göta Kanalbolaget 2011–
Chairman of the Board: Risbergska donationsfonden 2010–
Chairman of the Board: Tåkernfonden 2010–
Chairman of the Board: Övralidsstiftelsen 2010–
Chairman: Foundation Mefos 2005–2010
Chairman: Svenska Bergsmannaföreningen 2007–2009
Member: Royal Swedish Academy of Engineering Science IVA 2007–
Member: Skandia Council 2014–
Board member: Northland Resources SA 2013–2014
Board member: Sveaskog AB 2010–2012
Board member: 4:e AP-fonden 2010–2011
Board member: Swerea AB 2008–2011
Board member: Euromaint AB 2004–2007
Board member: Swedish Maritime Administration 1996–2006

Independent of the company and its significant shareholders.

## Siv Schalin

b. 1962, Finnish citizen
M.Sc. (Econ.), MBA
Outokumpu Board member 2011–
Member of the Audit Committee

**Work experience**
President: Docrates Oy 2012–
President and General Manager, Patient Care Solutions: GE Healthcare Finland Oy 2008–2012
Vice President, Service: GE Healthcare EMEA 2005–2008
General Manager: GE Healthcare Sweden 2004–2005
Director, Critical Care: Instrumentarium Oyj 2003–2004
Area Manager, Nordic Countries: Instrumentarium Oyj 2002
Vice President, Components Division: Össur hf. 2000–2001
President: Össur USA Inc. 1997–2000

**Positions of trust**
Board member: Association of Private Health Care Providers in Finland 2013–
Supervisory Board member: Arcada University of Applied Sciences 2009–
Chairman, Managing Director and member of the Board of several GE Healthcare group companies 2008–2012
Vice Chairman: FIHTA (Finnish Healthcare Technology Association) 2008–2012

Independent of the company and its significant shareholders.

# Review by the Board of Directors 2014

In year 2014, Outokumpu turned towards the right direction. The benefits of the company's strategy started to show results through improved profitability. In addition, Outokumpu's balance sheet was significantly strengthened as a result of the financing arrangements and the rights issue. The company also succeeded in its savings targets and is firmly on its way in reaching the EUR 550 million total savings target by the end of 2017. Some of the challenges Outokumpu faced during 2014, were the technical issues in Calvert mill and the weakening market toward the end of the year. Despite these setbacks, Outokumpu halved its losses compared to 2013 but the company has still a lot of work ahead to achieve sustainable profitability.

## Strategic initiatives in 2014

### Divestment of Terni and VDM finalized and balance sheet strengthened

At the beginning of the year, Outokumpu completed significant measures to strengthen the company's financial position through the divestment of the Terni remedy assets and the VDM business in exchange of the EUR 1.3 billion loan note to ThyssenKrupp. At the same time, extensive debt financing agreements were finalized and shortly thereafter a rights issue was implemented to strengthen the balance sheet further. These measures enabled Outokumpu to continue executing the company turnaround to profitability.

On February 28, 2014, Outokumpu completed the divestment of the Terni remedy assets, certain service centers and the VDM business to ThyssenKrupp. In the transaction, the stainless steel mill in Terni, Italy and all related legal entities, the service centers in Germany (Willich), Spain (Barcelona), Turkey (Gebze) and France (Tours) as well as the entire VDM business were divested in exchange for Outokumpu's approximately EUR 1.3 billion loan note to ThyssenKrupp. In conjunction with the completion of the transaction, Outokumpu settled the outstanding amount of EUR 160 million under the credit facility granted by ThyssenKrupp. Furthermore, as ThyssenKrupp had sold all of its Outokumpu shares, representing a 29.9% stake in Outokumpu, the two companies have cut their financial and ownership ties, thereby fulfilling the requirements set by the European Commission.

Extensive debt financing arrangements to amend maturities into 2017 included: a new EUR 900 million revolving credit facility, a new EUR 500 million liquidity facility, and extensions or amendments to a EUR 600 million bilateral loan portfolio. Please see "Financing" for more detailed information.

The rights issue that Outokumpu carried out immediately after the closing of the sale of Terni and VDM was oversubscribed by 23% and resulted in net proceeds of EUR 640 million. Please see "Shares and shareholders" for more detailed information.

As a result of the Terni and VDM divestment and the rights issue, Outokumpu's net interest-bearing debt decreased significantly from EUR 3,556 million at the end of 2013 to EUR 1,974 million by the end of 2014 leading to an improvement in gearing from 188.0% to 92.6% during this period showing significant improvement over 2013.

### Restructurings in Europe

On March 30, 2014, Outokumpu successfully concluded negotiations with the employee representatives and unions in Germany regarding the new industrial plan in Europe. The industrial plan was originally announced in October 2013, and it targets EUR 100 million in annual savings by 2017. Key elements of the plan are the closure of the Bochum melt shop in 2015, two years ahead of the original plan, and the investment of EUR 108 million to the Krefeld cold rolling center in Germany in 2014–2016 (NIFO project). Furthermore, the Benrath cold rolling mill will be closed in 2016 after the production transfer to Krefeld has been completed. The industrial plan results in a reduction of about 1,000 jobs. By the end of 2014, EUR 143 million of non-recurring costs were recorded for the Coil EMEA restructuring program.

As a result of the strategic review of its thin and precision strip operations in Europe, Outokumpu decided to discontinue its operations in Kloster, Sweden. The operations in Nyby, Sweden and in Dahlerbrück, Germany continue as before. The Kloster site was closed in December 2014 as planned and this is estimated to yield in annual savings of approximately EUR 15 million from 2015 onwards.

## Update on profitability improvement programs

### Efficiency programs expanded in September

Following the good progress made, Outokumpu expects to achieve the EUR 200 million in synergy savings from the Inoxum transaction already in 2015, two years ahead of the original schedule. Furthermore, the P150 program that originally targeted EUR 150 million in savings by the end of 2014 was expanded, aiming at EUR 250 million by the end of 2015. With the Coil EMEA restructuring plan, an additional EUR 100 million savings is being aimed for. All in all, Outokumpu's total savings are now expected to reach EUR 550 million by the end of 2017, out of which EUR 385 million has been realized by the end of 2014.

One-time initial cash costs (excluding capex and impairments) for all three programs are estimated at EUR 220 million between 2013 and 2017. By the end of 2014, EUR 191 million of provisions related to these programs had been recorded. The cash effect of these is estimated to impact mostly years 2015 and 2016.

Outokumpu will also continue focusing its efforts in improving its cash flow. The target of reducing net working capital by EUR 300 million over a two year period 2013–2014 was reached with the net working capital reduction of EUR 351 million compared to 2012. The program has been extended for 2015 (P400 program) aiming at a total reduction in net working capital of EUR 400 million compared to 2012 level.

### Synergy savings

Progress in synergy savings continued in 2014 with an additional EUR 90 million leading to total cumulative synergy savings of EUR 185 million since the beginning of 2013. Approximately 55% of the total savings have come from raw material and general procurement. The Krefeld melt shop closure at the end of 2013 and the headcount reductions have also contributed to the overall achievement. Outokumpu expects cumulative synergy savings to reach the target of EUR 200 million in 2015, with the majority of the total savings coming from production optimization.

### P250 savings

Savings under the P250 program in 2014 amounted EUR 200 million, which is somewhat higher than anticipated. Especially Coil EMEA, Coil Americas and Long Products contributed to this, as well as very good results in raw material and general procurement. The main drivers of the program are savings in procurement, IT, operational costs as well as in general and administration costs, including headcount reductions. Outokumpu targets cumulative savings to reach EUR 250 million in 2015.

### EMEA restructuring savings

Savings from the EMEA restructuring will start to have an impact in 2015 with roughly EUR 20 million. An additional EUR 60 million is expected for 2016 with the full cumulative savings of EUR 100 million by the end of 2017.

### Net working capital reduction

Outokumpu exceeded the target of reducing net working capital by EUR 300 million over a two year period 2013–2014 with the net working capital reduction of EUR 351 million compared to 2012.

Outokumpu will continue its tight control over net working capital and inventories in line with the anticipated market demand to reach the overall target of a EUR 400 million cash release from the net working capital reduction by the end of 2015 versus the 2012 level. The main drivers will continue to be active inventory, accounts receivable and accounts payable management.

## Ongoing ramp-ups

### Calvert ramp-up

The ramp-up of Outokumpu's integrated stainless steel mill in Calvert, US progressed in 2014 with increasing volumes, improving production stability and an expanded product portfolio. The technical ramp-up was completed as planned by the end of 2014 with all the production steps tested and capabilities proven for both austenitic and ferritic grades as well as widths ranging from 36 to 72 inches. Since the end of March 2014, the Coil Americas business has been entirely self-sufficient with its hot band feed as shipping feedstock from Europe ended resulting in higher capacity utilization and better cost absorption. The Calvert mill will be ramped up into full commercial capability over the coming two years and for the growing delivery volumes overall process stability, delivery reliability as well as improving product quality is essential.

The Calvert mill experienced technical issues in all of its three cold rolling lines during the second half of 2014 reducing customer deliveries by about 40,000 tonnes and had a negative impact of EUR 34 million on profitability. The two of the cold rolling lines have been back in operations after repair work performed in the summer, and the 54 inch cold rolling line came back into operation in the beginning of 2015. Production during the first weeks of this year has been running according to plan, which supports the volume outlook of about 620,000 tonnes for total Coil Americas deliveries in 2015.

Towards the end of 2014, the melt shop was running again at 60,000 tonnes per month production levels. Together with optimized raw material mix and scrap ratios, this is a good starting point for the year.

### Ferrochrome production ramp-up

The ramp-up of new capacity at the integrated ferrochrome operations in Finland progressed in 2014 with full technical capacity of 530,000 tonnes per annum available as of 2015 and thus making Outokumpu fully self-sufficient with its ferrochrome needs globally. Ferrochrome production amounted to 441,000 tonnes in 2014, and was negatively affected by production disturbances during the second half of the year (2013: 434,000 tonnes). As the ferrochrome ramp-up is now successfully completed, the annual production will range between 500,000–530,000 tonnes depending on the annual maintenance breaks. For 2015, production is targeted at around 500,000 tonnes.

### Degerfors ramp-up

The EUR 100 million investment to enhance Outokumpu's offering in both tailored and standard quarto plate was completed in Degerfors, Sweden in 2014. The volumes from Degerfors are increasing and cost reduction and efficiency improvement remain a focus to deliver a step change in profitability. In 2015, volumes in Degerfors are estimated to grow to about 95,000 tonnes. The ramp up towards full design capacity of 150,000 tonnes will take place in the coming two years.

## Market development

### Continued growth in global demand for stainless steel in 2014, especially in the first half of the year

Global real demand for stainless steel products increased by 5.5% from 34.9 million tonnes in 2013 to 36.9 million tonnes in 2014. In the Americas and APAC regions, consumption rose by 4.7% and 6.1%, respectively year-on-year. Consumption in EMEA grew at a rate of 3.8%.

Global consumption for stainless steel products in 2014 was split among the segments: Consumer Goods & Medical (46.9%), Chemical/Petrochemical & Energy (16.7%), Automotive & Heavy Transport (10.6%), Architecture/Building/Construction & Infrastructure (14.8%), Industrial & Heavy Industry (8.2%) and Others (2.9%). The main drivers for the demand increase in 2014 were the Chemical/Petrochemical & Energy (+6.2%), Consumer Goods & Medical (+5.8%) and Automotive & Heavy Transport (+5.6%) segments. In the Architecture/Building/Construction & Infrastructure, Industrial & Heavy Industries and Others segments, demand increased in 2014 by 4.6%, 4.1% and 7.1%, respectively.

Imports into the EU are expected to reach 30.6% of total consumption in 2014, which is higher than the average level of 23.8% in 2013. This mainly reflects a further increase in Asian imports during 2014. The largest countries in terms of imports to the EU included China, Taiwan, South Korea, the US, South Africa, India and Japan.

Source: Eurofer January 2015

Average imports into the NAFTA region are expected to reach 18.9% of the total consumption in 2014, above the average level of 13.4% in 2013. Import levels have been strongly increasing during 2014, mainly due to higher domestic prices, long mill lead times and a strong dollar.

Source: Foreign Trade Statistics December 2014

### Stainless steel transaction prices

According to CRU, average transaction prices in 2014 for 2mm cold rolled 304 stainless steel sheet in Europe, the US and China were above the previous year's levels. In Europe, the total increase of 2.2% in the transaction price was the result of a drop in the base price by 1.9% and an increase in the alloy surcharge by 6.3%. In the US, the rise in the alloy surcharge by 11.8% was the main price driver year-on-year for the 8.0% increase in the transaction price. The Chinese transaction price gained 2.3% in 2014 compared to 2013.

### Price development of alloying metals in 2014

The nickel price [1] rallied during the first half of the year, driven by the concern regarding the future availability of laterite nickel ore as a result of Indonesian ore export ban, and secondly by the strong demand from western stainless steel mills. The price hit the highest level of the year of 21,200 USD/tonne in mid-May. From June until early September, the price traded in the range of 18,000–20,000 USD/tonne, after which it retreated for the rest of the year due to slowing demand, rising LME stocks and abundant supply. The average price of the year of 16,864 USD/tonne, was 12.3% higher than 15,012 USD/tonne in 2013.

The European benchmark price [2] for ferrochrome rose from 1.13 USD/lb in the fourth quarter of 2013, to 1.18 USD/lb in the first quarter, and further up to 1.22 USD/lb in the second quarter of the year on strong demand from the stainless steel mills. In the second half of the year, the price followed the weakening trend of prices in China and decreased to the level of 1.19 USD/lb in the third quarter and further down to the level of 1.15 USD/lb in the fourth quarter of the year. Prices are currently at 1.08 USD/lb.

The average price of molybdenum [3] in 2014 was 11.45 USD/lb, up 11.2% from 10.35 USD/lb in 2013. The price surged rapidly during

#### Average transaction prices for 2mm cold rolled 304 stainless steel sheet

| Regional prices | | | 2012 | 2013 | I/14 | II/14 | III/14 | IV/14 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| Europe | Base | EUR/t | 1 172 | 1 103 | 1 070 | 1 093 | 1 110 | 1 053 | 1 082 |
| | Alloy | EUR/t | 1 397 | 1 168 | 1 026 | 1 206 | 1 395 | 1 335 | 1 241 |
| | Transaction price | EUR/t | 2 569 | 2 272 | 2 096 | 2 299 | 2 505 | 2 389 | 2 322 |
| USA | Base | USD/t | 1 340 | 1 348 | 1 367 | 1 396 | 1 411 | 1 411 | 1 396 |
| | Alloy | USD/t | 1 841 | 1 554 | 1 468 | 1 765 | 1 966 | 1 755 | 1 738 |
| | Transaction price | USD/t | 3 182 | 2 902 | 2 835 | 3 161 | 3 377 | 3 166 | 3 135 |
| China | Transaction price | USD/t | 2 641 | 2 370 | 2 283 | 2 492 | 2 563 | 2 364 | 2 425 |

Source: CRU January 2015

#### Market development of total stainless steel real demand in 2014

| Million tonnes | **2014e** | 2013 | 2012 |
|---|---|---|---|
| EMEA | **7.2** | 7.0 | 6.9 |
| Americas | **3.6** | 3.4 | 3.3 |
| APAC | **26.o** | 24.5 | 22.5 |
| Total | **36.9** | 34.9 | 32.7 |

Source: SMR January 2015
e = estimate



the first half of the year and hit the highest level of the year of 15.13 USD/lb in early June. In the second half of the year, the price more than reversed all the gains from the first half and hit the lowest level of the year of 8.80 USD/lb in mid-December.

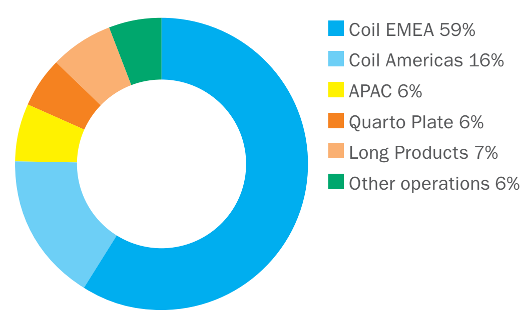
[1] Nickel Cash LME Daily Official Settlement USD per tonne
[2] Ferro-chrome Contract: Ferro-chrome Lumpy CR charge basis 52% Cr quarterly major European destinations USD per lb Cr
[3] Metal Bulletin – Molybdenum Drummed molybdic oxide Free market $ per lb Mo in warehouse

## Business areas

Since September 1, 2014, Outokumpu consists of five business areas with sales, production, and profit responsibility:

- Coil EMEA [1]
- Coil Americas
- APAC
- Quarto Plate
- Long Products

**Sales, 6 844 € million**




### Coil EMEA

The key focus of Coil EMEA is to maintain and expand Outokumpu's strong European stainless coil position through customer and product leadership. A clear target is to improve financial performance and to drive cost efficiency by increasing capacity utilization levels and leveraging the company's own chrome mine and expanded ferrochrome production. The successful implementation of the industrial plan to restructure the company's European operations will be essential in returning the company to profitability.

Deliveries for the full year 2014 declined to 1,666 tonnes from 1,854 tonnes in 2013. The focus on higher margin deliveries (e.g. less semi-finished) is impacting overall delivery numbers slightly negatively. Lower deliveries impacted the sales of Coil EMEA that were EUR 4,520 million in 2014 compared to EUR 5,067 million in 2013. For the full year, Coil EMEA average base price increase for standard austenitic grades was about EUR 30/tonne.

The ferrochrome investment ramp-up in Finland was completed by the year-end. For the full year 2014, ferrochrome production amounted to 441,000 tonnes (2013: 434,000 tonnes) impacted by production disturbances during the second half of the year.

Coil EMEA's restructuring continued successfully in 2014. For the full year, Coil EMEA's EBITDA excluding non-recurring items more than doubled to EUR 278 million compared to EUR 110 million in the previous year despite lower delivery volumes. Coil EMEA also achieved a clearly positive EBIT excluding non-recurring items of EUR 78 million compared to EUR -111 million in 2013. The improved performance was mainly a result of positive impact from the savings programs, variable cost reduction, better pricing and product mix.

[1] From July 2014 onwards, the operations in Avesta and Nyby, as well as Kloster (closed in December 2014) in Sweden, have been part of the Coil EMEA business area. Figures have been restated to this effect.

### Coil Americas

Coil Americas' key target is to build up a strong position in the Americas market by focusing on superior product quality, technical service and delivery reliability. Improvement in Coil Americas' financial performance is a priority and driven by the ramp-up of the Calvert facility. The technical ramp-up at Calvert was finalized in 2014 and the implementation of the full commercial ramp-up continues over the coming two years. In addition, Coil Americas focuses on ensuring continued growth and strong performance of the Mexican operations.

For the full year 2014, deliveries grew 16% in line with the Calvert mill ramp up and amounted to 541,000 tonnes (2013: 465,000 tonnes). The unforeseen technical issues in cold rolling lines in Calvert during the second half of the year decreased deliveries by about 40,000 tonnes. The stainless steel market in the NAFTA region remained robust throughout the year and Outokumpu achieved several price increases, amounting to USD 120/tonne in total. Sales in 2014 grew 27.9% to EUR 1,158 million (2013: EUR 906 million).

Financial performance of Coil Americas improved along with the progress of the Calvert ramp up and higher volumes, as well as favorable market environment during 2014. EBIT for 2014 was EUR -104 million (2013: EUR -270 million). Since the end of March, the Coil Americas business has been entirely self-sufficient with its hot band feed as shipping feedstock from Europe ended resulting in higher capacity utilization and better cost absorption. However, the unforeseen technical issues in the cold rolling lines in Calvert had a negative impact on delivery volumes, as well as additional costs from maintenance and repair work. Subsequently, EBITDA excluding non-recurring items amounted to EUR -11 million and the breakeven target for the full year was slightly missed.

### APAC

APAC business area's key focus is to contribute to the growth of Outokumpu by establishing a profitable foothold in the APAC region and to focus on selected customer and product segments in which the Outokumpu offering is differentiated from its competitors. The APAC business area operates SKS cold rolling mill in Shanghai, China and two service centers in China and Australia, as well as warehouses and sales offices in various Asian countries.

The stainless steel market in the APAC region was very turbulent during 2014, with uncertain market sentiment as a result of the volatile nickel price and eroding demand. Market prices for commodity grades were on a downward trend since May, mainly due to weakening demand in China and strong pressure from regional overcapacity.

For the full year 2014, APAC's deliveries grew to 220,000 tonnes from 184,000 tonnes in 2013. Deliveries were up compared to the previous year as a result of increased business with distributors and improved local raw material sourcing to the SKS mill in Shanghai.

For the full year 2014, APAC's EBITDA excluding non-recurring items was EUR 8 million, stable against EUR 9 million in 2013. The profitability was impacted by a volatile market and high hot band raw material costs during the first half of the year impacting earnings negatively.

### Quarto Plate

Quarto Plate is a new Outokumpu business area since September 2014 and it is a global leader in tailored quarto plate material, with key operations in Degerfors in Sweden and in New Castle in the US. Both of the mills produce quarto plate in standard and special stainless steel grades for use in projects and by the process industry. Outokumpu also operates a European plate service center network that provides further services such as cutting to customer requirements. Quarto plate is used in heavy industry and construction, and its consumption is therefore related to the global investment cycle.

A clear priority for the Quarto Plate business area is to ramp up its recent investment in Degerfors, Sweden, and to leverage its position in both tailored and standard plate. Post-investment, cost reduction and efficiency improvement initiatives remain a focus to deliver a step change improvement in profitability.

For the full year 2014, Quarto Plate's deliveries grew 18.0% reflecting progress in the Degerfors investment ramp-up, which was technically completed by the end of the year.

Despite higher volumes at Degerfors, the Quarto Plate business area remained at a loss for the full year 2014 with EBIT of EUR -26 million. This was mainly driven by high raw material and ramp-up costs in Degerfors.

### Long Products

Long Products is a new business area since September 2014 and it focuses on specialty stainless long products, with production operations in Sheffield in the UK and Degerfors in Sweden, as well as Richburg and Wildwood in the US. Long Products produces wire rod, rod coil, bar, rebar, billet and other long products that are used in a wide range of industries, such as transportation, consumer durables, metal processing, chemical, energy, and construction.

Long Products' melt shop in Sheffield has an important strategic role in Outokumpu's production platform as it is one of the suppliers of feedstock to Outokumpu's Quarto Plate business, in addition to supplying to the long products downstream units and external customers.

Key priorities for the Long Products business area are to continuously optimize its cost efficiency and to ensure continued good returns on capital employed through its light and efficient production set up. Growth opportunities are being pursued with an enhanced specialty focus.

Long Products' sales in 2014 amounted to EUR 651 million (2013: EUR 556 million) driven by 15.9% higher deliveries which were mostly internal.

There was a clear improvement in Long Products' profitability in 2014 with EBIT of EUR 33 million compared to EUR -10 million a year ago. This was driven by higher deliveries, better capacity utilization in the Sheffield melt shop in the UK, as well as strong performance in the US bar business.

## Financial performance

Outokumpu improved its financial performance in 2014. Stainless steel deliveries were stable at 2,554,000 tonnes (2013: 2,585,000). EBIT was EUR -243 million (2013: EUR -510 million). The main drivers for reduced losses were the improved performance in Coil Americas and Coil EMEA, as well as decreased overall cost levels thanks to ongoing cost-take-out initiatives. In addition, Outokumpu was successful in pricing which supported improvement in the average contribution margin per tonne. Balance sheet was strengthened significantly: net debt was reduced from EUR 3,556 million to EUR 1,974 million and gearing from 188.0% to 92.6%.

While Outokumpu more than halved its losses at the net income level from EUR -1,003 million to EUR -439 million in 2014, the turnaround into sustainable profitability continues.

### Deliveries stable

For the full year 2014, deliveries were stable at 2,554,000 tonnes (2013: 2,585,000 tonnes). Deliveries in the Coil Americas grew in line with progress in the Calvert ramp-up, while change in product mix towards higher margin products impacted volumes in Coil EMEA. This shows in lower deliveries for semi-finished products such as black hot band, slabs and billets. Following the progress in the Ferrochrome investment ramp-up, more ferrochrome is used internally and reflected in 133,000 tonnes of external deliveries versus 212,000 tonnes a year ago.

Overall, the capacity utilization rates of Outokumpu production facilities have improved after the closure of the Krefeld melt shop and the progress in the Calvert ramp-up: in 2013–2014 melting utilization has increased from 65% to 80% and cold rolling from 70% to about 75%.

**Deliveries, continuing operations**

| 1 000 tonnes | 2014 | 2013 | 2012 Comparable | 2012 |
|---|---|---|---|---|
| Cold rolled | **1 880** | 1 879 | 1 890 | 728 |
| White hot strip | **373** | 370 | 436 | 315 |
| Quarto plate | **89** | 77 | 88 | 88 |
| Long products | **64** | 62 | 59 | 59 |
| Semi-finished products | **271** | 398 | 274 | 261 |
| Stainless steel [1] | **138** | 186 | 206 | 193 |
| Ferrochrome | **133** | 212 | 68 | 68 |
| Tubular products | **9** | 12 | 44 | 44 |
| Total deliveries | **2 686** | 2 797 | 2 791 | 1 495 |
| Stainless steel deliveries | **2 554** | 2 585 | 2 723 | 1 428 |

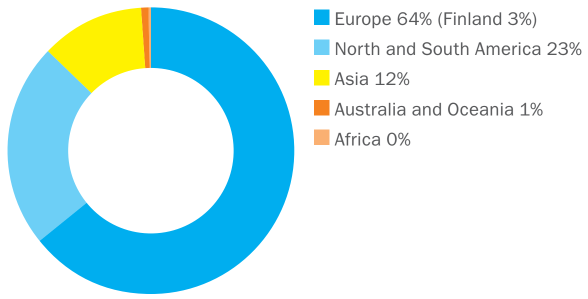
[1] Black hot rolled, slabs, billets and other stainless steel products



### Sales stable

In 2014, Outokumpu sales remained stable at EUR 6,844 million (2013: EUR 6,745 million). Overall demand for stainless steel grew by 5.5% with a stronger demand environment in the first half of the year. Demand grew strongest in the Americas with 4.7% and Europe showing growth of 3.8%. Stainless steel benchmark base prices were up by 3.6% in the US and down by 1.9% in Europe while transaction prices were up in all key regions driven by a rise in alloy surcharge.

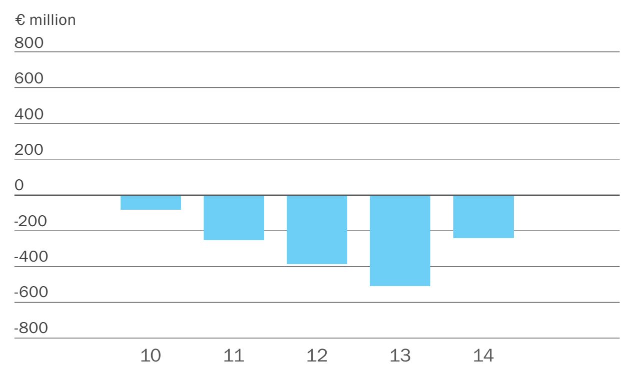
**Sales by market area**




**Sales**

| € million | 2014 | 2013 | 2012 Comparable | 2012 |
|---|---|---|---|---|
| Coil EMEA | **4 520** | 5 067 | 6 719 | 3 587 |
| Coil Americas | **1 158** | 906 | 923 | 2 |
| APAC | **444** | 388 | 294 | 128 |
| Quarto Plate | **450** | 406 | 531 | 531 |
| Long Products | **651** | 556 | 695 | 695 |
| Other operations | **689** | 538 | 565 | 565 |
| Intra-group sales | **-1 068** | -1 116 | -1 766 | -970 |
| The Group | **6 844** | 6 745 | 7 961 | 4 538 |

**EBIT**




For the full year 2014, EBIT improved strongly to EUR -243 million (2013: EUR -510 million), and it included non-recurring items of EUR -186 million.

### Financial expenses

The financial income and expense for the full year 2014 amounted EUR -223 million, significantly down from EUR -310 million a year earlier. This was mostly due to the reduction of interest expenses from EUR 210 million to EUR 141 million driven by the overall reduction of debt and cancellation of the EUR 1.3 billion loan note to ThyssenKrupp in February. Market price losses decreased from EUR -37 million to EUR -15 million in 2014.

### Net result for the period

For the full year, the net result was EUR -439 million (2013: EUR -1,003 million) and earnings per share of continuing operations was EUR -1.27 (2013: EUR -6.23, adjusted for the rights issue and the reverse split).

### Operating cash flow

The increase in nickel price and typical seasonal build-up of inventories had an anticipated adverse effect on cash flow in the second quarter 2014. Although the cash flow development was positive during the second half of the year as a result of the successful net working capital management as well as overall lower purchasing volumes, the operating cash flow in January–December, 2014 ended up negative at EUR -126 million (2013: EUR 34 million). Outokumpu will continue its tight control over the net working capital and inventories in line with the anticipated market demand.

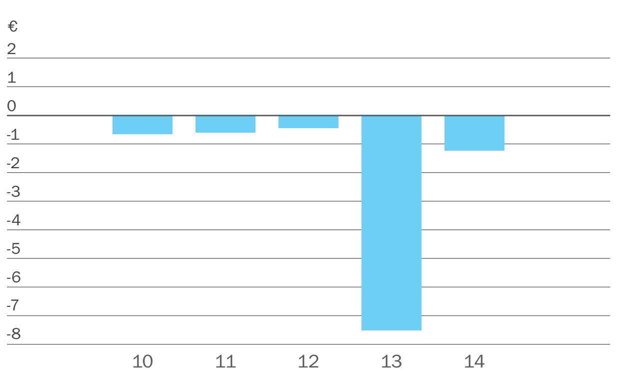
For full year 2014, net cash from financing activities amounted to EUR -116 million compared to EUR 459 million in 2013, reflecting the decrease in net interest-bearing debt.

## Profitability

| € million | 2014 | 2013 | 2012 Comparable | 2012 |
|---|---|---|---|---|
| EBIT | | | | |
| Coil EMEA | **-86** | -166 | -417 | -249 |
| Coil Americas | **-104** | -270 | -182 | 0 |
| APAC | **-6** | -7 | -14 | -8 |
| Quarto Plate | **-26** | -17 | 6 | 6 |
| Long Products | **33** | -10 | -2 | -2 |
| Other operations | **-49** | -37 | -149 | -130 |
| Intra-group items | **-5** | -2 | 5 | -1 |
| | **-243** | -510 | -754 | -385 |
| Share of results in associated companies and joint ventures | **7** | -2 | - | 0 |
| Financial income and expenses | **-223** | -310 | - | -138 |
| Result before taxes | **-459** | -822 | - | -524 |
| Income taxes | **8** | -11 | - | -12 |
| Net result for the financial year from continuing operations | **-450** | -832 | - | - |
| Net result for the financial year from discontinued operations | **11** | -170 | - | - |
| Net result for the financial year | **-439** | -1 003 | - | -536 |
| | | | | |
| EBIT margin, % | **-3.6** | -7.6 | -9.5 | -8.5 |
| Return on capital employed, % | **-5.8** | -10.3 | - | -8.2 |
| Earnings per share, EUR [1] | **-1.24** | -7.52 | - | -0.46 |
| Earnings per share, continuing operations, EUR [1] | **-1.27** | -6.23 | - | - |
| Earnings per share, discontinued operations, EUR [1] | **0.03** | -1.29 | - | - |
| | | | | |
| Net cash generated from operating activities [2] | **-126** | 34 | - | 266 |

[1] Calculated based on the rights-issue-adjusted weighted average number of shares. Comparative figures for 2013 adjusted for the effects of the rights-issue and the reverse split on June 20, 2014. Comparative figure for 2012 has not been adjusted.
[2] Years 2014 and 2013 reported for continuing operations.

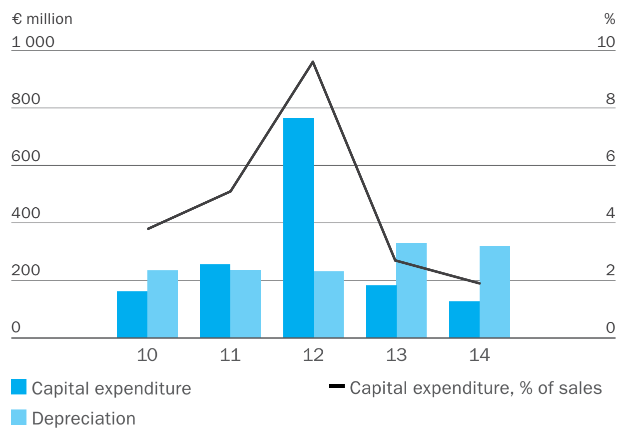
### Earnings per share




## Capital expenditure

For full year 2014, capital expenditure came in at EUR 127 million compared to EUR 183 million in 2013. The decline is a result of completed investment programs which impacted the figures still in 2013. Capital expenditure in 2014 was mainly related to maintenance and smaller projects in Coil EMEA. Capital expenditure is expected to be below EUR 160 million in 2015.

### Capital expenditure and depreciation




### Capital expenditure, continuing operations

| € million | 2014 | 2013 | 2012 |
|---|---|---|---|
| Coil EMEA | **67** | 81 | 376 |
| Coil Americas | **15** | 44 | - |
| APAC | **2** | 3 | 0 |
| Quarto Plate | **16** | 33 | 38 |
| Long Products | **6** | 9 | 8 |
| Other operations | **21** | 14 | 2 733 |
| The Group | **127** | 183 | 3 155 |
| | | | |
| Depreciation and amortization | **320** | 332 | 230 |

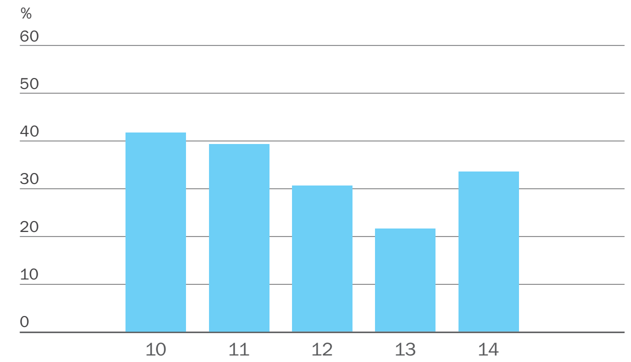
## Balance sheet

Total assets at the end of December 2014 decreased by EUR 2,412 million to EUR 6,411 million (Dec 31, 2013: EUR 8,823 million). Cash and cash equivalents decreased by EUR 416 million to EUR 191 million (Dec 31, 2013: EUR 607 million). Current trade and other receivables were reduced further by EUR 64 million, from EUR 813 million to EUR 749 million. Inventories increased from EUR 1,216 million to EUR 1,527 million during 2014.

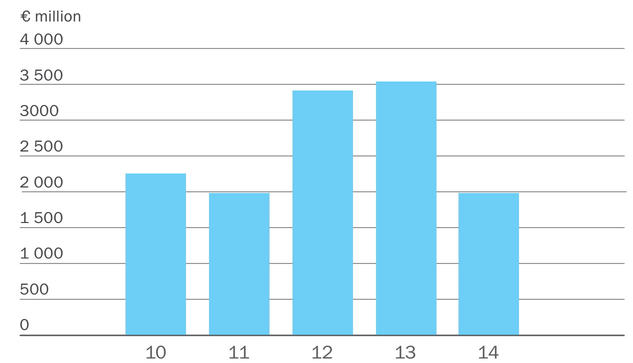
Non-current debt decreased by EUR 1,673 million to EUR 1,597 million compared to the end of 2013 mainly reflecting repayments of debt.

Net interest-bearing debt at the end of 2014 decreased to EUR 1,974 million compared to EUR 3,556 million at the end of 2013 also impacting gearing which decreased to 92.6% (Dec 31, 2013: 188.0%).

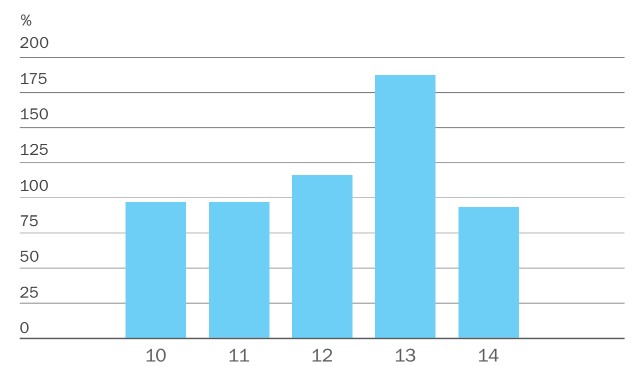
### Equity-to-assets ratio




### Net interest-bearing debt




### Debt-to-equity ratio




## Key financial indicators on financial position

| € million | 2014 | 2013 | 2012 |
|---|---|---|---|
| Debt | | | |
| Non-current debt | **1 597** | 3 270 | 2 935 |
| Current debt | **569** | 893 | 718 |
| Cash and cash equivalents | **191** | 607 | 222 |
| Net interest-bearing debt | **1 974** | 3 556 | 3 431 |
| | | | |
| Shareholders' equity | **2 132** | 1 891 | 2 952 |
| Return on equity, % | **-17.3** | -41.4 | -21.4 |
| Debt-to-equity ratio, % | **92.6** | 188.0 | 116.2 |
| Equity-to-assets ratio, % | **33.3** | 21.5 | 30.5 |
| Net interest expenses | **139** | 197 | 66 |

## Financing

### Cash and liquidity reserves

Cash decreased from EUR 607 million at the end 2013 to EUR 191 million at the end 2014. The overall liquidity reserves of Outokumpu were at around EUR 1.4 billion.

### Refinancing

On February 28, 2014, Outokumpu completed the extensive debt financing arrangements to strengthen its financial position. These included a new EUR 900 million revolving credit facility, a new EUR 500 million liquidity facility, both maturing in 2017, and amendment of the bilateral loan portfolio of about EUR 600 million. Both the EUR 900 million and EUR 500 million facilities include financial covenants on gearing and liquidity.

Outokumpu has granted a security package for its debt and bond financing. As security, Outokumpu pledged the shares of some of its subsidiary companies, for example in Finland, Sweden and the US, as well as other particular fixed assets. In addition, certain subsidiary companies have provided guarantees as security. The security package ensured financing at competitive prices and its benefits clearly surpassed its costs.

Since the granting of the security package required the consent of the holders of the Outokumpu's notes maturing in 2015 and 2016, Outokumpu implemented a consent solicitation process for the notes. The noteholders' meetings held on February 7, 2014 approved the amendment of the terms and conditions of the notes due in 2015 and 2016. Following the completion of the refinancing measures the amendments to the terms and conditions of the notes are effective as of February 28, 2014.

In September 2014, Outokumpu issued a EUR 250 million senior secured bond mainly to institutional investors. The bond matures on September 30, 2019 and it carries a fixed coupon interest rate of 6.625% per annum, payable semi-annually.

The proceeds from the issuance of the bond were used to refinance the existing indebtedness, including a partial redemption of the bond maturing in June, 2015. Following the issuance of the new bond, Outokumpu canceled its EUR 500 million liquidity facility by EUR 250 million on September 30, 2014.

## People

Outokumpu's headcount decreased during 2014 and totaled 12,125 at the end of the year compared to 12,561 at the end of 2013. Continued headcount reduction in Coil EMEA and other operations was offset by an increase in Coil Americas and Quarto Plate due to the ongoing ramp-ups.

Overall, Outokumpu plans to reduce up to 3,500 jobs globally in 2013–2017, in connection with the P250 cost savings program, the synergy savings and the EMEA industrial plan. The planned reductions are related to capacity reductions in Europe as well as streamlining all overlapping activities in sales, production, supply chain and support functions.

Total wages and salaries amounted to EUR 592 million in 2014 (2013: EUR 583 million and 2012: EUR 340 million). Indirect employee costs totaled EUR 262 million in 2014 (2013: EUR 222 million and 2012: EUR 133 million).

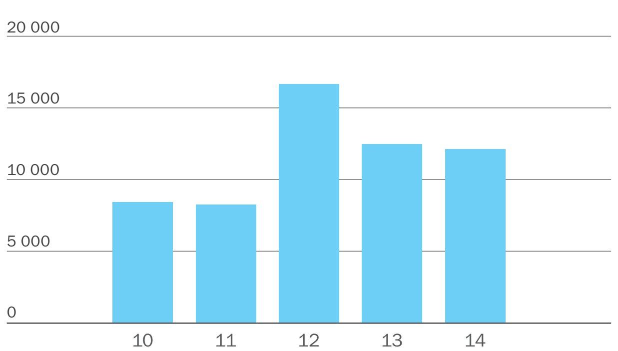
### Safety

The lost-time injury frequency (lost-time accidents per million working hours) during 2014 was 2.7, below the target of less than 4.0. Outokumpu sites continue to work on contractor management and contractor behaviors; especially after a fatal accident occurred in early June, which involved a contractor in Outokumpu's US operations in Calvert. This incident has been investigated and a number of actions have been taken. This was the first fatal injury at Outokumpu for nearly nine years, during which time the focus on safety has continued to develop significantly, with many proactive safety activities taking place every day.

**Personnel, continuing operations**

| Dec 31 | 2014 | 2013 | 2012 Comparable | 2012 |
|---|---|---|---|---|
| Coil EMEA | **7 582** | 8 120 | 8 742 | na |
| Coil Americas | **2 128** | 2 006 | 1 974 | na |
| APAC | **602** | 630 | 662 | na |
| Quarto Plate | **838** | 746 | 778 | na |
| Long Products | **651** | 674 | 697 | na |
| Other operations | **324** | 385 | 1 220 | na |
| The Group | **12 125** | 12 561 | 14 073 | 16 649 |

**Personnel on December 31, 2014**




## Environment

In 2014 emissions into the air and discharges to water remained within permitted limits. Minor breaches that occurred were temporary and identified as having only a minimal impact on the environment. Outokumpu is not a party in any significant juridical or administrative proceeding concerning environmental issues, nor is it aware of any realized environmental risks that could have a materially adverse effect on the corporation's financial position. A total of 21 minor environmental incidents occurred in 2014 (2013: 20). There were no significant incidents.

The EU Emissions Trading Scheme (ETS) is continuing by the third trading period 2013–2020. Outokumpu's operations under the EU ETS will continue to receive free emissions allocations according to efficiency-based benchmarks and historical activity. The coming allocation is foreseen to be sufficient for Outokumpu's operations during the 2015.

Outokumpu was recognized as a leader for the depth and quality of its climate change data disclosed to investors and the global marketplace by CDP in 2014. Outokumpu has been awarded for the fifth consecutive year with a position on the Nordic Climate Disclosure Leadership Index (CDLI).

## Research and development

Outokumpu aims to maintain and further strengthen its position as the leading innovator in stainless steel. Outokumpu's R&D operations are concentrated in three research centers located at Avesta in Sweden, at Krefeld and Benrath in Germany and at Tornio in Finland. Each research center has certain focus areas of activity and they employed a total of 240 people. In addition to the research centers, R&D activities also take place at the production sites.

In 2014, Outokumpu's R&D expenditure totaled EUR 23 million, 0.3% of operating costs (2013: EUR 26 million and 0.4%, 2012 EUR 19 million 0.4%).

