

# Corporate Governance Statement

**OUTO  
KUMPU**

Outokumpu's Annual Report 2011 is published online at  
[www.outokumpu.com/annualreport2011](http://www.outokumpu.com/annualreport2011)

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# CORPORATE GOVERNANCE IN 2011

## 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 1 October 2010, issued by the Securities Market Association and adopted by the NASDAQ OMX Helsinki Stock Exchange. Outokumpu Oyj complies with all regulations and recommendations issued by NASDAQ OMX 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 ultimate responsibility for Group management and Group operations. The Group Executive Committee reports to the CEO and is responsible for efficient management of the Group's operations.

Outokumpu's primary corporate governance information source is the Group's corporate governance website at <http://www.outokumpu.com/Investors/Corporate-Governance/>. Please visit the website for the latest Corporate Governance Statement and the latest corporate governance information.

## Outokumpu's organisational structure

In 2011, Outokumpu had a matrix organisation comprising two business divisions supported by Group-level functions, which provided services to all Business Units.

In October 2011, Outokumpu announced a new organisation effective as of 1 January 2012. The aims of the new organisation are simplicity, clarity, accountability and cost efficiency. Outokumpu's new business model is based on three Business Areas, each with full accountability for sales, profit and assets, improving the ability to respond to customer needs rapidly. The three Business Areas are:

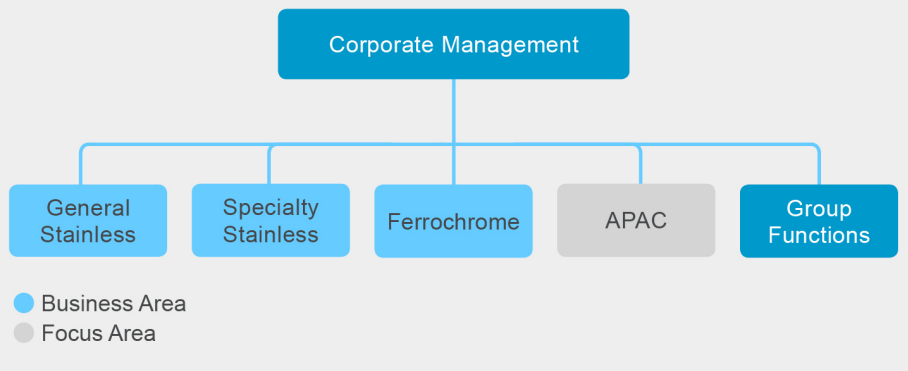
- **General Stainless:** stainless steel operations in Tornio in Finland and the finishing plant in Terneuzen, the Netherlands
- **Specialty Stainless:** Special Coil, Special Plate, Kloster and Long Products including the Sheffield melt shop, in the UK and Sweden, and
- **Ferrochrome:** the Kemi Chrome Mine and ferrochrome production in Tornio.

Read more about the new organisation in the Outokumpu Annual Report 2011 section [Business Areas as of 2012](#).

### Organisation



### New organisation



# General Meeting of Shareholders

The General Meeting of Shareholders normally convenes 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 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 of Shareholders 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 power at General Meetings of Shareholders.

# 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 governing bodies by law or under the provisions of the company's Articles of Association. The general task of the Board of Directors is to organise 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. 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 monitor its implementation;
- 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; and
- 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 organising the company's management and operations:

- To nominate and dismiss the CEO and his deputy, and to decide on their 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 Group Executive Committee, to define their areas of responsibility, and to decide on their terms of service, including incentive schemes, on the basis of a proposal made by the Board's Remuneration Committee;
- To monitor the adequacy and allocation of the Group's top management resources;
- To decide on any significant changes to the Group's business organisation;
- To define the Group's ethical values and working methods;
- 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; and
- 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; and
- 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; and
- To ensure that adequate procedures concerning risk management are in place.

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

The Board of Directors is quorate when more than half 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. The company's largest shareholders have confirmed that they are in favour of a principle according to which members of the company's Board of Directors should, as a rule, be qualified experts from outside the company. According to the Articles of Association, a person aged 68 years or older cannot be elected as a member of the Board of Directors. A Board consisting of seven members was elected at the 2011 Annual General Meeting. All members of the current Board of Directors are independent of the company and its main shareholders.

The Board of Directors meets at least five times each year. In 2011, the Board of Directors met 13 times and the average attendance rate was 91%.

See the Annual Report 2011 section [members of the Board of Directors](#).