During 2014, the main R&D initiatives supported EMEA restructuring and the ramp-up of Calvert operations. Commercialization of several new steel grades continued. The new steel grades, including ferritic 21% Cr stainless steel 4622, austenitic 4420 and formable duplex stainless steels FDX 25™ and FDX 27™, provide life cycle efficient alternative for conventional nickel-containing austenitic steel grades. Furthermore, extensive market and application development continued with our customers in various industries.

## Risks and uncertainties

Outokumpu operates in accordance with the risk management policy approved by the Board of Directors. This policy defines the objectives, approaches and areas of responsibility in risk management activities. In addition to supporting Outokumpu's strategy, the aim of risk management is identifying, evaluating and mitigating risks from the perspective of shareholders, customers, suppliers, personnel, creditors and other stakeholders.

Outokumpu has defined risk as anything that could have an adverse impact on achieving the Group's objectives. Risks can therefore be threats, uncertainties or lost opportunities for the company's current or future operations. The risk management process is an integral part of overall management processes and it is divided into four stages: risk identification, risk evaluation, risk prioritization and risk mitigation.

In 2014 one of the main focus areas was to monitor and strengthen Outokumpu's financial position. In order to increase risk tolerance, Outokumpu completed significant financing measures in connection with the sale of the Terni and VDM operations. All these measures de-risked Outokumpu significantly by improving liquidity, strengthening balance sheet, extending debt maturities, reducing fluctuation of free cash flow and decreasing exposure to operational risks.

In June 2014 Outokumpu suffered contractor's fatal accident in Calvert, US. In addition, serious machinery breakdown incidents took place at ferrochrome production unit in Tornio and at cold rolling mills in Calvert. These losses are expected to be covered partially by insurance. Outokumpu will focus on preventive maintenance and machinery breakdown loss prevention in 2015 e.g. in connection with its insurance related auditing programs.

### Strategic and business risks

Outokumpu's key strategic and business risks include: risks and uncertainties in implementing the industrial plan, including: major failures or delays in achieving the anticipated synergy benefits, reduction of costs and the release of cash from working capital and implementation of the EMEA restructuring actions; risks related to possible failures or delays in or inadequate profitability of ramping up the Calvert mill; risks related to market development in stainless steel and ferrochrome and competitor actions including risk related to imports from Asia; risk of changes in metal prices impacting amounts of cash tied in working capital; the risk of litigation or adverse political action affecting business or changes in environmental legislation.

### Operational risks

Operational risks include inadequate or failed internal processes, employee actions, systems, or events such as accidents, natural catastrophes and misconduct or crime. These risks are often connected with production operations, logistics, financial processes, major investment projects, other projects or information technology and, if materialized they can lead to personal injury, liability, loss of property, interrupted operations or environmental impacts. Outokumpu's operational risks are partly covered by insurance. Key operational risks for Outokumpu are: a major fire or machinery breakdown and consequent business interruptions, environmental accidents; IT dependency and security risks; project implementation risks; risks related to compliance, crime and reputational harm; and personnel related risks. To minimize damage to property and business interruptions from a fire at some of its major production sites, Outokumpu has systematic fire and security audit programs in place.

### Financial risks

Key financial risks for Outokumpu include: changes in the prices of nickel, molybdenum, electrical power, and fuels; currency developments affecting euro, US dollar, Swedish krona and British Pound; interest rate changes connected with US dollar, euro and Swedish krona; changes in levels of credit margins; counterparty risk related to customers and other business partners, including financial institutions; risks related to refinancing and liquidity; risk of breaching financial covenants or other loan conditions leading to event of default; and risk related to prices of equity and fixed income securities invested under defined benefit pension plans.

Outokumpu evaluates both liquidity and refinancing risks in connection with its capital management actions as well as major investment decisions. Refinancing measures in February 2014 and the rights issue in April 2014 helped to increase liquidity and to reduce the refinancing risk in 2014–2016. Outokumpu has a clear plan to address refinancing of 2017 debt maturity peak. The nickel price fluctuated significantly during 2014 affecting Outokumpu's profitability. Nickel price was highest at 21,200 USD/tonne in mid-May with average price of the year at 16,864 USD/tonne. Part of the negative impact was mitigated by metal hedging activities. The US dollar strengthened almost 11% against the euro in 2014, which had a mainly positive impact on Outokumpu's profitability. The decline in fuel prices led to a negative result for Outokumpu's propane hedges.

### Short-term risks and uncertainties

Outokumpu is exposed to the following risks and uncertainties in the short-term: risks and uncertainties in implementing the industrial plan, including: major failures or delays in achieving the anticipated synergy benefits, reduction of costs and the release of cash from working capital and implementation of the Coil EMEA restructuring actions; risks related to possible failures or delays in or inadequate profitability of ramping up the Calvert mill; risks related to market development in stainless steel and ferrochrome as well as competitor actions; risk of changes in metal prices impacting amounts of cash tied in working capital; changes in the prices of electrical power, fuels, nickel and molybdenum; currency developments affecting the euro, US dollar, Swedish krona and British Pound; counterparty risk related to customers and other business partners, including financial institutions; risks related to refinancing and liquidity; risk of breaching financial covenants or other loan conditions leading to default; and risk related to prices of equity and fixed income securities invested under defined benefit pension plans. Possible adverse changes in the global political and economic environment, which can impact the stainless steel industry, may have significant adverse impacts on Outokumpu's business as well.

### Significant legal proceedings

The following is an update on pending legal proceedings. All legal disputes and litigation related to the Terni remedy assets, the VDM business and certain service centers, including the legal proceedings reported under the heading "Lawsuits regarding a fire in AST's Turin facility" in the 2013 annual report have moved over to ThyssenKrupp upon the completion of the divestment to ThyssenKrupp in February, 2014. Due to the contractual agreements between ThyssenKrupp and Outokumpu, there will be no further liability risk for Outokumpu resulting from these legal disputes.

### European Commission cartel investigation in the sanitary copper tube sector

In July 2014 Outokumpu, together with a number of other companies, reached a full and final settlement agreement on sanitary copper tube cartel claims. Outokumpu considered the claim for damages to lack merit, but decided to contribute to the settlement in order to bring this matter to an end. The settlement amount was not significant and it has been recorded in the third quarter 2014 results.

### All charges dropped in customs investigation of exports to Russia by Tornio Works

In March 2007, Finnish Customs authorities initiated a criminal investigation into Outokumpu's Tornio Works' export practices to Russia. In March 2011, charges were filed against Outokumpu and five of its employees for alleged money laundering in connection with the Russian export practices carried out by Tornio Works between 2004 and 2006. In June 2011, all claims were dismissed by Kouvola District Court. In August 2011, the Finnish State prosecutor appealed the District Court judgment with respect to Outokumpu and three of the charged employees and the order to compensate Outokumpu for its legal costs. The Kouvola Court of Appeal dismissed all charges brought by the prosecutor on April 19, 2012. The state prosecutor filed a petition for leave to appeal to the Finnish Supreme Court in June 2012, which was rejected by the Finnish Supreme Court on March 28, 2014. Accordingly, the judgment by the Kouvola Court of Appeal is final and Outokumpu and its employees have been cleared of all charges.

### U.S. antidumping order on stainless steel strip and sheet from Mexico, Germany and Italy

On July 27, 1999, the U.S. Department of Commerce issued anti-dumping duty orders on imports of stainless steel strip and sheet from Mexico, Germany and Italy among other countries. The anti-dumping duty orders on stainless steel strip and sheet from Mexico, Germany and Italy were revoked on July 25, 2011 due to a negative determination by the United States International Trade Commission (USITC). The U.S. petitioners in the anti-dumping case appealed the USITC's determination to the U.S. Court of International Trade in New York with regard to the revocation of the anti-dumping duty order on imports from Mexico. On November 15, 2012, the court dismissed the appeal by the plaintiffs. A complaint by the plaintiffs against said court order was rejected by the U.S. Court of Appeals on January 9, 2014. The revocation of the duty orders on stainless steel imports have therefore become legally binding as the plaintiffs have no further means of challenging the decision by the USITC.

### State-aid proceedings against Germany in connection with exemptions from renewable energy charges for German Outokumpu plants

On August 1, 2014 a new German Renewable Energy Act came into force which confirmed the exceptions for energy-intensive companies. In accordance with this Act, Outokumpu will also in the future benefit from the reduced renewable energy charges. Further, on November 23, 2014 the German government and the European Commission reached an agreement by which the state-aid case was settled. As a consequence of this settlement, several companies were asked for repayments of benefits received under the old EEG in 2012 and 2013. Outokumpu received a request to repay EUR 76.000. Further, Outokumpu received the exemption orders for 2015 on January 5, 2015 so that the case is now closed.

### Claim in Spain related to the divested copper companies

Outokumpu divested all of its copper business in 2003–2008. One of the divested companies domiciled in Spain later faced bankruptcy. The administrator of the bankruptcy has filed a claim against Outokumpu Oyj and two other non-Outokumpu companies, for recovery of payments made by the bankrupt Spanish company in connection with the divestment. The Bilbao court of first instance in Spain has accepted the claim of EUR 20 million brought against Outokumpu and the two other companies. Outokumpu and the two other companies have appealed the court's decision.

### Share information

| | | Jan–Dec 2014 | Jan–Dec 2013 |
|---|---|---|---|
| Fully paid share capital at the end of the period | € million | **311.1** | 311.1 |
| Number of shares at the end of the period [1), 2)] | | **416 374 448** | 84 060 106 |
| Average number of shares outstanding [1), 3)] | | **338 032 061** | 83 083 201 |
| Average number of shares outstanding, rights-issue-adjusted [1), 3)] | | **349 558 854** | 132 579 577 |
| Number of shares outstanding at the end of the period [1), 2), 3)] | | **415 426 724** | 83 084 218 |
| Number of treasury shares held at the end of the period | | **947 724** | 975 888 |
| Share price at the end of the period [4)] | € | **4.77** | 3.55 |
| Average share price [4)] | € | **5.16** | 4.64 |
| Highest price during the period [4)] | € | **7.50** | 7.39 |
| Lowest price during the period [4)] | € | **3.37** | 3.03 |
| Market capitalization at the end of period | € million | **1 987** | 845 |
| Share turnover [1), 5)] | million shares | **695.2** | 178.9 |
| Value of shares traded [5)] | € million | **3 609.1** | 835.1 |

Source of share information: Nasdaq Helsinki (only includes Nasdaq Helsinki trading)

1) Comparative figures adjusted to reflect the reverse split in June 2014.
2) December 31, 2014 includes 332,341,379 new shares that were registered on April 7, 2014. The rights-issue- and reverse split adjusted number of shares on December 31, 2013 is 133,557,088 shares of which 132,581,200 shares are outstanding.
3) The number of own shares repurchased is excluded. There are currently no programs with diluting effect in place.
4) Comparative figures adjusted regarding the effect of the rights issue and the reverse split.
5) Jan–Dec 2014 figures include the effect of share subsciption rights traded during March 10–19, 2014.

## Shares and shareholders

Outokumpu's share capital was unchanged at EUR 311 million at the end of 2014. The total number of Outokumpu shares was 416,374,448, and Outokumpu held 947,724 of its own shares. According to its Articles of Association, Outokumpu has only one single class of shares, and all shares have equal voting power at General Meetings of Shareholders.

In March, 2014, Outokumpu carried out a rights issue which resulted in net proceeds of approximately EUR 640 million. A total of 10,258,172,806 shares were subscribed for in Outokumpu's rights offering during the subscription period from March 10 to March 26, 2014, representing 123.5% of the 8,308,534,476 shares offered (the "offer shares"). A total of 8,276,217,384 shares were subscribed for pursuant to subscription rights, representing 99.6% of all offer shares, and a total of 1,981,955,422 shares were subscribed for without subscription rights in the secondary subscription, representing 23.9% of all offer shares. Of the offer shares subscribed for without subscription rights, 32,317,092 offer shares have been allocated to subscribers in proportion to the number of subscription rights exercised for subscription of the offer shares by them. The subscription price was EUR 0.08 per offer share. As a result of the rights offering, the total number of shares in Outokumpu increased to 10,386,615,824. The new shares were registered with the Finnish Trade Register on April 7, 2014 and they carry similar shareholder rights as all other shares in the company.

In June, Outokumpu conducted a reverse share split in order to rationalize the number of outstanding shares, to increase the value of an individual share and therefore to enhance trading conditions and improve price formation on the stock market. The number of shares in the company was reduced from 10,386,615,824 to 416,374,448 by merging each 25 shares into 1 share. The new number of shares was registered with the Trade Register on June 20, 2014. Public trading with the newly merged shares commenced on June 23, 2014.

The following table sets out the largest shareholders as per December 31, 2014 and December 31, 2013.

### Shareholders

| % | Dec 31 2014 | Dec 31 2013 |
|---|---|---|
| Finnish corporations | **33.9** | 26.1 |
| Foreign investors | **30.3** | 41.7 |
| Finnish private households | **18.3** | 22.1 |
| Finnish public sector institutions | **11.3** | 6.6 |
| Finnish financial and insurance institutions | **5.4** | 2.5 |
| Finnish non-profit organizations | **0.8** | 1.0 |
| Shareholders with over 5% of shares and voting rights | | |
| Solidium Oy (owned by the Finnish State) | **29.9** | 21.8 |
| ThyssenKrupp AG | **-** | 29.9 |

Information regarding shares and shareholders is updated daily on Outokumpu's website.

ThyssenKrupp divested its 29.9% shareholding in Outokumpu to comply with the buyer suitability requirements of the European Commission. In connection with the divestment by ThyssenKrupp, Solidium acquired a part of the shares resulting in an increase of its ownership in Outokumpu from 21.8% to 29.9%.

### Management shareholdings and share based incentive programs

As of December 31, 2014, the members of the Board of Directors and the members of the Outokumpu Leadership Team (OLT) held altogether 169,899 shares or 0.04% of the total shares outstanding.

Outokumpu has established share-based incentive programs for the OLT members and for selected managers and key employees. In the expired Share Based Incentive program 2009–2013, the targets set for the earnings period 2011–2013 were not met and therefore no reward was paid to the participants in 2014. Regarding the Performance Share Plan 2012, a total of 2,419 shares (number adjusted with the rights issue and reverse split) and cash of EUR 50,000 were given based on achieved savings targets in 2013 to the persons that left the plan during 2014.

Due to the payment of the reward shares under the incentive programs, the number of treasury shares held by Outokumpu decreased to 947,724 at the end of 2014 (Dec 31, 2013: 975,888).

More details on the share-based incentive programs can be found on the Outokumpu website.

Outokumpu's market capitalization was EUR 1,987 million at the end of December 2014 compared to EUR 845 million at the end of 2013. The share turnover in 2014 was 695.2 million shares. Significant strengthening of Outokumpu's financial position in early 2014 had a positive impact on both share price and trading volumes. In addition, after ThyssenKrupp had divested the Outokumpu ownership in February 2014, the liquidity of the share increased. The Outokumpu share price closed at end of the year at EUR 4.77, 34.2% above the closing price of 2013. The share price averaged at EUR 5.16 in 2014. At its highest, the price stood at EUR 7.50 while at its lowest, the share price was EUR 3.37.

## Corporate governance

### Changes in Outokumpu Leadership Team

Since September 1, 2014, the Outokumpu Leadership Team consists of the following members:

- Mika Seitovirta, CEO
- Reinhard Florey, CFO
- Olli-Matti Saksi, Coil EMEA (as of July 1)
- Michael Wallis, Coil Americas
- Austin Lu, APAC
- Kari Parvento, Quarto Plate
- Kari Tuutti, Long Products
- Pekka Erkkilä, CTO
- Johann Steiner, Human Resources, IT, Health and Safety
- Saara Tahvanainen, Communications & Marketing

## Annual General Meeting

The Annual General Meeting (AGM) was held on April 14, 2014, in Espoo, Finland, and decided that no dividend be paid for 2013.

The AGM decided that the number of the members of Board of Directors is eight. Jorma Ollila, Olli Vaartimo, Markus Akermann, Heikki Malinen, Elisabeth Nilsson and Siv Schalin were re-elected, and Roberto Gualdoni and Stig Gustavson were elected as new members for the term of office ending at the end of the next AGM. Jorma Ollila was elected as the Chairman and Olli Vaartimo as the Vice Chairman of the Board of Directors.

The AGM decided to maintain the earlier confirmed level of the annual remuneration of the Board of Directors: EUR 140,000 for the Chairman, EUR 80,000 for the Vice Chairman and EUR 60,000 for the other members. The meeting fee was decided to be EUR 600 per meeting for each member of the Board of Directors residing in Finland and EUR 1,200 per meeting for members residing outside Finland. Some 40% of the remuneration is paid in the form of shares in the company and the remainder in cash.

At its first meeting, the Outokumpu Board of Directors appointed two permanent committees consisting of Board members. Olli Vaartimo (Chairman), Markus Akermann, Heikki Malinen, and Siv Schalin were elected as members of the Board Audit Committee. Jorma Ollila (Chairman), Roberto Gualdoni, Stig Gustavson and Elisabeth Nilsson were elected as members of the Board Remuneration Committee.

KPMG Oy Ab, Authorized Public Accountants, was re-elected as the company's auditor for the following term.

## Extraordinary General Meetings in 2014

The Extraordinary General Meeting held on February 14, 2014 in Espoo, Finland, authorized the Board of Directors to undertake a share issue for consideration in which shareholders had the right to subscribe for new shares in proportion to their existing holdings of the shares of the company. Based on this authorization, the Board of Directors resolved on February 28, 2014, on a rights offering of EUR 665 million to raise net proceeds of approximately EUR 640 million.

The Extraordinary General Meeting held on June 16, 2014 in Espoo, Finland decided that the number of shares in Outokumpu be reduced without reducing the share capital by merging each twenty five shares to one share (25:1) by means of a reverse share split as provided in Chapter 15, Section 9 of the Limited Liability Companies Act and following the procedure provided therein. The reverse split of shares was executed on June 19, 2014.

The EGM authorized the Board of Directors to decide to repurchase a maximum of 40,000,000 of the company's own shares. The company currently holds 947,724 treasury shares. The EGM authorized the Board of Directors to decide to issue a maximum of 80,000,000 shares through one or several share issues and/or by the granting special rights entitling to shares, excluding option rights granted to the company's management and personnel under incentive plans. On the basis of the authorization, a maximum of 40,000,000 new shares may be issued, and additionally a maximum of 40,000,000 treasury shares may be transferred. These authorizations are valid until the end of the next AGM, but no later than May 31, 2015. To date, the authorizations have not been used.

## Shareholders' Nomination Board

Outokumpu's Annual General Meeting has established a Shareholders' Nomination Board to annually prepare proposals on the composition of the Board of Directors and director remuneration for the Annual General Meeting. The Nomination Board consists of the representatives of the four largest shareholders registered in the shareholders' register of the company on October 1 and the Chairman of the Board of Directors as an expert member.

On October 1, 2014 the four largest shareholders of Outokumpu were Solidium Oy, Varma Mutual Pension Insurance Company, AC Invest Four B.V. and The Social Insurance Institution of Finland. They have appointed the following representatives to the Nomination Board:

- Kari Järvinen, Managing Director at Solidium Oy
- Pekka Pajamo, CFO at Varma Mutual Pension Insurance Company
- Panu Routila, CEO at Ahlström Capital Oy
- Tuula Korhonen, Investment Director at The Social Insurance Institution of Finland

The Nomination Board elected from among its members Kari Järvinen as Chairman. According to the proposal by the Nomination Board for the AGM on March 26, 2015 the remuneration of the Board will remain unchanged, the number of Board members remains eight and Saila Miettinen-Lähde will be proposed as a new member to the Board.

# Market and business outlook

## Market outlook

Global real demand for total stainless steel products is estimated to total 36.9 million tonnes in 2014 and forecasted to reach 38.5 million tonnes and 40.6 million tonnes in 2015 and 2016, respectively. Between 2014 and 2016, global consumption is expected to increase at an annual growth rate of 5.0%, while growth is forecasted to be mainly driven by increased consumption in APAC (+5.8%) and in the Americas (+3.6%). In EMEA, total stainless steel demand is estimated to increase by 2.4% from 2014 to 2016.

**Market development for real demand total stainless steel products between 2012 and 2016**

| Million tonnes | 2012 | 2013 | 2014e | 2015f | 2016f |
|---|---|---|---|---|---|
| EMEA | 6.9 | 7.0 | 7.2 | 7.4 | 7.6 |
| Americas | 3.3 | 3.4 | 3.6 | 3.7 | 3.9 |
| APAC | 22.5 | 24.5 | 26.0 | 27.4 | 29.1 |
| Sum | 32.7 | 34.9 | 36.9 | 38.5 | 40.6 |

Source: SMR January 2015
e = estimate, f = forecast

The long-term outlook for stainless steel demand remains positive. Key global megatrends such as urbanization, modernization, and increased mobility combined with growing global demand for energy, food, and water are expected to support the future growth of stainless steel demand. According to research institute SMR, growth in stainless steel consumption between 2014 and 2016 will mainly be attributable to increased demand from the Architecture/Building/Construction & Infrastructure (+5.6%), Industrial & Heavy Industries (+5.3%) and Consumer Goods & Medical (+5.2%) segments. The Automotive & Heavy Transport and Chemical/Petrochemical & Energy segments are expected to grow at average annual growth rates of 5.0% and 3.3%, respectively.

## Business and financial outlook for the first quarter of 2015

Stainless steel demand has improved from the year-end 2014 lows but outlook for the first quarter varies by region. In EMEA, order intake is improving and underlying demand remains relatively healthy, while Asia remains soft in the beginning of the year. In Americas, the pace for placing new orders is somewhat subdued with the uncertainty over the nickel price, but market conditions remain promising. In both key regions, distributors are still digesting high stocks partly due to recent high third-country import ratios.

Outokumpu estimates higher delivery volumes quarter-on-quarter and base prices to be slightly down. Continued improvement in profitability is expected resulting in positive underlying EBIT for the first quarter. With current price, the net impact of raw material-related inventory and metal hedging gains/losses on profitability is expected to be negative EUR 5–10 million.

Outokumpu's operating result may be impacted by non-recurring items associated with the ongoing restructuring programs. This outlook reflects the current scope of operations.

# Key targets updated

- For continued improvement in the Coil Americas' profitability, the successful ramp-up of the Calvert mill into full commercial capability over the coming 2 years is essential. Coil Americas delivery volumes are expected to reach about 620,000 tonnes in 2015 (2014: 541,000) and profitability is expected to improve further.
- For Coil EMEA, a key milestone in restructuring of the European production footprint will be the closure of the Bochum melt shop mid-2015, the closure of the Benrath site in 2016, and the completion of the ferritics investment in Krefeld. All this will enable clear product and customer roles for each mill and enable capacity utilization rates of above 90% in melting and above 85% in cold rolling.
- Quarto Plate business area targets step change in profitability over the coming two years driven by the progress in the Degerfors investment ramp-up and streamlining of the cost structure. In 2015, volumes in Degerfors are estimated to grow to about 95,000 tonnes.
- Total targeted savings from Outokumpu's ongoing savings programs are EUR 470 million in 2015, EUR 530 million in 2016 and EUR 550 million in 2017 (all compared to 2012).
- Outokumpu targets additional release of cash from net working capital in 2015 with the P400 program (i.e. EUR 400 million cash release vs. 2012).
- Capital expenditure [1] is expected to be below EUR 160 million in 2015 (2014: EUR 127 million). Outokumpu's well-invested asset base allows moderate capex levels in the coming years.
- Outokumpu targets to further reduce debt levels with the ambition of net interest-bearing debt below EUR 1.5 billion by the end of 2017.
- Financing cost for 2015 is estimated at EUR 160 million, out of which interest cost EUR 120 million.

[1] Accounting capex

# Board of Directors' proposal for profit distribution

In accordance with the Board of Directors' established dividend policy, the pay-out ratio over a business cycle should be at least one third of the Group's profit for the period, with the aim of having stable annual payments to shareholders. In its annual dividend proposal, the Board of Directors will, in addition to financial results, take into consideration the Group's investment and development needs.

According to the parent company's financial statements on December 31, 2014 distributable funds totaled EUR 1,994 million, of which accumulated losses were EUR 130 million.

The Board of Directors is proposing to the Annual General Meeting scheduled for March 26, 2015 that no dividend be paid from the parent company's distributable funds and that net result for the financial year 2014 be allocated to accumulated losses.

Espoo, February 11, 2015

**Board of Directors**

| | |
|---|---|
| Jorma Ollila | Stig Gustavson |
| Olli Vaartimo | Heikki Malinen |
| Markus Akermann | Elisabeth Nilsson |
| Roberto Gualdoni | Siv Schalin |

OUTOKUMPU OYJ

*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

# Auditor's report

## To the Annual General Meeting of Outokumpu Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Outokumpu Oyj for the year ended December 31, 2014. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

## Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

## Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the President and CEO be discharged from liability for the financial period audited by us.

Espoo, February 11, 2015

KPMG Oy Ab

Virpi Halonen
Authorized Public Accountant

# Consolidated financial statements, IFRS

## Consolidated statement of income

| € million | Note | 2014 | 2013 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Sales** | 3 | **6 844** | 6 745 |
| Cost of sales | | **-6 714** | -6 847 |
| **Gross margin** | | **130** | -102 |
| Other operating income | 6 | **47** | 24 |
| Selling and marketing expenses | | **-112** | -144 |
| Administrative expenses | | **-219** | -230 |
| Research and development expenses | | **-23** | -26 |
| Other operating expenses | 6 | **-65** | -31 |
| **EBIT** | | **-243** | -510 |
| Share of results in associated companies and joint ventures | 13 | **7** | -2 |
| Financial income and expenses | 8 | | |
| Interest income | | **3** | 13 |
| Interest expenses | | **-141** | -210 |
| Market price gains and losses | | **-15** | -37 |
| Other financial income | | **2** | 0 |
| Other financial expenses | | **-70** | -76 |
| Total financial income and expenses | | **-223** | -310 |
| **Result before taxes** | | **-459** | -822 |
| Income taxes | 9 | **8** | -11 |
| **Net result for the financial year from continuing operations** | | **-450** | -832 |
| **Net result for the financial year from discontinued operations** | 5 | **11** | -170 |
| **Net result for the financial year** | | **-439** | -1 003 |
| **Attributable to** | | | |
| Equity holders of the Company | | **-434** | -997 |
| Non-controlling interests | | **-5** | -6 |
| Earnings per share for result attributable to the equity holders of the Company (basic and diluted), € [1] | 10 | | |
| Earnings per share, continuing operations | | **-1.27** | -6.23 |
| Earnings per share, discontinued operations | | **0.03** | -1.29 |
| Earnings per share | | **-1.24** | -7.52 |

[1] Calculated based on the rights-issue-adjusted weighted average number of shares, comparative figures adjusted accordingly. Comparative figures adjusted to reflect the reverse split in June 2014.

## Consolidated statement of comprehensive income

| € million | Note | 2014 | 2013 |
|---|---|---|---|
| **Net result for the financial year** | | **-439** | -1 003 |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | | **71** | -40 |
| Available-for-sale financial assets | 16 | | |
| Fair value changes during the financial year | | **3** | -2 |
| Reclassification adjustments from other comprehensive income to profit or loss | | **3** | -0 |
| Income tax relating to available-for-sale financial assets | 9 | **-1** | 0 |
| Cash flow hedges | 20 | | |
| Fair value changes during the financial year | | **-11** | -11 |
| Reclassification adjustments from other comprehensive income to profit or loss | | **-2** | -4 |
| Income tax relating to cash flow hedges | 9 | **3** | 4 |
| Net investment hedges | | | |
| Income tax relating to net investment hedges | 9 | **-** | 1 |
| Share of other comprehensive income in associated companies and joint ventures | 13 | **-0** | - |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurements of defined benefit plans | 25 | | |
| Changes during the financial year | | **-14** | 15 |
| Income tax relating to remeasurements | 9 | **-12** | -8 |
| Share of other comprehensive income in associated companies and joint ventures | 13 | **1** | - |
| **Other comprehensive income for the financial year, net of tax** | | **41** | -44 |
| **Total comprehensive income for the financial year** | | **-398** | -1 047 |
| **Attributable to** | | | |
| Equity holders of the Company | | **-394** | -1 040 |
| Non-controlling interests | | **-4** | -7 |

# Consolidated statement of financial position

| € million | Note | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | **567** | 570 |
| Property, plant and equipment | 12 | **3 138** | 3 254 |
| Investments in associated companies and joint ventures | 13 | **78** | 66 |
| Available-for-sale financial assets | 16 | **26** | 15 |
| Investments at fair value through profit or loss | 17 | **2** | 2 |
| Derivative financial instruments | 20 | **1** | 2 |
| Deferred tax assets | 9 | **44** | 24 |
| Defined benefit plan assets | 25 | **36** | 0 |
| Trade and other receivables | 22 | **12** | 11 |
| | | **3 904** | 3 944 |
| **Current assets** | | | |
| Inventories | 21 | **1 527** | 1 216 |
| Available-for-sale financial assets | 16 | **0** | 4 |
| Investments at fair value through profit or loss | 17 | **4** | 17 |
| Derivative financial instruments | 20 | **36** | 21 |
| Trade and other receivables | 22 | **749** | 813 |
| Cash and cash equivalents | 23 | **191** | 607 |
| | | **2 507** | 2 679 |
| Assets held for sale | 5 | **-** | 2 200 |
| **TOTAL ASSETS** | | **6 411** | 8 823 |

| € million | Note | 2014 | 2013 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | | **311** | 311 |
| Premium fund | | **714** | 714 |
| Invested unrestricted equity reserve | | **2 103** | 1 462 |
| Other reserves | | **10** | 17 |
| Retained earnings | | **-1 006** | -617 |
| | | **2 132** | 1 887 |
| Non-controlling interests | | **0** | 4 |
| **Total equity** | 24 | **2 132** | 1 891 |
| **Non-current liabilities** | | | |
| Non-current debt | 27 | **1 597** | 3 270 |
| Derivative financial instruments | 20 | **18** | 15 |
| Deferred tax liabilities | 9 | **31** | 26 |
| Defined benefit and other long-term employee benefit obligations | 25 | **372** | 317 |
| Provisions | 26 | **198** | 115 |
| Trade and other payables | 28 | **47** | 48 |
| | | **2 262** | 3 791 |
| **Current liabilities** | | | |
| Current debt | 27 | **569** | 893 |
| Derivative financial instruments | 20 | **87** | 35 |
| Provisions | 26 | **26** | 25 |
| Current tax liabilities | 9 | **32** | 4 |
| Trade and other payables | 28 | **1 303** | 1 136 |
| | | **2 016** | 2 093 |
| Liabilities directly attributable to assets held for sale | 5 | **-** | 1 048 |
| **TOTAL EQUITY AND LIABILITIES** | | **6 411** | 8 823 |

# Consolidated statement of cash flows

| € million | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net result for the financial year | | **-439** | -1 003 |
| Adjustments for | | | |
| Taxes | 9 | **-8** | 11 |
| Depreciation and amortization | 11, 12 | **320** | 332 |
| Impairments | 11, 12 | **32** | 14 |
| Share of results in associated companies and joint ventures | 13 | **-7** | 2 |
| Gain/loss on sale of intangible assets and property, plant and equipment | 6 | **-10** | -5 |
| Gain/loss on sale of financial assets | 8 | **-0** | 50 |
| Gain/loss on disposal of subsidiaries | 4 | **-** | -4 |
| Interest income | 8 | **-5** | -13 |
| Dividend income | 8 | **-0** | -1 |
| Interest expense | 8 | **131** | 210 |
| Exchange rate differences | 8 | **15** | 31 |
| Other non-cash adjustments | | **4** | 218 |
| | | **471** | 844 |
| Change in working capital | | | |
| Change in trade and other receivables | | **148** | 43 |
| Change in inventories | | **-259** | 480 |
| Change in trade and other payables | | **111** | -172 |
| Change in provisions | | **-50** | -55 |
| | | **-50** | 297 |
| Dividends received | | **3** | 2 |
| Interest received | | **2** | 3 |
| Interest paid | | **-111** | -106 |
| Income taxes paid | | **-2** | -3 |
| **Net cash from operating activities** | | **-126** | 34 |

| € million | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flow from investing activities** | | | |
| Investments in associated companies and joint ventures | 13 | **-6** | - |
| Purchases of available-for-sale financial assets | 16 | **-8** | -2 |
| Purchases of property, plant and equipment | 12 | **-118** | -281 |
| Purchases of intangible assets | 11 | **-11** | -4 |
| Proceeds from the disposal of subsidiaries, net of cash | 4, 5 | **-50** | -1 |
| Proceeds from sale of property, plant and equipment | 12 | **17** | 70 |
| Proceeds from sale of intangible assets | 11 | **13** | 3 |
| Proceeds from sale of loan receivable | | **-** | 114 |
| Change in other non-current receivables | | **2** | -7 |
| **Net cash from investing activities** | | **-162** | -108 |
| **Cash flow before financing activities** | | **-289** | -74 |
| **Cash flow from financing activities** | | | |
| Rights issue | 24 | **640** | - |
| Borrowings of non-current debt | | **1 022** | 1 114 |
| Repayments of non-current debt | | **-1 483** | -696 |
| Change in current debt | | **-277** | 52 |
| Repayments of finance lease liabilities | | **-22** | -12 |
| Other financing cash flow | | **3** | 1 |
| **Net cash from financing activities** | | **-116** | 459 |
| **Net change in cash and cash equivalents** | | **-404** | 385 |
| Cash and cash equivalents at the beginning of the financial year | | **607** | 222 |
| Foreign exchange rate effect on cash and cash equivalents | | **0** | -11 |
| Discontinued operations net change in cash effect | | **-12** | 12 |
| Net change in cash and cash equivalents | | **-404** | 385 |
| **Cash and cash equivalents at the end of the financial year** | 23 | **191** | 607 |

Cash flows are presented for continuing operations.

## Consolidated statement of changes in equity

| € million | Note | Share capital | Premium fund | Invested unrestricted equity reserve | Other reserves | Fair value reserves | Cumulative translation differences | Remeasurements of defined benefit plans | Treasury shares | Other retained earnings | Attributable to the equity holders of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Equity on Jan 1, 2013** | | **311** | **714** | **1 462** | **7** | **22** | **-81** | **-75** | **-25** | **591** | **2 926** | **26** | **2 952** |
| Net result for the financial year | | - | - | - | - | - | - | - | - | -997 | -997 | -6 | -1 003 |
| Other comprehensive income | | - | - | - | - | -13 | -38 | 8 | - | - | -43 | -1 | -44 |
| Total comprehensive income for the financial year | | - | - | - | - | -13 | -38 | 8 | - | -997 | -1 040 | -7 | -1 047 |
| Transactions with owners of the Company | | | | | | | | | | | | | |
| Contributions and distributions | | | | | | | | | | | | | |
| Share-based payments | 18 | - | - | - | - | - | - | - | 1 | -1 | 1 | - | 1 |
| Changes in ownership interests | | | | | | | | | | | | | |
| Disposal of subsidiary | 4 | - | - | - | - | - | - | 3 | - | -3 | - | -15 | -15 |
| **Equity on Dec 31, 2013** | | **311** | **714** | **1 462** | **7** | **9** | **-119** | **-65** | **-24** | **-410** | **1 887** | **4** | **1 891** |
| Net result for the financial year | | - | - | - | - | - | - | - | - | -434 | -434 | -5 | -439 |
| Other comprehensive income | | - | - | - | - | -5 | 70 | -27 | - | 1 | 40 | 1 | 41 |
| Total comprehensive income for the financial year | | - | - | - | - | -5 | 70 | -27 | - | -433 | -394 | -4 | -398 |
| Transactions with owners of the Company | | | | | | | | | | | | | |
| Contributions and distributions | | | | | | | | | | | | | |
| Rights issue | | - | - | 640 | - | - | - | - | - | - | 640 | - | 640 |
| Share-based payments | 18 | - | - | - | - | - | - | - | 1 | 1 | 2 | - | 2 |
| Changes in ownership interests | | | | | | | | | | | | | |
| Acquisition of a non-controlling interest | 24 | - | - | - | - | - | - | - | - | -3 | -3 | -0 | -3 |
| Disposal of subsidiary | 5 | - | - | - | -1 | - | - | 4 | - | -3 | - | -0 | -0 |
| Other | | - | - | - | -2 | - | - | - | - | 2 | - | - | - |
| **Equity on Dec 31, 2014** | | **311** | **714** | **2 103** | **5** | **5** | **-49** | **-89** | **-23** | **-846** | **2 132** | **0** | **2 132** |

# Notes to the consolidated financial statements

## 1. Corporate information

Outokumpu Oyj is a Finnish public limited liability company organized under the laws of Finland and domiciled in Espoo, Finland. The parent company, Outokumpu Oyj, has been listed on Nasdaq Helsinki since 1988. A copy of the consolidated financial statements is available at the Group's website www.outokumpu.com, from Outokumpu Oyj/ Corporate Communications, P.O. Box 140, 02201 Espoo, Finland or via e-mail at corporate.comms@outokumpu.com.

Outokumpu is the global leader in stainless steel and creates advanced materials that are efficient, long lasting and recyclable – helping to build a world that lasts forever. Stainless steel is an ideal material to create lasting solutions in demanding applications from cutlery to bridges, energy to medical equipment. Stainless steel is 100% recyclable, corrosion-resistant, maintenance-free, durable and hygienic. Outokumpu employs more than 12,000 professionals in more than 40 countries.

In its meeting on February 11, 2015 the Board of Directors of Outokumpu Oyj approved the publishing of these consolidated financial statements. According to the Finnish Limited Liability Companies Act, shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting also has the right to make a decision to amend the financial statements.

## 2. Accounting principles for the consolidated financial statements

### Basis of preparation

The consolidated financial statements of Outokumpu have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The consolidated financial statements have been prepared in compliance with the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force on December 31, 2014. The consolidated financial statements also comply with the regulations of Finnish accounting and company legislation complementing the IFRSs.

The consolidated financial statements are presented in millions of euros and have been prepared under the historical cost convention, unless otherwise stated in the accounting principles. All figures presented have been rounded, and consequently the sum of individual figures may deviate from the presented aggregate figure. Key figures have been calculated using exact figures.

The consolidated financial statements of Outokumpu for 2014 have been prepared on a going concern basis.

Refinancing measures and rights issue carried out during the financial year have strengthened Outokumpu's financial position and enhance Outokumpu's ability to execute its strategy that decisively aims at sustainable profitability through industrial restructuring and efficiency measures.

As from January 1, 2014 Outokumpu has applied the following new and amended standards and interpretations.

- **IFRS 10 Consolidated Financial Statements and related amendments:** IFRS 10 builds on existing principles by identifying the concept of control as the determining factor when deciding whether an entity should be incorporated within the consolidated financial statements. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard has not significantly affected Outokumpu's consolidated financial statements.
- **IFRS 11 Joint Arrangements and related amendments:** In the accounting of joint arrangements IFRS 11 focuses on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. In future jointly controlled entities are to be accounted for using only one method, equity method, and the other alternative, proportional consolidation is no longer allowed. The new standard had no impact on Outokumpu's consolidated financial statements.
- **IFRS 12 Disclosures of Interests in Other Entities and related amendments:** IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other off-balance sheet vehicles. The new standard had an impact on the disclosures Outokumpu presents on its investments in other entities.
- **IAS 28 (revised 2011) Investments in Associates and Joint Ventures:** Following the issue of IFRS 11, the revised IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted. The revised standard did not have a significant impact on Outokumpu's consolidated financial statements.
- **Amendments to IAS 32 Financial Instruments: Presentation:** The amendments provide clarifications on the application of presentation requirements for offsetting financial assets and financial liabilities on the statement of financial position and give more related application guidance. The amendments did not have a significant

impact on Outokumpu's consolidated financial statements.

- **Amendments to IAS 36 Impairment of Assets:** The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets. The amended standard had no significant impact on Outokumpu's consolidated financial statements.
- **Amendments to IAS 39 Financial Instruments:** Recognition and Measurement: The amendments made to IAS 39 provide an exception to the requirement to discontinue hedge accounting in certain circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. The amendments did not have an impact on Outokumpu's consolidated financial statements.

Other new or amended standards and interpretations had no impact on Outokumpu's consolidated financial statements.

## Adoption of new and amended IFRS standards and interpretations

Outokumpu has not yet applied the following new and amended standards and interpretations already issued. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year (* = not yet endorsed by the European Union as at December 31, 2014).

- **IFRIC 21 Levies (effective in the EU for financial years beginning on or after June 17, 2014):** The interpretation clarifies the accounting treatment of levies. A liability for a levy is recognized when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation is applicable to all levies other than income taxes, fines, penalties and outflows that are in scope of other standards. The interpretation is not assessed to have a significant impact on Outokumpu's consolidated financial statements.
- **Amendments to IAS 19 Employee Benefits – Defined Benefit Plans:** Employee Contributions* (effective for financial years beginning on or after July 1, 2014): The amendments clarify the accounting treatment under IAS 19 in respect of defined benefit plans that involve contributions from employees or third parties towards the cost of benefits. The amendments are not assessed to have an impact on Outokumpu's consolidated financial statements.
- **Annual Improvements to IFRSs (2011–2013 cycle*, and 2010–2012 cycle*,)** (effective for financial years beginning on or after July 1, 2014) and **2012–2014 Cycle*** (effective for financial years beginning on or after January 1, 2016): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total four (2011–2013 cycle), seven (2010–2012 cycle) and four (2012–2014 cycle) standards. Their impacts vary standard by standard but are not significant.
- **Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative*** (effective for financial years beginning on or after January 1, 2016). The amendments are designed to encourage companies to apply judgement in determining what information to disclose in the financial statements. For example, the amendments clarify the application of the materiality concept and judgement when determining where and in what order information is presented in the financial disclosures. Then interpretation is not assessed to have a significant impact on Outokumpu's consolidated financial statements.
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciations and Amortization*** (effective for financial years beginning on or after January 1, 2016): The amendments clarify IAS 16 and IAS 38 that revenue-based method can not be used to depreciate property, plant and equipment and may only be used in limited circumstances to amortize intangible assets. The amendments are not assessed to have an impact on Outokumpu's consolidated financial statements.
- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (Effective for financial years beginning on or after January 1, 2016): The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are not assessed to have an impact on Outokumpu's consolidated financial statements.
- **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception*** (the amendments can be applied immediately; mandatory for financial years beginning on or after January 1, 2016): The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 clarify the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. The amendments are not assessed to have an impact on Outokumpu's consolidated financial statements.
- **Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*** (effective for financial years beginning on or after January 1, 2016): The amendments add new guidance to IFRS 11 on how to account for the acquisition of an interest in a joint operation that constitutes a business, i.e. business combination accounting is required to be applied. The amendment is not assessed to have an impact on Outokumpu's consolidated financial statements.
- **IFRS 15 Revenue from Contracts with Customers*** (effective for financial years beginning on or after January 1, 2017): IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under IFRS 15 an entity shall recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods delivered or services rendered. Outokumpu is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
- **IFRS 9 Financial Instruments*** (effective for financial years beginning on or after January 1, 2018): IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Outokumpu is assessing the impact of IFRS 9.

Other new or amended standards and interpretations are not expected to have an impact on Outokumpu's consolidated financial statements when adopted.

## Management judgements and use of estimates

The preparation of the financial statements in accordance with IFRSs requires management to make judgements and make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and contingent liabilities at the reporting date, as well as the reported amounts of income and expenses during the reporting period. The management estimates and judgements are continuously monitored and they are based on prior experience and other factors, such as future expectations assumed to be reasonable considering the circumstances. Although these estimates are based on management's best knowledge of the circumstances at the end of the reporting period, actual results may differ from the estimates and assumptions. Management believes that the following accounting principles represent those matters requiring the exercise of judgement where a different opinion could result in significant changes to reported results.

### Business combinations

In significant business combinations, the Group has used external advisor to assist in evaluating the fair values of assets acquired and liabilities assumed. The procedures included for example analysis of market conditions, market data covering e.g. economic and regulatory trends; analysis and inspection of acquired companies and their operating and financial projections; and development of discounted cash flow models and discount rates used in the models. Regarding analysis of property, plant and equipment, the scope included a study of the major assets at various facilities and research in the marketplace in order to identify replacement costs, useful lives and other pertinent information used in the valuation process. Management believes that the estimates and assumptions used are reasonable for determining fair values, although different estimates and assumptions could significantly affect the amounts reported.

### Inventories

Inventories are stated at the lower of cost and net realizable value (NRV). Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The most important commodity price risk for Outokumpu is caused by fluctuation in nickel and other alloy prices. The majority of stainless steel sales contracts include an alloy surcharge clause, with the aim of reducing the risk arising from the time difference between raw material purchase and product delivery. However, the risk is significant because the delivery cycle in production is longer than the alloy surcharge mechanism provides for. Thus, only the price for the products to be sold in near future is known. That is why a significant part of the future price for each product to be sold is estimated according to management's best knowledge in NRV calculations. Due to fluctuations in nickel and other alloy prices, the realized prices can deviate significantly from what has been used in NRV calculations on the closing date.

### Property, plant and equipment and intangible assets and impairments

Management estimates relate to carrying amounts and useful lives of assets as well as other underlying assumptions. Different assumptions and assigned lives could have a significant impact on the reported amounts. Management estimates in relation to goodwill relate to the estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. The future projections of cash flows include, among other estimates, projections of future prices and delivery volumes, production costs and maintenance capital expenditures.

Carrying amounts of non-current assets are regularly reviewed to determine whether there is any evidence of impairment as described in these accounting principles. Preparation of the estimated future cash flows and determining the discount rates for the impairment testing requires management to make assumptions relating to future expectations (e.g., future product pricing, production levels, production costs, market supply and demand, projected maintenance capital expenditure and weighted average cost of capital). A pre-tax discount rate used for the net present value calculation of projected cash flows reflects the weighted average cost of capital. The key assumptions used in the impairment testing, including sensitivity analysis, are explained further in Note 11. Intangible assets.

### Income taxes

Group operates and earns income in numerous countries and is subject to changing tax laws in multiple jurisdictions within the countries. Significant judgements are necessary in determining the worldwide income tax liabilities of the Group. Although management believes they have made reasonable estimates about the resolution of tax uncertainties, the final outcome of these uncertainties could have an effect on the income tax liabilities and deferred tax liabilities in the period.

At the end of reporting period, the Group assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets. This assessment requires judgement with respect to, among other things, benefits that could be realized from future taxable income, available tax strategies, as well as other positive and negative factors. The recorded amount of deferred tax assets could be reduced if estimates of taxable income and benefits from available tax strategies are lowered, or if current tax regulations are enacted that impose restrictions on the Group's ability to utilize future tax benefits.

### Fair values of derivatives and other financial instruments

The fair value of financial instruments which cannot be determined based on quoted market prices and rates is based on different valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Factors regarding valuation techniques and their assumptions could affect the reported fair values.

The Group has used discounted cash flow analysis for various derivative contracts and in case of options Black-Scholes-Merton model has been applied.

### Employee benefits

The present value of pension obligations is subject to actuarial assumptions which actuaries use in calculating these obligations. Actuarial assumptions include, among others, discount rate, the annual rate of increase in future compensation levels and inflation rate. The assumptions used are presented in Note 25. Employee benefit obligations.

### Provisions

The most significant provisions in the statement of financial position relate to restructuring programs and primarily include termination benefits to employees. The judgement applied mainly relates to the estimated amounts of termination benefits.

The Group has also made provisions for known environmental liabilities based on management's best estimate of the remediation costs. The precise amount and timing of these costs could differ significantly from the estimate.

## Principles of consolidation

### Subsidiaries

The consolidated financial statements include the parent company Outokumpu Oyj and all those subsidiaries where over 50% of the subsidiary's voting rights are controlled directly or indirectly by the parent company, or the parent company is otherwise in control of the company at the end of the reporting period. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Acquired or established subsidiaries are accounted for by using the acquisition method. The consideration transferred and the identifiable assets acquired and liabilities assumed in the acquired company are measured at fair value at the acquisition date. The consideration transferred includes any assets transferred by the acquirer, liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Any contingent consideration related to the business combination is measured at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as liability is remeasured at its fair value at the end of each reporting period and the subsequent changes to fair value are recognized in profit or loss. Contingent consideration classified as equity is not subsequently remeasured. The consideration transferred does not include any transactions accounted for separately from the acquisition. All acquisition-related costs, with the exception of costs to issue debt or equity securities, are recognized as expenses in the periods in which costs are incurred and services rendered.

Goodwill arising on an acquisition is recognized as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests or previously held equity interests in the acquiree, over the Group's share of the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. Non-controlling interest in the acquiree is measured acquisition-by-acquisition either at fair value or at value, which equals to the proportional share of the non-controlling interest in the identifiable net assets acquired. Changes in the parent company's ownership interest in a subsidiary are accounted for as equity transactions if the parent company retains control of the subsidiary.

To those business combinations, which have taken place before January 1, 2010 accounting principles effective at that time have been applied.

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated in the preparation of consolidated financial statements. The result for the period and items recognized in other comprehensive income are allocated to the equity holders of the company and non-controlling interests and presented in the statement of income and statement of other comprehensive income. Non-controlling interests are presented separately from the equity allocated to the equity holders of the company. Comprehensive income is allocated to the equity holders of the company and to non-controlling interests even in situations where the allocation would result in the non-controlling interests' share being negative, unless non-controlling interests have an exemption not to meet obligations which exceed non-controlling interests' investment in the company.

### Associated companies and joint ventures

Companies, where Outokumpu generally holds voting rights of 20–50% and in which Outokumpu otherwise has significant influence, but not control are included in the consolidated financial statements as associated companies. Associated companies are consolidated by using the equity method from the date that significant influence was obtained until it ceases.

The Group's share of the associated company's result for the period is separately disclosed below EBIT in the consolidated statement of income. Outokumpu's share of changes recognized in the associated company's other comprehensive income is recognized in the Group's other comprehensive income. When Outokumpu's share of the associated company's losses exceeds the carrying amount of the investment, the investment is recognized at zero value in the statement of financial position and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associated company. The interest in an associated company comprises the carrying amount of the investment under the equity method together with any long-term interest that, in substance, forms a part of the net investment in the associated company.

Joint ventures in which Outokumpu has contractually based joint control with a third party are also accounted for by using the equity method described above.

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

Non-current assets (or disposal groups) and assets and liabilities related to discontinued operations are classified as held for sale if their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Classification as held for sale requires that the following criteria are met: the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition subject to usual and customary terms, the management is committed to the sale and the sale is expected to be completed within one year from the date of classification.

Prior to classification as held for sale, the assets or assets and liabilities related to a disposal group in question are measured according to the respective IFRS standards. From the date of classification, non-current assets (or a disposal group) held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and the recognition of depreciation and amortization is discontinued.

Assets included in disposal groups but not in the scope of the measurement requirements of IFRS 5, as well as liabilities, are measured according to the related IFRS standards also after the date of classification.

Discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Result from discontinued operations is shown separately in the consolidated statement of income and the comparative figures are restated accordingly. Assets held for sale, disposal groups and liabilities included in disposal groups are presented in the statement of financial position separately from other items. The comparatives for statement of financial position items are not restated.

## Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, and for which discrete financial information is available. In 2014, Outokumpu changed its operational model and from September 1 onwards the Group consists of five operating segments which are the business areas: Coil EMEA, Coil Americas, APAC, Quarto Plate and Long Products. Quarto Plate and Long Products were formerly business lines within the Specialty Stainless business area. Special Coil operations in Avesta and Nyby that were also a part of the Specialty Stainless business area became a part of Coil Emea business area. Consequently, Specialty Stainless ceased to exist as a business area.

The operating segments are also Outokumpu's reportable segments as defined in IFRS 8. The operating segments are responsible for sales, profitability and production. They are located in different geographical areas, managed separately and are reported separately in internal management reporting to CEO who is Outokumpu's chief operating decision maker. Outokumpu's segment information is based on the internal management reporting which is prepared according to the IFRS accounting principles.

Pricing of intersegment transactions is based on arm's length prices. EBIT of the operating segments is reported to the CEO regularly in order for him to review their performance and make decisions about resources to be allocated to the segments. EBIT is defined correspondingly in management reporting as in these accounting principles.

Other operations mainly consist of such business development and Corporate Management expenses that are not allocated to the businesses.

## Foreign currency transactions

Transactions of each subsidiary included in the consolidated financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary ("the functional currency"). The consolidated financial statements are presented in euros which is the functional and presentation currency of the parent company. Group companies' foreign currency transactions are translated into local functional currencies using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into functional currencies at the exchange rates prevailing at the end of the reporting period. Foreign exchange differences arising from interest-bearing assets and liabilities and related derivatives are recognized in finance income and expenses in the statement of income. Foreign exchange differences arising in respect of other financial instruments are included in EBIT under sales, purchases or other operating income and expenses. The effective portion of exchange differences arisen from instruments designated as hedges of the net investments in foreign operations is recognized in other comprehensive income.

For those subsidiaries whose functional and presentation currency is not the euro, the income and expenses for the statements of income and comprehensive income, and the items for statement of cash flows, are translated into euro using the average exchange rates of the reporting period. The assets and liabilities for the statement of financial position are translated using the exchange rates prevailing at the reporting date. The translation differences arising from the use of different exchange rates explained above are recognized in Group's other comprehensive income. Any goodwill arising on the acquisition of foreign operations and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of those foreign operations are treated as assets and liabilities of those foreign operations. They are translated into euro using the exchange rates prevailing at the reporting date. When a foreign operation is sold, or is otherwise partially or completely disposed of, the translation differences accumulated in equity are reclassified in profit or loss as part of the gain or loss on the sale.

## Revenue recognition

Revenue from the sale of goods is recognized after the significant risks and rewards of ownership have been transferred to the buyer, and the Group retains neither a continuing managerial involvement to the degree usually associated with ownership, nor effective control of those goods. Usually this means that revenue is recognized upon delivery of goods to customers in accordance with agreed terms of delivery.

Outokumpu ships stainless steel products to customers under a variety of delivery terms. The used terms are based on Incoterms collection of delivery terms, published and defined by the International Chamber of Commerce Terms of Trade.

The most common delivery terms used by Outokumpu are “C” terms, whereby the Group arranges and pays for the carriage and certain other costs. The Group ceases to be responsible for the goods and revenue is recognized once the goods have been handed over to the carrier to be delivered to the agreed destination.

Less frequently used are “D” terms, under which the Group is obliged to deliver the goods to the buyer at the agreed destination, in which case revenue is recognized when the goods are delivered to the buyer. Also “F” terms are less frequently used, under which the buyer arranges and pays for the carriage, and revenue is recognized when the goods are handed over to the carrier contracted by the buyer.

## Income taxes

Current and deferred income taxes are determined in accordance with IAS 12 Income Taxes on entity level to the extent an entity is subject to income taxation. The Group’s income tax in the statement of income includes current income taxes of the Group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred income taxes. In several countries (Germany, the UK, Italy, the Netherlands, Sweden and the USA) Outokumpu companies are included in income tax consolidation groups / group taxation systems. The share of results in associated companies is reported in the statement of income based on the net result and thus including the income tax effect.

Deferred income taxes are stated using the balance sheet liability method to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis at the reporting date, as well as for unused tax losses or credits carry forward. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which deductible temporary differences can be utilized. A valuation allowance is recognized against a deferred tax asset if the realization of the related tax benefit is not probable. The ability to recognize deferred tax assets is reviewed at the end of each reporting period. Deferred tax liabilities are usually recognized in the statement of financial position in full except to the extent that the deferred taxes arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred taxes are calculated at the enacted or substantially enacted tax rates that are expected to apply by the end of the reporting period. Generally, deferred tax is recognized to the statement of income, except if the taxes are related to items of other comprehensive income or to transactions or other events recognized directly in equity, in which case the related income taxes are also recognized either in other comprehensive income or directly in equity, respectively.

## Research and development costs

Research costs are expensed in the reporting period in which they are incurred. Development costs are capitalized when it is probable that the development project will generate future economic benefits for the Group, and certain criteria related to commercial and technological feasibility are met. These projects relate to the development of new or substantially improved products or production processes. Capitalized development costs mainly comprise materials and supplies and direct labour costs as well as related overhead costs. Development costs recognized as expenses are not subsequently capitalized.

Subsequent to initial recognition, capitalized development costs are measured at cost less accumulated amortization and impairment losses. Capitalized development costs are amortized on a straight-line basis over their estimated useful lives which is generally five years. Recognition of amortization is commenced as the asset is ready for use. The accounting treatment of the government grants received for research and development activities is described below under Government grants.

## Goodwill and other intangible assets

Goodwill arising on a business combination is recognized at the acquisition date at an amount representing the excess of the consideration transferred in an acquisition over the fair value of the identifiable assets acquired, liabilities assumed and any non-controlling interest and any previously held equity interests in the acquiree, if any. Goodwill is not amortized, but tested for impairment. In respect of associated companies, goodwill is included in the carrying amount of the investment. Goodwill is measured at cost less accumulated impairment losses.

Intangible assets other than goodwill include land-use rights, capitalized development costs, patents, licenses and software. An intangible asset is recognized only if it is probable that the future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. All other expenditure is expensed as incurred. Intangible assets are recognized initially at cost. After initial recognition, assets are measured at cost less amortizations and accumulated impairment losses if the intangible asset has a finite useful life. Cost comprises the purchase price and all costs directly attributable to bringing the asset ready for its intended use. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Intangible assets are amortized on a straight-line basis over their expected useful lives. Assets tied to a certain fixed period are amortized over the contract term. Amortization periods used for intangible assets are the following:

| | |
|---|---|
| Software | up to 10 years |
| Capitalized development costs | up to 10 years |
| Intangible rights | up to 20 years |

Recognition of amortization is discontinued when the intangible asset is classified as held for sale. The estimated useful lives and residual values are reviewed at least at the end of each financial year. If they differ substantially from previous estimates, the useful lives are adjusted accordingly.

Gains and losses on disposal of intangible assets are included in other operating income and expenses.

## Emission allowances

Emission allowances are intangible assets measured at cost. Allowances received free of charge are recognized at nominal value, i.e. at zero carrying amount. A provision to cover the obligation to return emission allowances is recognized at fair value at the end of the reporting period provided that the emission allowances received free of charge will not cover the actual emissions. The purchased emission allowance quotas recognized in intangible rights are derecognized as they have been offset against the obligation or, when the emission allowances are sold. The obligation to deliver allowances equal to emissions is recognized under other operating expenses. Gains from the sale of allowances are recognized as other operating income in the statement of income.

## Property, plant and equipment

Property, plant and equipment acquired by the Group companies are measured at cost. The cost includes all expenditure directly attributable to the acquisition of the asset. Government grants received are deducted from the cost. Property, plant and equipment acquired in business combinations are measured at fair value at the acquisition date. Borrowing costs (mainly interest costs) directly attributable to the acquisition or construction of a qualifying asset are capitalized in the statement of financial position as part of the carrying amount of the asset. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized as expenses in the period in which they are incurred. Property, plant and equipment are carried in the statement of financial position at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful lives. Depreciation is based on the following estimated useful lives:

| | |
|---|---|
| Buildings | 25–40 years |
| Heavy machinery | 15–20 years |
| Light machinery and equipment | 3–15 years |

Land is not depreciated, except for leased land, as the useful life of land is assumed to be indefinite. Mine properties are depreciated using the units-of-production method based on the depletion of ore reserves over their estimated useful lives. Recognition of depreciation on an item of property, plant and equipment is discontinued when the item is classified as held for sale. Expected useful lives and residual values are reviewed at least at the end of each financial year and, if they differ significantly from previous estimates, the useful lives are revised accordingly.

Ordinary repairs and maintenance costs are expensed during the reporting period in which they are incurred. The cost of major renovations is included in the asset’s carrying amount when it is probable that the Group will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset and the cost can be reliably measured. Costs arising on such major renovations are accounted for as capital expenditure and depreciated on a straight-line basis over their estimated useful lives.

Gains and losses on sale and disposals of property, plant and equipment are determined by the difference between the received net proceeds and the carrying amount of the asset. Gains and losses on sale and disposals are presented in other operating income or expenses, thus included in EBIT.

## Government grants

Government or other grants are recognized as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate. Investment grants related to acquisitions of property, plant and equipment and intangible assets are deducted from the cost of the asset in question in the statement of financial position and recognized as income on a systematic basis over the useful life of the asset in the form of reduced depreciation expense.

## Impairment of property, plant and equipment and intangible assets

Carrying amounts of non-current assets are regularly reviewed to determine whether there is any evidence of impairment. If any such evidence of impairment emerges, the asset’s recoverable amount is estimated. Goodwill is tested at least annually, irrespective of whether there is any evidence of impairment.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. For goodwill testing purposes the recoverable amount is based on value in use which is determined by reference to discounted future net cash flows expected to be generated by the asset. In Outokumpu, goodwill is tested on operating segment level. The discount rate used is a pre-tax rate that reflects the current market view on the time value of money and the asset-specific risks. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment loss is recognized immediately in profit or loss. The estimated useful life of the asset that is subject to depreciation or amortization is also reassessed when an impairment loss is recognized.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted carrying amount is higher than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill are not reversed.

## Leases

### Group as a lessee

Lease agreements of property plant and equipment, in which the Group has substantially all the rewards and risks of ownership, are classified as finance leases. An asset acquired through finance lease is recognized as property, plant and equipment in the statement of financial position, within a group determined by the asset's characteristics, at the commencement of the lease term at the lower of fair value and the present value of minimum lease payments. Respective lease liabilities less finance charges are included in debt. Each lease payment is allocated between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the useful life of the asset and the lease term. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the sold asset's carrying amount will not be immediately recognized but deferred and amortized over the lease term.

At inception of significant other arrangements, the Group determines whether these arrangements are, or contain a lease component. At inception of an arrangement that contains a lease the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements. Lease accounting principles are applied to lease payments.

Leases of assets where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Payments made under operating lease contracts are expensed on a straight-line basis over the lease terms.

### Group as a lessor

Leases of property, plant and equipment where the Group has substantially transferred all the rewards and risks of ownership to the lessee are classified as finance leases. Assets leased out through such contracts are recognized as other receivables and measured at the lower of the fair value of the leased asset and the present value of minimum lease payments. Interest income from finance lease is recognized in the statement of income so as to achieve a constant periodic rate of return on the net investment in the finance lease.

Rental income received from property, plant and equipment leased out by the Group under operating leases is recognized on a straight-line basis over the lease term.

## Financial instruments

### Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Outokumpu did not hold financial instruments classified as held-to-maturity investments in the current or previous reporting period. Classification is made upon initial recognition based on the purpose of use of the financial asset.

If an item is not measured at fair value through profit or loss, significant transaction costs are included in the initial carrying amount of the financial asset. Financial assets are derecognized when the Group loses the rights to receive the contractual cash flows on the financial asset or it transfers substantially all the risks and rewards of ownership outside the Group.

At the end of the reporting period, the Group estimates whether there is objective evidence on impairment of items other than financial assets measured at fair value through profit or loss. A financial asset is assumed to be impaired if there is objective evidence on impairment and the effect on the estimated future cash flows generated by the financial assets can be reliably measured. Objective evidence on impairment may be e.g. a significant deterioration in the counterparty's results, a contract breach by the debtor and, in case of equity instruments (available-for-sale financial assets), a significant or long-term decrease in the value of an instrument below its carrying amount. In such situations, the fair value development of equity instruments is reviewed for the past three quarters of the reporting period. The Group has determined percentual limits for the review, the breach of which will result in the recognition of an impairment loss. An impairment loss is recognized immediately in profit or loss.

#### Financial assets at fair value through profit or loss

The category of financial assets at fair value through profit or loss includes derivatives, to which hedge accounting is not applied, as well as other financial items at fair value through profit or loss held for trading purposes. A financial asset is classified in this category if it has been acquired with the main purpose of selling the asset within a short period of time. In some cases also share investments can be classified in this category.

These financial assets are recognized at the trade date at fair value and subsequently remeasured at fair value at the end of each reporting period. The fair value measurement is based on quoted rates and market prices as well as on appropriate valuation methodologies and models. Realized and unrealized gains and losses arising from changes in fair values are recognized in profit or loss in the reporting period in which they are incurred.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables arise when the Group gives out a loan or delivers goods or services directly to a debtor.

Loans and receivables are recognized at the settlement date and measured initially at fair value. After initial recognition, loans and receivables are measured at amortized cost by using the effective interest rate method.

Outokumpu uses factoring for working capital management. Sold trade receivables have been derecognized when the related risks and rewards of ownership have been transferred in material respect.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are either designated in this category or not classified in any other category of financial assets. The purchases and sales of these items are recognized at the trade date. Available-for-sale financial assets are included in non-current assets, unless the Group has the intention to dispose of the investment within 12 months from the reporting date.

This category includes share investments, both in listed and unlisted companies. Investments in shares are measured at fair value, or if fair value cannot be reliably measured, at cost less any impairment losses. The fair value measurement is based on quoted rates and market prices at the end of the reporting period, as well as on appropriate valuation techniques, such as recent transaction prices and cash flow discounting. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates made by Outokumpu. Fair value changes of share instruments measured at fair value are recognized in other comprehensive income and presented in equity within fair value reserve, net of tax, until the shares in question are disposed of or impaired, in which case, the accumulated changes in fair value are transferred from equity to be recognized in profit or loss as reclassification adjustments.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other highly liquid investments with original maturities of three months or less. These are readily convertible to a known amount of cash and the risk of changes in value is low. Bank overdrafts are included in current liabilities in the statement of financial position.

### Financial liabilities

The Group's financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities (financial liabilities recognized at amortized cost). A financial liability (or part of the liability) is not derecognized until the liability has ceased to exist, that is, when the obligation identified in a contract has been fulfilled or cancelled or is no longer effective.

#### Financial liabilities at fair value through profit or loss

In Outokumpu Group, the category of financial liabilities at fair value through profit or loss includes derivatives that do not meet the criteria of hedge accounting. Realized and unrealized gains and losses arising from changes in fair value of derivatives are recognized in profit or loss in the reporting period in which they are incurred.

#### Other financial liabilities

Financial liabilities recognized at amortized cost include the loans of the Group, finance lease liabilities and trade and other payables. Loans and trade and other payables are recognized at the settlement date and measured initially at fair value. After initial recognition they are carried at amortized cost using the effective interest rate method. Significant transaction costs are included in the original carrying amount.

Significant costs related to revolving credit facilities are amortized over the expected loan term.

### Derivative instruments and hedge accounting

#### Derivatives

All the Group's derivatives, including embedded derivatives, are initially recognized at fair value on the trade date, on which the Group becomes a contractual counterparty, and are subsequently measured at fair value. Gains and losses arising on fair value measurement are accounted for depending on the purpose of use of the derivative contract. The gains and losses arising from fair value changes of derivative contracts, to which hedge accounting is applied and which are effective hedging instruments, are presented congruent with the hedged item. Changes in fair value of derivative contracts not qualifying for hedge accounting are recognized in EBIT in other operating income and expenses. If a derivative is designated for financing activities, the gain or loss effects arising from the instrument are recognized within financial income and financial expenses.

The fair value measurement of derivatives is based on quoted market prices and rates as well as on discounted cash flows at the end of the reporting period. The fair value of currency, interest rate and metal options is determined by utilizing commonly applied option valuation models, such as Black-Scholes-Merton model. Fair values of certain derivatives are based on valuations of external counterparties.

#### Hedge accounting

Hedge accounting refers to the method of accounting, which aims to assign one or several hedging instruments so that their fair value or cash flows offset completely or partly the changes in fair value or cash flows of the hedged item. Outokumpu applies hedge accounting to certain foreign exchange and commodity derivatives. Derivatives, to which hedge accounting is not applied, have been acquired to reduce the profit or loss and/or cash flow effects of operations or financing activities.

In the beginning of each hedging arrangement, the Group documents the relationship between the hedging instrument and the hedged item, as well as the objectives of risk management and strategy of the hedging arrangement. Hedging instruments are subject to prospective and retrospective effectiveness testing. Hedge effectiveness is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. The hedging relationship is considered to be highly effective if the changes in fair values or cash flows of the hedging instrument offset the cash flow changes of the hedged item by 80–125%. Hedge accounting is discontinued when the requirements of hedge accounting are no longer met.

#### Cash flow hedges

In cash flow hedging, the Group is hedging against changes in cash flows, which result from the realization of a risk associated with a recognized asset or liability or a highly probable forecast transaction. Fair value changes of derivatives designated to hedge forecast cash flows are recognized in other comprehensive income and presented within the fair value reserve in equity to the extent that the hedge is effective. Such fair value changes accumulated in equity are reclassified in profit or loss in the period in which the hedged cash flows affect profit or loss. The fair value changes related to the ineffective portion of the hedging instrument are recognized immediately in profit or loss.

### Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### Net investment hedges

The equities of the subsidiaries located outside the euro area can be hedged against changes in exchange rates with the aim to reduce the effects of changes in exchange rates on the Group's equity. Fair value changes of qualifying financial instruments, which are designated as hedges for translation risk related to net investments in foreign operations, are recognized in other comprehensive income to the extent that the hedge is effective. The ineffective portion of the fair value changes of the hedging instrument is immediately recognized in financial income and financial expenses. When a foreign operation is sold or otherwise disposed of, partly or in full, the fair value changes accumulated in equity are transferred to profit or loss as part of the gain or loss on disposal.

### Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair value hierarchy is based on the source of inputs used in determining fair values. In level one, fair values are based on public quotations for identical instruments. In level two, fair values are based on market rates and prices, discounted future cash flows and, in respect of options, on valuation models. For assets and liabilities in level three, there is no reliable market source available and thus fair value measurement cannot be based on observable market data. Therefore, the measurement methods are chosen so that the information available for the measurement and the characteristics of the measured objects can be adequately taken into account.

## Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of raw material is determined by the weighted average method. The cost of self-produced finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production and procurement overheads, but excludes borrowing costs. Cost of purchased products includes all purchasing costs including direct transportation, handling and other costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Spare parts are carried as inventory and their cost is recognized in profit or loss as consumed. Major spare parts are recognized in property, plant and equipment when they are expected to be used over more than one financial year.

## Treasury shares

When the parent company or its subsidiaries purchase the company's own shares, the consideration paid, including any attributable transaction costs, net of taxes, is deducted from the parent company's equity as treasury shares until the shares are cancelled. When such shares are subsequently sold or reissued, any consideration received is recognized directly in equity.

## Provisions and contingent liabilities

A provision is recognized when Outokumpu has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Group's provisions mainly relate to restructuring plans, onerous contracts, environmental liabilities, litigation and tax risks. The amount recognized as a provision corresponds to the management's best estimate of the costs required to fulfil an existing obligation at the end of the reporting period. If part of the obligation may potentially be compensated by a third party, the compensation is recognized as a separate asset when it is virtually certain that the compensation will be received. Non-current provisions are discounted to net present value at the end of the reporting period using risk-free discount rates.

The cost of an item of property, plant and equipment also comprises the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located at the end of the useful life of the item on a present value basis. Such a liability may exist for decommissioning a plant, rehabilitating environmental damage, landscaping or removing equipment. A provision presenting the asset retirement obligation is recognized in the same amount at the same date. Adjustments to the provision due to subsequent changes in the estimated timing or amount of the outflow of resources, or in the change in the discount rate are deducted from or added to the cost of the corresponding asset in a symmetrical manner. The costs will be depreciated over the asset's remaining useful life.

Environmental provisions are based on the interpretation of the effective environmental laws and regulations related to the Group at the end of the reporting period. Such environmental expenditure, that arises from restoring the conditions caused by prior operations are recognized as expenses in the period in which they are incurred. A restructuring provision is recognized when a detailed restructuring plan has been prepared and its implementation has been started or the main parts of the plan have been communicated to those, who are impacted by the plan. Restructuring provision mainly comprise employee termination benefits.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the control of the entity. Such present obligation that probably does not require settlement of a payment obligation and the amount of which cannot be reliably measured is also considered to be a contingent liability. Contingent liabilities are disclosed in the notes to the financial statements.

## Employee benefits

### Post-employment and other long-term employee benefits

Group companies in different countries have various post-employment benefit plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans.

The fixed contributions to defined contribution plans are recognized as expenses in the period to which they relate. The Group has no legal or constructive obligation to pay further contributions if the receiving party is not able to pay the benefits in question. All such arrangements that do not meet these requirements are defined benefit plans.

Defined benefit plans are funded with payments to the pension insurance companies. The present value of the defined benefit obligations is determined separately for each plan by using the projected unit credit method. The plan assets are measured at fair value at the end of the reporting period. The fair value of the plan assets at the end of the reporting period is deducted from the defined benefit liability recognized at present value in the statement of financial position. Current service costs, past service costs and gains or losses on non-routine settlements are recognized in functional costs above EBIT. Net interest expense or income is recognized in financial items under interest expense or interest income. All remeasurements of the net defined benefit liability (asset) are recognized directly in other comprehensive income.

For other long-term employee benefits, all service costs and remeasurements are recognized immediately in the statement of income. Interest expenses are recognized in financial items under interest expenses.

### Share-based payment transactions

The share-based incentive programs are accounted for partly as equity-settled and partly as cash-settled. The equity-settled and cash-settled parts both include market and non-market based vesting conditions. The fair values of programs over vesting periods are determined at the grant date and the portion paid in cash is re-measured based on market conditions at the end of each reporting period. Market prices and applicable statistical models are used in determining the fair values. The impact of non-market based vesting conditions is assessed at the end of each reporting period. The programs include maximum limits for the pay-outs and the limits have been taken into account in the fair value measurement of the benefits.

## EBIT

In Outokumpu Group, EBIT is the net sum which is formed by adding other operating income to sales and then deducting the cost of purchase adjusted by change in the inventory and the cost of manufacture for own use, the cost of employee benefits, depreciation, amortization, any impairments, and other operating expenses. All other items of the statement of income are presented below EBIT. Exchange gains and losses and fair value changes of derivatives are included in EBIT, if they arise from business-related items. Otherwise they are recognized in financial items.

## Non-recurring items

Non-recurring items are defined as items which are unusual because of their nature, size or incidence. Only material events are classified as non-recurring.

## Dividends

The dividend proposed by the Board of Directors is not deducted from distributable equity until approved by the Annual General Meeting of Shareholders.

## Earnings per share

Basic earnings per share is calculated by dividing the net result attributable to the equity holders of the company by the weighted average number of shares in issue during the period, excluding shares purchased by Outokumpu and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding with the assumption that convertible instruments are converted and options exercised. The Group did not have such instruments at the end of the financial year.

# 3. Segment information

Outokumpu's business is divided into five business areas which are Coil EMEA, Coil Americas, APAC, Quarto Plate and Long Products. In addition to the business area structure, Group Functions cover the CFO's office, HR and Health, Safety and Sustainability, Marketing, Communications and IR as well as Strategy, Integration, Procurement, IT and Legal.

Business areas have responsibility for sales, profitability, production and supply chain management and they are Outokumpu's reportable segments under IFRS. The performance of the segments is reviewed based on segment's EBIT which is defined in the accounting principles for the consolidated financial statements. The review is done regularly by the CEO based on internal management reporting which is based on IFRS.

Outokumpu is the leader in advanced materials with the strongest technical expertise and widest range of products across all our customer segments. Our offering covers stainless steel and wide range of high performance stainless steel special grades. Below is a description of the activities of the five reportable segments:

**Coil EMEA** consists of stainless operations as well as ferrochrome production in Europe. The high-volume and tailored standard stainless steel grades are primarily used for example in architecture, building and construction, transportation, catering and appliances, chemical, petrochemical and energy sectors, as well as other process industries. The business area has three business lines, Tornio, Nirosta and Avesta, with production facilities in Finland, Germany and Sweden, as well as a finishing plant in the Netherlands. EMEA has extensive coil service center and sales network across Europe, Middle East and Africa.

**Coil Americas** produces standard austenitic and ferritic grades as well as tailored products. Its largest customer segments are automotive and transport, consumer appliances, oil and gas, chemical and petrochemical industries, food and beverage processing, as well as building and construction industry. The business area has production units in the US and Mexico, as well as a service center in Argentina.

**APAC** includes cold rolling facility and coil and plate service center in China, as well as a coil service center in Australia. The production concentrates mainly on high quality stainless steel flat products for the consumer and automotive industries in China. The service center in China specializes in selling, processing and distributing high quality stainless steel products.

**Quarto Plate** is comprised of the quarto plate production facilities in Sweden and in the US. These units produce individually rolled thick and wide plates in standard and special stainless steel grades. It has also plate service centers in Finland, Germany, Italy, Sweden, the Netherlands and the UK.

**Long Products** are used in a wide range of applications such as springs, wires, surgical equipment, automotive parts and construction. The manufacturing is concentrated in the integrated sites in the UK, Sweden and the US.

**Other operations** consist of activities outside the five reportable segments described above, as well as industrial holdings. Such business development and Corporate Management expenses that are not allocated to the business areas are also reported under Other operations. Sales of Other operations consist of electricity, nickel warrants, internal commissions and services.

Outokumpu does not have individual significant customers as defined in IFRS 8.

## Operating segments

| 2014 | | | | | | Reconciliation | | | |
|---|---|---|---|---|---|---|---|---|---|
| € million | Coil EMEA | Coil Americas | APAC | Quarto Plate | Long Products | Reportable segments total | Other operations | Eliminations | Group |
| External sales | 4 032 | 1 131 | 434 | 387 | 463 | 6 447 | 397 | - | 6 844 |
| Inter-segment sales | 488 | 27 | 10 | 63 | 188 | 776 | 292 | -1 068 | - |
| Sales | 4 520 | 1 158 | 444 | 450 | 651 | 7 223 | 689 | -1 068 | 6 844 |
| EBITDA | 142 | -33 | 8 | -7 | 40 | 149 | -40 | -5 | 104 |
| EBIT | -86 | -104 | -6 | -26 | 33 | -188 | -49 | -5 | -243 |
| Share of results in associated companies and joint ventures | - | - | - | - | - | - | - | - | 7 |
| Financial income | - | - | - | - | - | - | - | - | 4 |
| Financial expenses | - | - | - | - | - | - | - | - | -227 |
| Result before taxes | - | - | - | - | - | - | - | - | -459 |
| Income taxes | - | - | - | - | - | - | - | - | 8 |
| Net result for the financial year from continuing operations | - | - | - | - | - | - | - | - | -450 |
| Net result for the financial year from discontinued operations | - | - | - | - | - | - | - | - | 11 |
| Net result for the financial year | - | - | - | - | - | - | - | - | -439 |
| | | | | | | | | | |
| Non-recurring items | | | | | | | | | |
| Redundancy costs | -112 | - | - | - | - | -112 | -1 | - | -113 |
| Impairments related to EMEA restructuring | -27 | - | - | - | - | -27 | - | - | -27 |
| Environmental provisions related to site closures | -25 | - | - | - | - | -25 | - | - | -25 |
| Net costs related to technical issues in Calvert | - | -21 | - | - | - | -21 | - | - | -21 |
| Depreciation | -199 | -71 | -11 | -19 | -6 | -305 | -1 | - | -306 |
| Amortization | -2 | - | -2 | - | -1 | -5 | -9 | - | -14 |
| | | | | | | | | | |
| Assets in operating capital | 3 684 | 1 467 | 263 | 351 | 249 | 6 014 | 174 | -173 | 6 014 |
| Investments in associated companies and joint ventures | - | - | - | - | - | - | - | - | 78 |
| Other financial assets | - | - | - | - | - | - | - | - | 275 |
| Deferred tax assets | - | - | - | - | - | - | - | - | 44 |
| Total assets | - | - | - | - | - | - | - | - | 6 411 |
| | | | | | | | | | |
| Liabilities in operating capital | 1 279 | 272 | 79 | 133 | 82 | 1 845 | 271 | -160 | 1 956 |
| Other financial liabilities | - | - | - | - | - | - | - | - | 2 292 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | 31 |
| Total liabilities | - | - | - | - | - | - | - | - | 4 279 |
| | | | | | | | | | |
| Operating capital | 2 405 | 1 195 | 184 | 218 | 167 | 4 169 | -97 | -13 | 4 059 |
| Net deferred tax asset | - | - | - | - | - | - | - | - | 13 |
| Capital employed | - | - | - | - | - | - | - | - | 4 072 |

2013

| € million | Coil EMEA | Coil Americas | APAC | Quarto Plate | Long Products | Reconciliation: Reportable segments total | Other operations | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|---|
| External sales | 4 423 | 884 | 377 | 355 | 451 | 6 489 | 256 | - | 6 745 |
| Inter-segment sales | 644 | 23 | 11 | 51 | 105 | 833 | 283 | -1 116 | - |
| Sales | 5 067 | 906 | 388 | 406 | 556 | 7 323 | 538 | -1 116 | 6 745 |
| EBITDA | 55 | -201 | 9 | 1 | -3 | -140 | -23 | -2 | -165 |
| EBIT | -166 | -270 | -7 | -17 | -10 | -470 | -37 | -2 | -510 |
| Share of results in associated companies and joint ventures | - | - | - | - | - | - | - | - | -2 |
| Financial income | - | - | - | - | - | - | - | - | 13 |
| Financial expenses | - | - | - | - | - | - | - | - | -323 |
| Result before taxes | - | - | - | - | - | - | - | - | -822 |
| Income taxes | - | - | - | - | - | - | - | - | -11 |
| Net result for the financial year from continuing operations | - | - | - | - | - | - | - | - | -832 |
| Net result for the financial year from discontinued operations | - | - | - | - | - | - | - | - | -170 |
| Net result for the financial year | - | - | - | - | - | - | - | - | -1 003 |
| | | | | | | | | | |
| Non-recurring items | | | | | | | | | |
| Redundancy costs | -51 | - | - | -0 | - | -51 | -3 | - | -54 |
| Inventory write-down related to efficiency programs | -4 | -8 | -0 | - | - | -12 | - | - | -12 |
| Carrier settlement | - | - | - | - | - | - | -11 | - | -11 |
| Costs related to Inoxum transaction | - | - | - | - | - | - | -1 | - | -1 |
| Depreciation | -211 | -68 | -13 | -17 | -6 | -315 | -1 | - | -316 |
| Amortization | -2 | -1 | -2 | -1 | -1 | -7 | -9 | - | -16 |
| | | | | | | | | | |
| Assets in operating capital | 3 843 | 1 221 | 251 | 341 | 212 | 5 869 | 211 | -230 | 5 849 |
| Investments in associated companies and joint ventures | - | - | - | - | - | - | - | - | 66 |
| Other financial assets | - | - | - | - | - | - | - | - | 683 |
| Deferred tax assets | - | - | - | - | - | - | - | - | 24 |
| Assets held for sale | - | - | - | - | - | - | - | - | 2 200 |
| Total assets | - | - | - | - | - | - | - | - | 8 823 |
| | | | | | | | | | |
| Liabilities in operating capital | 1 234 | 180 | 63 | 94 | 95 | 1 666 | 164 | -247 | 1 583 |
| Other financial liabilities | - | - | - | - | - | - | - | - | 4 275 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | 26 |
| Liabilities directly attributable to assets held for sale | - | - | - | - | - | - | - | - | 1 048 |
| Total liabilities | - | - | - | - | - | - | - | - | 6 932 |
| | | | | | | | | | |
| Operating capital | 2 609 | 1 040 | 189 | 247 | 117 | 4 202 | 47 | 16 | 4 266 |
| Net deferred tax asset | - | - | - | - | - | - | - | - | -1 |
| Capital employed | - | - | - | - | - | - | - | - | 4 265 |

### Geographical information

| € million | Finland | Germany | Sweden | The UK | Other Europe | North America | Asia and Australia | Other countries | Inter-area | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | | |
| Sales by destination | 227 | 1 576 | 193 | 637 | 1 764 | 1 488 | 853 | 106 | - | 6 844 |
| Sales by origin | 2 997 | 1 650 | 1 251 | 650 | 429 | 1 424 | 446 | 45 | -2 048 | 6 844 |
| Non-current assets | 1 687 | 303 | 342 | 66 | 137 | 988 | 178 | 4 | - | 3 706 |
| | | | | | | | | | | |
| 2013 | | | | | | | | | | |
| Sales by destination | 207 | 1 597 | 207 | 470 | 1 981 | 1 292 | 948 | 42 | - | 6 745 |
| Sales by origin | 2 620 | 2 088 | 1 130 | 557 | 554 | 1 147 | 390 | 60 | -1 802 | 6 745 |
| Non-current assets | 1 791 | 358 | 368 | 68 | 137 | 925 | 173 | 3 | - | 3 824 |

Sales by destination is presented for external sales.
Sales by origin and non-current assets are presented by the locations of the Group companies.
Non-current assets exclude financial instruments, deferred tax assets and defined benefit plan assets.

# 4. Acquisitions and disposals

## Acquisitions

Outokumpu made no acquisitions during 2014 nor 2013.

## Disposals

### Year 2014

Outokumpu divested VDM business and the remedy assets, which included Terni and certain service centers to ThyssenKrupp on February 28, 2014. Please see Note 5. Discontinued operations for more information.

### Year 2013

On January 18, 2013 Outokumpu's partner in the OSTP business, Tubinoxia S.r.l. exercised its call option and acquired additional 15% of the company's shares from Outokumpu. Consequently, Outokumpu lost the control over OSTP, and OSTP is consolidated as an associated company in the Group's financial statements. OSTP provides stainless steel process tubes and pipes and fittings. OSTP employed approximately 770 people in Sweden, Finland, Saudi Arabia, Estonia and Canada.

### Effect of disposal on the financial position of the Group

| € million | 2013 |
|---|---|
| Non-current assets | 30 |
| Current assets | 79 |
| Non-current liabilities | -26 |
| Current liabilities | -56 |
| Net assets | 27 |
| Disposal-related gain | 4 |
| Disposal of non-controlling interest | -15 |
| Recognition of remaining interest in associate at fair value | -17 |
| Consideration received, satisfied in cash | 2 |
| Cash and cash equivalents disposed of | -2 |
| Net cash outflow | -1 |

# 5. Discontinued operations

On February 28, 2014 Outokumpu divested the VDM business and the remedy assets, which included Terni and certain service centers, to ThyssenKrupp. VDM and Terni remedy assets and related liabilities were classified as held for sale in the consolidated financial statements at December 31, 2013. The results of the divested operations have been reported as discontinued operation in the consolidated statement of income in 2014 and 2013.

Outokumpu's loan note to ThyssenKrupp was used as a consideration for the transaction and thus derecognized. The sale included customary terms and conditions regarding the businesses' level of working capital and net debt. Intra-group trade and other receivables and trade and other payables between Outokumpu and the divested entities remained in force at the date of divestment and became Outokumpu's external receivables and payables.