### **Shares of the members of the Board of Directors on 31 January 2012**

Member	Shares
Ole Johansson	6 390
Evert Henkes	2 133
Elisabeth Nilsson	1 280
Anna Nilsson-Ehle	2 933
Jussi Pesonen	2 133
Siv Schalin	1 280
Olli Vaartimo	2 471
	18 620

## 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 three Board members. The task of the Audit Committee is to deal with matters relating to financial statements, auditing work, internal controls, the scope of internal and external audits, billing by 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 five times during 2011 and the average attendance rate was 100%.

The Remuneration Committee comprises the Chairman of the Board and three other Board members. The task of the Remuneration Committee is to prepare proposals for the Board of Directors concerning appointment of the company's top management, excluding the Board of Directors, and principles relating to the compensation they receive. The Board of Directors has authorised the Remuneration Committee to determine the terms of service and benefits enjoyed by the Group Executive Committee members other than the company's CEO. The Remuneration Committee met five times during 2011 and the average attendance rate was 85%.

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. No such working groups were set up in 2011.

See [Board of Directors](#).



# Nomination Board

Based on a proposal by Solidium Oy (wholly owned by the Finnish State and Outokumpu's largest shareholder), the Outokumpu 2011 Annual General Meeting decided to establish a Nomination Board to prepare proposals on the composition of the Board of Directors and director remuneration for the next Annual General Meeting of Shareholders. The Outokumpu 2011 Annual General Meeting also decided that the Nomination Board should consist of representatives of Outokumpu's three largest shareholders as registered in the Finnish book-entry securities system on 1 October 2011, which accept the assignment, and that the Chairman of the Board should act as an expert member of the Nomination Board.

Outokumpu's largest shareholders were determined on the basis of shareholdings registered in the Finnish book-entry system. Holdings by shareholders who have an obligation under the Finnish Securities Markets Act to disclose changes in shareholdings (the flagging obligation) are divided into several funds or registers and will be summed when calculating the related share of voting rights, provided that a written request to this effect was presented by the shareholder or shareholders concerned to the Board of Directors of the Company no later than 30 September 2011. Should a shareholder wish not to use the nomination right, the right to nominate is transferred to the next largest shareholder who would otherwise not have a right to nominate.

Shareholder representatives on the Nomination Board in 2011 were: Solidium Oy (the Finnish State), The Finnish Social Insurance Institution, and the Ilmarinen Mutual Pension Insurance Company. These shareholders chose the following individuals as their representatives on the Nomination Board: Kari Järvinen, Managing Director of Solidium Oy, Liisa Hyssälä, Director General of The Finnish Social Insurance Institution, and Harri Sailas, Chief Executive Officer of the Ilmarinen Mutual Pension Insurance Company. Kari Järvinen was elected as Chairman of the Nomination Board and Ole Johansson, 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 announcing the Outokumpu 2012 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 meetings of the Group Executive Committee. In 2011, the deputy CEO was responsible for attending to the CEO's duties in the event that the CEO was prevented from doing so. As of 1 November 2011, the Group's Chief Financial Officer acts as the deputy to the CEO.

# Group Executive Committee



The task of the Group Executive Committee is the overall management of Outokumpu's business. Members of the committee 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.

In 2011, the Group Executive Committee consisted of eight members appointed by the Board of Directors (seven members from November 2011). In 2011, members of the Group Executive Committee held the following positions: CEO, Deputy CEO, Executive Vice President – Chief Financial Officer, Executive Vice President – Specialty Stainless, Executive Vice President – Supply Chain Management, Executive Vice President – Group Sales & Marketing and Executive Vice President – Human Resources.

Since January 2012, membership of the Group Executive Committee has been as follows: CEO, Executive Vice President – Chief Financial Officer, Executive Vice President – General Stainless, Executive Vice President – Specialty Stainless, Executive Vice President – Ferrochrome, Group Research & Development, Environment and Quality and Executive Vice President – Human Resources and Health and Safety. The Group Executive Committee typically meets at least once a month.

See the Annual Report 2011 section [members of the Executive Committee](#).