The loss on the sale, net of transaction costs, amounted to EUR 5 million, out of which a gain of EUR 22 million was included in the net result from discontinued operations in 2014. Transaction costs of EUR 27 million were already recognized in the 2013 net result from discontinued operations. The loss also included transaction costs of EUR 7 million in 2014 and foreign exchange losses of EUR 4 million reclassified into loss on disposal.

## Result from discontinued operations

| € million | 2014 | 2013 |
|---|---|---|
| Sales and other operating income | 594 | 3 302 |
| Expenses | -579 | -3 392 |
| Net financial expenses | -4 | -22 |
| Result before tax | 11 | -112 |
| Income tax | 1 | -58 |
| Net result from discontinued operations | 11 | -170 |

## Effect of disposal on the financial position of the Group

| € million | 2014 |
|---|---|
| Assets held for sale | 2 268 |
| Cash and cash equivalents | 10 |
| Net of current receivables and payables | 17 |
| Liabilities attributable to assets held for sale | -1 074 |
| | 1 220 |
| | |
| Cash and cash equivalents of the companies disposed of | -10 |
| Compensation related to the working capital and net debt | -41 |
| Net cash outflow | -50 |
| Loan note used as consideration | 1 292 |
| Total consideration | 1 242 |

The cash flows of companies disposed of during January 1–February 28, 2014 amounted to as follows: net cash from operating activities EUR 5 million and net cash from investing activities EUR -17 million. Net cash outflow from the sale is presented in cash flows from continuing operations: The cash and cash equivalents of the companies disposed of EUR 10 million and the compensation related to working capital and net debt of EUR 41 million are presented in the statement of cash flows on line proceeds from the disposal of subsidiaries, net of cash.

In connection with the disposal, Outokumpu settled the outstanding amount of EUR 160 million under the credit facility granted by ThyssenKrupp. Furthermore, ThyssenKrupp sold all of its Outokumpu shares, representing a 29.9% stake in Outokumpu prior to the transaction. As a result, the companies are no longer each other's related parties.

# 6. Income and expenses

## Depreciation and amortization by function

| € million | 2014 | 2013 |
|---|---|---|
| Cost of sales | -304 | -315 |
| Selling and marketing expenses | -1 | -2 |
| Administrative expenses | -13 | -14 |
| Research and development expenses | -1 | -1 |
| | -320 | -332 |

## Other operating income

| € million | 2014 | 2013 |
|---|---|---|
| Exchange gains and losses from foreign exchange derivatives | - | 4 |
| Market price gains and losses from commodity derivatives | - | 1 |
| Market price gains and losses from derivative financial instruments | - | 5 |
| Gains on sale of intangible assets and property, plant and equipment | 12 | 7 |
| Other income items | 34 | 12 |
| | 47 | 24 |

## Other operating expenses

| € million | 2014 | 2013 |
|---|---|---|
| Exchange gains and losses from foreign exchange derivatives | 3 | - |
| Market price gains and losses from commodity derivatives | -28 | - |
| Market price gains and losses from derivative financial instruments | -25 | - |
| Impairments | -27 | -13 |
| Losses on sale of intangible assets and property, plant and equipment | -2 | -2 |
| Other expense items | -11 | -6 |
| Carrier settlement | - | -11 |
| | -65 | -31 |

In 2014, the market price gains and losses from derivative financial instruments included a gain of EUR 0 million (2013: a gain of EUR 4 million) from ineffective portion of cash flow hedges.

## Non-recurring items in EBIT

| € million | 2014 | 2013 |
|---|---|---|
| Redundancy costs | -113 | -54 |
| Impairments related to EMEA restructuring | -27 | - |
| Environmental provisions related to site closures | -25 | - |
| Net costs related to technical issues in Calvert | -21 | - |
| Inventory write-downs related to efficiency programs | - | -12 |
| Carrier settlement | - | -11 |
| Costs related to Inoxum acquisition | - | -1 |
| | -186 | -78 |

In 2014 Outokumpu continued to restructure its operations in Europe by closing the Kloster operations in Sweden to reduce capacity and to streamline production and supply chain of the thin strip operations, and by proceeding with the closure of Bochum melt shop in Germany planned for 2015. Relating to these actions, non-recurring redundancy costs of EUR 113 million, impairments of EUR 27 million, and environmental provisions of EUR 25 million were recognized in 2014. In 2013 non-recurring redundancy costs of EUR 54 million were recognized relating to capacity reductions, particularly to the closure of Krefeld melt shop in Germany, as well as streamlining overlapping activities in sales, production, supply chain and support functions.

In the second half of 2014, Calvert mill in the US experienced technical issues in its cold rolling lines. The interruption and transfer of production to Group's other mills, and repair and maintenance costs were partly compensated by insurance, but non-recurring costs of EUR 21 million were recognized comprising of costs which are not covered by the insurance or for which compensation could not be recognized, yet, in 2014. The discussions with the insurer are on-going.

In 2013 inventories were written down in connection with Outokumpu's efficiency programs. The write-downs amounted to non-recurring costs of EUR 12 million.

In May 2013 Outokumpu Oyj and Carrier Corporation signed a settlement agreement that covers all damage suits against Outokumpu by Carrier in the US and UK pursuant to the European Commission's industrial tubes cartel decision of 2003. The total settlement amount was EUR 11 million. The settlement covered also all former Outokumpu subsidiaries included in the claims.

## Auditor fees – KPMG

| € million | 2014 | 2013 |
|---|---|---|
| Audit | -2.0 | -2.7 |
| Audit related services | -0.1 | -0.1 |
| Tax advisory | -0.1 | -0.2 |
| Other services | -1.2 | -0.7 |
| | -3.4 | -3.7 |

# 7. Employee benefit expenses

| € million | 2014 | 2013 |
|---|---|---|
| Wages and salaries | -592 | -583 |
| Termination benefits | -103 | -45 |
| Social security costs | -89 | -94 |
| Post-employment and other long-term employee benefits | | |
| Defined benefit plans | -7 | -11 |
| Defined contribution plans | -45 | -49 |
| Other long-term employee benefits | -7 | -10 |
| Expenses from share-based payments | -2 | -1 |
| Other personnel expenses | -9 | -12 |
| | -855 | -805 |

Profit-sharing bonuses based on the Finnish Personnel Funds Act were not recognized in 2014 nor 2013.

More information on employee benefits for key management can be found in Note 31. Related party transactions and in chapter Corporate Governance on the page Remuneration.

# 8. Financial income and expenses

| € million | 2014 | 2013 |
|---|---|---|
| Dividend income on available-for-sale financial assets | **0** | 0 |
| Interest income | | |
| Loans and receivables | **1** | 11 |
| Bank accounts and deposits | **2** | 1 |
| Interest income on defined benefit plan assets | **0** | 0 |
| Gains on the sale of available-for-sale financial assets | **0** | 0 |
| Other financial income | **2** | 0 |
| **Total financial income** | **4** | 13 |
| | | |
| Interest expenses | | |
| Debt at amortized cost | **-107** | -181 |
| Finance lease arrangements | **-15** | -7 |
| Derivatives | **-10** | -12 |
| Interest expense on defined benefit obligations and other long-term employee benefits | **-10** | -10 |
| Capitalized interests | **1** | 2 |
| Impairment of financial assets | **-4** | -2 |
| Loss from the sale of financial assets | **-0** | -50 |
| Fees related to committed credit facilities | **-46** | -17 |
| Other financial expenses | **-20** | -10 |
| **Total financial expenses** | **-212** | -286 |
| | | |
| Exchange gains and losses | | |
| Derivatives | **-107** | 49 |
| Cash, loans and receivables | **105** | -57 |
| Other market price gains and losses | | |
| Derivatives | **-1** | 12 |
| Subsequent fair valuation of Talvivaara Sotkamo Ltd | **-13** | -41 |
| Other | **-0** | -0 |
| **Total market price gains and losses** | **-15** | -37 |
| | | |
| | **-223** | -310 |

### Exchange gains and losses in the consolidated statement of income

| € million | 2014 | 2013 |
|---|---|---|
| In sales | **37** | -7 |
| In purchases [1] | **-54** | 18 |
| In other income and expenses [1] | **-0** | 4 |
| In financial income and expenses [1] | **-2** | -8 |
| | **-18** | 7 |

[1] Includes exchange gains and losses on elimination of intra-group transactions.

Exchange gains and losses include EUR 103 million net exchange loss on derivative financial instruments (2013: EUR 56 million net exchange gain) of which EUR 3 million gain on derivatives has been recognized in other operating income, EUR 1 million gain as adjustment to purchases and EUR 107 million loss in financial items.

### Non-recurring items in financial income and expenses

In 2014, there were no non-recurring items in financial income and expenses. In 2013, a non-recurring loss of EUR 49 million on the sale of Luvata loan receivable was included in the financial expenses as loss from sale of financial assets.

# 9. Income taxes

### Income taxes in the consolidated statement of income

| € million | 2014 | 2013 |
|---|---|---|
| Current taxes | **-17** | -4 |
| Deferred taxes | **26** | -7 |
| | **8** | -11 |

The applicable Finnish corporate tax rate for the financial year 2014 was 20.0% (2013: 24.5%). In December 2013 a reduction of the Finnish corporate tax rate was enacted for tax years beginning from January 1, 2014 onwards. The applicable tax rates for companies outside Finland range from 0.0% to 39.3% (2013: 0.0% to 42.7%).

### Aggregate deferred taxes recognized in equity through other comprehensive income

| € million | 2014 | 2013 |
|---|---|---|
| Cash flow hedging | **-0** | -3 |
| Available-for-sale financial assets | **-1** | 0 |
| Net investment hedging | **-4** | -4 |
| Remeasurements of the net defined benefit liability | **9** | 19 |
| | **4** | 13 |

As of December 31, 2014 tax loss carry forwards amount to EUR 3,038 million (2013: EUR 2,322 million), in particular EUR 907 million (2013: EUR 684 million) in Finland, EUR 401 million (2013: EUR 402 million) in Sweden, EUR 897 million (2013: EUR 621 million) in the US, EUR 444 million (2013: EUR 159 million) in Germany and EUR 120 million (2013: EUR 158 million) in China. Deferred tax assets are recognized only to the extent that the realization of such tax benefits is probable. In determining the related valuation allowance, all positive and negative factors, including prospective results, are taken into consideration in estimating whether sufficient taxable income will be generated to realize deferred tax assets. These estimates can change depending on the future course of events. As of December 31, 2014 tax loss carry forwards of the Outokumpu Group for which no deferred tax asset is recognized amount to EUR 2,675 million (2013: EUR 1,822 million). According to tax legislations as of December 31, 2014 an amount of EUR 260 million (2013: EUR 235 million) of these tax loss carry forwards will expire within the next five years, if not utilized. No deferred tax liabilities were recorded on undistributed profits on foreign subsidiaries, as such profits are not to be distributed in the foreseeable future.



### Deferred income taxes in the statement of financial position

| € million | 2014 | 2013 |
|---|---|---|
| Deferred tax assets | **44** | 24 |
| Deferred tax liabilities | **-31** | -26 |
| Net deferred tax asset | **13** | -1 |

Significant components of the deferred tax assets and liabilities are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| € million | Deferred tax assets | Deferred tax liabilities | Net | Deferred tax assets | Deferred tax liabilities | Net |
| Intangible assets | 11 | -9 | 2 | 12 | -9 | 3 |
| Property, plant and equipment | 85 | -158 | -73 | 118 | -190 | -72 |
| Other financial assets | 0 | -3 | -3 | 0 | 0 | 0 |
| Inventories | 15 | -9 | 6 | 20 | -11 | 9 |
| Derivative financial assets | 4 | -10 | -6 | 8 | -12 | -4 |
| Trade and other receivables | 17 | -6 | 11 | 3 | -15 | -12 |
| Non-current and current debt | 55 | -2 | 53 | 69 | -0 | 69 |
| Defined benefit and other long-term employee benefit obligations | 65 | -17 | 48 | 56 | -12 | 44 |
| Provisions | 25 | -8 | 17 | 24 | -6 | 18 |
| Derivative financial liabilities | 11 | 0 | 11 | 13 | -1 | 13 |
| Trade and other payables | 49 | -5 | 44 | 40 | -15 | 25 |
| Tax loss carry forwards | 853 | - | 853 | 629 | - | 629 |
| | **1 190** | **-226** | **964** | 993 | -270 | 723 |
| Valuation allowance | -951 | - | -951 | -724 | - | -724 |
| Offset | -195 | 195 | - | -245 | 245 | - |
| | **44** | **-31** | **13** | 24 | -26 | -1 |

Deferred taxes have been reported as a net balance of those group companies that file a consolidated tax return, or that may otherwise be consolidated for current tax purposes.

### Movement in deferred tax assets and liabilities during the financial year

| € million | Net deferred taxes Jan 1, 2014 | Translation differences | Recognized in profit or loss | Recognized in other comprehensive income | Net deferred taxes Dec 31, 2014 |
|---|---|---|---|---|---|
| Intangible assets | 3 | 0 | -1 | - | **2** |
| Property, plant and equipment | -72 | 5 | -6 | - | **-73** |
| Other financial assets | 0 | -0 | -2 | -1 | **-3** |
| Inventories | 9 | 0 | -4 | - | **6** |
| Derivative financial assets | -4 | 0 | -5 | 2 | **-6** |
| Trade and other receivables | -12 | 0 | 23 | - | **11** |
| Non-current and current debt | 69 | 0 | -17 | - | **53** |
| Defined benefit and other long-term employee benefit obligations | 44 | 2 | 13 | -10 | **48** |
| Provisions | 18 | 0 | -1 | - | **17** |
| Derivative financial liabilities | 13 | -0 | -1 | - | **11** |
| Trade and other payables | 25 | 3 | 15 | - | **44** |
| Tax losses carried forward | 629 | 38 | 186 | - | **853** |
| | **723** | **49** | **201** | **-9** | **964** |
| Valuation allowance | -724 | -52 | -175 | - | **-951** |
| | **-1** | **-3** | **26** | **-9** | **13** |

| € million | Net deferred taxes Jan 1, 2013 | Translation differences | Recognized in profit or loss | Recognized in other comprehensive income | Companies sold | Reclassification to assets and liabilities held for sale | Net deferred taxes Dec 31, 2013 |
|---|---|---|---|---|---|---|---|
| Intangible assets | 7 | -0 | -7 | - | - | 3 | 3 |
| Property, plant and equipment | -203 | -2 | 112 | - | 0 | 21 | -72 |
| Other financial assets | -2 | 0 | 2 | 0 | - | - | 0 |
| Inventories | -33 | -0 | 10 | - | 0 | 32 | 9 |
| Derivative financial assets | -15 | - | 0 | 5 | - | 6 | -4 |
| Trade and other receivables | 6 | -0 | -16 | - | - | -1 | -12 |
| Non-current and current debt | 40 | -0 | 30 | - | - | -1 | 69 |
| Defined benefit and other long-term employee benefit obligations | 60 | -1 | 3 | -8 | -1 | -10 | 44 |
| Provisions | 10 | - | 9 | - | - | -1 | 18 |
| Derivative financial liabilities | 6 | - | 9 | - | - | -2 | 13 |
| Trade and other payables | 8 | -1 | 17 | - | -1 | 1 | 25 |
| Tax losses carried forward | 540 | -16 | 130 | - | -21 | -3 | 629 |
| | 424 | -19 | 296 | -2 | -22 | 45 | 723 |
| Valuation allowance | -427 | 18 | -337 | - | 22 | 1 | -724 |
| | -3 | -1 | -41 | -2 | 0 | 46 | -1 |

As of December 31, 2014 the income tax benefit of EUR 8 million presented in the financial statements is EUR 84 million lower than the expected income tax benefit of EUR 92 million, which would result if the Finnish corporate tax rate of 20.0% was applied to the Group's result before taxes. For financial year 2013 the reported income tax expense of EUR 11 million was EUR 212 million higher than the expected income tax benefit of EUR 201 million calculated with the Finnish corporate tax rate of 24.5%. The following table reconciles the expected income tax benefit to the income tax benefit or expense presented in the consolidated statement of income:

| € million | 2014 | 2013 |
|---|---|---|
| Hypothetical income taxes at Finnish tax rate on consolidated result before tax | **92** | 201 |
| Difference between Finnish and foreign tax rates | **53** | 58 |
| Tax effect of non-deductible expenses and tax exempt income | **-37** | -75 |
| Tax effect of losses for which no deferred tax asset is recognized | **-156** | -204 |
| Changes in the carrying amounts of deferred tax assets from prior years | **0** | 0 |
| Taxes for prior years | **75** | 25 |
| Impact of the changes in the tax rates on deferred tax balances [1)] | **0** | 4 |
| Effects of consolidation and eliminations | **0** | 0 |
| Other items | **-19** | -20 |
| Income taxes in the consolidated statement of income | **8** | -11 |

[1)] In 2014, enacted changes in tax rates had only little impact on deferred tax balances. In 2013, the majority of the impact of the changes in the tax rates was attributable to the enacted decrease in the Finnish and UK tax rates, in Finland from 24.5% to 20.0% on January 1, 2014 and in the UK from 24.0% to 23.0% on April 1, 2013, from 23.0 to 21.0% on April 1, 2014 and from 21.0% to 20.0% on April 1, 2015.

Tax audit in Outokumpu Oyj was concluded in November 2014 and did not result in proposed changes to the company's taxation. The Tax Recipients' Legal Service Unit has appealed against the outcome of the tax audit.

# 10. Earnings per share

| | 2014 | 2013 |
|---|---|---|
| Result attributable to the equity holders of the Company, € million | **-434** | -997 |
| Result from continuing operations attributable to the equity holders of the Company, € million | **-445** | -826 |
| Result from discontinued operations attributable to the equity holders of the Company, € million | **11** | -170 |
| | | |
| Weighted average number of shares, in thousands [1)] | **349 559** | 132 580 |
| Diluted average number of shares, in thousands [1)] | **349 559** | 132 580 |
| | | |
| Earnings per share for result attributable to the equity holders of the Company, € [1)] | | |
| Earnings per share | **-1.24** | -7.52 |
| Earnings per share, continuing operations | **-1.27** | -6.23 |
| Earnings per share, discontinued operations | **0.03** | -1.29 |

[1)] Calculated based on the rights-issue-adjusted weighted average number of shares, comparative figures adjusted accordingly. Comparative figures adjusted to reflect the reverse split in June 2014.

Outokumpu did not have any diluting effect instruments in 2014 nor 2013.

# 11. Intangible assets

| € million | Other intangible assets 1) | Goodwill | Total |
|---|---|---|---|
| Historical cost on Jan 1, 2014 | 298 | 472 | 770 |
| Translation differences | 5 | 2 | 7 |
| Additions | 1 | - | 1 |
| Disposals | -6 | -0 | -6 |
| Reclassifications 2) | 1 | - | 1 |
| **Historical cost on Dec 31, 2014** | **299** | **474** | **774** |
| | | | |
| Accumulated amortization and impairment on Jan 1, 2014 | -193 | -7 | -200 |
| Translation differences | 2 | - | 2 |
| Disposals | 6 | - | 6 |
| Amortization | -14 | - | -14 |
| **Accumulated amortization and impairment on Dec 31, 2014** | **-199** | **-7** | **-206** |
| | | | |
| **Carrying value on Dec 31, 2014** | **100** | **467** | **567** |
| Carrying value on Jan 1, 2014 | 105 | 465 | 570 |
| | | | |
| Historical cost on Jan 1, 2013 | 319 | 494 | 813 |
| Translation differences | -4 | -0 | -4 |
| Additions | 6 | - | 6 |
| Disposals | -3 | - | -3 |
| Disposed subsidiaries | -7 | -10 | -16 |
| Reclassifications 2) | 0 | -0 | -0 |
| Reclassifications to assets held for sale | -13 | -12 | -25 |
| **Historical cost on Dec 31, 2013** | 298 | 472 | 770 |
| | | | |
| Accumulated amortization and impairment on Jan 1, 2013 | -189 | -17 | -206 |
| Translation differences | 2 | - | 2 |
| Disposals | 1 | - | 1 |
| Disposed subsidiaries | 7 | 10 | 17 |
| Amortization | -18 | - | -18 |
| Reclassifications 2) | 1 | - | 1 |
| Reclassifications to assets held for sale | 1 | - | 1 |
| **Accumulated amortization and impairment on Dec 31, 2013** | -193 | -7 | -200 |
| | | | |
| Carrying value on Dec 31, 2013 | 105 | 465 | 570 |
| Carrying value on Jan 1, 2013 | 130 | 477 | 607 |

1) Other intangible assets include capitalized land-use rights, development costs, patents, licenses and software.
2) Construction work in progress related to intangible assets is presented in the corresponding item of PPE. When the asset is taken into use, it is reclassified to the appropriate asset account.

Intangible assets mainly comprise acquired assets.

## Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Coil EMEA | **451** | 449 |
| APAC | **1** | 1 |
| Quarto Plate | **7** | 7 |
| Long Products | **9** | 9 |
| | **467** | 465 |

In Outokumpu, goodwill is tested on operating segment level. Operating segments are the Group's cash-generating units. Goodwill has been allocated to the operating segments mentioned above. During the year 2014, impairment testing of goodwill was carried out on a quarterly basis.

The recoverable amounts of the cash-generating units are based on value-in-use calculations which are prepared using discounted cash flow projections. Key assumptions used in the value-in-use calculations are discount rate, terminal value growth rate, average global growth in end-use consumption of stainless steel and base price development. The values assigned to the key assumptions are based on the strategic plans approved by the management for 2015 after which cash flows are projected for a period of 5 years, including terminal value based on conservative assumptions.

Discount rate is the weighted average pre-tax cost of capital (WACC), as defined for Outokumpu. The components of WACC are risk-free yield rate, Outokumpu credit margin, market risk premium, equity beta, and industry capital structure. Goodwill of Coil EMEA presents 97% of the total goodwill of the Group and the pre-tax WACC used for Coil EMEA is 10.5% (2013: 10.9%).

In the terminal value, growth rate assumption of 0.5% (2013: 0.5%) is used which management believes to be prudent based on current economic circumstances, although historical growth rates and forecasts of independent market analysts indicate higher long-term growth rates.

Growth rate assumption used for stainless steel deliveries is conservative, and generally lower than independent analysts' view on long-term market development. Base price forecast is based on conservative assumptions, which are in line with expectations of general inflation. In addition, committed investments and expected synergies have been included in the cash flow projections.

The estimated recoverable amount of Coil EMEA exceeds its carrying amount by approximately EUR 550 million. Increase of 1.6 percentage point in after-tax WACC would cause the recoverable amount to equal the carrying amount. Also, 7% decrease in annual delivery volumes or 3% decrease in base prices would cause the recoverable amount to equal the carrying amount. Terminal growth rate of 0% would not lead to impairment.

As a result of the performed impairment test to Group's cash-generating units, no impairment losses were recognized in 2014 or 2013.

## Emission allowances

Outokumpu had seven active sites operating under EU's Emissions Trading Scheme (ETS) in 2014. These include the production plants in Tornio, Finland; Avesta, Degerfors and Nyby in Sweden; Sheffield in the UK; as well as Krefeld and Bochum in Germany.

The pre-verified carbon dioxide emissions under ETS were approximately 1,103,000 tonnes in 2014 (2013: 1,030,000 tonnes). In 2014 Outokumpu sold 1.2 million tonnes of emission allowances (2013: 0.6 million tonnes).

For the trading period 2013–2020, all relevant Outokumpu sites have applied free emission allowances according to efficiency-based benchmarks and historical activity. Preliminary allocation for years 2015 and 2016 is estimated to be some 1 million tonnes annually in total. Considering the Group's operations and the Group's current emission allowance position, the amount of allowances is foreseen to be sufficient for compliance. Position is frequently monitored and optimized according to the definitions set in corporate risk policies.

See Note 19. Financial risk management, capital management and insurances for information on the management of the emission allowance price risk.

# 12. Property, plant and equipment

| € million | Land | Mine properties | Buildings | Machinery and equipment | Other tangible assets | Advances paid and construction work in progress [1] | Total |
|---|---|---|---|---|---|---|---|
| Historical cost on Jan 1, 2014 | 146 | 46 | 1 260 | 4 600 | 132 | 184 | 6 368 |
| Translation differences | 3 | - | 18 | 74 | -1 | 4 | 98 |
| Additions | 1 | - | 6 | 39 | 1 | 70 | 117 |
| Disposals | -5 | - | -27 | -139 | - | -36 | -208 |
| Reclassifications | - | - | 19 | 57 | 0 | -93 | -18 |
| **Historical cost on Dec 31, 2014** | **145** | **46** | **1 275** | **4 631** | **132** | **128** | **6 357** |
| | | | | | | | |
| Accumulated depreciation and impairment on Jan 1, 2014 | -9 | -9 | -520 | -2 462 | -66 | -49 | -3 115 |
| Translation differences | -0 | - | 1 | 14 | 0 | 2 | 16 |
| Disposals | - | - | 22 | 138 | - | 38 | 199 |
| Reclassifications | - | - | 0 | 6 | - | 8 | 13 |
| Depreciation | -0 | -3 | -45 | -252 | -5 | - | -306 |
| Impairments | - | - | -0 | -8 | - | -19 | -27 |
| **Accumulated depreciation and impairment on Dec 31, 2014** | **-9** | **-12** | **-543** | **-2 565** | **-70** | **-20** | **-3 219** |
| | | | | | | | |
| **Carrying value on Dec 31, 2014** | **136** | **34** | **732** | **2 065** | **63** | **108** | **3 138** |
| Carrying value on Jan 1, 2014 | 137 | 37 | 740 | 2 139 | 66 | 134 | 3 254 |
| | | | | | | | |
| Historical cost on Jan 1, 2013 | 173 | 46 | 1 307 | 4 808 | 142 | 295 | 6 772 |
| Translation differences | -2 | - | -14 | -79 | -1 | -7 | -101 |
| Additions | 1 | - | 33 | 189 | 0 | 7 | 231 |
| Disposals | - | - | -6 | -35 | 0 | -0 | -41 |
| Disposed subsidiaries | -1 | - | -29 | -120 | -2 | -1 | -152 |
| Reclassifications | 2 | 0 | 23 | 66 | -8 | -102 | -19 |
| Reclassifications to assets held for sale | -28 | - | -55 | -230 | - | -9 | -323 |
| Historical cost on Dec 31, 2013 | 146 | 46 | 1 260 | 4 600 | 132 | 184 | 6 368 |
| | | | | | | | |
| Accumulated depreciation and impairment on Jan 1, 2013 | -6 | -7 | -507 | -2 429 | -63 | -45 | -3 056 |
| Translation differences | 0 | - | 5 | 37 | 0 | 1 | 44 |
| Disposals | - | - | 3 | 33 | -0 | - | 36 |
| Disposed subsidiaries | 0 | - | 23 | 100 | 2 | 0 | 124 |
| Reclassifications | - | - | 0 | 65 | 0 | 1 | 66 |
| Depreciation | -0 | -2 | -47 | -291 | -5 | - | -346 |
| Impairments | -3 | - | 0 | 0 | -0 | -7 | -9 |
| Reclassifications to assets held for sale | - | - | 3 | 23 | - | 0 | 26 |
| Accumulated depreciation and impairment on Dec 31, 2013 | -9 | -9 | -520 | -2 462 | -66 | -49 | -3 115 |
| | | | | | | | |
| Carrying value on Dec 31, 2013 | 137 | 37 | 740 | 2 139 | 66 | 134 | 3 254 |
| Carrying value on Jan 1, 2013 | 167 | 40 | 800 | 2 380 | 79 | 250 | 3 716 |

[1] Advances paid and construction work in progress includes also intangible assets. When the asset is ready to be taken into use, it is reclassified to appropriate asset account either in property, plant and equipment or in intangible assets.

Borrowing costs amounting to EUR 1 million were capitalized on investment projects during the financial year (2013: EUR 2 million). Total interest capitalized on December 31, 2014 was EUR 35 million (Dec 31, 2013: EUR 38 million). Outokumpu determines separate capitalization rates for each quarter. The average rate used during 2014 was 5.7%.

### Impairments

In 2014 or 2013 no impairment losses were recognized as a result of the impairment test performed to Group's cash-generating units. However, due to restructuring of production in Germany, impairment losses of EUR 27 million were recognized in 2014 relating mainly to construction work in progress and machinery and equipment. In 2013 immaterial impairment losses related to single assets and totaling EUR 9 million were recognized in various Group companies.

### Assets leased by finance lease agreements

| € million | Land | Buildings | Machinery and equipment | Total |
|---|---|---|---|---|
| Historical cost | 29 | 36 | 253 | 318 |
| Accumulated depreciation | -1 | -6 | -73 | -79 |
| **Carrying value on Dec 31, 2014** | **28** | **31** | **180** | **239** |
| | | | | |
| Historical cost | 29 | 37 | 270 | 335 |
| Accumulated depreciation | -0 | -5 | -70 | -75 |
| Carrying value on Dec 31, 2013 | 28 | 32 | 200 | 260 |

# 13. Investments in associated companies and joint ventures

Outokumpu has the following associated companies and joint ventures which are all equity accounted. Based on the amounts reported in the Group's consolidated financial statements, it is concluded that the investments are immaterial.

### Associated companies

| | Domicile | Ownership, % |
|---|---|---|
| OSTP Holding Oy | Finland | 49 |
| Rapid Power Oy | Finland | 33 |
| Manga LNG Oy [1] | Finland | 45 |

[1] Investment in 2014 in utilizing liquefied natural gas in Finland.

### Summarized financial information on associated companies

| € million | 2014 | 2013 |
|---|---|---|
| Carrying value of investments in associated companies | **45** | 34 |
| Group's share of total comprehensive income | **4** | -3 |

### Joint ventures

| | Domicile | Ownership, % |
|---|---|---|
| Fagersta Stainless AB | Sweden | 50 |
| Fischer Mexicana S.A. de C.V. | Mexico | 50 |

### Summarized financial information on joint ventures

| € million | 2014 | 2013 |
|---|---|---|
| Carrying value of investments in joint ventures | **32** | 32 |
| Group's share of total comprehensive income | **3** | 2 |

# 14. Carrying values and fair values of financial assets and liabilities by measurement category

| 2014<br>€ million | Category in accordance with IAS 39 | Measured at<br>Amortized cost | Cost | Fair value recognized in other comprehensive income | Fair value recognized through profit or loss | Carrying amount on Dec 31, 2014 | Fair value on Dec 31, 2014 |
|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | |
| Available-for-sale financial assets | a) | - | 21 | 5 | - | 26 | 26 |
| Investments at fair value through profit or loss | c) | - | - | - | 2 | 2 | 2 |
| Trade and other receivables | b) | 10 | - | - | - | 10 | 10 |
| Hedge accounted derivatives | e) | - | - | 0 | - | 0 | 0 |
| Derivatives held for trading | d) | - | - | - | 1 | 1 | 1 |
| | | | | | | | |
| **Current financial assets** | | | | | | | |
| Available-for-sale financial assets | a) | - | - | 0 | - | 0 | 0 |
| Investments at fair value through profit or loss | c) | - | - | - | 4 | 4 | 4 |
| Trade and other receivables | b) | 694 | - | - | - | 694 | 694 |
| Cash and cash equivalents | b), c) | 191 | - | - | - | 191 | 191 |
| Hedge accounted derivatives | e) | - | - | 0 | - | 0 | 0 |
| Derivatives held for trading | d) | - | - | - | 35 | 35 | 35 |
| | | 895 | 21 | 6 | 42 | 964 | 964 |
| | | | | | | | |
| **Non-current financial liabilities** | | | | | | | |
| Non-current debt | f) | 1 597 | - | - | - | 1 597 | 1 581 |
| Derivatives held for trading | d) | - | - | - | 18 | 18 | 18 |
| | | | | | | | |
| **Current financial liabilities** | | | | | | | |
| Current debt | f) | 569 | - | - | - | 569 | 568 |
| Trade and other payables | f) | 1 172 | - | - | - | 1 172 | 1 172 |
| Hedge accounted derivatives | e) | - | - | 14 | - | 14 | 14 |
| Derivatives held for trading | d) | - | - | - | 73 | 73 | 73 |
| | | 3 337 | - | 14 | 91 | 3 442 | 3 425 |

Categories in accordance with IAS 39:
a) Available-for-sale financial assets
b) Loans and receivables
c) Financial assets at fair value through profit or loss
d) Derivatives held for trading
e) Hedge accounted derivatives
f) Other financial liabilities

| 2013<br>€ million | Category in accordance with IAS 39 | Measured at<br>Amortized cost | Cost | Fair value recognized in other comprehensive income | Fair value recognized through profit or loss | Carrying amount on Dec 31, 2013 | Fair value on Dec 31, 2013 |
|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | |
| Available-for-sale financial assets | a) | - | 13 | 2 | - | 15 | 15 |
| Investments at fair value through profit or loss | c) | - | - | - | 2 | 2 | 2 |
| Trade and other receivables | b) | 11 | - | - | - | 11 | 11 |
| Hedge accounted derivatives | e) | - | - | 0 | - | 0 | 0 |
| Derivatives held for trading | d) | - | - | - | 2 | 2 | 2 |
| | | | | | | | |
| **Current financial assets** | | | | | | | |
| Available-for-sale financial assets | a) | - | 3 | 0 | - | 4 | 4 |
| Investments at fair value through profit or loss | c) | - | - | - | 17 | 17 | 17 |
| Trade and other receivables | b) | 754 | - | - | - | 754 | 754 |
| Cash and cash equivalents | b), c) | 607 | - | - | - | 607 | 607 |
| Hedge accounted derivatives | e) | - | - | 1 | - | 1 | 1 |
| Derivatives held for trading | d) | - | - | - | 19 | 19 | 19 |
| | | 1 372 | 17 | 4 | 41 | 1 433 | 1 433 |
| | | | | | | | |
| **Non-current financial liabilities** | | | | | | | |
| Non-current debt | f) | 3 270 | - | - | - | 3 270 | 3 189 |
| Hedge accounted derivatives | e) | - | - | 4 | - | 4 | 4 |
| Derivatives held for trading | d) | - | - | - | 11 | 11 | 11 |
| | | | | | | | |
| **Current financial liabilities** | | | | | | | |
| Current debt | f) | 893 | - | - | - | 893 | 893 |
| Trade and other payables | f) | 997 | - | - | - | 997 | 997 |
| Hedge accounted derivatives | e) | - | - | 3 | - | 3 | 3 |
| Derivatives held for trading | d) | - | - | - | 31 | 31 | 31 |
| | | 5 160 | - | 7 | 42 | 5 210 | 5 129 |

Categories in accordance with IAS 39:
a) Available-for-sale financial assets
b) Loans and receivables
c) Financial assets at fair value through profit or loss
d) Derivatives held for trading
e) Hedge accounted derivatives
f) Other financial liabilities

# 15. Fair value hierarchy of financial assets and liabilities

| 2014<br>€ million | Carrying amount | Fair value<br>Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | |
| Available-for-sale financial assets | 6 | 0 | 2 | 3 | **6** |
| Investments at fair value through profit or loss | 6 | 4 | - | 2 | **6** |
| Hedge accounted derivatives | 0 | - | 0 | - | **0** |
| Derivatives held for trading | 36 | - | 36 | - | **36** |
| | **48** | **5** | **39** | **4** | **48** |
| **Financial assets not measured at fair value** | | | | | |
| Non-current trade and other receivables | 10 | - | 10 | - | **10** |
| **Financial liabilities measured at fair value** | | | | | |
| Hedge accounted derivatives | 14 | - | 14 | - | **14** |
| Derivatives held for trading | 91 | - | 91 | - | **91** |
| | **105** | **-** | **105** | **-** | **105** |
| **Financial liabilities not measured at fair value** | | | | | |
| Non-current debt | **1 597** | **407** | **1 174** | **-** | **1 581** |

The fair value of non-current debt is determined by using discounted cash flow method and taking into consideration the market credit spread applied for Outokumpu. The fair value of non-current trade and other receivables is determined by discounted cash flow method taking into account the credit risk of the counterparty. The carrying amounts of current financial assets and current financial liabilities not measured at fair value are reasonable estimates of their fair value.

| 2013<br>€ million | Carrying amount | Fair value<br>Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | |
| Available-for-sale financial assets | 2 | 1 | 2 | 0 | 2 |
| Investments at fair value through profit or loss | 19 | 4 | - | 15 | 19 |
| Hedge accounted derivatives | 1 | - | 1 | - | 1 |
| Derivatives held for trading | 22 | - | 22 | - | 22 |
| | 45 | 5 | 25 | 15 | 45 |
| **Financial assets not measured at fair value** | | | | | |
| Non-current trade and other receivables | 11 | - | 11 | - | 11 |
| **Financial liabilities measured at fair value** | | | | | |
| Hedge accounted derivatives | 7 | - | 7 | - | 7 |
| Derivatives held for trading | 42 | - | 42 | - | 42 |
| | 50 | - | 50 | - | 50 |
| **Financial liabilities not measured at fair value** | | | | | |
| Non-current debt | 3 270 | 386 | 2 803 | - | 3 189 |

### Reconciliation of changes on level 3

| 2014<br>€ million | Available-for-sale financial assets | Investment at fair value through profit or loss |
|---|---|---|
| Carrying value on Jan 1 | 0 | 15 |
| Fair value changes | 3 | -13 |
| **Carrying balance on Dec 31** | **3** | **2** |

Accounting principles contain information on how fair values are defined on different levels in the fair value hierarchy. There were no transfers between level 1 and 2 during the year.

The change in investments at fair value through profit or loss at hierarchy level 3 relates mostly to investment in Talvivaara Sotkamo Ltd. The valuation has originally been based on the share value of Talvivaara Mining Company Plc. Due to the reorganization proceedings and consequent bankruptcy of Talvivaara Sotkamo Ltd the value of Outokumpu's 16% holding was written down to zero in 2014. Available-for-sale financial assets at hierarchy level 3 relate to investments in energy producing companies. Valuation model of energy producing companies is based on discounted cash flow (model), which takes into account the future prices of electricity, discount rate, inflation rate, the estimated amount of electricity to be received and estimated production costs. The valuation is mainly driven by electricity price. +/- 10% change in electricity price leads to an increase of EUR 1 million or decrease of EUR 1 million in valuation.

# 16. Available-for-sale financial assets

| € million | 2014 | 2013 |
|---|---|---|
| Carrying value on Jan 1 | **19** | 21 |
| Translation differences | **0** | 0 |
| Additions | **8** | 2 |
| Fair value changes | **3** | -3 |
| Disposals | **-2** | -0 |
| Impairments | **-4** | -2 |
| Gains and losses from disposals reclassified to profit or loss | **0** | 0 |
| Change in other comprehensive income due to impairment | **3** | - |
| Carrying value on Dec 31 | **27** | 19 |
| | | |
| Non-current listed equity securities | **0** | 0 |
| Non-current unlisted equity securities | **26** | 15 |
| Current available-for-sale financial assets | **0** | 4 |
| | **27** | 19 |
| | | |
| Listed equity securities, at fair value | **0** | 1 |
| Unlisted equity securities and other investments, at fair value | **5** | 2 |
| Unlisted equity securities and other investments, at cost | **21** | 17 |
| | **27** | 19 |

### Fair value reserve in equity

| € million | 2014 | 2013 |
|---|---|---|
| Fair value | **27** | 19 |
| Cost | **22** | 20 |
| Fair value reserve before tax | **5** | -1 |
| Deferred tax liability | **-1** | 0 |
| Fair value reserve | **4** | -1 |

Unlisted equity securities and other investments at cost include EUR 20 million holdings in Voimaosakeyhtiö SF providing ownership to Fennovoima Oy. During 2014 Outokumpu invested EUR 8 million in Voimaosakeyhtiö SF. As the Fennovoima project is at an early stage, the fair value cannot be reliably measured. Unlisted equity securities at fair value include holdings in energy producing companies and other investments not listed in any stock exchange. The valuation method of these investments is described in Note 15. Fair value hierarchy of financial assets and liabilities.

# 17. Investments at fair value through profit or loss

| € million | 2014 | 2013 |
|---|---|---|
| Carrying value on Jan 1 | 19 | 61 |
| Translation differences | -0 | -0 |
| Additions | 0 | 0 |
| Fair value changes of Talvivaara Sotkamo Ltd. | -13 | -41 |
| Other movement | -0 | -2 |
| Carrying value on Dec 31 | 6 | 19 |

Due to the reorganization proceedings and consequent bankruptcy of Talvivaara Sotkamo Ltd, the value of Outokumpu's 16% holding was written down to zero in 2014.

The carrying value includes EUR 4 million investment in state bonds relating to captive insurance company Visenta Försäkrings AB, which acts according to the Swedish regulations in securing its insurance technical provisions.

# 18. Share-based payment plans

During the year 2014 Outokumpu's share based payment programs included Performance Share Plan 2012 (Plans 2012–2014, 2013–2015 and 2014–2016) and Restricted Share Pool Program (Plans 2012–2014, 2013–2015 and 2014–2016). Share-based programs are part of the Group's incentive and commitment-building system for key employees. The objective of the programs is to retain, motivate and reward selected employees for good performance which supports Outokumpu's strategy.

Regarding the expired Share based incentive program 2009–2013, the targets set for the earnings period 2011–2013 were not met and therefore no reward was paid to the participants in 2014. Regarding the Performance Share Plan 2012, total of 2,419 shares (number adjusted with rights issue and reverse split) and cash of EUR 50,000 were given based on achieved savings targets in 2013 to the persons that left the plan during the year 2014.

In April 2014, the Board of Directors approved the commencement of the third plan of Performance Share Plan 2012, plan 2014–2016. The plan commenced at the beginning of 2014 and the earnings criteria applied for the year 2014 were EBIT improvement and business cash flow. The maximum number of gross shares (taxes included) that can be allocated from the plan is 2,240,000. In total 135 persons participate in the plan.

The Board of Directors also approved the commencement of the third plan of the Restricted Share Pool Program, plan 2014–2016 in April. The plan 2014–2016 commenced at the beginning of 2014. Restricted share grants are approved annually by the CEO on the basis of the authorization granted by the Board of Directors, with the exception of possible allocations to the Leadership Team members, which will be approved by the Board of Directors. The maximum number of gross shares (taxes included) that can be allocated from the plan is 320,000. In total six persons participate in the plan.

In December 2014, the Board of Directors approved the commencement of the fourth plans (plan 2015–2017) regarding both Performance Share Plan 2012 and Restricted Share Pool Program 2012. They commence at the beginning of 2015.

Due to the rights issue in 2014 the number of gross shares allocated from the plans that started in 2012 and 2013 was technically adjusted in line with their terms and conditions. Following the reverse split of shares in June 2014, the corresponding changes were made in all ongoing plans. Additionally, the EBIT criterion previously applied to the plans 2012–2014 and 2013–2015 of the Performance Share Plan was for the year 2014 replaced with the same EBIT improvement criterion as applied to the new plan 2014–2016.

The total estimated fair value of the Performance share plan and Restricted share pool is EUR 6 million on December 31, 2014. This value is recognized as an expense in the statement of income during the vesting periods.

Detailed information of the share-based incentive programs can be found in Outokumpu's home page www.outokumpu.com.