## Shares and options of the Group Executive Committee members on 31 January 2012

Member	Shares	Share-based incentive programme 2010–2012	Share-based incentive programme 2011–2013
Mika Seitovirta			24 000
Esa Lager	28 000	9 000	9 000
Hannu Hautala	4 200	4 000	4 100
Pii Kotilainen	1 500	9 000	9 000
Jarmo Tonteri	18 000		
Kari Parvento	1 000	9 000	9 000
<b>Total</b>	<b>52 700</b>	<b>31 000</b>	<b>55 100</b>
Board and Executive Committee	71 320		

# Group management

Outokumpu's corporate management consists of the Chief Executive Officer (CEO), members of the Group Executive Committee, and managers and experts who assist the CEO and the Group Executive Committee. 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, internal audit, human resources, environment, health and safety, communications and investor relations, corporate responsibility, R&D, legal affairs and IPR, as well as treasury and risk management. In addition to corporate management tasks, Outokumpu's functional steering across Group businesses in 2011 was organised through Sales and Marketing functions and Supply Chain Management personnel. Certain support functions have also been centralised at Group level. The Outokumpu Group is managed in accordance with the organisation 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.

For the first two months of 2011, the Outokumpu Group consisted of the following five business units: Tornio Works, Special Coil and Plate, Thin Strip, OSTP (Outokumpu Stainless Tubular Products) and Long Products. From 1 March 2011, the Group's business units were reorganised as follows: Tornio Works, Special Coil, Special Plate, OSTP and Long Products. In September 2011, Outokumpu announced the closing of an agreement on a joint venture involving OSTP, the Group's tubular products unit, in which Tubinoxia S.r.l., an Italian company, became a minority owner of OSTP with the option to purchase a majority stake over a three-year period. Outokumpu will participate in the management of OSTP through OSTP's Board of Directors, where it has one seat.

As of January 2012, Outokumpu's business model has been based on three Business Areas, each fully accountable for sales, profit and assets, improving the Group's ability to respond rapidly to customer needs. The three Business Areas are:

- **General Stainless:** the Group's stainless steel operations in Tornio and finishing plant in Terneuzen, in the Netherlands
- **Specialty Stainless:** Special Coil, Special Plate, Kloster and Long Products including the Sheffield melt shop in Sweden and in the UK, and
- **Ferrochrome:** the Kemi Chrome Mine and ferrochrome production at Tornio, Finland.

As well as being responsible for their own sales, Business Areas are responsible for production and supply chain operations. To strengthen Outokumpu's presence and expand the Group's business in markets where there is the greatest potential for growth in stainless steel consumption, Outokumpu has specified APAC (Asia Pacific) as a Focus Area. Both the new Business Areas and the new Focus Area will be supported by Group-wide functions in cases where such centralisation or coordination yields positive synergies.

Outokumpu business units report directly to individual Group Executive Committee members. In related reporting, business units are consolidated into the Business Areas in accordance with the type of product being manufactured: General Stainless includes the stainless steel operations in Tornio, Specialty Stainless includes Special Coil and Special Plate, Long Products and the site in Kloster and Ferrochrome includes the Kemi Chrome Mine and the ferrochrome production in Tornio.

Outokumpu Brass is managed separately from the Group through the Board of Directors of Outokumpu Brass.

# Remuneration

As confirmed by the 2011 Annual General Meeting, annual remuneration for members of Outokumpu's Board of Directors are as follows: Chairman EUR 80 000, Vice Chairman EUR 45 500 and other members EUR 36 000, 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.

The period of notice for the Group CEO is twelve months from the Company's side and six months from the CEO's side. If Outokumpu terminates the CEO's employment for a reason or reasons unconnected with his performance or events interpreted as him having failed in his duties, the company will make a compensation payment. The amount of this payment will total the CEO's base salary in the preceding 12 months plus the monetary value of his employee benefits at the moment of termination.

In the 2012 financial year, the level of the performance-related incentive payable to the Group CEO and members of the Group Executive Committee in addition to their salary and employee benefits will be based on: the Group's EBIT (Earnings Before Interest and Taxes) target and operational targets and individual targets set separately. The maximum level of this incentive payment is 50% of annual base salary for the CEO and other members of the Group Executive Committee. The total amount of short-term and long-term incentives must not exceed 200% of an individual's annual salary. Should this limit be exceeded, the share-based element of the incentive reward will be reduced accordingly.

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

In December 2009, the Board of Directors confirmed that the retirement age is 63 for all new members of the Group Executive Committee. Other members of the Group Executive Committee are entitled to retire at the age of 60. For Finnish members of the Group Executive Committee appointed before January 1, 2007, pension benefits amount to 60% of the total average annual salary in the last five full years of service. For other Finnish members of the Group Executive Committee, the targeted pension is 60% of annual salary at the age of either 60 or 63 depending on the date when the executive concerned was appointed to the committee. Earnings calculated from the year of appointment, including fringe benefits and performance-related short-term incentives are used as the basis for the insurance premium. The maximum premium is 25% of an individual's annual earnings. In line with the above, the CEO's retirement age is 63 and the targeted pension 60% of annual salary at the age of 63.