### Share-based payments included in employee benefit expenses

| € million | 2014 | 2013 |
|---|---|---|
| Equity-settled share-based payment transactions | -2 | -1 |
| Cash-settled share-based payment transactions | -1 | -0 |
| | -2 | -1 |
| | | |
| Total carrying amount of liabilities for cash-settled arrangements on Dec 31 | 1 | 0 |

### Number of shares to be distributed within share-based incentive programs

| Number of shares | 2014 | 2013 [1] |
|---|---|---|
| On Jan 1 | 2 173 551 | 841 759 |
| Shares granted to the programs | 2 071 735 | 1 626 060 |
| Shares rewarded to the participants [2] | -2 419 | -5 760 |
| Shares cancelled | -696 100 | -288 508 |
| On Dec 31 | 3 546 768 | 2 173 551 |

[1] Restated due to the rights issue and reverse split of shares.
[2] 960 shares of the 5,760 shares rewarded to the participants in 2013 were not delivered yet at December 31, 2013.

### The general terms and conditions of the share-based incentive programs

| | Performance Share Plan 2012 | | |
|---|---|---|---|
| | Vesting period 2012–2014 | Vesting period 2013–2015 | Vesting period 2014–2016 |
| Grant date | March 31, 2012 | March 31, 2013 | May 31, 2014 |
| Vesting period | Jan 1, 2012–Dec 31, 2014 | Jan 1, 2013–Dec 31, 2015 | Jan 1, 2014–Dec 31, 2016 |
| Vesting conditions | | | |
| Market | Total shareholder return (TSR) ranking among peers | Outokumpu share-price adjusted with dividends in the beginning of 2016 | - |
| Non-market | EBIT for the year 2012, EBITDA for the year 2013 and EBIT improvement for the year 2014 | EBITDA for the year 2013, EBIT improvement for the year 2014, and achievement of Inoxum transaction related synergies | EBIT improvement and cash flow for the year 2014 |
| Other relevant conditions | A salary-based limit for the maximum benefits | A salary-based limit for the maximum benefits | A salary-based limit for the maximum benefits |
| Exercised | In shares and cash | In shares and cash | In shares and cash |

| | Restricted Share Pool Program | | |
|---|---|---|---|
| | Vesting period 2012–2014 | Vesting period 2013–2015 | Vesting period 2014–2016 |
| Grant date | March 31, 2012 | April 30, 2013 | May 31, 2014 |
| Vesting period | Jan 1, 2012–Dec 31, 2014 | Jan 1, 2013–Dec 31, 2015 | Jan 1, 2014–Dec 31, 2016 |
| Vesting conditions | | | |
| Other relevant conditions | Continuation of employment until the shares are delivered, a salary-based limit for the maximum benefits | Continuation of employment until the shares are delivered, a salary-based limit for the maximum benefits | Continuation of employment until the shares are delivered, a salary-based limit for the maximum benefits |
| Exercised | In shares and cash | In shares and cash | In shares and cash |

The fair value of share-based incentive programs are determined using statistical modeling.

### Share values used in valuations

| € | Share price at the end of the reporting period | Incentive share fair value at the grant date |
|---|---|---|
| Performance Share Plan | | |
| Vesting period 2012–2014 | 4.77 | 13.75 |
| Vesting period 2013–2015 | 4.77 | 5.18 |
| Vesting period 2014–2016 | 4.77 | 6.46 |
| Restricted Share Pool Program | | |
| Vesting period 2012–2014 | 4.77 | 13.75 |
| Vesting period 2013–2015 | 4.77 | 4.61 |
| Vesting period 2014–2016 | 4.77 | 6.46 |

# 19. Financial risk management, capital management and insurances

The objectives of financial risk management are to reduce the impact of price fluctuations and other factors of uncertainty in financial markets on earnings, cash flows and capital structure, as well as to ensure sufficient liquidity. The objective of capital management is to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders. The main objectives of insurance management are to provide mitigation against catastrophe risks and to reduce earnings variation caused by hazards.

The Board has approved the risk management policy, which defines responsibilities, process and other main principles of risk management. The Board oversees risk management on a regular basis and the Chief Financial Officer is responsible for implementation and development of financial risk management. In 2014, the Group's Financial Risk Policy was reviewed and changes to it were approved by the Chief Financial Officer. Main changes to the policy were related to metal and credit risk management.

Financial risks consist of market, country, credit, liquidity and refinancing risks. Subsidiary companies hedge their currency and metal price risk with Outokumpu Oyj, which does most of the Group's derivative contracts with banks and other financial institutions. The Treasury and Risk Management function is responsible for managing foreign exchange, interest rate, liquidity and refinancing risk as well as emission allowance price risk. Credit risk management is partly centralized and Treasury and Risk Management function monitors the risk. Energy function is responsible for managing electricity and fuel price risks. Metal Desk function is responsible for managing metal price risk.

Treasury and Risk Management function sources a substantial part of the Group's insurances. The most important insurance lines are property damage and business interruption, liability, marine cargo and credit. The Group's captive insurance company Visenta Försäkrings AB retains a selected part of risk.

Exposure to financial risk is identified as part of the Group's risk management process. This approach aims to secure that any emerging risk is identified early and each significant risk is described, quantified, managed and communicated properly. In risk quantification, both likelihood of an adverse event and the impact on that event are assessed. For market risk, the adverse scenario is based on a predefined price change in a risk factor, e.g. in exchange rate or metal price. Furthermore, the impact analysis is based on measured underlying exposure, e.g. the amount of forecasted currency cash flow or the amount of net debt by currency. The likelihood of the adverse scenario is based on the market volatility of the underlying risk factor. Eventually, the impacts of key risks are quantified in terms of changes in net earnings, cash flows, net debt and equity.

## Market risk

Market risk is caused by changes in foreign exchange and interest rates, interest margins as well as commodity, energy and security prices. These price changes may have a significant impact on Group's earnings, cash flows and capital structure.

Outokumpu uses derivative contracts to mitigate the above-mentioned impacts of market price changes. Hedge accounting is applied to committed currency denominated electricity purchases (EUR/SEK spot rate risk). The derivatives, for which hedge accounting is not applied, have been entered into for the purpose of reducing impacts of market price changes on earnings and/or cash flows related to business or financing activities. The use of non-hedge-accounted derivatives may cause timing differences between derivative gains/losses and the earnings impact of the underlying exposure.

Stainless steel business is highly cyclical, which in many cases result in significant changes in the underlying exposures to different market risk factors. Consequently applying hedging policies in a consistent way may, from time to time, lead to big changes in the amounts of reported derivate contracts. Nominal amounts and fair values of derivatives are presented in Note 20. Sensitivity of financial instruments to market prices is described in the following table.



### Sensitivity of financial instruments to market risks

| € million | 2014 In profit or loss | 2014 In other comprehensive income | 2013 In profit or loss | 2013 In other comprehensive income |
|---|---|---|---|---|
| +/-10% change in EUR/USD exchange rate | -0/+0 | - | -2/+2 | - |
| +/-10% change in EUR/SEK exchange rate | -9/+10 | -15/+19 | -4/+5 | -20/+24 |
| +/-10% change in nickel price in USD | -9/+9 | +1/-1 | -7/+7 | +3/-3 |
| +/-10% change in propane price in USD | +2/-2 | - | +1/-1 | - |
| +/-10% change in electricity price | - | +0/-0 | - | +1/0 |
| +/-10% change in share prices | - | +0/-0 | +1/-1 | +0/-0 |
| +/-1% parallel shift in interest rates | -10/+10 | - | -23/+23 | - |

The sensitivity analyses applies to financial instruments only. Other assets, liabilities and off-balance sheet items such as sales and purchase orders, are not in the scope of these analyses. The calculations are net of tax. During the year the volatility for nickel has been in the range of 17–30%. With +/-20% change in USD nickel price, the effect in profit or loss is about EUR -18/+18 million for nickel derivatives.

## Foreign exchange rate risk

A major part of the Group's sales is in euros and US dollars. A significant part of expenses arise in euros, US dollars, Swedish kronas, Mexican pesos, Chinese yuans and British pounds. In Europe, Outokumpu's products are priced mainly in euros and therefore costs in Swedish krona and British pounds give rise to a significant foreign exchange risk impacting profitability and cash flows. Due to significant amount of captive ferrochrome production and related revenues being linked to US dollar, the EUR/USD price risk for the Group is significant. In addition, profitability of stainless steel exports to Asia is affected by the value of US dollar.

Outokumpu hedges most of its fair value risk which relates to currency denominated accounts receivables, accounts payables, debt, cash and loan receivables. Cash flow risk related to firm commitments is hedged to a large extent, whereas forecasted and probable cash flows can be hedged selectively and with separate decisions only. In 2014 forecasted cash flow risk was not hedged and therefore any benefits of stronger dollar began to realize relatively quickly. The Group's fair value currency position is presented on a more detailed level in the table below.

### Foreign exchange positions of EUR-based companies

| € million | 2014 SEK | 2014 USD | 2014 GBP | 2014 Other | 2013 SEK | 2013 USD | 2013 GBP | 2013 Other |
|---|---|---|---|---|---|---|---|---|
| Trade receivables and payables | 0 | -103 | 10 | 8 | 8 | -49 | 13 | 18 |
| Loans and bank accounts [1] | 315 | 692 | -31 | -111 | 303 | 1 157 | -87 | -108 |
| Derivatives [2] | -105 | -585 | -5 | 108 | -43 | -1 082 | 51 | 100 |
| Net position | **210** | **4** | **-26** | **6** | 268 | 25 | -23 | 10 |

### Foreign exchange positions of SEK-based companies

| € million | 2014 EUR | 2014 USD | 2014 GBP | 2014 Other | 2013 EUR | 2013 USD | 2013 GBP | 2013 Other |
|---|---|---|---|---|---|---|---|---|
| Trade receivables and payables | 46 | 13 | -8 | 8 | 53 | 12 | -4 | 5 |
| Loans and bank accounts [1] | 1 | 19 | 1 | 3 | 13 | 8 | 0 | 1 |
| Derivatives [2] | -166 | -66 | 9 | -10 | -119 | -21 | -3 | -11 |
| Net position | **-119** | **-33** | **2** | **0** | -53 | -2 | -6 | -4 |

[1] Includes cash, debt and receivables
[2] Includes derivatives to hedge committed cash flows

Outokumpu has income translation risk mainly in US dollars, Swedish krona and British pounds; based on the policy this risk is not hedged. The Group has also significant currency denominated net investment positions in US dollars, Swedish kronas, British pounds, Chinese yuans and Australian dollars. At the end of the year there were no hedges related to net investment exposure. The effective portion of gains (EUR 17 million, net of tax) on earlier financial year net investment hedges is recognized in equity. Currency denominated debt and changes in currency rates have an impact on Group's capital structure. In 2014 Outokumpu injected USD 600 million equity into its US operations with an aim to normalize its capital structure.

## Interest rate risk

The Group's interest rate risk is monitored as cash flow risk i.e. impact of interest rate changes on net interest expenses, and fair value risk i.e. impact of interest rate changes on fair value of monetary assets and liabilities. In order to manage the balance between risk and cost in an optimal way, a significant part of loans has short-term interest rate as a reference rate. This approach typically helps to reduce average interest rate of debt while it may also provide some mitigation against a risk of adverse changes in business environment, which tends to result to decrease in short-term interest rates. Cash flow risk is reduced mainly with interest rate swaps, where Outokumpu pays fixed rate and receives variable rate.

Euro, US dollar and Swedish krona have substantial contribution to the overall interest rate risk. Approximately 71% of the Group's debt have an interest period of less than one year and the average interest rate of non-current debt on December 31, 2014 was 4.3% (Dec 31, 2013: 4.3%). Interest rate position is presented on a more detailed level in the table below. In addition to exposures related to market level of interest rates, Outokumpu is exposed to market level of credit margins. The volatility of credit margins has been high and combined with the anticipated refinancing of the debt maturing in February 2017 this risk is significant.

### Currency distribution and re-pricing of outstanding net debt

| € million | Dec 31, 2014 | | | | |
|---|---|---|---|---|---|
| Currency | Net debt 1) | Derivatives 2) | Average rate, % | Duration, year | Rate sensitivity 3) |
| EUR | 1 557 | -601 | 4.9 | 4.2 | 2.7 |
| SEK | 377 | 137 | 4.3 | 0.4 | 4.1 |
| USD | -50 | 617 | 3.1 | 0.4 | 3.6 |
| Others | 77 | -135 | 7.9 | -0.1 | -0.4 |
| | **1 960** | **18** | | | **10.0** |

| € million | Dec 31, 2013 | | | | |
|---|---|---|---|---|---|
| Currency | Net debt 1) | Derivatives 2) | Average rate, % | Duration, year | Rate sensitivity 3) |
| EUR | 3 244 | -1 403 | 4.6 | 0.9 | 12.5 |
| SEK | 441 | 305 | 3.9 | 0.7 | 5.1 |
| USD | -183 | 1 241 | 0.5 | 0.4 | 6.4 |
| Others | 39 | -129 | 13.5 | 0.2 | -0.8 |
| | 3 540 | 15 | | | 23.2 |

1) Includes cash and cash equivalents, debt and loan receivables.
2) Net derivative liabilities include nominal value of interest rate and cross currency swaps, interest rate options and currency forwards earmarked to the interest-bearing net debt. Currency forwards are not included in average rate calculation.
3) The effect of one percentage point increase in interest rates to financial expenses over the following year.

## Commodity and energy price risk

Outokumpu uses a substantial amount of raw materials and energy for which prices are determined in regulated markets, such as London Metal Exchange and NASDAQ OMX Commodities Europe. Timing differences between raw material purchase and pricing of products; changes in inventory levels; the capability to pass on changes in raw material and energy prices to end-product prices; and the level of alloy metal prices and the extent of purchase discounts (e.g. related to stainless steel scrap purchases) all affect risk and hedging activities.

Changes in nickel price is the most important commodity price risk for Outokumpu. A majority of stainless steel sales contracts include an alloy surcharge clause, with the aim of reducing the risk arising from the time difference between raw material purchase and product delivery. Outokumpu's nickel position consists of price fixed purchase orders, nickel-containing material in inventories, price fixed sales orders and forecasted but not yet ordered monthly alloy surcharge based deliveries for the upcoming few weeks. Based on financial risk policy most of the identified price risk shall be hedged. In 2014, the hedging ratio has typically varied between 40 and 60%. Metal price hedging is done against US dollar. Risk related to stainless scrap purchase discounts and the level of nickel price is not hedged.

Nickel derivatives and LME warrants have been used to manage impacts of price changes on earnings. Metal prices have a major impact on the Group's working capital and thus cash flow from operations. This risk has not been hedged with derivatives, however strict working capital management helps to reduce the cash flow risk. Molybdenum risk should be managed with same principles that are applied when managing the nickel price risk. The financial market for molybdenum is far less liquid compared with nickel, which in most cases has led to decision not to use derivatives in managing this particular risk.

Outokumpu's main sites in Europe are participating in the EU Emissions Trading Scheme (ETS). The amounts of realized and forecasted carbon dioxide emissions and granted emission allowances are monitored centrally. Emission allowance price risk is managed with the aim of securing the cost of compliance for the current trading period and reducing the cost of compliance e.g. by swapping EUAs to Kyoto credits within the limits set in the ETS. In certain situations the market price of electricity is partly based on price of carbon dioxide emissions. This indirect exposure to emission prices can be significant for Outokumpu.

The Group has energy intensive production and logistic processes using electricity, propane, natural gas and other oil products, e.g. bunker fuel. The Group hedges propane and natural gas price risk by locking future purchase prices with derivative contracts. Due to significant drop in price of crude oil and fuels, the valuation of propane hedges relating mainly to 2015 forecasted purchases had an adverse impact on year 2014 reported earnings. Electricity used by the Nordic production sites is purchased and managed centrally while at other sites electricity is purchased locally. Electricity price risk is reduced with fixed price supply contracts and ownerships in energy producing companies. Electricity consumption of the Group's Nordic production sites was 3.5 TWh (2013: 3.3 TWh).

## Security price risk

Outokumpu has investments in equity securities and loan receivables. On December 31, 2014 the biggest investments were in Voimaosakeyhtiö SF (equity investment of EUR 20 million) and OSTP Holding Oy (equity investment of EUR 21 million and loan receivable of EUR 6 million). The captive insurance company Visenta Försäkrings AB has investments in highly rated and liquid fixed income securities, such as bonds issued by governments. Due to the reorganization proceedings and consequent bankruptcy of Talvivaara Sotkamo Oy the share holding was valued to zero in 2014.

## Country and credit risk

All sales must be covered by approved credit limits or secured payment terms. Most of the outstanding trade receivables have been secured by credit insurances, which typically cover some 90% of an insured amount. Part of the credit risk related to trade receivables is managed with bank guarantees, letters of credit and advance payments.

On December 31, 2014 the maximum exposure to credit risk of trade receivables was EUR 536 million (2013: EUR 564 million). Large part of trade receivables is covered by insurance or by secured payment terms, however there are also unsecured trade receivables based on separate decisions. The portion of unsecured receivables has been 10–15% of all trade receivables. For part of accounts receivable Outokumpu uses factoring, which transfers substantial part of all risks and rewards to the buyer of the receivables. The Group's trade receivables are generated by a large number of customers. However, there have been a few significant customer credit risk concentrations during the year 2014 and at the end of the year. At the end of 2014 Coil EMEA business area made a sizable reservation related to certain unsecured trade receivables. Age analysis of accounts receivables is in Note 22. Trade and other receivables.

Treasury and Risk Management function monitors credit risk related to receivables from financial institutions. Outokumpu seeks to reduce these risks by limiting the counterparties to banks and other financial institutions with good credit standing. For the derivative transactions, Outokumpu prefers to have ISDA framework agreements in place. Investments related to liquidity management are made in short-term deposits and liquid financial instruments with low credit risk.

## Liquidity and refinancing risk

Outokumpu raises most of its debt centrally. The Group seeks to reduce liquidity and refinancing risk by having sufficient amount of cash and credit lines available and by having balanced maturity profile of debt. Efficient cash and liquidity management is also reducing liquidity risk. Finance plans are prepared quarterly with a particular focus on the Group's forecasted cash flows, projected funding requirements, planned funding transactions during the forecast period and forecasted headroom for financial covenants. The amount and adequacy of liquidity reserves, the amounts of scheduled annual repayments of non-current debt as well as forecasted gearing levels are key targets and outcomes of the planning. Low profitability and high gearing required significant financing measures which were initiated in late 2013. Refinancing measures in February 2014 and the rights issue in April 2014 helped to increase liquidity and to reduce the refinancing risk in 2014–2016. Outokumpu has defined a strategy to address refinancing of 2017 debt maturity peak.

In February 2014 Outokumpu Oyj signed a EUR 500 million syndicated liquidity facility and EUR 900 million syndicated revolving facility. Major part of the bilateral facilities and term loans were amended by having their final maturity date on 28 February 2017. Also terms and conditions for certain loans of the parent company were amended. Most of the bank loans include two financial covenants, one based on gearing and the other on liquidity. Outokumpu also agreed to secure its bank loans and two outstanding bonds with a comprehensive security package consisting of guarantees from material subsidiary companies and pledges on fixed assets and/or shares of certain subsidiary companies. Financing related matters between Outokumpu Group and its lenders are partly governed by an intercreditor agreement signed in February 2014. In connection with the refinancing of bank loans all loans from ThyssenKrupp AG were prepaid or set-off against the sale of Terni and VDM assets.

In April, Outokumpu completed a Rights Issue from which the net proceeds were EUR 640 million. In June, and based on the decision taken by the EGM Outokumpu implemented a reverse split to reduce the number of shares by merging each 25 shares to 1 share. In September, Outokumpu Oyj issued a five-year secured high-yield bond with an amount of EUR 250 million. EUR 100 million of the proceeds were applied immediately for tender offer to repay the 2015 notes. Following the bond issue EUR 250 million of the liquidity facility was cancelled.

The main funding programs and credit facilities are: a committed revolving facility of EUR 900 million, a committed liquidity facility of EUR 250 million, four committed bilateral credit facilities of EUR 282 million and two committed revolving credit facilities totaling SEK 2,933 million and a Finnish commercial paper program totaling EUR 800 million. As at December 31, 2014 Outokumpu had a total amount of some EUR 1.7 billion committed credit facilities. Of these committed credit facilities some EUR 1.1 billion were unutilized at the end of the year. More information on liquidity and refinancing risk is presented in the following table.

### Contractual cash flows

| 2014<br>€ million | Balance Dec 31 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020– |
|---|---|---|---|---|---|---|---|
| Bonds | 547 | 150 | 150 | - | - | 250 | - |
| Loans from financial institutions | 939 | 110 | 25 | 785 | 10 | 5 | 10 |
| Pension loans | 192 | 35 | 52 | 26 | 23 | 19 | 38 |
| Finance lease liabilities | 244 | 31 | 11 | 89 | 5 | 3 | 105 |
| Commercial papers | 243 | 243 | - | - | - | - | - |
| Trade payables | 1 031 | 1 031 | - | - | - | - | - |
| Other liabilities | 0 | 0 | 0 | - | - | - | - |
| Interest payments and facility charges | 23 | 105 | 89 | 44 | 31 | 27 | 165 |
| Interest rate derivatives | 11 | 6 | 3 | 2 | 0 | 0 | - |
| Other derivatives | 56 | 49 | 6 | - | - | - | - |
| | | 1 760 | 337 | 945 | 70 | 304 | 318 |

On December 31, 2014, the Group had cash and cash equivalent marketable securities amounting to EUR 191 million and committed and available credit facilities, available and undrawn TyEL pension loans in Finland, and other agreed and undrawn loans totaling EUR 1,201 million.

| 2013<br>€ million | Balance Dec 31 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019– |
|---|---|---|---|---|---|---|---|
| Bonds | 399 | - | 250 | 150 | - | - | - |
| Loans from financial institutions | 1 645 | 493 | 786 | 80 | 204 | 34 | 48 |
| Pension loans | 223 | 31 | 35 | 37 | 33 | 29 | 59 |
| Finance lease liabilities | 266 | 22 | 31 | 11 | 89 | 5 | 108 |
| Loans from related party | 1 443 | 160 | - | 204 | 204 | 204 | 672 |
| Commercial papers | 187 | 187 | - | - | - | - | - |
| Trade payables | 815 | 815 | - | - | - | - | - |
| Other liabilities | 1 | 1 | 0 | - | - | - | - |
| Interest payments and facility charges | 62 | 109 | 85 | 78 | 50 | 45 | 359 |
| Interest rate derivatives | 26 | 22 | 5 | 1 | - | - | - |
| Other derivatives | 2 | 1 | 2 | 0 | - | - | - |
| | | 1 841 | 1 194 | 560 | 580 | 318 | 1 247 |

On December 31, 2013, the Group had cash and cash equivalent marketable securities amounting to EUR 607 million and committed and available credit facilities, available and undrawn TyEL pension loans in Finland, and other agreed and undrawn loans totaling EUR 399 million. The future interest cash flows included interest payments of ThyssenKrupp loan note some EUR 210 million, which could have been deferred. The loan note was used as a consideration for the Terni and VDM transaction in February 2014. However, at year end the loan note was classified as non-current debt and cash flows reported according to remaining contractual maturity.

## Capital management

The objective of the capital management is to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders. As part of this objective, the Group seeks to maintain access to loan and capital markets at all times despite the cyclical nature of the stainless steel industry. The Board of Directors reviews the capital structure of the Group on a regular basis.

Capital structure and debt capacity are taken into account when deciding on new investments. Tools to manage equity capital include dividend policy, share buybacks and issues of equity or equity-linked securities. Debt capital is managed considering the requirement to secure liquidity and the capability to refinance maturing debt. Tools to manage debt capital structure include prepayments and liability management measures, such as the tender offer of the 2015 notes done in year 2014. Revolving facilities as well as some other loans include two financial covenants, which relate to gearing and liquidity. The high-yield bond maturing in 2019 includes an incurrence based financial covenant on gearing. The bond covenant level for gearing is 145% until March 31, 2016, 140% from April 1, 2016 until December 31, 2016 and 130% thereafter.

The Group’s internal capital structure is reviewed on a regular basis with an aim to optimize it e.g. by applying internal dividends and equity adjustments. Net investment and debt in foreign entities is monitored and Outokumpu has capability to hedge this translation risk. In 2014 Outokumpu injected USD 600 million equity to Outokumpu Americas, Inc.

Outokumpu’s captive insurance company, Visenta Försäkrings AB, has to comply with capital adequacy requirements set by the financial supervisory authority. During the reporting period Visenta has been well capitalized to meet externally imposed requirements.

The management monitors Group's capital structure on the basis of gearing ratio, which is calculated as net interest-bearing debt divided by total equity. Net debt is calculated as total current and non-current debt less cash and cash equivalents.

On December 31, 2014, net interest-bearing debt was EUR 1,974 million (2013: EUR 3,556 million), total equity EUR 2,132 million (2013: EUR 1,891 million) and gearing 92.6% (2013: 188.0%). The decrease in gearing in 2014 resulted primarily from disposal of Terni and VDM assets and the EUR 640 million rights issue which was completed in April.

## Insurances

The Group’s business is capital intensive and key production processes are rather tightly integrated and have interdependencies. Property damage and business interruption (PDBI) insurance, covering e.g. fires, machinery breakdowns and natural catastrophies, is the most important insurance line and most of the insurance premiums paid relate to these types of risks. Business operations may cause significant liability risks related e.g. to people, environment or Outokumpu's products. Outokumpu aims to partly mitigate liability risk by having reasonable insurances in place. Other significant insurance lines include marine cargo and credit insurances.

During the reporting year serious machinery breakdown incidents took place at the ferrochrome production unit in Tornio, Finland and at cold rolling mills in Calvert, Alabama, the US. These losses are covered partially by insurances and Calvert has received the first interim payments for this claim already in 2014. However, both loss settlement processes were open at the year-end 2014.

Visenta Försäkrings AB can act as direct insurer and as reinsurer. The captive insurance company is registered in Sweden and it has assets totaling EUR 21 million. Visenta underwrites e.g. gradual pollution and PDBI insurance policies.

# 20. Fair values and nominal amounts of derivative instruments

| € million | 2014 Positive fair value | 2014 Negative fair value | 2014 Net fair value | 2013 Net fair value | 2014 Nominal amounts | 2013 Nominal amounts |
|---|---|---|---|---|---|---|
| Currency and interest rate derivatives | | | | | | |
| Currency forwards incl. embedded derivatives | 9 | 43 | -34 | -1 | 1 778 | 2 518 |
| Interest rate swaps | 1 | 12 | -11 | -9 | 606 | 714 |
| Cross-currency swaps | - | - | - | -15 | - | 67 |
| Currency options, bought | 0 | - | 0 | 0 | 16 | 3 |
| Currency options, sold | - | - | - | 0 | - | 3 |
| Interest options, bought | 0 | - | 0 | 1 | 143 | 290 |
| Interest options, sold | - | 1 | -1 | -3 | 43 | 290 |
| | | | | | Tonnes | Tonnes |
| Metal derivatives | | | | | | |
| Forward and futures nickel contracts | 26 | 22 | 4 | -2 | 51 094 | 21 865 |
| Forward and futures molybdenum contracts | - | 3 | -3 | - | 654 | - |
| Emission allowance derivatives | 1 | - | 1 | -1 | 1 900 000 | 725 000 |
| Propane derivatives | - | 22 | -22 | 2 | 89 000 | 25 000 |
| | | | | | MMBtu | MMBtu |
| Natural gas derivatives | - | 2 | -2 | 0 | 2 025 000 | 1 372 182 |
| Total derivatives | 37 | 105 | -68 | -27 | | |
| Less long-term derivatives | | | | | | |
| Currency forwards | - | - | - | -4 | | |
| Interest rate swaps | 1 | 12 | -11 | -8 | | |
| Interest options, bought | - | - | - | 1 | | |
| Interest options, sold | - | - | - | -2 | | |
| Forward and futures nickel contracts | 0 | 0 | -0 | -0 | | |
| Molybdenum derivatives | - | 1 | -1 | - | | |
| Propane derivatives | - | 5 | -5 | - | | |
| Natural gas derivatives | - | 0 | -0 | - | | |
| Short-term derivatives | 36 | 87 | -52 | -14 | | |

Fair values are estimated based on market rates and prices on the reporting date, discounted future cash flows and, in respect of options, on valuation models.

## Hedge accounted cash flow hedges

Outokumpu has hedged currency spot price risk related to SEK denominated long-term electricity supply agreement for the Finnish production sites. The currency derivatives, which hedge the currency risk, mature in other periods in year 2015 than the underlying cash flows of electricity purchases. The derivatives will be prolonged later to mature at the same period as the underlying cash flows. The effective portion of hedges is recognized in other comprehensive income, net of tax, and will be reclassified to profit and loss as adjustment to purchases at the same period as the underlying hedged cash flows affect profit or loss. During 2014, effective portion of EUR 1 million gain was recognized in profit or loss as adjustment to purchases (2013: gain of EUR 4 million). The ineffective portion of the hedges, gain of EUR 0 million (2013: gain of EUR 4 million), is recognized in other operating income and expenses.

| | 2014 Nominal amount, SEK million | 2014 Fair value of outstanding cash flow hedges, € million | 2014 Equity, € million | 2013 Nominal amount, SEK million | 2013 Fair value of outstanding cash flow hedges, € million | 2013 Equity, € million |
|---|---|---|---|---|---|---|
| Maturity < 1 year | 390 | -3 | 0 | 390 | 1 | 2 |
| Maturity 1–5 years | 1 562 | -10 | 0 | 1 562 | -4 | 8 |
| Maturity 5–10 years | - | - | - | 390 | -1 | 2 |
| | 1 952 | -14 | 0 | 2 343 | -4 | 11 |

Outokumpu has also some minor cash flow hedges mainly used to hedge future cash flows against commodity price risks arising from fixed price sales. Cash flows from future transactions are currently hedged for a maximum of 23 months. At the end of the reporting period, the fair value of these hedging instruments was EUR 0 million positive. Ineffective portion of these hedges gain EUR 0 million is recognized in other operating income and expenses.

## Master netting agreements and similar arrangements

Outokumpu enters into derivative transactions with most counterparties under ISDA agreements. In general the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single amount is payable in settlement of all transactions. ISDA agreements do not meet the criteria for offsetting in the statement of financial position. The right to offset is enforceable only on the occurrence of future credit events. The following table sets out the carrying amounts of recognized financial instruments that are subject to the agreements described above.

| € million | 2014 | 2013 |
|---|---|---|
| **Derivative assets** | | |
| Gross amounts of recognized financial assets in the statement of financial position | 36 | 23 |
| Related financial instruments that are not offset | 31 | 19 |
| | 6 | 5 |
| **Derivative liabilities** | | |
| Gross amounts of recognized financial liabilities in the statement of financial position | 105 | 50 |
| Related financial instruments that are not offset | 31 | 19 |
| | 74 | 31 |

# 21. Inventories

| € million | 2014 | 2013 |
|---|---|---|
| Raw materials and consumables | **370** | 314 |
| Work in progress | **606** | 508 |
| Finished goods and merchandise | **566** | 423 |
| Net realizable value reserve | **-16** | -29 |
| Advance payments | **1** | 1 |
| | **1 527** | 1 216 |

The most important commodity price risk for Outokumpu is caused by fluctuation in nickel and other alloy prices. Majority of stainless steel sales contracts include an alloy surcharge clause, with the aim of reducing the risk arising from the time difference between raw material purchase and product delivery. However, the risk is remarkable, because the delivery cycle in production is longer than the alloy surcharge mechanism expects. Thus, only the price for the products to be sold in near future is known. That is why a significant part of the future prices for the products to be sold is estimated according to management's best knowledge in net realizable value (NRV) calculations. Due to fluctuation in nickel and other alloy prices, the realized prices can deviate significantly from what has been used in NRV calculations on the closing date.

# 22. Trade and other receivables

| € million | 2014 | 2013 |
|---|---|---|
| **Non-current** | | |
| Loans receivable | **10** | 6 |
| Other receivables | **2** | 5 |
| | **12** | 11 |
| | | |
| **Current** | | |
| Trade receivables | **536** | 564 |
| VAT receivable | **60** | 58 |
| Income tax receivable | **23** | 18 |
| Loans receivable | **3** | 9 |
| Prepaid insurance expenses | **6** | 5 |
| Other accruals | **25** | 38 |
| Other receivables | **96** | 122 |
| | **749** | 813 |
| Allowance for impairment of trade receivables | | |
| Allowance on Jan 1 | **19** | 25 |
| Additions | **8** | 3 |
| Disposed subsidiaries | **-** | -0 |
| Deductions | **-2** | -4 |
| Recovery of doubtful receivables | **-5** | -2 |
| Reclassification to assets held for sale | **-** | -4 |
| Allowance on Dec 31 | **19** | 19 |

| € million | 2014 | 2013 |
|---|---|---|
| Age analysis of trade receivables | | |
| Neither impaired, nor past due | **466** | 481 |
| Past due 1–30 days | **52** | 67 |
| Past due 31–60 days | **14** | 6 |
| More than 60 days | **4** | 10 |
| | **536** | 564 |

The maximum exposure to credit risk at the reporting date is the carrying amount of the loan and trade receivables. Most of the outstanding trade receivables have been secured by credit insurance policies, which typically covers some 90% of an insured credit loss. Credit risks related to trade receivables are presented in more detail in Note 19. Financial risk management, capital management and insurances.

As at December 31, 2014 Outokumpu has derecognized trade receivables totaling EUR 261 million (2013: EUR 197 million), which represents fair value of the assets. Net proceeds received totaled EUR 250 million (2013: EUR 182 million). Underlying assets have maturity less than one year. The maximum amount of loss related to derecognized assets are estimated to be EUR 9 million (2013: EUR 5 million). This estimation is based on insurance policies and contractual arrangements of factoring companies and Outokumpu. The analysis does not include impact of any operational risk related to Outokumpu's contractual responsibilities.

# 23. Cash and cash equivalents

| € million | 2014 | 2013 |
|---|---|---|
| Cash at bank and in hand | **176** | 592 |
| Short term bank deposits | **15** | 16 |
| | **191** | 607 |
| Bank overdrafts [1] | **-** | -0 |
| | **191** | 607 |

[1] Presented in current debt in the statement of financial position.

Fair value of cash and cash equivalents does not significantly differ from the carrying value. The average effective interest rate of cash and cash equivalents at the end of 2014 was 1.2% (Dec 31, 2013: 0.4%).

# 24. Equity

## Share capital, premium fund and invested unrestricted equity reserve

| € million | Number of shares, 1 000 | Share capital | Premium fund | Invested unrestricted equity reserve | Total |
|---|---|---|---|---|---|
| On Jan 1, 2013 | 2 077 065 | 311 | 714 | 1 462 | 2 487 |
| Shares subscribed with Restricted share program [1] | 40 | - | - | - | - |
| On Dec 31, 2013 | 2 077 105 | 311 | 714 | 1 462 | 2 487 |
| Shares subscribed with share-based payment programs [1] | 28 | - | - | - | - |
| Rights issue in March 2014 | 8 308 534 | - | - | 640 | 640 |
| Reverse share split in June 2014 [2] | -9 970 241 | - | - | - | - |
| **On Dec 31, 2014** | **415 427** | **311** | **714** | **2 103** | **3 127** |
| Treasury shares [1, 3] | 948 | | | | |
| **Total number of shares on Dec 31, 2014** | **416 375** | | | | |

[1] Shares granted from treasury shares without effect to share capital.
[2] The Extraordinary General Meeting held on June 16, 2014 decided that the number of shares would be reduced without reducing the share capital by merging each 25 shares to 1 share by means of a reverse share split.
[3] The company sold 5 treasury shares to adjust the number of shares owned by other parties than Outokumpu to be divisible by the reverse split ratio.

According to the Articles of Association, the Outokumpu share does not have nominal value.

Premium fund includes proceeds from share subscription and other contribution based on the old Finnish Limited Liability Companies Act for the part the contributions exceed the account equivalent value allocated to share capital.

Invested unrestricted equity reserve includes net proceeds from the rights issues in 2014 and 2012.

## Fair value reserves

Fair value reserves include movements in the fair values of available-for-sale financial assets and derivative instruments used for cash flow hedging. The figures are presented net of tax.

| € million | 2014 | 2013 |
|---|---|---|
| Available-for-sale financial assets reserve | **4** | -1 |
| Hedge reserves | **0** | 11 |
| | **5** | 9 |

## Other reserves

Reserve fund includes amounts transferred from the distributable equity under the Articles of Association or by a decision of the General Meeting of Shareholders. Other reserves include other items based on the local regulations of the Group companies.

| € million | 2014 | 2013 |
|---|---|---|
| Reserve fund | **3** | 4 |
| Other reserves | **2** | 3 |
| | **5** | 7 |

## Retained earnings

Retained earnings include remeasurements of defined benefit plans, treasury shares, cumulative translation differences and other retained earnings and losses.

## Distributable funds

On December 31, 2014 the distributable funds of the parent company totaled EUR 1,994 million of which accumulated losses were EUR 130 million.

## Non-controlling interest

Outokumpu's subsidiary Shanghai Krupp Stainless Co., Ltd. (SKS) incorporated in China has a 40% non-controlling interest. In 2014, Outokumpu's profit attributable to SKS's non-controlling interest amounts to EUR -5 million (2013: EUR -5 million). Non-controlling interest under consolidated total equity amounts to EUR 0 million (2013: EUR 4 million). Part of the SKS's share capital has not been paid up by the non-controlling interest holder. No dividends have been paid from the company to the non-controlling interest. Summarized IFRS financial information for SKS before intercompany eliminations but including fair value adjustments are as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Sales | **354** | 289 |
| Net result for the financial year | **-12** | -11 |
| Total assets | **215** | 200 |
| Total liabilities | **181** | 157 |

In 2014, Outokumpu acquired additional interests in Outokumpu Industriunderhåll AB and Fortinox S.A. increasing the Group's ownership interest in both companies to 100%. These acquisitions did not have a material effect on Outokumpu's consolidated financial statements.

# 25. Employee benefit obligations

Outokumpu has established several defined benefit and defined contribution plans in various countries. The most significant defined benefit plans are in Germany and in the UK.

## Germany

In Germany Outokumpu has several defined benefit plans, of which major plans include a management plan, open pension plans for normal staff, and other pension promises, which are nearly all closed for new entrants. Basis to all pension promises in Germany are bargaining agreements and/or individual contracts (management promises). Management plan and other pension promises are based on annuity payments, whereas plans for normal employees are based on one lump sum payment after retirement.

In addition, all the promises are embedded in Germany in the BetrAVG law. The law contains rules for vested rights, pension protection scheme and regulations for the pension adjustments. In Germany no funding requirements exist, thus the plans are materially all unfunded.

## UK

The UK scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary at retirement (or leaving if earlier) and their length of service. Since April 1, 2003 the UK scheme has been closed to new entrants, but is still open to future accrual for members still employed by the company at that date.

The scheme is registered under UK legislation and is contracted out of the State Second Pension. The scheme is subject to the scheme funding requirements outlined in UK legislation.

The scheme was established on October 1, 2001 under trust and is governed under the scheme's current Trust Deed and Rules dated April 5, 2006. The trustees are responsible for the operation and governance of the scheme, including making decisions regarding the scheme's funding and investment strategy. By law, one third of the trustees must be member nominated. In 2014 there were four employer nominated and four member nominated trustees.

## Risks associated with defined benefit plans

Through its defined benefit pension plans, Outokumpu is exposed to a number of risks, the most significant of which are detailed below:

**Asset volatility**: The level of equity returns is a key factor in the overall investment return. If a plan holds significant proportion of equities, which are expected to outperform corporate bonds in the long-term, it might face higher volatility and risk in the short-term. The investment portfolio might also be subject to a range of other risks typical of the assets held, in particular credit risk on bonds and exposure to the property market.

**Change in bond yields**: A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings (if any). In a situation where the return on plan assets is lower than the corporate bond yields, a plan may face a shortfall which might lead to increased contributions.

**Inflation risk**: Inflation rate is linked to both future pension and salary increase, and higher inflation will lead to higher liabilities.

**Longevity**: The majority of Outokumpu's defined benefit obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

## Funding

Funding requirements are generally based on pension fund's actuarial measurement framework set out in the funding policies.

In the UK, a preliminary funding evaluation was made during November 2013. The valuation revealed a deficit of GBP 37 million. Outokumpu is currently negotiating the deficit to eliminate possible shortfall. The negotiation process is due to be concluded at the end of March 2015.

### Defined benefit cost recognized in the consolidated statements of income and comprehensive income

| € million | 2014 | 2013 |
|---|---|---|
| In EBIT | **-7** | -11 |
| In financial income and expenses | **-10** | -10 |
| Defined benefit cost recognized in the consolidated statement of income | **-17** | -21 |
| In other comprehensive income | **-14** | 15 |
| Total defined benefit cost recognized | **-31** | -6 |

### Amounts recognized in the consolidated statement of financial position

| € million | 2014 | 2013 |
|---|---|---|
| Present value of funded defined benefit obligations | **471** | 420 |
| Present value of unfunded defined benefit obligations | **321** | 265 |
| Fair value of plan assets | **-498** | -411 |
| Net defined benefit liability | **295** | 275 |

| € million | 2014 | 2013 |
|---|---|---|
| Defined benefit liability | **331** | 275 |
| Other long-term employee benefit liabilities | **41** | 42 |
| Defined benefit assets | **-36** | -0 |
| Net liability | **336** | 317 |

### Movement in net defined benefit liability

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| € million | Present value of obligation | Fair value of plan assets | Net defined benefit liability | Present value of obligation | Fair value of plan assets | Net defined benefit liability |
| On Jan 1 | 685 | -411 | 275 | 777 | -406 | 372 |
| Current service cost | 10 | - | 10 | 14 | - | 14 |
| Interest expense/(income) | 28 | -18 | 10 | 28 | -16 | 12 |
| Remeasurements arising from | | | | | | |
| Return on plan assets | - | -49 | -49 | - | -6 | -6 |
| Demographic assumptions | -4 | - | -4 | -0 | - | -0 |
| Financial assumptions | 83 | - | 83 | -6 | - | -6 |
| Experience adjustment | -16 | - | -16 | -2 | - | -2 |
| Exchange differences | 35 | -30 | 5 | -10 | 8 | -2 |
| Employer contributions | - | -14 | -14 | - | -18 | -18 |
| Contributions by plan participants | 1 | -1 | - | 1 | -1 | - |
| Benefits paid | -24 | 24 | - | -27 | 27 | - |
| Settlements | -2 | 2 | -0 | - | - | - |
| Past service cost | -3 | - | -3 | - | - | - |
| Disposed subsidiaries | - | - | - | -8 | - | -8 |
| Reclassification to assets and liabilities held for sale | - | - | - | -81 | 0 | -81 |
| Other change | -2 | -0 | -2 | -0 | 0 | -0 |
| On Dec 31 | **792** | **-498** | **295** | 685 | -411 | 275 |

The present value of obligations and the fair value of plan assets comprise mainly of German and UK plans. The present value of obligation for German plans on December 31, 2014 was EUR 274 million (Dec 31, 2013: EUR 230 million). For the UK, the present value of obligation was EUR 410 million (Dec 31, 2013: EUR 364 million), and the fair value of plan assets was EUR 446 million (Dec 31, 2013: EUR 361 million) on December 31, 2014.

The expected contributions to be paid to the defined benefit plans in 2015 are EUR 14 million.