Outokumpu did not provide any guarantees or other similar commitments on behalf of members of its Board of Directors in 2011. No members of the Board of Directors or the Group Executive Committee or closely-related persons or institutions have any significant business relationships with the Group.

## Fees, salaries and employee benefits paid

2011

€	Salaries and fees with employee benefits	Performance/ project-related bonuses	Annual remuneration****	Options	Total
Board of Directors					
Chairman of the Board, Johansson	10 200	-	80 000	-	90 200
Vice Chairman of the Board, Vaartimo	8 400	-	45 500	-	53 900
Board member, Henkes	16 800	-	36 000	-	52 800
Board member, Nilsson	13 200	-	36 000	-	49 200
Board member, Nilsson-Ehle	20 400	-	36 000	-	56 400
Board member, Pesonen	9 000	-	36 000	-	45 000
Board member, Schalin	7 200	-	36 000	-	43 200
Board member, Saarinen	1 800	-	-	-	1 800
Board member, Soila	1 200	-	-	-	1 200
Board member, de Margerie	1 200	-	-	-	1 200
CEO, Seitovirta*	451 840	-	-	-	451 840
CEO, Rantanen**	2 323 074	149 648	-	-	2 472 722
Deputy CEO***	338 797	67 636	-	-	406 433
Other Group Executive Committee Members	2 136 405	246 582	-	-	2 382 987

\* 1.3.–31.12.2011

\*\* 1.1.–17.8.2011

\*\*\* 1.1.–31.10.2011

\*\*\*\* Annual remuneration: 40% is paid as Outokumpu shares purchased from the market and 60% paid in cash.

**Corporate Governance Statement**  
Remuneration

2010

€	Salaries and fees with employee benefits	Performance/ project-related bonuses	Annual remuneration****	Options	Total
<b>Board of Directors</b>					
Chairman of the Board, Johansson	22 900	-	70 000	-	92 900
Vice Chairman of the Board, Soila	14 350	-	43 000	-	57 350
Board member, Henkes	18 100	-	34 000	-	52 100
Board member, Kilpelä	9 700	-	-	-	9 700
Board member, de Margerie	15 700	-	34 000	-	49 700
Board member, Nilsson-Ehle	20 500	-	34 000	-	54 500
Board member, Pesonen	13 469	-	34 000	-	47 469
Board member, Saarinen	13 300	-	34 000	-	47 300
Board member, Vaartimo	4 200	-	34 000	-	38 200
CEO	766 710	165 736	-	7 000	939 447
Deputy CEO	383 008	83 448	-	78 506	544 962
Other Group Executive Committee Members	1 611 727	319 743	-	40 500	1 971 969

The shares and options received through the share-based incentive schemes are included in the tables concerning the share ownership and options.

\*\*\*\* Annual remuneration: 40% is paid as Outokumpu shares purchased from the market and 60% paid in cash.

## Insider issues

Outokumpu's insider rules are based on and comply with the Guidelines for Insiders issued by the NASDAQ OMX 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 his deputy, and other members of the Group Executive Committee.

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 realised, is likely to have a significant effect on the value of the company's publicly-traded securities.

Outokumpu's corporate general counsel is responsible for the coordination and supervision of insider issues. For up-to-date information on holdings by Outokumpu's permanent insiders who have a duty to declare see <http://www.outokumpu.com/Investors/Share-info/Permanent-insiders/>.



# Financial reporting

## Key aspects of internal control and risk management system in connection with 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 chapter is to provide shareholders and other parties with a description of how internal control and risk management of financial reporting is organised 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 organisation.

### 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 control routines is provided by Group policies and principles which define the way in which Outokumpu's organisation operates. These policies and principles are for example the Group's Corporate Responsibility Policy, Ethical Principles and the Outokumpu Leadership Principles. Outokumpu Code of Conduct describes the Group's basic values and offers standardised, practical guidelines for managers and employees to follow. 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. This policy defines the objectives of risk management activities, the approaches to be taken and areas of responsibility. As well as supporting 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.

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 authorisation structure within the Group. Policies relating to financial reporting are usually owned and approved by the CEO, the CFO or the Corporate Controller. Financial reporting in Outokumpu is carried out in a harmonised way using a common chart of accounts. Financial reporting is prepared in accordance with International Financial Reporting Standards (IFRS). Outokumpu Accounting Principles (OAP) are Outokumpu's application guidance on IFRS. The aim of OAPs and other financial reporting instructions is to ensure that unified financial processes and reporting practices are used throughout the Group. 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 OMX Helsinki.

Outokumpu Controller's Manual contains financial reporting policies and instructions. Policies and instructions for financial reporting are reviewed on a regular basis and revised when necessary. During the financial year, some minor adjustments were made to the instructions. For example, pension accounting process was developed further. Lease accounting was not updated as planned as the publishing of amended IFRS standard on leases was delayed. In 2012, Outokumpu will concentrate on IFRS standards which will be valid on financial periods starting on or after January 1, 2013. The most important ones of them for Outokumpu are standards which relate to consolidation, employee benefits and fair valuation. Also, Outokumpu will continue to follow closely changes in other IFRS standards.

### Risk identification and assessment

Risk management processes connected with the Group's financial reporting are coordinated by the 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 units and other Group functions. Deliverables include risk maps and risk management plans.

## Internal audit

Outokumpu's Internal Audit function has an independent role and a twofold objective: to provide assurance and to offer consulting services which add value and improve the organisation's operations. Internal Audit's most important task is assisting the Audit Committee and the Executive Committee in fulfilling their control functions. To do this, Internal Audit identifies and monitors significant operational risks within the Group, ascertains the adequacy and effective operation of internal controls and provides the two committees with a direct source of correct and reliable information. Other tasks carried out by Internal Audit include monitoring the Group's principles, controls and policies and follow-up of the audit conclusions by the company's external auditors. The internal auditor reports to the Audit Committee and administratively to the CFO.

## 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 aim also to ensure that authorisation structures are designed and implemented in a way that conflicting division of work will not exist (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 unit management teams, the reconciliation of accounts, analyses of the logic behind reported figures, forecasts compared to actual reported figures and analyses on the Group's financial reporting processes, to mention a few. A key component is the monitoring of monthly performance against financial and operational targets. These control activities take place at different levels in the organisation. The most important accounting items in Outokumpu are the valuation and reporting of inventories and other working capital items. Also, in difficult market situation asset impairment calculations and related sensitivity analyses are increasingly important. These items are carefully monitored and controlled both in the units and at the Group level.

Information technology and solutions play an important role in guaranteeing that the Group's internal controls have a solid foundation. During the financial year, the use of e-invoicing was further expanded in the Group. Also the SAP travel management system was implemented in Sweden.

## 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 organised. Senior Controller meetings are organised on quarterly basis or more frequently when considered necessary to share information and to discuss topical issues of 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 business units 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 the 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 Group Executive Committee on a regular basis.

# 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 authorised 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 the proposal is made by the Board Audit Committee or 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.

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 Mauri Palvi, Authorised Public Accountant. KPMG Oy Ab is also responsible for overseeing and coordinating the auditing of all Group companies.

Both Outokumpu and KPMG Oy Ab emphasise the requirement that an auditor be independent of the company being audited. In its global independence policy, KPMG Oy Ab 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 2011, auditors were paid fees totalling EUR 3.2 million, of which non-auditing services accounted for EUR 1.8 million.

# MEMBERS OF THE BOARD OF DIRECTORS



## Ole Johansson

b. 1951, Finnish citizen

- B.Sc. (Econ.)
- Outokumpu Board member 2002–
- Chairman of the Board 2008–
- Vice Chairman of the Board 2004–2008
- Chairman of the Remuneration Committee
- President and CEO: Wärtsilä Corporation 2000–2011
- President and CEO: Wärtsilä NSD Oy 1998–2000
- Chairman of the Board: eQ Oyj 2011–
- Chairman of the Board: Confederation of Finnish Industries EK 2011–
- Chairman of the Board 2007–2009 and Board member 2010–: Federation of Finnish Technology Industries
- Vice Chairman of the Board: Varma Mutual Pension Insurance Company 2005–
- Vice Chairman of the Board: Confederation of Finnish Industries EK 2007–2009
- Board member: The Research Institute of the Finnish Economy ETLA Supporters' Association 2011–
- Board member: The Finnish Business and Policy Forum EVA 2011–
- Board member: Wärtsilä Corporation 2010–2011
- Independent of the company and its significant shareholders.