### Allocation of plan assets

| € million | 2014 | 2013 |
|---|---|---|
| Equity instruments | **78** | 101 |
| Debt instruments | **333** | 256 |
| Real estate | **6** | 10 |
| Investment funds | **3** | 3 |
| Other assets | **74** | 38 |
| Total plan assets | **493** | 408 |

Allocation of plan assets covers 99% of total defined benefit plan assets. The plan assets are mainly invested in quoted instruments. Debt instruments include mostly government and corporate bonds (investment grade).

## Asset-liability matching strategies

The majority of defined benefit assets are in the UK. The UK scheme's benchmark asset allocation is 30%/70% return-seeking/liability matching. This strategy reflects the scheme's liability profile and the trustees' and company's attitude to risk. The trustee monitors the investment objectives and asset allocation policy on a regular basis.

## Significant actuarial assumptions

| | | Germany | The UK | Other countries |
|---|---|---|---|---|
| Discount rate, % | **2014** | **2.26** | **3.75** | **3.51** |
| | 2013 | 3.50 | 4.50 | 4.34 |
| Future salary increase, % | **2014** | **-** | **3.60** | **2.53** |
| | 2013 | - | 4.75 | 2.68 |
| Inflation rate, % | **2014** | **-** | **3.10** | **-** |
| | 2013 | - | 3.50 | - |
| Future benefit increase, % | **2014** | **1.51** | **2.90** | **-** |
| | 2013 | 1.52 | 3.20 | - |
| Medical cost trend rate, % | **2014** | **-** | **-** | **6.20–6.30** |
| | 2013 | - | - | 6.80–7.10 |
| Life expectancy | **2014** | Modified from RT 2005 G | 110% SAPS All Pensioner Amounts tables | Standard mortality tables |
| | 2013 | Modified from RT 2005 G | 105% SAPS All Pensioner Amounts tables | Standard mortality tables |

The significant actuarial assumptions are presented separately for the significant countries, and for other countries a weighted average of the assumptions is presented.

The weighted average duration of the overall defined benefit obligation is 17.9 years. In Germany and in the UK the weighted average durations are 14.6 and 21.6 years, respectively.

## Sensitivity analysis of significant actuarial assumptions

Reasonably possible changes at the reporting date to one of the weighted principal assumptions, while holding all other assumptions constant, would have affected the defined benefit obligation as shown below:

### Germany

| 2014 | Change in assumption | Increase in assumption | Decrease in assumption |
|---|---|---|---|
| Discount rate | 0.5% | Decrease by 7% | Increase by 8% |
| Future benefit increase | 0.5% | Increase by 4% | Decrease by 4% |
| Life expectancy | 1 year | Increase by 2% | |
| **2013** | | | |
| Discount rate | 0.5% | Decrease by 6% | Increase by 7% |
| Future benefit increase | 0.5% | Increase by 4% | Decrease by 4% |
| Life expectancy | 1 year | Increase by 2% | |

### The UK

| 2014 | Change in assumption | Increase in assumption | Decrease in assumption |
|---|---|---|---|
| Discount rate | 0.5% | Decrease by 9% | Increase by 10% |
| Future benefit increase | 0.5% | Increase by 6% | Decrease by 5% |
| Future salary increase | 0.5% | Increase by 1% | Decrease by 1% |
| Life expectancy | 1 year | Increase by 3% | |
| **2013** | | | |
| Discount rate | 0.5% | Decrease by 10% | Increase by 11% |
| Future benefit increase | 0.5% | Increase by 3% | Decrease by 4% |
| Future salary increase | 0.5% | Increase by 1% | Decrease by 1% |
| Life expectancy | 1 year | Increase by 3% | |

### Other countries

| 2014 | Change in assumption | Increase in assumption | Decrease in assumption |
|---|---|---|---|
| Discount rate | 0.5% | Decrease by 7% | Increase by 7% |
| Medical cost trend rate | 0.5% | Increase by 8% | Decrease by 6% |
| Future salary increase | 0.5% | Increase by 1% | Decrease by 1% |
| Life expectancy | 1 year | Increase by 5% | |
| **2013** | | | |
| Discount rate | 0.5% | Decrease by 6% | Increase by 6% |
| Medical cost trend rate | 0.5% | Increase by 6% | Decrease by 5% |
| Future salary increase | 0.5% | Increase by 1% | Decrease by 1% |
| Life expectancy | 1 year | Increase by 3% | |

## Other long-term employee benefits

Other long-term employee benefits mainly relate to long-service remunerations and early retirement provisions in Germany as well as long-service remunerations in Finland. In Germany, the employees are entitled to receive a one-time indemnity every ten years after 25 years of service. Under the early retirement agreements, employees work additional time prior to retirement, which is subsequently paid for in instalments after retirement. In Finland, the employees are entitled to receive a one-time indemnity every five years after 20 years of service.

The other long-term employee benefit liabilities recognized in the consolidated statement of financial position on December 31, 2014 were EUR 41 million (Dec 31, 2013: EUR 42 million).

## Multi-employer defined benefit plans

ITP pension plans operated by Alecta in Sweden and plans operated by Stichting Bedrijfspensioenfonds voor de metaalindustrie in the Netherlands are multi-employer defined benefit pension plans. However, it has not been possible to get sufficient information for the calculation of obligations and assets by employer from the plan operators, and therefore these plans have been accounted for as defined contribution plans in the consolidated financial statements.

The expected contributions to the ITP pension plans in Sweden are EUR 3 million in 2015. The contributions to the ITP pension plans vary depending on e.g. unemployment rates and demographics. The average cost for 2015 is determined as 11.8% of total salary in total for white collar employees in all companies in Sweden.

# 26. Provisions

| € million | Restructuring provisions | Environmental provisions | Other provisions | Total |
|---|---|---|---|---|
| Provisions on Jan 1, 2014 | 72 | 53 | 16 | 141 |
| Translation differences | 0 | 1 | -0 | 1 |
| Increases in provisions | 106 | 25 | 12 | 143 |
| Utilized during the financial year | -36 | -10 | -5 | -51 |
| Unused amounts reversed | -5 | -0 | -4 | -9 |
| **Provisions on Dec 31, 2014** | **138** | **68** | **18** | **224** |

| € million | 2014 | 2013 |
|---|---|---|
| Non-current provisions | **198** | 115 |
| Current provisions | **26** | 25 |
| | **224** | 141 |

## Restructuring provisions

Outokumpu continued its measures to improve profitability in 2014. Strategic review of thin and precision strip operations as well as the new industrial plan in Europe resulted in the closure of Kloster operations in Sweden by the end of 2014 and the planned closure of operations in Bochum, Germany in 2015. The increase in restructuring provisions relates mainly to these closures. In addition, the restructuring provisions include, among others, provisions recognized in previous years for reductions related to the closure of Krefeld melt shop and relocation of Düsseldorf-Benrath production facility in Germany. The restructuring provisions are expected to be paid between the years 2015–2024.

## Environmental provisions

Majority of the environmental provisions are for closing costs of production facilities and landfill areas, removal of problem waste and landscaping in facilities in Finland, in the UK, in the US and in Germany. The EUR 25 million increase in environmental provisions in 2014 relates mainly to the closures of Bochum and Kloster.

The outflow of economic benefits related to environmental provisions is expected to take place mainly over a period of more than 10 years. Due to the nature of these provisions, there are uncertainties regarding both the amount and the timing of the outflow of economic benefits.

## Other provisions

Other provisions comprise mainly provisions for claims and are mainly current in nature.

Provisions are based on management's best estimates at the end of the reporting period.



# 27. Debt

| € million | 2014 | 2013 |
|---|---|---|
| **Non-current** | | |
| Bonds | **397** | 399 |
| Loans from financial institutions | **829** | 1 152 |
| Pension loans | **157** | 192 |
| Finance lease liabilities | **213** | 244 |
| Loans from related parties | **-** | 1 283 |
| Other non-current liabilities | **0** | 0 |
| | **1 597** | 3 270 |
| | | |
| **Current** | | |
| Bonds | **150** | - |
| Loans from financial institutions | **110** | 493 |
| Pension loans | **35** | 31 |
| Finance lease liabilities | **31** | 22 |
| Commercial paper | **243** | 187 |
| Loans from related parties | **-** | 160 |
| Other current liabilities | **0** | 1 |
| | **569** | 893 |

The bond maturing in 2019 and most of the bank loans include financial covenants, which are described in Note 19. Financial risk management, capital management and insurances.

## Bonds

| | | Outstanding amount | |
|---|---|---|---|
| € million | Interest rate, % | 2014 | 2013 |
| 2010 fixed rate bond maturing on June 24, 2015 | 5.125 | **150** | 250 |
| 2012 fixed rate bond maturing on June 7, 2016 | 5.875 | **150** | 150 |
| 2014 fixed rate bond maturing on Sept 30, 2019 | 6.625 | **250** | - |
| | | **550** | 400 |

## Finance lease liabilities

### Minimum lease payments

| € million | 2014 | 2013 |
|---|---|---|
| Not later than 1 year | **45** | 36 |
| Between 1 and 5 years | **153** | 187 |
| Later than 5 years | **267** | 313 |
| Future finance charges | **-221** | -271 |
| Present value of minimum lease payments | **244** | 266 |

### Present value of minimum lease payments

| € million | 2014 | 2013 |
|---|---|---|
| Not later than 1 year | **31** | 21 |
| Between 1 and 5 years | **108** | 136 |
| Later than 5 years | **105** | 108 |
| Present value of minimum lease payments | **244** | 266 |

# 28. Trade and other payables

| € million | 2014 | 2013 |
|---|---|---|
| **Non-current** | | |
| Accruals | 47 | 48 |
| | | |
| **Current** | | |
| Trade payables | 1 031 | 815 |
| Accrued employee-related expenses | 91 | 98 |
| Accrued interest expenses | 22 | 62 |
| VAT payable | 49 | 47 |
| Advances received | 8 | 7 |
| Withholding tax and social security liabilities | 9 | 9 |
| Other accruals | 39 | 41 |
| Other payables | 53 | 57 |
| | 1 303 | 1 136 |

# 29. Commitments and contingent liabilities

| € million | 2014 | 2013 |
|---|---|---|
| Mortgages and pledges on Dec 31 | | |
| Mortgages on real estate | 3 593 | 284 |
| Other pledges | - | 8 |
| | | |
| Guarantees on Dec 31 | | |
| On behalf of subsidiaries for commercial and other guarantees | 27 | 34 |
| On behalf of associated companies for financing | 6 | 7 |
| On behalf of other companies for financing | 1 | - |
| On behalf of other companies for commercial and other guarantees | 1 | - |
| | | |
| Other commitments | 19 | 28 |

The increase in mortgages and pledges relates to the refinancing measures which became effective on February 28, 2014. A major part of Outokumpu's borrowings are secured partly by security to the real property of the Group's main production plants and partly by share pledges over the shares in selected Group companies.

Outokumpu Oyj is, in relation to its shareholding in Kymppivoima Tuotanto Oy and Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Rapid Power Oy. The net debt of Rapid Power Oy at the end of 2014 amounted to approximately EUR 43 million (2013: EUR 65 million), out of which Outokumpu is liable for one third. Outokumpu Oyj is, in relation to its shareholding in Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Tornion Voima Oy. The net debt of Tornion Voima Oy at the end of 2014 amounted to approximately EUR 25 million (2013: EUR 34 million), out of which Outokumpu is liable for under one fifth. These liabilities are reported under other commitments above.

One remaining guarantee issued by ThyssenKrupp on behalf of Inoxum companies has not yet been transferred to Outokumpu Oyj as of December 31, 2014. However, Outokumpu Oyj has given ThyssenKrupp a counter-guarantee for this commitment amounting to EUR 4 million as of December 31, 2014.

Certain guarantees issued by Outokumpu on behalf of the companies sold to ThyssenKrupp on February 28, 2014 have not yet been transferred to ThyssenKrupp as of December 31, 2014. These are presented as guarantees on behalf of other companies for financing and commercial and other commitments.

### Present value of minimum lease payments on operating leases

| € million | 2014 | 2013 |
|---|---|---|
| Not later than 1 year | 10 | 10 |
| Between 1 and 5 years | 19 | 32 |
| Later than 5 years | 33 | 40 |
| | 63 | 82 |

Operating leases include lease agreements on Group companies' premises.

Group's off-balance sheet investment commitments totaled EUR 66 million on December 31, 2014 (Dec 31, 2013: EUR 47 million).

Outokumpu has through Voimaosakeyhtiö SF approximately 15% ownership in nuclear power company Fennovoima Oy. Outokumpu is liable for Fennovoima's operating costs in proportion to its share of ownership.

# 30. Disputes and litigations

## Civil actions regarding Outokumpu's divested fabricated Copper Products business

### European Commission cartel investigation in the sanitary copper tube sector

In September 2004, the European Commission imposed a fine on Outokumpu in relation to cartel investigations in the sanitary copper tube sector. The European Commission concluded that a number of companies, including Boliden AB ("Boliden"), IMI Plc, IMI Kynoch Ltd (together with IMI Plc, "IMI"), KME Group, Wieland Werke, Outokumpu and Outokumpu Copper Products (now Luvata), were involved in price fixing and market sharing in the sanitary copper tube sector in Europe between June 1988 and March 2001.

In October 2012, a damages contribution claim was brought in the courts of England and Wales against Outokumpu by Boliden and IMI after Boliden and IMI were served claims on financial loss related to the European Commission's 2004 conclusion regarding price fixing and market sharing in the sanitary copper tube sector in Europe by the members of Travis Perkins PLC.

In July 2014 Outokumpu, together with a number of other companies, reached a full and final settlement agreement on sanitary copper tube cartel claims. Outokumpu considered the claim for damages to lack merit, but decided to contribute to the settlement in order to bring this matter to an end. The settlement amount was not significant and it has been recorded in the third quarter 2014 results.

## Customs investigation of exports to Russia by Tornio Works

In March 2007, Finnish Customs authorities initiated a criminal investigation into Outokumpu's Tornio Works' export practices to Russia. It was suspected that a forwarding agency based in Southeast Finland had prepared defective and/or forged invoices regarding the export of stainless steel to Russia. The preliminary investigation focused on possible complicity by Outokumpu's Tornio Works in the preparation of defective and/or forged invoices by the forwarding agent. In June 2009, the Finnish Customs completed its preliminary investigation and forwarded the matter to the prosecution authorities for consideration of possible charges. In November 2010, the public prosecutor concluded that the Finnish Customs authorities' suspicions regarding possible accounting offences and forgery were groundless.

Despite the public prosecutor's conclusion, in March 2011, charges were filed against Outokumpu and five of its employees for alleged money laundering in connection with the Russian export practices by Tornio Works between 2004 and 2006. On behalf of the Finnish State, the prosecutor also presented a claim for forfeiture of the funds subject to money laundering.

In June 2011, all claims were dismissed and the Finnish State was ordered to pay Outokumpu EUR 1.2 million in compensation for legal costs. In August 2011, the Finnish State prosecutor appealed the District Court judgement with respect to Outokumpu and three of the charged employees and the order to compensate Outokumpu for its legal costs. The appeal proceedings commenced in the Kouvola Court of Appeal in February 2012 and in April 2012, the Court issued a verdict dismissing all charges brought by the prosecutor.

In June 2012, Finland's state prosecutor filed a petition for leave to appeal to the Finnish Supreme Court, which was rejected by the Finnish Supreme Court in March, 2014. Accordingly, the judgement by the Kouvola Court of Appeal is final and Outokumpu and its employees have been cleared of all charges.

## Dispute over invention rights, Outotec vs. Outokumpu

In January 2013, Outokumpu and Outotec entered into a legal dispute over invention rights related to a ferrochrome production method. In August 2013, Outotec submitted another application for summons at the District Court of Helsinki regarding another patent relating to the invention. The production method is developed by Outokumpu and it has filed the patent applications related to this invention. Outotec claims it has rights to the inventions. Outokumpu finds these allegations to be completely without merit.

In February 2014 Outotec has filed a request with Arbitration Institute of the Finland Chamber of Commerce for commencing proceedings against Outokumpu concerning the same invention rights being subject to the District Court proceedings. Simultaneously Outotec filed a proposal to the District Court for postponement of further stages in these proceedings until the Arbitration Court will render its arbitration award.

## Cartel fine imposed by the European Commission

In March 2011, the European Court of Justice upheld a EUR 3.2 million cartel fine imposed on ThyssenKrupp Stainless AG, a legal predecessor of Outokumpu Nirosta GmbH ("Nirosta"), in a decision of the European Commission from December 2006 (the "2006 Decision"). The 2006 Decision is based on a 1998 European Commission finding (the "1998 Finding") that between 1993 and 1998, certain stainless steel producers, including Inoxum and certain of its legal predecessors, had violated Article 65 (1) of the European Coal and Steel Community Treaty by participating in a price-fixing arrangement with other stainless steel producers.

The alleged price-fixing arrangement consisted of modifying and applying in a concerted fashion the reference values used to calculate the alloy surcharge to the base price of stainless steel. The 1998 Finding was appealed and subsequently annulled on procedural grounds with respect to Nirosta's liability for one of its legal predecessors. Subsequent to this annulment, the European Commission opened new proceedings, which resulted in the 2006 Decision. Nirosta's appeals of the 2006 Decision were unsuccessful. In April 2011, Nirosta filed a complaint (Verfassungsbeschwerde) with the German Constitutional Court (Bundesverfassungsgericht) requesting that the Court declare the 2006 Decision incompatible with certain fundamental rights under the German Constitution

(Grundgesetz). As at the end of the reporting period, the German Constitutional Court has not decided whether it will accept the constitutional complaint. In case of a successful complaint, Nirosta is able to reclaim EUR 4.2 million from the European Commission.

## U.S. antidumping order on stainless steel strip and sheet from Mexico, Germany and Italy

In July 1999, the U.S. Department of Commerce (the "USDOC") issued antidumping duty orders on imports of stainless steel strip and sheet from Mexico, Germany and Italy, among other countries. U.S. antidumping and countervailing duty laws permit an imposition of special additional duties on imports that are determined to be sold at less than fair value or to be subsidized by foreign government actions. Mexinox USA, AST and Nirosta have been Inoxum's importers of record for stainless steel strip and sheet imported into the United States since the antidumping duty order was issued. Therefore, Mexinox USA, AST and Nirosta were responsible for making cash deposits of estimated antidumping duties and would be liable for finally assessed antidumping duties. The USDOC assesses duties at annual reviews covering twelve-month periods. Mexinox USA has been finally assessed approximately USD 27 million in duties during the first five periods and will be automatically assessed amounts for two other periods. Mexinox USA has potential antidumping duty liability of approximately USD 36 million for the remaining five periods. The Government of Mexico brought actions before the World Trade Organization ("WTO") Dispute Settlement Body with regard to these determinations. Mexico received a favorable decision and compliance proceedings are ongoing; however, WTO disputes normally are prospective in nature and do not result in refunds of finally-assessed duties. The antidumping duty orders on stainless steel strip and sheet from Mexico, Germany and Italy were revoked effective July 2011 due to a negative determination by the United States International Trade Commission ("USITC"). Accordingly, any antidumping deposits made on entries after this date should be refunded with interest and no further antidumping duties should be assessed on imports of stainless steel strip and sheet from Mexico, Germany and Italy after that date, subject to the appeal proceedings regarding imports from Mexico discussed below. The U.S. petitioners in the antidumping case appealed the USITC's determination to the U.S. Court of International Trade in New York with regard to the revocation of the antidumping duty order on imports from Mexico. In November 2012, the court dismissed the appeal by the plaintiffs. A complaint by the plaintiffs against that court order was rejected by the U.S. Court of Appeals in January, 2014. The revocation of the duty orders on stainless steel imports have therefore become legally binding as the plaintiffs have no further means of challenging the decision by the USITC.

## Exemptions from energy charges for German plants

In December 2013 the EU Commission initiated a state-aid procedure against Germany in connection with the Renewable Energy Charge system and the exemptions for energy intensive industries. Under German law, there is a surcharge which is added to the general electricity price for every consumer of electric energy and which is used to subsidize renewable energy producers. That surcharge has been increasing in the last years and reached an all-time high of 5.277 cent/KWh in 2013. However, the German Renewable Energy Act foresees that certain energy-intensive companies may apply for a reduction of that surcharge to 0.05 cent/KWh. Outokumpu's operations in Germany has benefited from that exemption in the last years.

The German Steel Federation ("Wirtschaftsvereinigung Stahl") and most of the German steel manufacturers (including Outokumpu) have filed a complaint with the General Court of the European Union against the rightfulness of that decision. The European Commission had announced that the companies which had benefited from the alleged illegal state aids in 2012 and 2013 would have to repay the benefits which would have amounted to some EUR 30 million, for Outokumpu in a worst case scenario.

On August 1, 2014 a new German Renewable Energy Act came into force which confirmed the exceptions for energy-intensive companies. In accordance with this Act, Outokumpu's operations in Germany will also in the future benefit from the reduced renewable energy charges. Further, on November 23, 2014 the German government and the European Commission reached an agreement by which the state-aid case was settled. As a consequence of this settlement, several companies were asked for repayments of benefits received under the old EEG in 2012 and 2013. Outokumpu received a request for repayment of only EUR 76 thousand in November 2014. Further, Outokumpu received the exemption orders for 2015 on January 5, 2015 so that the case is now closed.

## Claim in Spain related to the divested copper companies

Outokumpu divested all of its copper business in 2003–2008. One of the divested companies domiciled in Spain later faced bankruptcy. The administrator of the bankruptcy has filed a claim against Outokumpu Oyj and two other non-Outokumpu companies, for recovery of payments made by the bankrupt Spanish company in connection with the divestment. The Bilbao court of first instance in Spain has accepted the claim of EUR 20 million brought against Outokumpu and the two other companies. Outokumpu and the two other companies have appealed the court's decision.

## Disputes and litigation related to the Terni remedy assets, the VDM business and certain service centers

All legal disputes and litigation related to the Terni remedy assets, the VDM business and certain service centers, including the legal proceedings reported under the heading "Lawsuits regarding a fire in AST's Turin facility" in the annual report 2013 have moved over to ThyssenKrupp upon the completion of the divestment to ThyssenKrupp in February, 2014. Due to the contractual agreements between ThyssenKrupp and Outokumpu, there will be no further liability risk for Outokumpu resulting from these legal disputes.

# 31. Related party transactions

Outokumpu's related parties include key management of the company, associated companies and joint ventures, and Solidium Oy. ThyssenKrupp AG sold its ownership in Outokumpu, 29.9%, on February 28, 2014. The transactions with related parties are presented in the tables below. Key management includes Leadership Team members and members of the Board of Directors. The principal associated companies and joint ventures are listed in Note 13. Investments in associated companies and joint ventures. Subsidiaries are presented in Note 32. Subsidiaries on December 31, 2014.

Outokumpu is an associated company to Solidium Oy. Solidium is a limited company fully owned by the State of Finland. Its mission is to strengthen and stabilize Finnish ownership in nationally important companies and increase the value of its holdings in the long run. Solidium's ownership in Outokumpu was 29.9% on December 31, 2014.

## Transactions and balances with associated companies and joint ventures

| € million | 2014 | 2013 |
|---|---|---|
| Sales | **162** | 161 |
| Purchases | **-8** | -6 |
| Interest income | **1** | 0 |
| | | |
| Trade and other receivables | **41** | 44 |
| Trade and other payables | **1** | 1 |

## Transactions and balances with ThyssenKrupp AG

On February 28, 2014, Outokumpu completed the divestment of the VDM business and Terni remedy assets including Terni and certain service centers to ThyssenKrupp in exchange for Outokumpu's loan note to ThyssenKrupp. ThyssenKrupp sold all of its Outokumpu shares, representing a 29.9% stake in Outokumpu prior to the transaction. As a result the companies are no longer each other's related parties. In 2014, the transactions with ThyssenKrupp are reported for the period of January 1–February 28.

| € million | 2014 | 2013 |
|---|---|---|
| Sales | **56** | 376 |
| Purchases | **-20** | -175 |
| Interest expenses | **-10** | -62 |
| | | |
| Trade and other receivables | - | 23 |
| Other financial assets | - | 1 |
| Trade and other payables | - | 22 |
| Loan note to ThyssenKrupp | - | 1 283 |
| Other interest-bearing debt | - | 214 |
| Other financial liabilities | - | 3 |

## Employee benefits for key management

| € thousand | 2014 | 2013 |
|---|---|---|
| Short-term employee benefits | **5 157** | 4 469 |
| Termination benefits | **-** | 1 860 |
| Post-employment benefits [1] | **1 123** | 654 |
| Share-based payments | **749** | 190 |
| Remuneration to the Board of Directors | **693** | 711 |
| | **7 721** | 7 883 |

[1] Includes only supplementary pensions.

### Employee benefits for CEO and Deputy CEO

| € thousand | Salaries and other short-term benefits | Bonuses | Post-employment benefits | Share-based payments | Total |
|---|---|---|---|---|---|
| **2014** | | | | | |
| CEO | **749** | **304** | **424** | **297** | **1 773** |
| Deputy to the CEO | **512** | **250** | **515** | **95** | **1 372** |
| 2013 | | | | | |
| CEO | 755 | 123 | 338 | 57 | 1 273 |
| Deputy to the CEO [2] | 640 | 74 | 192 | 18 | 924 |

[2] Reinhard Florey as of November 1, 2013; Esa Lager until October 31, 2013.

Outokumpu CEO's retirement age is 63 and the targeted pension is 60% of the annual salary at the age of 63. The cost for the CEO's post-employment benefits include both the statutory pension expenses based on the Finnish Employees Pensions Act and the expenses for a defined contribution pension plan arranged by Outokumpu. The current deputy to the CEO resides in Germany and is entitled to the pension benefits in accordance with the German Essener Verband.

### Remuneration to Board of Directors

| € thousand | 2014 | 2013 |
|---|---|---|
| Chairman Jorma Ollila, as of March 18, 2013 | **152** | 151 |
| Vice Chairman Olli Vaartimo | **93** | 94 |
| Member Markus Akermann, as of March 18, 2013 | **82** | 79 |
| Member Roberto Gualdoni, as of April 14, 2014 | **71** | - |
| Member Stig Gustavson, as of April 14, 2014 | **65** | - |
| Member Heikki Malinen | **71** | 73 |
| Member Elisabeth Nilsson | **82** | 84 |
| Member Siv Schalin | **71** | 73 |
| Member Harri Kerminen, until April 14, 2014 | **5** | 73 |
| Member Guido Kerkhoff, until November 30, 2013 | **-** | 74 |
| Chairman Ole Johansson, until March 18, 2013 | **-** | 4 |
| Member Iman Hill, until March 18, 2013 | **-** | 6 |
| | **693** | 711 |

There were no outstanding loans receivable from key management on December 31, 2014 (Dec 31, 2013: EUR - million). More information on key management's employee benefits can be found in chapter Corporate Governance on the page Remuneration.

# 32. Subsidiaries on December 31, 2014

| | | Country | Group holding, % |
|---|---|---|---|
| **Coil EMEA** | | | |
| AO Outokumpu | 2) | Russia | 100 |
| Avesta Klippcenter AB | | Sweden | 100 |
| Outokumpu AS | | Norway | 100 |
| Outokumpu A/S | | Denmark | 100 |
| Outokumpu Benelux B.V. | | The Netherlands | 100 |
| Outokumpu B.V. | | The Netherlands | 100 |
| Outokumpu Chrome Oy | | Finland | 100 |
| Outokumpu Distribution Benelux B.V. | | The Netherlands | 100 |
| Outokumpu Distribution France S.A.S. | | France | 100 |
| Outokumpu Distribution Hungary Kft. | | Hungary | 100 |
| Outokumpu Distribution Polska Sp. z o.o. | | Poland | 100 |
| Outokumpu Distribution UK Ltd. | | The UK | 100 |
| Outokumpu EMEA GmbH | | Germany | 100 |
| Outokumpu EMEA Oy | *) | Finland | 100 |
| Outokumpu Ges.m.b.H | | Austria | 100 |
| Outokumpu Istanbul Dis Ticaret Limited Sirketi | *) | Turkey | 100 |
| Outokumpu Kft. | | Hungary | 100 |
| Outokumpu, Lda. | *) | Portugal | 100 |
| Outokumpu Middle East FZCO | | UAE | 100 |
| Outokumpu Nirosta GmbH | | Germany | 100 |
| Outokumpu Nirosta Precision GmbH | | Germany | 100 |
| Outokumpu Nordic AB | | Sweden | 100 |
| Outokumpu N.V. | | Belgium | 100 |
| Outokumpu (Pty) Ltd | | South Africa | 100 |
| Outokumpu S.A. | | Spain | 100 |
| Outokumpu Shipping Oy | | Finland | 100 |
| Outokumpu S.p.A. | | Italy | 100 |
| Outokumpu Sp. z o.o. | | Poland | 100 |
| Outokumpu S.r.l. | | Romania | 100 |
| Outokumpu s.r.o. | | Czech Republic | 100 |
| Outokumpu Stainless AB | | Sweden | 100 |
| Outokumpu Stainless B.V. | | The Netherlands | 100 |
| Outokumpu Stainless Coil, Inc. | | The US | 100 |
| Outokumpu Stainless Oy | | Finland | 100 |
| Outokumpu Tornio Infrastructure Oy | | Finland | 100 |
| Sogepar Ireland Limited | | Ireland | 100 |
| Sogepar UK Limited | | The UK | 100 |
| | | | |
| **Coil Americas** | | | |
| Outokumpu Brasil Comercio de Metais Ltda. | | Brazil | 100 |
| Outokumpu Fortinox S.A. | 1) | Argentina | 100 |
| Outokumpu Mexinox Distribution S.A. de C.V. | | Mexico | 100 |
| Outokumpu Mexinox S.A. de C.V. | | Mexico | 100 |
| Outokumpu Participations Mexico S.A. de C.V. | | Mexico | 100 |
| Outokumpu Stainless USA, LLC | | The US | 100 |
| ThyssenKrupp Mexinox CreateIT, S.A. de C.V. | | Mexico | 100 |

| | | Country | Group holding, % |
|---|---|---|---|
| **APAC** | | | |
| Outokumpu Asia Pacific Ltd | | China | 100 |
| Outokumpu India Private Limited | | India | 100 |
| Outokumpu K.K. | | Japan | 100 |
| Outokumpu Management (Shanghai) Co., Ltd. | *) | China | 100 |
| Outokumpu Pty Ltd | | Australia | 100 |
| Outokumpu (S.E.A.) Pte. Ltd. | | Singapore | 100 |
| Outokumpu Stainless (GZ) Trading Co. Ltd. | | China | 100 |
| Outokumpu Stainless International (Guangzhou) Ltd. | | China | 100 |
| Outokumpu Stainless Steel (China) Co. Ltd. | | China | 100 |
| Shanghai Krupp Stainless Co., Ltd. | | China | 60 |
| **Quarto Plate** | | | |
| Outokumpu Industriunderhåll AB | 1) | Sweden | 100 |
| Outokumpu Prefab AB | | Sweden | 100 |
| Outokumpu Press Plate AB | | Sweden | 100 |
| Outokumpu PSC Benelux B.V. | | The Netherlands | 100 |
| Outokumpu PSC Finland Oy | | Finland | 100 |
| Outokumpu PSC Germany GmbH | | Germany | 100 |
| Outokumpu Stainless Plate, LLC | 2) | The US | 100 |
| **Long Products** | | | |
| Outokumpu Stainless Bar, LLC | 2) | The US | 100 |
| Outokumpu Stainless Ltd | | The UK | 100 |
| Outokumpu Stainless Pipe, Inc. | | The US | 100 |
| Polarit Welding, Inc. | | The US | 100 |
| **Other operations** | | | |
| 2843617 Canada Inc. | | Canada | 100 |
| Granefors Bruk AB | *) | Sweden | 100 |
| Orijärvi Oy | *) | Finland | 100 |
| Outokumpu Americas, Inc. | | The US | 100 |
| Outokumpu Holding Germany GmbH | *) | Germany | 100 |
| Outokumpu Holding Italia S.p.A. | | Italy | 100 |
| Outokumpu Holding Nederland B.V. | *) | The Netherlands | 100 |
| Outokumpu Holding UK Limited | | The UK | 100 |
| Outokumpu Metals Off-Take Oy | *) | Finland | 100 |
| Outokumpu Mines Inc. | *) | Canada | 100 |
| Outokumpu Mining Australia Pty. Ltd. | | Australia | 100 |
| Outokumpu Mining Oy | | Finland | 100 |
| Outokumpu Stainless Holding GmbH | | Germany | 100 |
| Outokumpu Stainless Holdings Ltd | | The UK | 100 |
| Outokumpu Treasury Belgium N.V./SA | *) | Belgium | 100 |
| Outokumpu Zinc B.V. | *) | The Netherlands | 100 |
| Viscaria AB | *) | Sweden | 100 |
| Visent Invest AB | | Sweden | 100 |
| Visenta Försäkrings AB | | Sweden | 100 |

In addition Outokumpu has agents and branch offices in Argentina, Bulgaria, Chile, Colombia, Egypt, Estonia, Greece, Israel, Korea, Lebanon, Peru, Slovenia, Switzerland, Taiwan, Thailand, Venezuela and Vietnam.

This list does not include all dormant companies or all holding companies.

The Group holding corresponds to the Group's share of voting rights.

1) Ownership changed
2) Name changed
*) Shares and stock held by the parent company



# Key financial figures of the Group

| | | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| **Scope of activity** | | | | | | |
| Sales | € million | **6 844** | 6 745 | 4 538 | 5 009 | 4 229 |
| - change in sales | % | **1.5** | 48.6 | -9.4 | 18.4 | 60.1 |
| - exports from and sales outside Finland, of total sales | % | **96.7** | 96.9 | 95.7 | 95.7 | 94.3 |
| Capital employed on Dec 31 | € million | **4 072** | 4 265 | 5 623 | 3 770 | 4 176 |
| Operating capital on Dec 31 | € million | **4 059** | 4 266 | 5 626 | 3 730 | 4 222 |
| Capital expenditure, continuing operations | € million | **127** | 183 | 3 149 | 254 | 159 |
| - in relation to sales | % | **1.0** | 2.7 | 69.4 | 5.1 | 3.8 |
| Depreciation and amortization | € million | **320** | 332 | 230 | 235 | 235 |
| Impairments | € million | **27** | 13 | 105 | 106 | 20 |
| Research and development costs | € million | **23** | 26 | 19 | 21 | 22 |
| - in relation to sales | % | **0.3** | 0.4 | 0.4 | 0.4 | 0.5 |
| Personnel on 31 Dec [1)] | | **12 125** | 12 561 | 16 649 | 8 253 | 8 431 |
| - average for the year [2)] | | **12 540** | 13 150 | 7 853 | 8 651 | 8 475 |
| **Profitability** | | | | | | |
| EBIT | € million | **-243** | -510 | -385 | -251 | -83 |
| - in relation to sales | % | **-3.6** | -7.6 | -8.5 | -5.0 | -2.0 |
| EBITDA | € million | **104** | -165 | -50 | 89 | 172 |
| Share of results of associated companies and joint ventures | € million | **7** | -2 | -0 | -5 | -10 |
| Result before taxes | € million | **-459** | -822 | -524 | -244 | -143 |
| - in relation to sales | % | **-6.7** | -12.2 | -11.5 | -4.9 | -3.4 |
| Net result for the financial year | € million | **-439** | -1 003 | -536 | -180 | -124 |
| - in relation to sales | % | **-6.4** | -14.9 | -11.8 | -3.6 | -2.9 |
| Return on equity | % | **-17.3** | -41.4 | -21.4 | -8.2 | -5.2 |
| Return on capital employed | % | **-5.8** | -10.3 | -8.2 | -6.3 | -2.1 |
| Return on operating capital | % | **-5.8** | -10.3 | -8.2 | -6.3 | -2.1 |

## Financing and financial position

| | | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Liabilities | € million | **4 279** | 5 884 | 5 949 | 3 177 | 3 271 |
| Net interest-bearing debt | € million | **1 974** | 3 556 | 3 431 | 1 991 | 2 269 |
| - in relation to sales | % | **28.8** | 52.7 | 75.6 | 39.7 | 53.6 |
| Net financial expenses | € million | **223** | 310 | 138 | -11 | 50 |
| - in relation to sales | % | **3.3** | 4.6 | 3.1 | -0.2 | 1.2 |
| Net interest expenses | € million | **139** | 197 | 66 | 65 | 38 |
| - in relation to sales | % | **2.0** | 2.9 | 1.5 | 1.3 | 0.9 |
| Interest cover | | **-2.3** | -3.2 | -6.9 | -2.8 | -2.8 |
| Share capital | € million | **311** | 311 | 311 | 311 | 311 |
| Other equity | € million | **1 821** | 1 580 | 2 641 | 1 739 | 2 026 |
| Equity-to-assets ratio | % | **33.3** | 21.5 | 30.5 | 39.3 | 41.7 |
| Debt-to-equity ratio | % | **92.6** | 188.0 | 116.2 | 97.1 | 97.0 |
| Net cash generated from operating activities [3] | € million | **-126** | 34 | 266 | 338 | -497 |
| Dividends | € million | **- [4]** | - | - | - | 45 |

[1] Personnel reported as headcount. Year 2013 reported for continuing operations.
[2] Year 2012 average personnel does not include Inoxum personnel as it was on December 31, 2012. Years 2014 and 2013 reported for continuing operations.
[3] Cash flow for 2014 and 2013 presented for continuing operations.
[4] The Board of Directors' proposal to the Annual General Meeting.

## Share-related key figures

| | | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Earnings per share [1, 2] | € | **-1.24** | -7.52 | -0.46 | -0.62 | -0.68 |
| Earnings per share, continuing operations [2, 3] | € | **-1.27** | -6.23 | - | - | - |
| Cash flow per share [1, 2] | € | **-0.36** | 0.26 | 0.23 | 1.20 | -2.74 |
| Equity per share [2, 4] | € | **5.13** | 14.23 | 22.07 | 11.19 | 12.84 |
| Dividend per share | € | **- [5]** | - | - | - | 0.25 |
| Dividend payout ratio | % | **neg.** | neg. | neg. | neg. | neg. |
| Dividend yield | % | **0.0** | 0.0 | 0.0 | 0.0 | 1.8 |
| Price/earnings ratio | | **neg.** | neg. | neg. | neg. | neg. |
| Development of share price [6] | | | | | | |
| Average trading price | € | **5.16** | 4.64 | 0.97 | 2.25 | 13.84 |
| Lowest trading price | € | **3.37** | 3.03 | 0.64 | 1.21 | 12.03 |
| Highest trading price | € | **7.50** | 7.39 | 2.10 | 3.78 | 17.88 |
| Trading price at the end of the period | € | **4.77** | 3.55 | 0.79 | 1.33 | 13.88 |
| Change during the period [7] | % | **34.2** | -48.8 | -40.3 | -63.4 | 4.7 |
| Change in the OMXH index during the period | % | **5.7** | 26.5 | 8.3 | -30.1 | 18.7 |
| Market capitalization at the end of the period | € million | **1 987** | 845 | 1 650 | 930 | 2 540 |
| Development in trading volume | | | | | | |
| Trading volume [8] | 1 000 shares | **695 235** | 178 989 | 1 297 738 | 337 942 | 331 397 |
| In relation to weighted average number of shares [1] | % | **198.9** | 135.0 | 112.5 | 120.5 | 182.3 |
| Adjusted average number of shares [9] | | **349 558 854** | 132 579 577 | 1 156 005 029 | 280 526 501 | 181 751 107 |
| Number of shares at the end of the period [8, 9, 10] | | **415 426 724** | 2 077 105 460 | 2 077 065 460 | 181 977 861 | 181 937 361 |

[1] 2014 and 2013 calculated based on the rights-issue-adjusted weighted average number of shares. 2012–2010 have not been restated.
[2] 2013 adjusted to reflect the reverse split in June 2014.
[3] 2013 calculated based on rights-issue-adjusted weighted average number of shares.
[4] 2013 and 2012 calculated based on the rights-issue-adjusted number of shares. 2011 and 2010 have not been restated.
[5] The Board of Directors' proposal to the Annual General Meeting.
[6] 2013 share prices adjusted according to the effect of the rights issue and the reverse split. 2012–2010 have not been adjusted.
[7] 2014 calculated based on the adjusted comparable share prices. 2013 and 2011 calculated based on the unadjusted comparable share prices.
[8] Includes only Nasdaq Helsinki trading.
[9] Excluding treasury shares.
[10] 2013–2010 not adjusted according to the effect of the rights-issue-adjusted and the reverse split.

## Definitions of key financial figures

| | | |
|---|---|---|
| Capital employed | = | Total equity + net interest-bearing debt + net derivative liabilities + net accrued interest expenses – net assets held for sale – loans receivable – available-for-sale financial assets – investments at fair value through profit or loss – investments in associated companies and joint ventures |
| Operating capital | = | Capital employed + net deferred tax liability |
| Research and development costs | = | Research and development expenses in the statement of income (including expenses covered by grants received) |
| Underlying EBIT | = | EBIT excluding non-recurring items, raw material-related inventory gains/losses and metal derivative gains/losses. [1] |
| EBITDA | = | EBIT before depreciation, amortization and impairments |
| Return on equity | = | $\frac{\text{Net result for the financial year}}{\text{Total equity (average for the period)}} \times 100$ |
| Return on capital employed (ROCE) | = | $\frac{\text{EBIT}}{\text{Capital employed (average for the period)}} \times 100$ |
| Return on operating capital (ROOC) | = | $\frac{\text{EBIT}}{\text{Operating capital (average for the period)}} \times 100$ |
| Net interest-bearing debt | = | Non-current debt + current debt – cash and cash equivalents |
| Interest cover | = | $\frac{\text{Result before taxes + net interest expenses}}{\text{Net interest expenses}}$ |
| Equity-to-assets ratio | = | $\frac{\text{Total equity}}{\text{Total assets – advances received}} \times 100$ |
| Debt-to-equity ratio | = | $\frac{\text{Net interest-bearing debt}}{\text{Total equity}} \times 100$ |
| Earnings per share | = | $\frac{\text{Net result for the financial year attributable to the equity holders}}{\text{Adjusted average number of shares during the period}}$ |
| Cash flow per share | = | $\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$ |
| Equity per share | = | $\frac{\text{Equity attributable to the equity holders}}{\text{Adjusted number of shares at the end of the period}}$ |
| Dividend per share | = | $\frac{\text{Dividend for the financial year}}{\text{Adjusted number of shares at the end of the period}}$ |
| Dividend payout ratio | = | $\frac{\text{Dividend for the financial year}}{\text{Net result for the financial year attributable to the equity holders}} \times 100$ |
| Dividend yield | = | $\frac{\text{Dividend per share}}{\text{Adjusted trading price at the end of the period}} \times 100$ |
| Price/earnings ratio (P/E) | = | $\frac{\text{Adjusted trading price at the end of the period}}{\text{Earnings per share}}$ |
| Average trading price | = | $\frac{\text{EUR amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$ |
| Market capitalization at end of the period | = | Number of shares at the end of the period × Trading price at the end of the period |
| Trading volume | = | Number of shares traded during the period, and in relation to the weighted average number of shares during the period |

[1] As of 2014. 2013: EBIT excluding raw material-related inventory gains/losses and non-recurring items.