## Olli Vaartimo

b. 1950, Finnish citizen

- M. Sc. (Econ.)
- Outokumpu Board member 2010–
- Vice Chairman of the Board 2011–
- Chairman of the Audit Committee
- CFO: Metso Oyj 2003–2011
- Executive Vice President, Deputy to the President and CEO: Metso Oyj 2003–2010
- Member of the Executive Team 1999–2011 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
- Chairman of the Board: Valmet Automotive Oy 2003–
- Board Member: Kuusakoski Oy 2008–
- Independent of the company and its significant shareholders



## Evert Henkes

b. 1943, Dutch citizen

- B.Sc. (Ag. Econ.)
- Outokumpu Board member 2003–
- Member of the Remuneration Committee
- CEO: Shell Chemicals Ltd 1998–2003
- Board member: Marzac Investment 2009–
- Board member: Air Products and Chemicals Inc 2006–
- Board member: SembCorp Industries Ltd 2004–
- Board member: Tate & Lyle Plc 2003–

- Board member: BPB Ltd 2003–2006 and CNOOC Ltd 2003–2008
- Member of International Advisory Board: CNOOC Ltd 2008–2009
- 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
- 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
- Chairman of the Board: Göta Kanalbolaget 2011–
- Chairman of the Board: Risbergiska donationsfonden 2010–
- Chairman of the Board: Tåkerfonden 2010–
- Chairman of the Board: Övralidsstiftelsen 2010–
- Board member: Sveaskog AB 2010–
- Board member: 4:e AP-fonden 2010–2011
- Board member: Swerea AB 2008–2011
- Chairman: Foundation Mefos 2005–2010
- Chairman: Svenska Bergsmannaföreningen 2007–2009
- Board member: Euromaint AB 2004–2007
- Board member: Swedish Maritime Administration 1996–2006
- Member: Royal Swedish Academy of Engineering Science IVA 2007–
- Independent of the company and its significant shareholders



## Anna Nilsson-Ehle

b. 1951, Swedish citizen

- Ph.D., M.Sc. (Eng. Phys.), Honorary Doctorate at the Royal Institute of Technology, KTH
- Outokumpu Board Member 2005–
- Member of the Audit Committee
- Director: SAFER–National Vehicle and Traffic Safety Research Center 2006–
- Consultant: Ohde & Co 2005–2006
- Managing Director: Universeum AB 1999–2004
- General Manager, Strategy and Business: Volvo Car Components 1997–1998
- Vice President: Volvo AB and Volvo Cars 1993–1997
- Board member: Swedish National Space Board 2008–
- Board member: Svensk Bilprovning AB 2007–
- Independent of the company and its significant shareholders.



## Jussi Pesonen

b. 1960, Finnish citizen

- M.Sc. (Eng.)
- Outokumpu Board member 2009–
- Member of the Audit Committee
- President and CEO 2004– and Senior Executive Vice President and COO, Publication Papers 2001–2004: UPM-Kymmene Oyj
- Board member: UPM-Kymmene Oyj 2007–

- Chairman of the Board 2006–2008, Vice Chairman of the Board 2005 and 2010, Board member 2003–: Finnish Forest Industries
- Chairman of the Board 2012–2013, Vice Chairman of the Board 2010–2011 and Board member 2004–: Confederation of European Paper Industries (CEPI)
- Chairman of the Board 2012– and Board member 2011: Ilmarinen Mutual Pension Insurance Company
- Supervisory Board member: Ilmarinen Mutual Pension Insurance Company 2009–2011
- Board member: Oy Metsä-Botnia Ab 2004–2009
- Board member: Confederation of Finnish Industries EK 2005–2009
- Board member: Sampo Oyj 2006–2008
- Independent of the company and its significant shareholders.



## Siv M. Schalin

b. 1962, Finnish citizen,

- M.Sc. (Econ.), MBA
- Outokumpu Board member 2011–
- Member of the Remuneration Committee
- President and General Manager, Patient Care Solutions: GE Healthcare Finland Oy 2008–
- Vice President, Service, Clinical Systems: GE Healthcare EMEA 2005–2008
- General Manager, Life Support Solutions: GE Healthcare Sweden 2004–2005
- Director, Critical Care Market Portfolio Team: Instrumentarium Oyj 2003–2004
- Area Manager, Nordic Countries: Instrumentarium Oyj 2001–2002
- Vice President, Components Business Unit, Prosthetics Division: Össur hf. 2000–2001
- President: Össur USA Inc. 1997–2000
- Supervisory Board Member, Arcada University of Applied Sciences 2009–
- Vice Chairman: FIHTA (Finnish Healthcare Technology Association) 2008–
- Chairman, Managing Director and member of the Board of several GE Healthcare group companies
- Independent of the company and its significant shareholders

## Anssi Soila

b. 1949, Finnish citizen

- M.Sc. (Eng.), B.Sc. (Econ.)
- Outokumpu Board Member 2008–2011
- Vice Chairman of the Board 2008–2011
- Member of the Remuneration Committee
- Kone Oyj 1973–1999, President and CEO 1994–1999: Kone Oyj
- Chairman of the Board: Kemira Oyj 2003-2007, Normet Group Oy 1999-2005 and Sponda Oyj 1999–2007
- Vice Chairman of the Board: Normet Group Oy 2005–
- Board Member: DNA Oy 2008–
- Board Member: Attendo AB 2007–
- Board Member: Outotec Oyj 2006–
- Board Member: Lindström Oy 1999–
- Independent of the company and its significant shareholders.

## Victoire de Margerie

b. 1963, French citizen

- Ph. D. (Management), LL.M., M.Pol.Sc.
- Outokumpu Board Member 2007–2011
- Member of the Audit Committee



- Founder and CEO: Marzac Investment 2009–
- Professor of Strategic Management: Grenoble Graduate School of Business 2003–
- General Manager: P echiney Plastic Bottles 2000–2002
- Vice President: Sales & Marketing P echiney Aluminum Canstock 1998–2000
- Chairman of the Board: Rondol Technology Ltd. (UK) 2008–
- Board Director and Member of the Audit Committee: Ciments Francais (France) 2006–
- Independent of the company and its significant shareholders.

## Leena Saarinen

b. 1960, Finnish citizen

- M.Sc. (Food technology)
- Outokumpu Board Member 2003–2011
- Member of the Remuneration Committee
- President and CEO: Suomen L hikauppa Oy (formerly Tradeka Ltd.) 2007–2010
- President and CEO: Altia Oyj 2005–2007
- Managing Director: Unilever Bestfoods Nordic Foodsolution 2003–2005
- National Manager 2002–2005 Suomen Unilever Oy and Board Member 1999 and 2001–2005
- Chairman of the Board: Nofu Oy 2011–
- Chairman of the Board 2010 and Board Member 2008–2009: the Finnish Grocery Trade Association
- Board Member: Helsingin Mylly Oy 2010–
- Board Member: Suomen L hikauppa Oy, Tuko Logistics Oy and Federation of Finnish Commerce 2008–2010
- Supervisory Board Member: Varma Mutual Pension Insurance Company and Luottokunta 2008–
- Independent of the company and its significant shareholders.

# MEMBERS OF THE EXECUTIVE COMMITTEE



## Mika Seitovirta

b. 1962, Finnish citizen

- M.Sc. (Econ.)
- CEO 1 April 2011–
- Chairman of the Group Executive Committee 1 April 2011–
- Responsibility: Group management, Communications and Investor Relations, Corporate Social Responsibility, Group Strategy (including Business Development and M&A), Programme Management Office, IS/IT and Group processes
- Responsibility from 1.1.2012: Group management, APAC and Group Functions: Group Strategy (including Business Development and M&A), Communications, Investor Relations & Marketing, Corporate Social Responsibility, Programme Management Office, IS/IT and Group processes
- Employed by the Outokumpu Group since 1 March 2011
- President and CEO: Glaston Corporation (former 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 and Aro-Yhtymä 1986–1994
- Member of the Board of Directors: Association of Finnish Steel and Metal Producers 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



## Esa Lager

b. 1959, Finnish citizen

- M.Sc. (Econ.), LL.M.
- Executive Vice President - Chief Financial Officer (CFO), Deputy to the CEO from 1.11.2011
- Member of the Group Executive Committee 2001–
- Responsibility: Financial and Business Control, Treasury and Risk Management, IT, Energy, Real Estate and portfolio business
- Responsibility from 1.1.2012: Financial and Business Control, Treasury and Risk Management, Raw Material Sourcing, Energy, Brass Operations, Procurement, Legal Affairs and IPR, Real Estate
- Employed by the Outokumpu Group since 1990
- Chief Financial Officer (CFO) 2005–, Executive Vice President – Finance and Administration 2001–2004, Corporate Treasurer 1996–2000 and Assistant Treasurer 1991–1995: Outokumpu Oyj
- Manager, Head Office/London Branch 1984–1990: Kansallis Banking Group
- Vice Chairman of the Board 2010– 2011 and Board Member 2003–2008: Okmetec Oyj
- Vice Chairman of the Board: Olvi Oyj 2002–
- Board Member: Ilkka-Yhtymä Oyj 2011–