# Parent company financial statements, FAS

## Income statement of the parent company

| € million | 2014 | 2013 |
|---|---|---|
| **Sales** | **647** | 460 |
| Cost of sales | **-632** | -423 |
| **Gross margin** | **16** | 38 |
| Other operating income | **-9** | -3 |
| Selling and marketing expenses | **-32** | -36 |
| Administrative expenses | **-77** | -101 |
| Research and development expenses | **-** | 0 |
| Other operating expenses | **-44** | -343 |
| **EBIT** | **-146** | -446 |
| Financial income and expenses | **-30** | -108 |
| **Result before extraordinary items** | **-175** | -554 |
| **Result before appropriations and taxes** | **-175** | -554 |
| Appropriations | | |
| Change in depreciation difference | **0** | -0 |
| Income taxes | **-1** | -0 |
| **Result for the financial year** | **-176** | -554 |

According to the Finnish accounting standards the parent company financial statements are to be presented in addition to Group financial statements.

The parent company's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

The parent company Outokumpu Oyj's income statement and balance sheet items are mainly internal and are eliminated on the group level. The parent company's complete financial statements (available only in Finnish) can be read on the company's internet pages www.outokumpu.com.

# Balance sheet of the parent company

| € million | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets | **17** | 26 |
| Property, plant and equipment | **18** | 14 |
| Financial assets | | |
| Shares in Group companies | **4 735** | 2 724 |
| Loan receivables from Group companies | **989** | 1 419 |
| Shares in associated companies | **24** | 18 |
| Other shares and holdings | **21** | 19 |
| Other financial assets | **5** | 8 |
| | **5 773** | 4 189 |
| **Total non-current assets** | **5 809** | 4 228 |
| **Current assets** | | |
| Current receivables | | |
| Interest-bearing | **1 718** | 2 602 |
| Non interest-bearing | **238** | 144 |
| | **1 956** | 2 746 |
| Cash and cash equivalents | **121** | 473 |
| **Total current assets** | **2 077** | 3 219 |
| **TOTAL ASSETS** | **7 886** | 7 447 |

| € million | 2014 | 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' equity** | | |
| Share capital | **311** | 311 |
| Premium fund | **720** | 720 |
| Invested unrestricted equity reserve | **2 123** | 1 459 |
| Retained earnings | **46** | 600 |
| Result for the financial year | **-176** | -554 |
| | **3 025** | 2 536 |
| **Untaxed reserves** | | |
| Accumulated depreciation difference | **0** | 1 |
| **Liabilities** | | |
| Non-current liabilities | | |
| Interest-bearing | **1 347** | 2 979 |
| | **1 347** | 2 979 |
| Current liabilities | | |
| Interest-bearing | **3 146** | 1 576 |
| Non interest-bearing | **368** | 355 |
| | **3 514** | 1 932 |
| **Total liabilities** | **4 861** | 4 910 |
| **TOTAL EQUITY AND LIABILITIES** | **7 886** | 7 447 |

# Cash flow statement of the parent company

| € million | 2014 | 2013 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Result for the financial year | -176 | -554 |
| Adjustments for | | |
| Taxes | 1 | 0 |
| Depreciation and amortization | 9 | 9 |
| Impairments | 4 | 333 |
| Gain/loss on sale of intangible assets, and property, plant and equipment | 0 | 0 |
| Interest income | -118 | -130 |
| Dividend income | -0 | -13 |
| Interest expense | 78 | 185 |
| Change in provisions | -0 | 0 |
| Losses from disposal of financial assets | - | 49 |
| Exchange gains and losses | 4 | -7 |
| Rights issue expenses | 23 | 2 |
| Other adjustments | -28 | 0 |
| | -29 | 429 |
| Change in working capital | | |
| Change in trade and other receivables | -80 | 77 |
| Change in trade and other payables | 62 | 69 |
| | -19 | 145 |
| Dividends received | 0 | 13 |
| Interest received | 131 | 91 |
| Interest paid | -106 | -91 |
| Income taxes paid | -0 | -0 |
| | 24 | 14 |
| **Net cash from operating activities** | -199 | 34 |
| **Cash flow from investing activities** | | |
| Investments in subsidiaries and other shares and holdings | -2 032 | -2 |
| Purchases of property, plant and equipment | -0 | -0 |
| Purchases of intangible assets | -18 | -5 |
| Proceeds from disposal of subsidiaries and other disposals | 8 | - |
| Proceeds from disposal of other shares and holdings | - | 0 |
| Proceeds from sale of property, plant and equipment | 0 | 3 |
| Proceeds from sale of intangible assets | 13 | - |
| Change in other long-term receivables | 432 | -442 |
| **Net cash from investing activities** | -1 597 | -446 |
| **Cash flow before financing activities** | -1 797 | -412 |
| **Cash flow from financing activities** | | |
| Rights issue | 665 | - |
| Rights issue expenses | -23 | -2 |
| Borrowings of non-current debt | 991 | 1 107 |
| Repayments of non-current debt | -2 771 | -716 |
| Change in current debt | 1 685 | 164 |
| Other financing cash flow | 897 | 251 |
| **Net cash from financing activities** | 1 444 | 804 |
| **Net change in cash and cash equivalents** | -352 | 392 |
| **Net change in cash and cash equivalents in the balance sheet** | -352 | 392 |



# Statement of changes in equity of the parent company

| € million | Share capital | Premium fund | Invested unrestricted equity reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Equity on Jan 1, 2013** | 311 | 720 | 1 459 | 600 | 3 090 |
| Result for the financial year | - | - | - | -554 | -554 |
| **Equity on Dec 31, 2013** | 311 | 720 | 1 459 | 46 | 2 536 |
| Result for the financial year | - | - | - | -176 | -176 |
| Rights issue [1)] | - | - | 665 | - | 665 |
| **Equity on Dec 31, 2014** | 311 | 720 | 2 123 | -130 | 3 025 |

## Distributable funds on Dec 31

| € million | 2014 | 2013 |
|---|---|---|
| Retained earnings | 46 | 600 |
| Result for the financial year | -176 | -554 |
| Invested unrestricted equity reserve | 2 123 | 1 459 |
| Distributable funds on Dec 31 | 1 994 | 1 504 |

[1)] Shares issued in the Outokumpu rights issue in March 2014.

# Commitments and contingent liabilities of the parent company

| € million | 2014 | 2013 |
|---|---|---|
| Mortgages and pledges on Dec 31 | | |
| Mortgages on real estate | - | - |
| Other pledges | - | - |
| Guarantees on Dec 31 | | |
| On behalf of subsidiaries | | |
| For financing | 276 | 525 |
| For commercial and other guarantees | 33 | 35 |
| On behalf of associated companies | | |
| For financing | 6 | 7 |
| On behalf of sold companies | | |
| For financing | 1 | - |
| For commercial and other guarantees | 1 | - |
| Other commitments | 19 | 28 |

Outokumpu Oyj is, in relation to its shareholding in Kymppivoima Tuotanto Oy and Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Rapid Power Oy. The net debt of Rapid Power Oy at the year-end 2014 amounted to approximately EUR 43 million (2013: EUR 65 million), out of which Outokumpu is liable for one third. Outokumpu Oyj is, in relation to its shareholding in Etelä-Pohjanmaan Voima Oy, liable for the costs, commitments and liabilities relating to electricity provided by Tornion Voima Oy. The net debt of Tornion Voima Oy at the year-end 2014 amounted to approximately EUR 25 million (2013: EUR 34 million), out of which Outokumpu is liable for under one fifth. These liabilities are reported under other commitments above.

A major part of Outokumpu's borrowings are secured partly by share pledges over the shares in selected Group companies and partly by security to the real property of selected subsidiaries.

One remaining guarantee issued by ThyssenKrupp on behalf of Inoxum companies has not yet been transferred to Outokumpu Oyj as of December 31, 2014. However, Outokumpu Oyj has given ThyssenKrupp a counter-guarantee for this commitment amounting to EUR 4 million as of December 31, 2014.

Certain guarantees issued by Outokumpu on behalf of the companies sold to ThyssenKrupp on February 28, 2014 have not yet been transferred to ThyssenKrupp as of December 31, 2014. These guarantees are presented as financing guarantees and commercial commitments on behalf of sold companies.

Outokumpu Oyj will guarantee until January 2017 certain subsidiaries' ability to satisfy their financial liabilities when due.

# Corporate Governance Statement

## Regulatory framework

Outokumpu Oyj, the Group's parent company, is a public limited liability company incorporated and domiciled in Finland. In its corporate governance and management, Outokumpu Oyj complies with Finnish legislation, the company's Articles of Association and the Corporate Governance Policy resolved and approved by the company's Board of Directors.

Outokumpu Oyj follows the Finnish Corporate Governance Code (available at http://cgfinland.fi/en/), effective as of October 1, 2010 issued by the Securities Market Association and adopted by the Nasdaq Helsinki stock exchange. Outokumpu Oyj complies with all regulations and recommendations issued by Nasdaq Helsinki.

## Tasks and responsibilities of governing bodies

The governing bodies of the parent company Outokumpu Oyj, i.e. the General Meeting of Shareholders, the Board of Directors and the President and Chief Executive Officer (CEO), have the ultimate responsibility for Group management and Group operations. The Outokumpu Leadership Team reports to the CEO and the Leadership Team is supporting and assisting the CEO in the efficient management of the Group's operations. Outokumpu's primary corporate governance information source is the Group's corporate governance website at www.outokumpu.com/en/investors/Governance/. Please visit the website for the latest Corporate Governance Statement and the latest corporate governance information.

## Outokumpu's organizational structure

### Business Areas

Until August 31, 2014, Outokumpu was organized into four business areas, namely (i) Stainless EMEA, (ii) Stainless Americas, (iii) Stainless APAC and (iv) Specialty Stainless. As of September 1, 2014, Outokumpu is organized into the following five business areas with responsibility for sales, profitability, production and supply chain management: (i) Coil EMEA, (ii) Coil Americas, (iii) APAC, (iv) Quarto Plate and (v) Long Products. With the new business area structure, Specialty Stainless ceased to exist and Quarto Plate and Long Products, which had formerly been business lines, became business areas. In addition to these five business areas, Outokumpu will continue to have strong group functions to drive group-wide efficiency and alignment in key business processes.

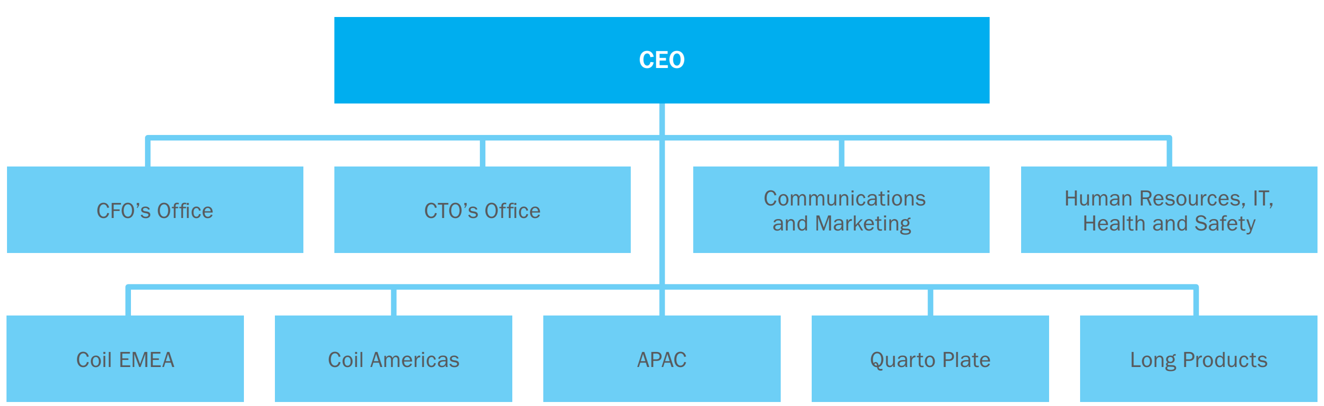
## General Meeting of Shareholders

The General Meeting of Shareholders convenes at least once a year. Under the Finnish Companies Act, certain important decisions such as the approval of financial statements, decisions on dividends and increases or reductions in share capital, amendments to the Articles of Association, and election of the Board of Directors and auditors fall within the exclusive domain of the General Meeting of Shareholders.

The Board of Directors convenes a General Meeting of Shareholders. The Board of Directors can decide to convene a General Meeting on its own initiative, but is obliged to convene a General Meeting if the auditor or shareholders holding at least 10% of Outokumpu's shares so request. In addition, each shareholder has the right to bring before a General Meeting any matter that falls within the domain of the General Meeting, provided that a written request to do so has been received by the Board of Directors early enough to allow the matter to be placed on the agenda included in the notice announcing the General Meeting. According to its Articles of Association, Outokumpu has only one single class of shares and all shares have equal voting rights at General Meetings.

In 2014 two extraordinary general meetings were convened by the Board of Directors.

**Organization**




Organization and business areas as of September 2014.



## Board of Directors

The general objective of the Board of Directors is to direct Outokumpu's business in a manner that secures a significant and sustained increase in the value of the company for its shareholders.

Board members offer their expertise and experience for the benefit of the company. The tasks and responsibilities of the company's Board of Directors are determined on the basis of the Finnish Companies Act, as well as other applicable legislation. The Board of Directors has general authority to decide and act in all matters not reserved for other corporate governance bodies by law or under the provisions of the company's Articles of Association. The general task of the Board of Directors is to organize and oversee the company's management and operations. In all situations, the Board of Directors must act in accordance with the company's best interests.

The Board of Directors has established rules of procedure which define its tasks and operating principles in the Charter of the Board of Directors. The main duties of the Board of Directors are as follows:

With respect to directing the company's business and strategies:

- To decide on Outokumpu's basic strategy and long-term targets and monitor their implementation.
- To decide on annual business plans.
- To decide on annual limits for the Group's capital expenditure, monitor related implementation, review quarterly plans and decide on changes.
- To decide on major and strategically important investments.
- To decide on major and strategically important business acquisitions and divestments.
- To decide on any significant financing arrangements.
- To decide on any other commitments by any Group companies that are out of the ordinary in terms of either their value or nature, taking into account the size, structure and field of the Group's operations.

With respect to organizing the company's management and operations:

- To nominate and dismiss the CEO and monitor his performance and to decide on his terms of service, including incentive schemes, on the basis of a proposal made by the Board's Remuneration Committee.
- To nominate and dismiss members of the Outokumpu Leadership Team and to define their areas of responsibility. The Board of Directors has authorized the Remuneration Committee to determine the terms of service, including incentive schemes of the Outokumpu Leadership Team members other than the company's CEO.
- To monitor the adequacy and allocation of the Group's top management resources.
- To decide on any significant changes to the Group's business organization.
- To define the Group's ethical values and working methods and the principles of the incentive system.
- To ensure that policies outlining the principles of corporate governance are in place.
- To ensure that policies outlining the principles behind managing the company's insider issues are being observed.
- To ensure that the company has guidelines for any other matters which the Board deems necessary and which fall within the scope of the Board's duties and authority.

With respect to the preparation of matters to be resolved by General Meetings of Shareholders:

- To establish a dividend policy and issue a proposal on dividend distribution.
- To make other proposals to General Meetings of Shareholders.

With respect to financial control and risk management:

- To discuss and approve interim reports and annual accounts.
- To monitor significant risks related to the Group's operations and the management of such risks.
- To ensure that adequate procedures concerning risk management are in place.
- To monitor financial position, liquidity and debt maturity structure.

The Board of Directors also assesses its own activities on a regular basis.

The Board of Directors shall have a quorum when more than half of its members are present. A decision by the Board of Directors shall be the opinion supported by more than half of the members present at a meeting. In the event of a tie, the Chairman shall have the casting vote.

The Annual General Meeting elects the Chairman, the Vice Chairman and the other members of the Board of Directors for a term expiring at the close of the following Annual General Meeting. The entire Board of Directors is therefore elected at each Annual General Meeting. A Board member may be removed from office at any time by a resolution passed by a General Meeting of Shareholders. Proposals to the Annual General Meeting concerning the election of Board members which have been made known to the Board of Directors prior to the Annual General Meeting will be made public if such a proposal is supported by shareholders holding a minimum of 10% of all the company's shares and voting rights and the person being proposed has consented to such nomination.

Under the company's Articles of Association, the Board shall have a minimum of five and a maximum of twelve members. A Board consisting of eight members was elected at the 2014 Annual General Meeting. The Board of Directors meets at least five times each year. In 2014, the Board of Directors met 14 times and the average attendance rate was 99%.

See the Members of the Board of Directors on p. 14.

**Shares and options of the members of the Board of Directors on December 31, 2014**

| Member | Shares |
|---|---|
| Jorma Ollila | 28 770 |
| Olli Vaartimo | 14 644 |
| Markus Akermann | 12 330 |
| Roberto Gualdoni | 12 018 |
| Stig Gustavson | 4 018 |
| Heikki Malinen | 15 018 |
| Elisabeth Nilsson | 6 627 |
| Siv Schalin | 10 714 |
| | 104 139 |

## Board committees

The Board of Directors has set up two permanent committees consisting of Board members and has confirmed rules of procedure for these committees. Both committees report to the Board of Directors.

The Audit Committee comprises four Board members. The rules of procedure for and responsibilities of the Audit Committee have been established in the Charter of the Audit Committee approved by the Board of Directors. The task of the Audit Committee is to deal with matters relating to financial statements, auditing work, internal controls and compliance matters, the scope of internal and external audits, fees paid to auditors, the Group's tax position, the Group's financial policies and other procedures for managing Group risks. In addition, the Audit Committee prepares a recommendation for the Annual General Meeting concerning the election of an external auditor and auditing fees. The Audit Committee met six times during 2014 and the average attendance rate was 96%.

The Remuneration Committee comprises the Chairman of the Board and three other Board members. The rules of procedure for and responsibilities of the Remuneration Committee have been established in the Remuneration Committee Charter approved by the Board of Directors. The task of the Remuneration Committee is to prepare proposals for the Board of Directors concerning the appointment of the company's top management and principles relating to the compensation they receive. The Board of Directors has authorized the Remuneration Committee to determine the terms of service and benefits enjoyed by the Outokumpu Leadership Team members other than the company's CEO. The Remuneration Committee met five times during 2014 and the average attendance rate was 94%.

To handle specific tasks, the Board of Directors can also set up temporary working groups consisting of Board members. These working groups report to the Board of Directors. A temporary working group, the Board Finance Working Group, was set up during 2013 and the working group comprised the Chairman and Vice Chairman of the Board and one other Board member. The main task of the working group was to oversee and review in greater detail the status of and activities relating to the company's strategic roadmap, capital structure, balance sheet, major transactions, major corporate finance activities and other matters having strategic significance for the company. The Board Finance Working Group was discontinued in early 2014.

## Shareholders' Nomination Board

Outokumpu's Annual General Meeting in 2012 resolved to establish a Shareholders' Nomination Board to annually prepare proposals to the Annual General Meeting for the election, composition and remuneration of the members of the Board of Directors.

In addition, the Annual General Meeting adopted a Charter of the Shareholders' Nomination Board, which regulates the nomination and composition, and defines the tasks and duties of the Nomination Board. According to the Charter, the Nomination Board consists of the representatives of Outokumpu's four largest shareholders, registered in the Finnish book-entry securities system on October 1, who accept the assignment and that the Chairman of the Board should act as an expert member of the Nomination Board.

Holdings by a shareholder who under the Finnish Securities Markets Act has the obligation to disclose changes in shareholdings (flagging obligation) that are divided into several funds or registers will be summed up when calculating the share of all the voting rights, provided that the shareholder presents a written request to that effect to the Chairman of the Company's Board of Directors no later than September 30 preceding the Annual General Meeting. Should a shareholder not wish to use its nomination right, the right transfers to the next largest shareholder who would otherwise not have a nomination right.

Shareholders with the right to appoint representatives to the Nomination Board in 2014 were: Solidium Oy, Varma Mutual Pension Insurance Company, AC Invest Four BV and the Social Insurance Institution of Finland. These shareholders chose the following individuals as their representatives on the Nomination Board: Kari Järvinen, Managing Director of Solidium Oy; Pekka Pajamo, CFO of Varma Mutual Pension Insurance Company and Panu Routila, CEO of Ahlström Capital

**Shares of the Leadership Team members on December 31, 2014**

| Member | Shares | Performance Share Plan 2012–2014 | Performance Share Plan 2013–2015 | Performance Share Plan 2014–2016 | Restricted Share Pool 2012–2014 |
|---|---|---|---|---|---|
| Mika Seitovirta | 40 000 | 65 280 | 127 620 | 200 100 | |
| Reinhard Florey | 0 | 0 | 38 880 | 55 200 | 14 075 |
| Pekka Erkkilä | 20 000 | 0 | 32 400 | 55 200 | |
| Austin Lu [1] | 0 | 7 824 | 38 880 | 55 200 | |
| Kari Parvento | 1 600 | 20 400 | 38 880 | 55 200 | |
| Olli-Matti Saksi | 0 | 0 | 14 940 | 45 000 | |
| Johann Steiner | 0 | 0 | 38 880 | 55 200 | |
| Saara Tahvanainen | 160 | 0 | 7 020 | 10 500 | |
| Kari Tuutti | 4 000 | 7 824 | 38 880 | 55 200 | |
| Michael Wallis | 0 | 0 | 14 940 | 45 000 | |
| Total | 65 760 | | | | |
| Board and Leadership Team | 169 899 | | | | |

[1] Due to local legislation, the possible LTI reward will be paid in cash instead of shares.

Oy and Tuula Korhonen, Investment Director of the Finnish Social Insurance Institution. Kari Järvinen was elected as Chairman of the Nomination Board and Jorma Ollila, Chairman of the Outokumpu Board of Directors, served as an expert member. The Nomination Board has submitted its proposals regarding Board composition and director remuneration to Outokumpu's Board of Directors, and the Board has incorporated these proposals into the notice convening the Outokumpu 2015 Annual General Meeting of Shareholders.

## CEO and deputy to the CEO

The Chief Executive Officer (CEO) is responsible for the company's operational management, in which the objective is to secure significant and sustainable growth in the value of the company for its shareholders.

The CEO prepares matters on which decisions are to be made by the Board of Directors, develops the Group's operations in line with the targets agreed with the Board of Directors, and ensures the proper implementation of Board decisions. The CEO is also responsible for ensuring that existing legislation and applicable regulations are observed throughout the Group.

The CEO chairs the meetings of the Outokumpu Leadership Team. The deputy to the CEO is responsible for attending to the CEO's duties in the event that the CEO is prevented from doing so. Since 2011, the Group's Chief Financial Officer has acted as deputy to the CEO.

## Leadership Team

The Outokumpu Leadership Team assists the CEO in the the overall management of Outokumpu's business. Members of the team have extensive authority in their individual areas of responsibility and their duty is to develop the Group's operations in line with the targets set by the Board of Directors and the CEO.

At the end of 2014, the members of the Outokumpu Leadership Team held the following positions:

- President and Chief Executive Officer
- Executive Vice President – Chief Financial Officer
- President – Coil EMEA
- President – Coil Americas
- President – APAC
- President – Quarto Plate
- President – Long Products
- Executive Vice President – Chief Technology Officer
- Executive Vice President – Communications and Marketing
- Executive Vice President – Human Resources, IT, Health and Safety

The Leadership Team typically meets at least once a month.

See the members of the Leadership Team on p. 12.

## Group management

Outokumpu's corporate management consists of the Chief Executive Officer (CEO), members of the Outokumpu Leadership Team, and managers and experts who assist the CEO and members of the Leadership Team.

The task of corporate management is to manage the Group as a whole. Duties include the coordination and execution of strategy and corporate planning, financial control, tax, internal audit, human resources, environment, energy, health and safety, IT, marketing, communications and corporate responsibility, R&D, legal affairs, corporate affairs and compliance and IPR, investor relations as well as treasury and risk management. Certain support functions have also been centralized at Group level. The Outokumpu Group is managed in accordance with the organization of its business, in which the Group's legal company structure also provides the legal framework for Outokumpu's operations. Clear financial and operational targets have been established for all the Group's operational businesses.

Since September 1, 2014, Outokumpu's organization is based on five Business Areas with sales, profit, production and supply chain management responsibility, with the focus being on improving the ability to respond rapidly to customer needs, while Group-level functions with global processes ensure efficiency.

The Business Areas as of September 1, 2014 are:

- Coil EMEA
- Coil Americas
- APAC
- Quarto Plate
- Long Products

As well as being responsible for their own sales, the Business Areas are responsible for profit and operating cash flow and are supported by Group-level functions in the key areas. The Business Areas are geared to achieve the Group's business and financial targets while maintaining the focus on responding to customer needs.

## Remuneration

### Board of Directors

As confirmed by the 2014 Outokumpu Annual General Meeting, annual remuneration for the members of Outokumpu's Board of Directors is as follows: Chairman EUR 140 000, Vice Chairman EUR 80 000 and other members EUR 60 000, with 40% of this paid as Outokumpu shares purchased from the market and 60% paid in cash.

The annual fee is paid once a year and members of the Board are not entitled to any other share-based rewards. In addition to their annual remuneration, all members of the Board of Directors are paid a meeting fee of EUR 600 (EUR 1 200 for members of the Board of Directors residing outside Finland). The meeting fee is also payable for attending meetings of Board committees.

### Leadership Team

The service contract of Outokumpu's CEO is valid until further notice and may be terminated by Outokumpu with 12 months' notice, or by the CEO with six months' notice. Upon termination by Outokumpu or a material change in ownership of Outokumpu, the CEO will receive additional compensation equivalent to his basic salary in the preceding 12 months plus the monetary value of his employee benefits at the moment of termination, provided that his employment is not terminated due to negligence caused by him.

For the other members of the Leadership Team who are employed in Finland, the notice period is six months for both parties, in addition to which there will be additional compensation equivalent to their basic salary in the preceding 12 months plus the monetary value of their employee benefits at the moment of termination, provided that their employment is terminated for another reason than one caused by the employee. The termination benefits of the Leadership Team members employed outside of Finland vary in line with local market practices.

In the 2014 financial year, the performance-based short-term incentive payable to the Group CEO and members of the Leadership Team in addition to their base salary and employee benefits was based on delta EBIT target (improvement in earnings before interest and taxes) and operational targets with emphasis on cash flow, working capital, occupational safety and delivery reliability. The maximum incentive payment was 50% of the annual base salary for the CEO and the other members of the Leadership Team. The total amount of short-term and long-term incentives must not exceed 200% of an individual's annual salary. Should this limit have been exceeded, the share-based reward would have been reduced accordingly.

No separate remuneration is paid to the Group CEO or members of the Leadership Team for membership of this committee or the Group's other internal governing bodies.

The retirement age for the members of the Leadership Team is 63 years and they participate in the local retirement programs applicable to employees in the country where their employing company is located. The members residing in Finland participate in the Finnish TyEL pension system, in addition to which they are entitled to a defined contribution pension plan. The targeted pension is 60% of the annual salary at the age of 63 and the maximum premium is 25% of an individual's annual earnings, excluding share rewards. The pension benefits of the Leadership Team members employed outside of Finland vary in line with the local market practices. In line with Outokumpu's policy, the CEO's retirement age is 63 and the targeted pension is 60% of the annual salary at the age of 63.

### Fees, salaries and employee benefits paid

| 2014<br>€ | Salaries and fees with employee benefits | Performance/ project-related bonuses | Annual remuneration | Total |
|---|---|---|---|---|
| Board of Directors | | | | |
| Chairman of the Board, Ollila | 12 000 | - | 140 000 | 152 000 |
| Vice Chairman of the Board, Vaartimo | 12 600 | - | 80 000 | 92 600 |
| Board member, Akermann | 22 200 | - | 60 000 | 82 200 |
| Board member, Gualdoni | 10 800 | - | 60 000 | 70 800 |
| Board member, Gustavson | 5 400 | - | 60 000 | 65 400 |
| Board member, Kerminen [1] | 5 400 | - | 0 | 5 400 |
| Board member, Malinen | 11 400 | - | 60 000 | 71 400 |
| Board member, Nilsson | 21 600 | - | 60 000 | 81 600 |
| Board member, Schalin | 11 400 | - | 60 000 | 71 400 |
| CEO, Seitovirta | 749 040 | 123 039 | | 872 079 |
| Deputy to the CEO | 511 864 | 112 500 | | 624 364 |
| Other Leadership Team Members [2] | 2 546 667 | 202 458 | | 2 749 125 |

[1] 1.1.–14.4.2014
[2] Tonteri 1.1.–31.8.2014, Saksi 1.7.–31.12.2014, Wallis 1.9.–31.12.2014, Tahvanainen 1.9.–31.12.2014.

| 2013<br>€ | Salaries and fees with employee benefits | Performance/ project-related bonuses | Annual remuneration | Total |
|---|---|---|---|---|
| Board of Directors | | | | |
| Chairman of the Board, Johansson [1] | 3 600 | - | - | 3 600 |
| Chairman of the Board, Ollila | 10 800 | - | 140 000 | 150 800 |
| Vice Chairman of the Board, Vaartimo | 14 400 | - | 80 000 | 94 400 |
| Board member, Akermann | 19 200 | - | 60 000 | 79 200 |
| Board member, Nilsson | 24 000 | - | 60 000 | 84 000 |
| Board member, Schalin | 12 600 | - | 60 000 | 72 600 |
| Board member, Kerminen | 12 600 | - | 60 000 | 72 600 |
| Board member, Malinen | 13 200 | - | 60 000 | 73 200 |
| Board member, Kerkhoff [1] | 14 400 | - | 60 000 | 74 400 |
| Board member, Hill [1] | 6 000 | - | - | 6 000 |
| CEO, Seitovirta | 755 040 | 157 500 | - | 912 540 |
| Deputy to the CEO [2] | 449 445 | 77 175 | - | 526 620 |
| Other Leadership Team Members [3] | 2 664 604 | 353 274 | - | 3 017 878 |

[1] Johansson and Hill 1.1.–18.3.2013, Kerkhoff 1.1.–30.11.2013
[2] Lager 1.1.–31.10.2013, Florey 1.11.–31.12.2013
[3] Kotilainen 1.1.–28.2.2013, Albrecht-Früh 1.1.–13.6.2013

Outokumpu did not provide any guarantees or other similar commitments on behalf of members of its Board of Directors in 2014. No members of the Board of Directors or the Leadership Team or closely related persons or institutions have any significant business relationships with the Group.

## Insider management

Outokumpu's insider rules are based on Finnish Securities Act and comply with the Guidelines for Insiders issued by the Nasdaq Helsinki stock exchange. Permanent insiders with a duty to declare consist of members of the company's Board of Directors, the Auditor in Charge, the CEO, and other members of the Outokumpu Leadership Team.

Outokumpu maintains a public register of permanent insiders who have the duty to declare. Employees of the Group who receive inside information on a regular basis as a result of their position or the duties they perform are registered in a non-public register of permanent company-specific insiders. Permanent insiders must not purchase or sell securities issued by the company in the 14 days prior to the publication of interim reports or the company's annual accounts (the so-called “closed window”).

Separate, non-public, project-specific insider registers are maintained for insider projects. Persons defined as project-specific insiders are those who, in the course of their duties in connection with a project, receive information concerning the Group which, if or when realized, is likely to have a significant effect on the value of the company's publicly-traded securities.

Outokumpu's Head of Corporate Affairs and Compliance is responsible for the coordination and supervision of insider issues.

See the year-end 2014 shareholding of the Board of Directors and Leadership Team on p. 104.

Up-to-date information on holdings by Outokumpu's permanent insiders who have a duty to declare is available on Outokumpu's website.

## Compliance

Outokumpu is strongly committed to the highest ethical standards and observes the laws and other regulations of the countries it operates in, and complies with agreements and commitments it has made. Outokumpu's Code of Conduct sets out these ethical standards and provides guidelines for a common way of working with the aim to ensure that all Outokumpu employees live up to Outokumpu's ethical standards. Outokumpu's Corporate Affairs and Compliance function is responsible for managing and continuously developing Outokumpu's compliance program. The objective of the program is to ensure that Outokumpu and its employees comply with laws, regulations as well as Outokumpu's internal policies and instructions. The program also aims to globally mitigate compliance risks for the corporation as well as for each individual employee by a set of preventive and supervisory measures. Raising awareness of and training on the Code of Conduct are central elements of the program. As part of the training, Outokumpu launched e-learning in its Code of Conduct, compulsory for all white collar employees. The first stage in 2014 covered some 3,000 people and achieved a completion rate of 99%. The Corporate Affairs and Compliance function reports to the Chief Financial Officer and also reports regularly directly to the Board Audit Committee on compliance-related matters.

## Financial reporting

According to the Finnish Limited Liability Companies Act and the Finnish Code of Corporate Governance, the Board of Directors is responsible for a company's internal controls. The purpose of this section is to provide shareholders and other parties with a description of how internal control and risk management of financial reporting is organized in Outokumpu.

As a listed company, the Group has to comply with a variety of regulations. To ensure that all the stated requirements are met, Outokumpu has introduced principles for financial reporting and internal control and distributed these throughout the company's organization.

### Control environment

The foundation for Outokumpu's control environment is the business culture established within the Group and its associated methods of operation. The basis for the company's compliance and control routines is provided by Group policies and principles which define the way in which Outokumpu's organization operates. These policies and principles include, for example, the Group's Corporate Responsibility Policy and Ethical Principles. The Outokumpu Code of Conduct describes the Group's basic values and offers standardized, practical guidelines for managers and employees to follow. Outokumpu's compliance program is described in the Compliance section. The Outokumpu performance management process is a key management activity and an important factor in enabling an efficient control environment. In all sections of the Group's operations, planning activities and the setting of both operational and financial targets are executed in accordance with Outokumpu's overall business targets. Management follow-up of related achievements is carried out through monthly management reporting routines and in performance review meetings.

Outokumpu operates in accordance with the risk management policy approved by the Group's Board of Directors and the Audit Committee regularly monitors the Group's risk map. The policy defines the objectives of risk management activities, the approaches to be taken and areas of responsibility. As well as supporting the Outokumpu strategy, risk management activities help in defining a balanced risk profile from the perspective of shareholders and other stakeholders such as customers, suppliers, personnel and lenders. More information on risk management within Outokumpu can be found in the Risk management section on p. 110.

Outokumpu's control process for financial reporting is based on Group policies, principles and instructions relating to financial reporting, as well as on the responsibility and authorization structure within the Group. Policies relating to financial reporting are usually owned and approved by the CEO and the CFO. Financial reporting in Outokumpu is carried out in a harmonized way using a common chart of accounts.

Financial reporting is prepared in accordance with International Financial Reporting Standards (IFRS). The Outokumpu Accounting Principles (OAP) are Outokumpu's application guidance as regards IFRS. The aim of the OAP and other financial reporting policies and instructions included in the Outokumpu Controller's Manual is to ensure that uniform financial processes and reporting practices are used throughout the Group. Policies and instructions for financial reporting are reviewed on a regular basis and revised when necessary. During the 2014 financial year, some minor adjustments were made to the instructions, including small changes due to new consolidation standards and amendments in other applicable IFRSs. In 2015, Outokumpu will continue to follow the changes in IFRS standards closely. No major impact on the financial reporting due to the implementation of new standards is expected in 2015.

Financial statements by the parent company and stand-alone Finnish subsidiaries are prepared in accordance with generally accepted accounting principles in Finland, while foreign subsidiaries follow local accounting principles. Outokumpu also complies with regulations regarding financial reporting published by the Financial Supervisory Authority (FIN-FSA) and Nasdaq Helsinki.

### Risk identification and assessment

Risk management processes connected with the Group's financial reporting are coordinated by Outokumpu's Treasury and Risk Management function. Related risks are classified as operational risks and can arise as a consequence of inadequate or failed internal processes, employee actions, systems or other events such as misconduct or crime. The aim of the Outokumpu risk management process is to identify, evaluate, control and mitigate such risks.

Major risks are reported to and evaluated by the Audit Committee on a regular basis. Outokumpu's risk management process includes arranging workshops on the identification of key risks, including operational risks, for Business Areas and other Group functions. Deliverables include risk maps and risk identification plans.

### Control activities

In addition to the Board of Directors and Audit Committee, operational management teams in Outokumpu are responsible for ensuring that internal controls relating to financial reporting are in place at all Outokumpu units. The aim of control activities is to discover, prevent and correct potential errors and deviations in financial reporting. Control activities also aim to ensure that authorization structures are designed and implemented in a way that conflicting divisions of work do not exist (i.e. one person performing an activity and also being responsible for controlling that activity). Control activities consist of different kind of measures and include reviews of financial reports by Group management and in Business Area management teams, the reconciliation of accounts, analyses of the logic behind reported figures, forecasts compared to actual reported figures and analyses of the Group's financial reporting processes, among others. A key component is the monitoring of monthly performance against financial and operational targets. These control activities take place at different levels of the organization. The most important accounting items in Outokumpu are the valuation and reporting of inventories and other items of working capital. Also, in difficult market situations, asset impairment calculations and related sensitivity analyses are increasingly important. These items are carefully monitored and controlled both within Business Areas and at Group level on a regular basis.

Integration of the acquired Inoxum companies into Outokumpu's accounting and reporting processes was ongoing in 2014 and is still continuing in 2015. This includes further specification of accounting and reporting roles and responsibilities, and implementation of harmonized ways of working and reporting timetables within the Group. In relation to the Inoxum transaction, the measurement of acquired assets and liabilities at fair value was prepared in 2013. In accordance with the commitments given to the European Commission in the context of the merger with Inoxum to divest the AST (Acciai Speciali Terni) stainless steel operations in Terni, Italy and certain European service centers and other remedy assets, Outokumpu held the remedy assets separate and ring-fenced from the operations of the Group. The divestment was completed in the end of February 2014.

Information technology and solutions play an important role in guaranteeing that the Group's internal controls have a solid foundation. A new consolidation system project has been started to ensure timely and uniform financial and management reporting from the Group entities and an effective closing process within the whole Group. The system will be implemented in 2015. Outokumpu has also started a business transformation program to develop and improve business capabilities. This will be achieved mainly by harmonizing and improving the Group's core business processes.

### Information and communication

Group-wide policies and principles are available to all Outokumpu employees. Instructions relating to financial reporting are communicated to all the parties involved. The main communication channels employed are Outokumpu's intranet and other easily-accessible databases. Face-to-face controller meetings are also organized. Senior Controller meetings are organized on a quarterly basis or more frequently when this is considered necessary to share information and discuss issues of topical interest to the Group.

Outokumpu has established different networks and communities in which financial reporting and internal control issues and related instructions are discussed and reviewed. These networks usually consist of personnel from the Business Areas and Group functions. The aim of these networks, communities and common instructions is to ensure that unified financial processes and reporting practices are used throughout the Group. The networks and communities play an important role in establishing the effectiveness of internal controls relating to financial reporting and in developing Outokumpu policies, instructions and processes.

### Follow-up

Both management in all Outokumpu companies and personnel in accounting and controlling functions are responsible for the follow-up and monitoring of internal controls connected with financial reporting. The Internal Audit and Risk Management functions also engage in follow-up and control activities. The findings of the follow-up procedures are reported to the Audit Committee and the Outokumpu Leadership Team on a regular basis.

## Internal audit

Internal Audit is an independent, objective assurance, control, and consulting function designated to add value, to improve operations, and to support the organization in achievement of its objectives.

Through a systematic, disciplined approach, Internal Audit determines whether governance processes, the internal control system, and the risk management system as designed and represented by the Board of Directors and the Leadership Team are effective and efficient.

With commitment to integrity and accountability, Internal Audit provides value to governing bodies and senior management as an objective and direct source of correct, reliable information and independent advice. Besides Internal Audit monitors adherence to Group principles, policies, and procedures and investigates fraudulent and non-compliant behaviors and activities. Internal Audit performs its function on behalf of and directly reporting to the Audit Committee and to the Leadership Team, but is functionally assigned to the CEO. The annual internal audit plan is approved by the Audit Committee.

In 2014, Internal Audit performed 5 extended operational audits, 2 on-site follow-ups, a special investigation on uncommon bad debts settlement, and a special compliance audit and clean-up operation. The results of all performed audits including their risk appraisals have been reported and distributed in writing. In view of the Outokumpu Code of Conduct and the Corporate Responsibility Policy, potential risk has been identified in an Eastern European entity.

The confidential whistleblowing hotline ("Helpline") available on the company intranet and via internet is set up to anonymously inform Internal Audit and the Audit Committee of suspicions of financial misconduct or unethical behavior. Investigation of 1 communicated case in 2014 resulted in proof of violation of Health and Safety standards. From 8 further special investigations based on allegations brought forward through other channels, no incidents in view of discrimination or human rights violations were noted; however Internal Audit observed theft of material in 2 instances and potential violations of the Outokumpu Code of Conduct in 1 case.

## Auditors

Under its Articles of Association, the company shall have a minimum of one and a maximum of two auditors who are qualified auditors or firms of independent public accountants authorized by the Central Chamber of Commerce of Finland.

The Annual General Meeting elects the auditors to a term of office ending at the close of the next Annual General Meeting. Proposals to the Annual General Meeting on the election of auditors which have been made known to the Board of Directors prior to the Annual General Meeting will be made public if it is supported by shareholders holding a minimum of 10% of all the company's shares and voting rights and the person or company proposed has consented to such nomination. Additionally, the Audit Committee of the Board has the duty to consider and make a proposal to the Annual General Meeting as to the election and fees of the auditor.

The company's auditors submit the statutory auditor's report to the company's shareholders in connection with the company's financial statements. The auditors also report their findings to the Board Audit Committee on a regular basis and at least once a year to the full Board of Directors. The parent company, Outokumpu Oyj, is audited by KPMG Oy Ab, and the responsible auditor is Virpi Halonen, Authorized Public Accountant. KPMG Oy Ab is also responsible for overseeing and coordinating the auditing of all Group companies.

Both Outokumpu and KPMG Oy Ab emphasize the requirement that an auditor be independent of the company being audited. In its global independence policy, KPMG has stated its commitment to observing and complying with the Code of Ethics of the International Federation of Accountants (IFAC).

Outokumpu's Board Audit Committee continuously monitors non-audit services purchased by the Group from KPMG Oy Ab at a global level. In 2014, auditors were paid fees totaling EUR 3.4 million, of which non-auditing services accounted for EUR 1.4 million.

# Risk management

Outokumpu operates in accordance with the risk management policy approved by the company's Board of Directors. This defines the objectives, approaches and areas of responsibility in the Group's risk management activities. As well as supporting Outokumpu's strategy, the aim of risk management is identifying, evaluating and mitigating risks from the perspective of shareholders, customers, suppliers, personnel, creditors and other stakeholders.

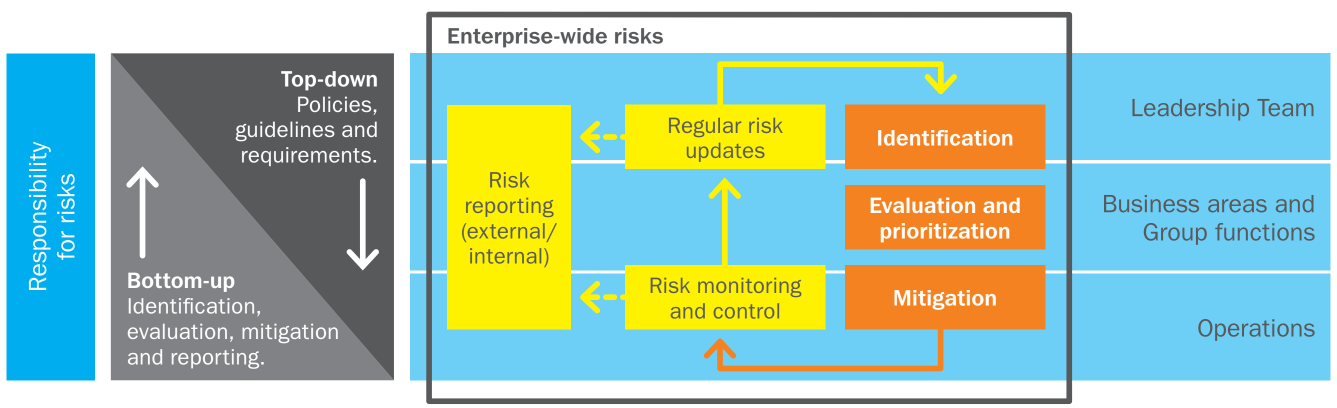
## Risk management organization

The Board of Directors carries ultimate responsibility for risk management within Outokumpu. CEO and members of the Leadership Team are responsible for defining and implementing risk management procedures, and for ensuring that risks are both properly addressed and taken into account in strategic and business planning. Business Areas and Group functions are responsible for managing risks connected with their own operations. Auditors and Internal Audit monitor risk management processes, and the Leadership Team, the Board's Audit Committee and the Board of Directors review both key risks and actions taken to manage these risks on a regular basis. Treasury and Risk Management function supports implementation of Outokumpu's risk management policy, facilitates and coordinates risk management activities, and prepares quarterly risk reports for management, Board's Audit Committee and Auditors.

## Risk management process

Outokumpu has defined risk as anything that could have an adverse impact on achieving the Group's objectives. Risks can therefore be threats, uncertainties or lost opportunities connected with current or future operations. Outokumpu's appetite for risk and risk tolerance are defined in relation to Group earnings, cash flows and capital structure. The risk management process is an integral part of the overall management processes and it is divided into four stages: risk identification, risk evaluation, risk prioritization and risk mitigation. Within Outokumpu, the risk management process is monitored and controlled at different organizational levels in a systematic manner. Regular risk updates are done to ensure that the process is operating in an uninterrupted manner. The monitoring and analysis of results and risk updates also ensure that accurate information is provided both internally – to Business Area management teams and members of the Leadership Team – and externally to parties such as shareholders and other stakeholders.

**Risk management process in Outokumpu**






## Focus areas 2014

In 2014 one of the main focus areas was to monitor and strengthen Outokumpu's financial position. In order to increase risk tolerance, Outokumpu completed significant financing measures in connection with the sale of the Terni and VDM operations. All these measures de-risked Outokumpu significantly by improving liquidity, strengthening balance sheet, extending debt maturities, reducing variation of free cash flow and decreasing exposure to operational risks.

Unfortunately, during the reporting year Outokumpu suffered contractor's fatal accident in Calvert, in June. In addition, serious machinery breakdown incidents took place at the ferrochrome production unit in Tornio and at cold rolling mills in Calvert. These losses are expected to be covered partially by insurance. Outokumpu intends to focus on preventive maintenance and machinery breakdown loss prevention in 2015 e.g. in connection with its insurance related auditing programs.

During the year, risk management processes were further aligned within Outokumpu. The integrated process supported by recently launched risk management software includes strong focus on operational risks. The software will be applied as a group-wide reporting tool for consistent identification and reporting of risks at different organizational levels. Additionally, the Group's key risks were updated regularly during 2014. Outokumpu continued its systematic fire safety and loss prevention audit programs. Some twenty fire safety and loss prevention audits were carried out in 2014 using in-house expertise in co-operation with external advisors.

## Strategic and business risks

Outokumpu profitability improvement programs Outokumpu's future development will depend on the successful implementation of the plan aiming at returning Outokumpu to sustainable profitability with the objective to create shareholder value as a leading stainless steel producer.

Outokumpu's ability to successfully implement this turnaround is subject to a number of factors, including, but not limited to, ability to:

- achieve estimated cost synergy benefits of EUR 200 million as compared to the 2012 level from the Inoxum Acquisition in 2015;
- achieve cost reductions of EUR 250 million (P250 program) by the end of 2015;
- implement the EMEA restructuring plan to achieve additional cost savings of EUR 100 million for its operations in Europe in 2017;
- release of cash through improving the efficiency of its net working capital through the P400 program by releasing EUR 400 million of cash from net working capital compared to 2012 level;
- increase production, sales and profitability in the Americas as the Calvert production facility is ramped up to full commercial capacity;
- successful implementation step change in profitability over the coming two years in the Quarto Plate business as a result of ramp-up and cost streamlining of the Degerfors mill; and
- improve overall profitability and enhance operational efficiency.

Outokumpu's current expectations regarding the impact and timing of the above-mentioned measures are based on a number of assumptions and expectations that are subject to various risks and uncertainties.

## Stainless steel industry and markets

In recent years, stainless steel production capacity in Asia, particularly in China, has increased significantly and Asia has transitioned from being a net importer of stainless steel to being a significant exporter to Europe and North America. While the global trade flows within the industry have started to stabilize, the problem of Asian overcapacity remains. Imports from Asian producers to Europe have increased and taken over market shares from producers in EU, and at the same time these imports made base price increases in Europe very difficult. Additionally, the transaction prices have remained on low levels in Europe, as pricing never recovered from the global financial crisis. The overcapacity situation in China combined with increased imports to Europe and deteriorated price levels remains as a risk to Outokumpu as well.

Supply and demand is more balanced in the Americas, but the pressure to export Asian overcapacities also to NAFTA regions has been increasing. As more capacity is being built up in Asia and growth rates might normalize in the mid- to long-term, structural overcapacity in Asia and exports also to the NAFTA region remain a risk for Outokumpu. Additionally, Outokumpu is implementing the full commercial ramp-up for its Calvert mill in Alabama, USA by 2016 with increasing volumes and growing market shares. Such commercial ramp-up includes risks and uncertainties, which may, if realized, impact Outokumpu's profitability.

Overcapacities have resulted in fierce competition in the stainless steel industry and has led to a situation where many producers in various countries have called for government protection and trade protective measures to safeguard home industry. In addition, several countries grant substantial subsidies to companies active in their respective local stainless steel industries. The pricing advantage enjoyed by these producers on their subsidized products may impair or eliminate Outokumpu's ability to compete with such producers. This and other practices may have an adverse effect on Outokumpu's profitability to the extent that subsidized stainless steel products are exported into Outokumpu's key markets, the EU and the United States. In addition, Outokumpu has significant exposure to the effects of trade actions and barriers due to the global nature of its operations. Such trade actions and barriers could limit Outokumpu's further growth and market access.

Outokumpu also operates in the Asian market. APAC Business Area's key focus is to contribute to the growth of Outokumpu by establishing a profitable foothold in the APAC region and to focus on selected customer and product segments in which the Outokumpu offering is differentiated from its competitors. The main risks in achieving these targets are related mainly to tightening competition within special products in APAC, due to overcapacity situation and weakening growth in China.

While Outokumpu believes that the overall long-term prospects for stainless steel demand remain positive, there is a risk that changing global megatrends, natural catastrophes or other adverse changes in the global political and economic environment, such as the recent crisis situation in Ukraine and related trade sanctions on Russia, can impact the stainless steel industry and reduce growth prospects also in Outokumpu's core markets. Eruptions in underlying macro-economic markets) can lead to serious impacts on the demand of stainless steel and thus pose a major threat to Outokumpu's capacity utilization and profitability.

Outokumpu believes that ongoing and planned re-structuring actions, including the restructuring plan in Europe, the ramp-up of the Calvert mill in the USA and the ongoing cost saving programs will continue to make significant progress to return Outokumpu to sustainable profitability and maintain its position in global stainless steel markets.

Since global demand for stainless steel is forecasted to increase in the long term, Outokumpu expects that global demand for ferrochrome, a key ingredient in stainless steel production, will increase correspondingly. As part of its Coil EMEA Business Area Outokumpu produces ferrochrome at its Tornio ferrochrome production facility using chromite extracted from its Kemi chrome mine, aiming to maintain both a high utilization rate at its ferrochrome production facility and the Group's competitive position in the ferrochrome market by consuming a significant amount of ferrochrome internally and also by selling certain volumes on the global market. However, in global terms, the ferrochrome market remains oversupplied with new capacity ramping up especially in China. Outokumpu's competitive position in the ferrochrome business is affected by foreign exchange rates, particularly US dollar,and e.g. the prices of power and coke. The investment program to double annual ferrochrome production capacity and the increase of production capacity of the Kemi chromite mine was finalized in Q4 2012 and the ramp up was completed as planned by the end of 2014.

## Raw materials and supplies

Stainless steel and ferrochrome production requires consumption of substantial amounts of certain raw materials (primarily nickel, recycled stainless steel, ferrochrome, chromite, molybdenum and recycled carbon steel) and supplies. Most of these are subject to significant price volatility due to fluctuating customer demand, speculation and scarcity, which may, from time to time, be compounded by decreases in extraction and production due to natural disasters, political or financial instability or unrest. Outokumpu is exposed to changes and development in production technologies related to the processing of alternative or substitute raw materials used to produce stainless steel, such as NPI (Nickel Pig Iron) and UG-2 , which is a by-product of the platinum production process used in South Africa that has a chromium content comparable to chromium ore and can be used to produce ferrochrome to a limited degree.

Outokumpu is also exposed to price volatility of raw materials and supplies, which it purchases primarily under short- or long-term contracts, but also on the spot market. Increases in the prices of certain raw materials, such as nickel, ferrochrome, molybdenum and iron, are generally passed on to customers through alloy surcharges. Outokumpu has historically hedged a part of its exposure to changing nickel prices and, on a case-by-case basis, molybdenum prices.

Although the alloy surcharge mechanism is intended to allow stainless steel producers to pass on the costs of raw materials to customers, it does not eliminate Outokumpu's exposure to raw materials price volatility. Therefore, Outokumpu may not be able to pass on all of its raw materials costs to customers, which can have negative impacts on Outokumpu's profitability.

From the beginning of 2014, Outokumpu has applied a daily alloy surcharge instead of the previous monthly model for certain customers in Europe. In this model, Outokumpu communicates the alloy surcharges on a daily basis for its customers on its website. Customers can decide whether to fix the alloy surcharge on the order date or on any other date between the order and mid-week prior to the delivery week. Outokumpu believes that the daily alloy surcharge system decreases earnings volatility caused by raw material prices because Outokumpu can reflect changes in raw material prices faster in its products and it makes hedging of raw materials positions easier.

## Legal risks

Outokumpu and its subsidiaries are subject to several litigation cases. For a company such as Outokumpu, there is a general risk, which mainly relates to Outokumpu being litigated against by business partners and/or in connection with its business activities in the future. For the specific risks relating to existing litigations, please see Note 30 to the financial statements, "Disputes and litigations".

Outokumpu's products are used in a wide range of applications. For instance, certain products are used in safety- critical applications, such as pipes used in the oil, gas, chemical and petrochemical industries. In addition, certain of Outokumpu's products are used in the automotive industry, where key customers require extensive third-party certifications regarding the products purchased. Therefore, Outokumpu is exposed to product liability claims arising e.g. from automotive industry customers. Such claims may result in severe damages impacting Outokumpu's profitability.

Outokumpu manages and mitigates its legal risks by running internal governance and compliance programs and policies, some of them extending beyond local minimum legal requirements.

## Environmental business risks

The main environmental risks for Outokumpu are business risks related to emission trading scheme and new environmental and consumer protection demands.

The European Union's Emission Trading Scheme (ETS) forms a business risk for Outokumpu, indirectly in electricity prices and directly from the buying of emission allowances. Outokumpu has however secured part of its future electricity supply – and the associated prices – through long-term contracts. Additionally, Outokumpu has participations in some nuclear power projects in Finland.

Outokumpu operates in accordance with prevailing laws and regulations, including environmental, chemical and product safety legislation. EU regulatory activity in this area has developed rapidly, and new consumer safety, environment and ecology-related initiatives, directives and other regulations have been generated by the European Commission at a high rate in recent years. Radical changes in this kind of legislation could have long-term impacts on Outokumpu's operations. Strict compliance with all relevant environmental regulation causes increased costs and impacts Outokumpu's competitive position in some cases. Outokumpu mitigates these through the systematic identification and management of environmental, chemical and product safety risks, through emissions trading, by launching environmental initiatives and by maintaining a proactive dialogue with both stakeholders and parties involved in the framing of environmental legislation.

# Operational risks

## Major disasters and business interruptions

Outokumpu's production processes are dependent on the continuous operation of critical production equipment, including furnaces, continuous casters, rolling mills and electrical equipment (e.g. electric motors and transformers), and production downtime may occur as a result of unexpected mechanical failures or other events. Operations may also be disrupted for a variety of other reasons including fire, explosion, flooding, the release of substances harmful to the environment or health, strikes or transportation disruptions. Furthermore, accidents may lead to production downtimes that affect specific items of machinery or production plants, or possibly result in plant closures, including closure for the duration of any ongoing investigation. This type of disruptions may cause significant business interruptions and have negative impact on Outokumpu's profitability.

Primarily because of the high temperatures required for production, fire is a significant risk for Outokumpu. Most of the production facilities are located in extensive industrial zones and a fire in could lead to major damage to property and interruptions in production. Extreme weather conditions and natural disasters may also affect Outokumpu's operations, especially as a result of damage to property or the loss of production through extremely low temperatures, flooding, hurricane, tornado or drought. Outokumpu monitors such risks by continuously evaluating its production facilities and production processes from a risk management perspective and also by arranging regular fire-safety audits. Insurances cover a large proportion of the associated risks.

## Environmental accidents

The main environmental accident risks at production sites relate to use of acids, production of hazardous waste and toxic gases, landfill activities, long-term contamination of soil or groundwater or long-term effects of hazardous pollutants. Outokumpu also has environmental liabilities and risks at old mines and old sites. Certified environmental management systems are in place at several production sites to manage the environmental accident risks in a systematic way. Maintaining such management systems also includes external environmental audits. In addition, Outokumpu has an internal environmental auditing program to monitor and ensure local legal compliance and the level of environmental risk management.

## Project risks

Currently, Outokumpu has 12.5% indirect ownership interest in Fennovoima Oy , which was granted a decision-in-principle by the Government of Finland to build a new nuclear power plant in Finland. In 2013, Fennovoima selected Rosatom Overseas CJSC as a power plant supplier. According to the plans, infrastructure work at the site will begin in 2015 and is expected to last approximately two to three years. The construction of the plant would begin after the infrastructure work and the power plant would start commercial operations in 2024. The project involves a number of potential risks for Outokumpu, including delays, cancellation, non-completion (for external or internal reasons), technical risks (including tightening nuclear safety regulations in the future), budget overruns (including non-competitive cost of power or increased cost of production), financing risks (including cost and availability of financing) and political risks (including public acceptance risks) and environmental risks. When operational, shareholders will be able to procure electricity against payment of their pro rata share of operating expenses of the power plant (the so-called Mankala principle). Accordingly, there can be no assurance that one or more of the project risks will not occur or that Outokumpu's share of financing the project will not increase as a result of any future defaults by other shareholders in Fennovoima.

Additionally, Outokumpu is investing approximately EUR 30 million into using liquefied natural gas (LNG) instead of propane at the Tornio mill. The main part of the investment, phased over 2015–2018, is used to make the required equipment modifications at the Tornio mill. This investment includes number of risks inherent to investment projects, including market price risks and contractual arrangements between different business partners. Replacing the use of propane with liquefied natural gas sourced directly from the global market will reduce production cost through lower and more stable energy prices, and thereby increase the competitiveness of our Tornio mill. As it is more sustainable, LNG is replacing oil and other fuels worldwide as an energy source.

## IT dependency and security risks

Outokumpu relies on various applications and other information technologies that are used globally in all business areas and group functions. Many of these applications and underlying infrastructure are outdated, making them more vulnerable for failures, and could result in business interruptions, for example, in the production and supply chain processes. In addition, the enterprise architecture is complicated, and the large number of different and unharmonized information systems increases the risk of loss of critical applications. Furthermore, cyber threats and other security threats could exploit possible weaknesses in Outokumpu's security controls, which in turn, could cause leakage of sensitive information, theft of intellectual property, production outage or damage to Outokumpu's reputation. Outokumpu is taking necessary steps to ensure that the IT systems and solutions are reliable, and is also instituting secure information management at all company locations to avoid data loss or situations in which business-critical information becomes unavailable. Additionally, Outokumpu aims to improve its cyber readiness in the near future in order to prevent possible cyber-attacks.

## Personnel

Outokumpu's ability to continue and grow its business as well as provide high-quality products depends, to a large extent, on the contributions made by its key personnel. The loss of key individuals or other employees who have specific knowledge of or relationships with, trade customers in markets in which Outokumpu operates could have significant impacts on Outokumpu's business. If Outokumpu is unable to attract, retain and motivate qualified employees at all levels, it could have a material adverse effect on Outokumpu's business, financial condition and results of operations. There can be no assurance that Outokumpu will be able to retain such senior managers and key employees and successfully manage them. Outokumpu has implemented HR processes to attract and retain senior managers for key positions in the Group. Succession planning for group key positions is also undertaken as part of the talent review process to mitigate the loss of senior managers.

### Compliance, crime and reputational harm

Outokumpu operates globally and its activities span multiple jurisdictions and complex regulatory frameworks at a time of increased enforcement activity and initiatives globally in areas such as competition law and anti-corruption. Outokumpu's governance and compliance processes may not prevent breaches of law or governance standards. Outokumpu also faces the risk of fraud by its employees, losses of critical research and development data, misconduct as well as violations at its joint ventures and other companies in which it has an interest, particularly if it only has a minority stake and does not control accounting or other rules and protocols for the conduct of business. Outokumpu's failure to comply with applicable laws and other standards could subject it to fines, loss of operating licenses and reputational harm. Effective internal controls are necessary for Outokumpu to provide reliable financial reports and effectively prevent and detect fraud. If Outokumpu cannot provide reliable financial reports or prevent fraud, this could have a material adverse effect on its financial results. Additionally, at the operational level, individual employees may not comply with Outokumpu's policies and guidelines and as a result may incur compliance costs and cause reputational damage. Inadequate internal controls could also cause investors and other third parties to lose confidence in Outokumpu's reported financial information In 2014, Outokumpu renewed its Code of Conduct, in order to ensure that all Outokumpu employees live up to Outokumpu's standards. The Code's also offers guidance to Outokumpu employees in different situations by setting examples.

## Financial risks

Key current financial risks for Outokumpu are:

- Changes in the prices of electrical power, fuels, nickel and molybdenum
- Currency developments affecting the euro, the US dollar, the Swedish krona and the British Pound
- Interest rate changes connected with the US dollar, the euro and the Swedish krona
- Changes in levels of credit margins
- Counterparty risk related to customers and other business partners, including financial institutions
- Risks related to refinancing and liquidity
- Breach of financial covenants or other loan conditions leading to even of default
- Risk related to prices of equity and fixed income securities invested under defined benefit pension plans.

Both the financial risks listed above and related processes for risk management are described in additional detail in Note 19 to the Group's consolidated financial statements.



# Shares and shareholders

## Shares and share capital

Outokumpu's shares are listed on Nasdaq Helsinki Large Cap list under the trading code OUT1V, and are incorporated into the Finnish book-entry securities system. The total share capital was EUR 311 million at the end of the year, unchanged during 2014.

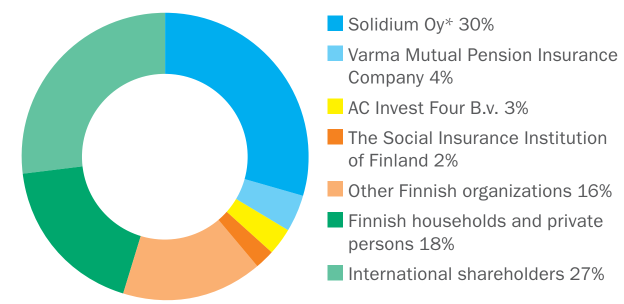
In March–April 2014, Outokumpu successfully conducted a rights offering and raised net proceeds of about EUR 640 million. The subscription price was EUR 0.08 per share with every old share entitling the holder to subscribe for four new shares. The subscription period ran from March 10 to March 26, 2014. A total of 10,258,172,806 shares were subscribed representing 123.5 percent of the 8,308,534,476 shares offered. No underwriting was utilized as a result of the oversubscription. Following the rights offering, the total number of Outokumpu's shares increased to 10,386,615,824 on April 7, 2014.

Following the rights issue, Outokumpu conducted a reverse share split in order to rationalize the number of outstanding shares, to increase the value of individual shares and thereby enhance trading conditions and improving price formation on the stock market. The number of shares in the company was reduced from 10,386,615,824 to 416,374,448 by merging twenty-five shares into one share. The new number of shares was registered with the Trade Register on June 20, 2014. Public trading with the newly merged shares commenced on June 23, 2014.

As of December 31, 2014, the total number of Outokumpu shares was 416,374,448, and Outokumpu held 947,724 of its own shares, i.e. treasury shares. All shares in Outokumpu carry equal voting and dividend rights.

In connection with the divestment of the Terni remedy assets, the VDM business and certain service centers to ThyssenKrupp in February 2014, ThyssenKrupp sold its 29.9% shareholding in Outokumpu to a group of institutional investors to comply with the buyer suitability requirements of the European competition rules. In connection with the divestment by ThyssenKrupp, Solidium acquired a part of the shares, resulting in an increase of its ownership in Outokumpu from 21.8% to 29.9%.

**Shareholders by group on December 31, 2014**




* Solidium Oy is wholly-owned by The Finnish State.

**Shareholders by group on December 31, 2014**

| | Shares | % |
|---|---|---|
| Private corporations | 141 140 569 | 33.90 |
| Financial and insurance institutions | 22 581 942 | 5.43 |
| The public sector and public organisations | 47 187 755 | 11.33 |
| Non-profit organizations | 3 369 472 | 0.81 |
| Households/private persons | 75 995 463 | 18.25 |
| Foreign investors | 14 207 010 | 3.41 |
| Nominee accounts held by custodian banks | 111 892 237 | 26.87 |
| **Total** | **416 374 448** | **100.00** |

Up-to-date information is available at www.outokumpu.com/en/investors/share-info/shareholders.

## Outokumpu in the capital markets

Outokumpu's regular and active dialogue with investors and analysts continued in 2014.

During the first half of the year, key topics discussed with investors were the comprehensive measures to strengthen the company's capital structure, including the divestiture of the Terni remedy assets and the VDM business to ThyssenKrupp, as well as a financial plan to renew the company's debt portfolio that also included a rights issue. During the year, the focus shifted more towards the operational turnaround of Outokumpu including the Calvert ramp-up in Americas, restructuring in EMEA and measures to improve cash flows and reduce debt levels.

Besides the Annual General Meeting, two Extraordinary General Meetings were held in 2014, one to approve the rights offering and the second one to authorize the reverse share split. Outokumpu also increased its dialogue with private shareholders and, for example, arranged seven retail events across Finland.

In addition, Outokumpu hosted quarterly results webcasts for analysts, investors and media representatives. A total of 18 roadshows in Europe and in the US were arranged during the year. Cities visited during the roadshows included London, New York, Paris, Boston, Frankfurt, Geneva, Edinburgh, Helsinki, Oslo, Stockholm, Toronto and Zürich. Outokumpu also met investors at three industry seminars in Copenhagen, Stockholm, and New York. In addition, Outokumpu hosted a Capital Markets Day in Düsseldorf and Krefeld, Germany, in September 2014 with more than 60 investors, analysts and bankers attending.

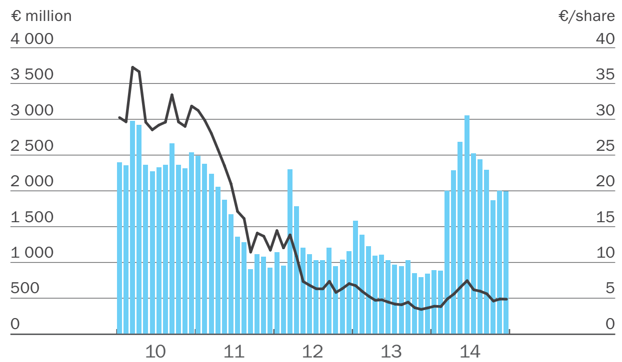
In addition, Outokumpu organized three site visits for analysts and institutional investors in 2014: one to the chrome mine in Kemi and the stainless steel plant in Tornio, Finland; one to the cold rolling mill in Krefeld, Germany in connection with the Capital Markets Day; and one to the new stainless steel plant in Calvert, USA. In total, 300 one-on-one meetings and 40 conference calls/video conferences with investors were held during the year.

## Share price development and market capitalization

During 2014, the price of the Outokumpu share peaked at EUR 7.50 and was EUR 3.37 at its lowest (2013 high/low: EUR 7.39/ EUR 3.03). Significant strengthening of Outokumpu's financial position in early 2014 had a positive impact on both the share price and trading volumes. In addition, after ThyssenKrupp had divested the Outokumpu ownership in February 2014, the liquidity of the share increased. The Outokumpu share price closed at end of the year at EUR 4.77, 34.2% above the closing price of 2013 (EUR 3.55 on December 30, 2013). At the end of 2014, the company's market capitalization was EUR 1,987 million, compared to EUR 845 million at the previous year's end.

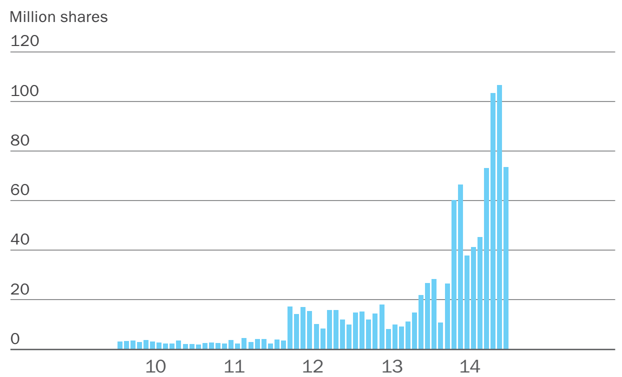
In 2014, the average daily trading volume in Outokumpu shares on Nasdaq Helsinki was 3.4 million shares. This includes the extraordinary peak in trading volume of 145.2 million shares on February 28, 2014 due to the sale of the 29.9% ownership in Outokumpu by ThyssenKrupp. Excluding this one-off transaction, the average daily trading volume was 2.8 million shares.

### Market capitalization and share price development



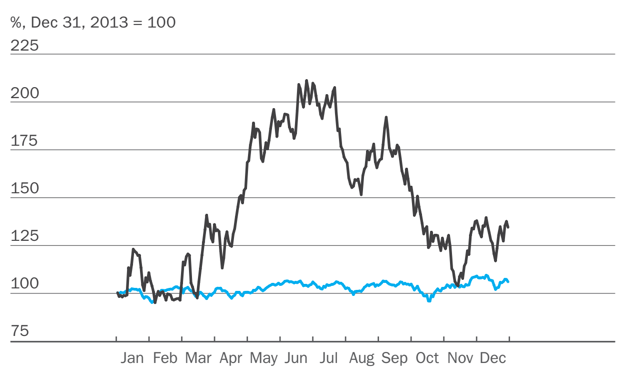

Source: Nasdaq Helsinki.

### Monthly trading volume




Source: Thomson Reuters. Includes trading on Nasdaq Helsinki. Please note that during 2012, Outokumpu increased its number of shares on two occasions, as a result of a rights offering and a share issue. In 2014, Outokumpu increased the number of its shares as a result of a rights offering and decreased the number of its shares as a result of a reverse split. The graph does not include trading on February 28, 2014 because of an extraordinary peak as a result of ThyssenKrupp selling its shares in Outokumpu.

### Outokumpu share price development in 2014



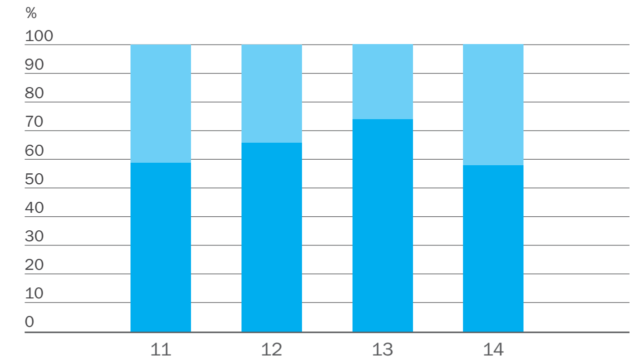



In total, 695.2 million Outokumpu shares were traded on Nasdaq Helsinki during 2014, representing a value of EUR 3,609.1 million (2013: 179 million shares which corresponded EUR 835 million).

In addition to Nasdaq Helsinki, Outokumpu's share is traded also on various alternative trading platforms. The volume of Outokumpu's shares traded on the Nasdaq Helsinki represented 58% of the total volume of Outokumpu's shares traded in 2014 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

More information about shares at www.outokumpu.com/en/Investors/Share-info

### Trading venue development 2011–2014




Source: Fidessa.

## Share-based incentive programs

Outokumpu's Board of Directors has confirmed that share-based incentive programs are part of the incentive and commitment scheme for the company's key personnel.

The objectives are to reward key personnel for good performance and thereby support Outokumpu's strategy, and to direct management attention towards increasing Outokumpu's profitability and shareholder value. The programs offer the possibility of receiving Outokumpu shares as an incentive, provided that the criteria set by the Board for each earnings period are achieved.

## Performance Share Plan 2012

The Board of Directors of Outokumpu approved on January 31, 2012, the establishment of a share-based incentive plan, Performance Share Plan 2012, which is part of the remuneration and commitment program for the key management of Outokumpu Group. The plan offers the possibility to receive Outokumpu shares as a long-term incentive reward if the targets set by the Board of Directors for each earnings period are achieved. Performance Share Plan consists of annually commencing performance share plans. Each plan contains a three-year earnings period, after which any share rewards earned will be delivered to the participants.

### Performance Share Plans

| | Plan 2012–2014 | Plan 2013–2015 | Plan 2014–2016 |
|---|---|---|---|
| Number of participants on December 31, 2014 | 72 | 116 | 135 |
| Maximum number of gross shares to be paid [1] | | | |
| CEO | 65 280 | 127 620 | 200 100 |
| Other Leadership Team members | 36 048 | 263 700 | 431 700 |
| Other participants | 244 824 | 788 850 | 1 328 664 |
| Total maximum number of gross shares to be paid [1] | 346 152 | 1 180 170 | 1 960 464 |
| Earning criteria | EBIT for year 2012, EBITDA for year 2013 and EBIT improvement for year 2014, and relative total shareholder return (TSR) over the three year earnings period. | EBITDA for year 2013, EBIT improvement for year 2014, Outokumpu share price adjusted by dividends in the beginning of 2016, and the achievement of annual Inoxum transaction related synergies. | EBIT improvement and business cash flow for year 2014. |
| Share delivery year | 2015 | 2016 | 2017 |

[1] The maximum number of gross shares (taxes included) payable if the set performance targets are achieved in full.

## Restricted Share Pool

The Board of Directors of Outokumpu approved on January 31, 2012, the establishment of a Restricted Share Pool program, which is a part of the remuneration and commitment program for selected key resources of Outokumpu Group. It consists of annually commencing plans with a three-year vesting period, after which the allocated share rewards will be delivered to the participants provided that their employment with Outokumpu continues uninterrupted throughout the duration of the plan, and until the shares are delivered. Restricted share grants are approved annually by the CEO on the basis of the authorization granted by the Board of Directors, with the exception of any allocations to Leadership Team members, which will be approved by the Board of Directors.

### Restricted Share Pool

| | Plan 2012–2014 | Plan 2013–2015 | Plan 2014–2016 |
|---|---|---|---|
| Number of participants on December 31, 2014 | 3 | 3 | 6 |
| Maximum number of gross shares to be paid [1] | | | |
| CEO | - | - | - |
| Other Leadership Team members | 14 075 | - | - |
| Other participants | 10 507 | 14 700 | 20 700 |
| Total maximum number of gross shares to be paid [1] | 24 582 | 14 700 | 20 700 |
| Share delivery year | 2015 | 2016 | 2017 |

[1] The gross number of shares (taxes included) payable if the employment has continued until the delivery date of the shares and no notice of termination has been given prior to the delivery date.

## Other terms

The aggregate reward of an individual participant under the above programs, together with other short-term and long-term incentives of the participant, may not exceed 200% of the participant's annual base salary.

No new shares will be issued in connection with the above share-based incentive programs and therefore the programs have no diluting effect.

According to the share ownership plan of the Outokumpu Group, the members of the Leadership Team are obliged to own Outokumpu shares received under share-based incentive programs to the value of their annual gross base salary. 50% of the net shares received from the Performance Share Plan and Restricted Share Pool programs described above must be used to fulfill the above ownership requirement.

## Inoxum transaction-related incentive scheme

In 2012, the Board of Directors of Outokumpu approved a retention plan for the members of the Leadership Team to ensure that Outokumpu has key employees in place for the successful implementation of the Inoxum Transaction and the integration of Inoxum into Outokumpu's existing stainless steel business.

For the CEO, the plan is a share-based scheme pursuant to which 25 000 reward shares were granted to the CEO in February 2012. Outokumpu has paid the taxes and any social security contributions related to the reward shares.

The reward shares may not be transferred or disposed of in any other manner until March 31, 2015. In addition, the CEO would forfeit the reward shares if his service contract were terminated or notice of the termination of his service contract were given before March 31, 2015. Furthermore, the reward shares are subject to a claw-back provision until March 31, 2015. The reward shares are subject to Outokumpu's share ownership guidelines applicable to its executive management. Outokumpu's limitations on variable pay were applied in connection with the delivery of the reward shares.

For the other members of the Leadership Team, the retention plan was a cash-based plan according to which they received a cash reward of two months' gross base salary on December 31, 2012 and March 31, 2013.

## Management shareholding

On December 31, 2014, members of the Outokumpu Board of Directors and the Leadership Team held a total of 169,899 Outokumpu shares, corresponding to 0.04% of the company's shares and voting rights. If the members of the Leadership Team were to receive the maximum number of shares for the 2012–2014, 2013–2015 and 2014–2016 periods of the performance share and restricted share plans (a total of 1,138,523 shares), their shareholding obtained via the programs would amount to 0.27% of the company's shares and voting rights.

Details of Outokumpu's management shareholdings can be found in the section "Board of Directors and Leadership Team".

### Principal shareholders on December 31, 2014

| | Shares | % |
|---|---|---|
| Solidium Oy | 124 269 264 | 29.85 |
| Varma Mutual Pension Insurance Company | 16 716 567 | 4.01 |
| Ac Invest Four B.v. | 12 827 997 | 3.08 |
| The Social Insurance Institution of Finland | 9 298 652 | 2.23 |
| Ilmarinen Mutual Pension Insurance Company | 7 830 673 | 1.88 |
| Etera Mutual Pension Insurance Company | 4 540 449 | 1.09 |
| State Pension Fund | 4 200 000 | 1.01 |
| Keva | 3 134 452 | 0.75 |
| Op-Delta Fund | 2 408 087 | 0.58 |
| Op-Focus Special Fund | 2 200 000 | 0.53 |
| Nordea Fennia Fund | 1 720 375 | 0.41 |
| OP-Suomi Pienyhtiöt | 1 650 364 | 0.40 |
| | **190 796 880** | **45.82** |
| | | |
| Nominee accounts held by custodian banks | 111 756 129 | 26.84 |
| Treasury Shares | 947 724 | 0.23 |
| Other Shareholders | 112 873 715 | 27.11 |
| | | |
| **Total** | **416 374 448** | **100.00** |

### Distribution of shareholders on December 31, 2014

| Number of shares | Number of shareholders | % of shareholders | Total shares | % of share capital | Average shareholding |
|---|---|---|---|---|---|
| 1–100 | 16 557 | 25.02 | 735 463 | 0.18 | 44 |
| 101–1 000 | 33 553 | 50.70 | 13 964 260 | 3.35 | 416 |
| 1 001–10 000 | 14 699 | 22.21 | 41 998 890 | 10.09 | 2 857 |
| 10 001–100 000 | 1 264 | 1.91 | 28 677 255 | 6.89 | 22 688 |
| 100 001–1 000 000 | 93 | 0.14 | 24 464 849 | 5.88 | 263 063 |
| 1 000 001–10 000 000 | 12 | 0.02 | 40 827 666 | 9.80 | 3 402 306 |
| 10 000 001–100 000 000 | 2 | 0.00 | 29 544 564 | 7.10 | 14 772 282 |
| 100 000 001– | 1 | 0.00 | 124 269 264 | 29.84 | 124 269 264 |
| Shares in nominee accounts held by custodian banks | - | - | 111 892 237 | 26.87 | - |
| Shares not transferred to book-entry securities system total | | | 30 | | |
| | **66 181** | **100.00** | **416 374 448** | **100.00** | |

# Information for investors

## Annual General Meeting 2015

Outokumpu Oyj's Annual General Meeting 2015 will be held on Thursday, March 26, 2015 at 2.00 pm EET at the Dipoli Congress Center. The address is Otakaari 24, Espoo, Finland. To attend the Annual General Meeting, shareholders must be registered on March 16, 2015 in the company's shareholders' register held by Euroclear Finland Ltd.

A holder of nominee-registered shares has the right to participate in the Annual General Meeting by virtue of such shares, based on which he/she on March 16, 2015 would be entitled to be registered in the shareholders' register of the company held by Euroclear Finland Ltd. The right to participate in the Annual General Meeting requires, in addition, that the shareholder has been registered on the basis of such shares into the temporary shareholders' register held by Euroclear Finland Ltd. at the latest by March 23, 2015 by 10.00 am EET. The account management organization of the custodian bank has to register a holder of nominee-registered shares who wants to participate in the Annual General Meeting into the temporary shareholders' register of the company at the latest by the time stated above.

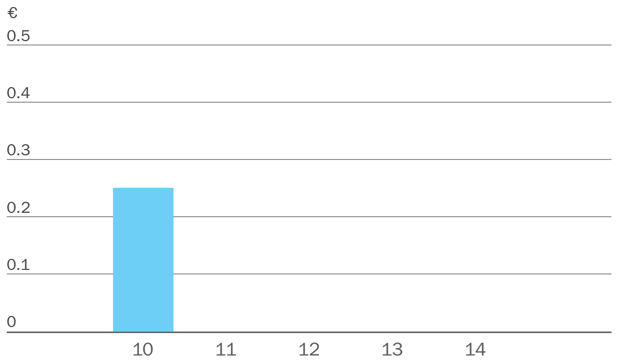
Shareholders who wish to attend the Annual General Meetings must notify Outokumpu no later than 4.00 pm EET on March 20, 2015. Notifications can be made at www.outokumpu.com/en/investors/General-meetings/,
by e-mail to the address: agm.outokumpu@innovatics.fi,
by telefax: +358 (0)9 421 2428,
by telephone: +358 (0)9 421 2474 or +358 (0)9 421 3808 (from Monday to Friday at 12.00–4.00 pm EET, March 12, 2015 onwards), or by regular mail to:

Outokumpu Oyj Share Register
P.O. Box 140
FI-02201 Espoo, Finland.

Shareholders may attend and vote at the AGM in person or by proxy. In accordance with Finnish practice, Outokumpu does not send proxy forms to its shareholders. Shareholders wishing to vote by proxy should therefore submit their own proxy forms to Outokumpu's Share Register during the registration period.

The complete notice to the AGM and additional information concerning the AGM is available on the Outokumpu website on the Annual General Meeting webpage.

**Dividend/share**




Years 2011, 2012 and 2013 no dividend was paid. For 2014, the Board proposes that no dividend will be paid.

**Outokumpu Oyj**

Corporate Management
Riihitontuntie 7 B, P.O. Box 140
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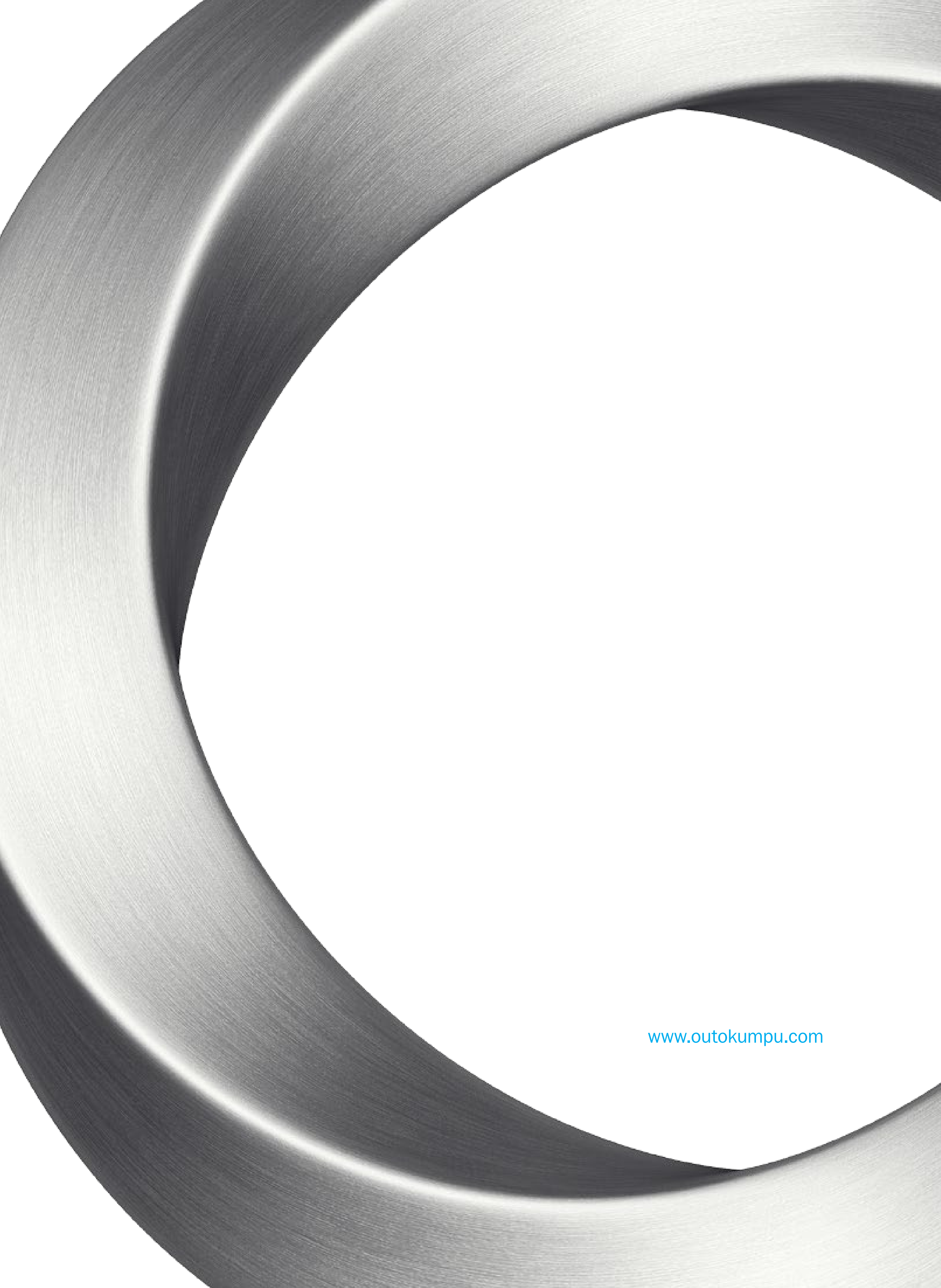
Fax +358 9 421 3888

www.outokumpu.com



www.outokumpu.com