## Hannu Hautala

b. 1965, Finnish citizen,

- M.Sc. (Eng.)
- Executive Vice President - General Stainless
- Member of the Group Executive Committee 2011–
- Responsibility: General Stainless consisting of stainless steel operations in Tornio and the finishing plant in Terneuzen
- Employed by the Outokumpu Group since 2010
- Senior Vice President - Tornio Works: Outokumpu Stainless 2010-2011
- Vice President: Elcoteq Hungary and Estonia 2008-2010
- Managing director: Elcoteq Hungary Ltd. 2005-2008
- General Manager: Flextronics 2002-2005
- Managing director: Rautaruukki Stahlservice GmbH 2000-2002
- Several positions in Rautaruukki in Germany and Finland 1991-2002



## Pii Kotilainen

b. 1960, Finnish citizen

- M.Sc. (Econ.)
- Executive Vice President – Human Resources and Health and Safety
- Member of the Group Executive Committee 2009–
- Responsibility: HR strategy and global HR processes, policies and practices, e.g. performance management, leadership development, resourcing and compensation and benefits
- Responsibility from 1.1.2012: Human Resources and Health and Safety
- Employed by the Outokumpu Group since 2009
- Senior Vice President, Group Human Resources: Huhtamaki Oyj 2006–2008
- Vice President Human Resources, Technology Platforms 2004–2006, Senior Vice President, Human Resources, Nokia Mobile Phones 2000–2004: Nokia Oyj
- Head of Nokia Learning Center Network: Nokia Networks, Milan, Italy 1998–2000
- Vice President Human Resources, 1994–1998, Senior Manager, Nokia Treasury Center 1991–1994: Nokia Oyj
- Board Member: Componenta Oyj 2010–
- Board Member: HSE Foundation 2012



## Kari Parvento

b. 1957, Finnish citizen

- M.Sc. (Eng.)
- Executive Vice President – Ferrochrome, Group Research & Development, Environment and Quality 2012–
- Member of the Group Executive Committee 2010–
- Responsibility: Group sales and marketing strategy, customer relationship development, end-user and project sales, distributors and processors sales, stock and processing development and Pricing office
- Responsibility from 1.1.2012: Ferrochrome (the Kemi Chromite Mine and ferrochrome production in Tornio), Group Research and Development, Environment and Quality
- Employed by the Outokumpu Group since 2010
- President, UG Hard Rock Mining and President, UG Soft Rock Mining and Managing Director, SMC Oy, Finland: Sandvik Group 2009–2010
- President, Underground Hard Rock Mining and Managing Director, SMC Oy, Finland: Sandvik Group 2007–2009
- Managing Director, Sandvik Mining and Construction Australia and Managing Director, Sandvik Materials Handling Pty Ltd. Australia: Sandvik Group 2005–2007
- Business Development Manager, Sandvik Tamrock Finland: Sandvik Group 2004–2005

- Managing Director Kuusakoski Sverige, Sweden 2004 and Country Manager, Scandinavia Finland 2000–2004: Kuusakoski Group Oy



## Jarmo Tonteri

b. 1952, Finnish citizen

- M.Sc. (Econ.), M.Sc (Technology)
- Executive Vice President – Specialty Stainless
- Member of the Group Executive Committee 2011–
- Responsibility: Responsible for Outokumpu's business units Special Coil, Special Plate and Long Products as well as the Kloster thin and precision strip mill and Group R&D
- Responsibility from 1.1.2012: Specialty Stainless: Special Coil, Special Plate, Kloster and Long Products including the Sheffield melt shop and Outokumpu's operations in USA
- Employed by the Outokumpu Group since 2011
- Managing Director: Ovako Group, Sweden 2005–2011
- Managing Director and Member of Rautaruukki Management Board: Fundia (Rautaruukki Group), Sweden 2000–2005
- Managing Director: Gasell (Rautaruukki Group), Sweden 1992–2000
- Managing Director: Lokomo Steel (Repola Group), USA 1990–1992
- Director, Metallurgical Division: Kuusakoski, Finland 1985–1990
- Sales Engineer (metallurgical process technology): Outokumpu, Finland 1978–1985
- Board Member: FN Steel Group 2010–

## Juha Rantanen

b. 1952, Finnish citizen

- M.Sc. (Econ.), MBA
- CEO 2005– 31 March 2011
- Chairman of the Group Executive Committee 2005– 31 March 2011
- Outokumpu Board Member and Vice Chairman 2003–2004
- Responsibility: Group management, Communications and IR, Corporate social responsibility, Legal Affairs & IPR and Energy strategy
- Employed by the Outokumpu Group 2004–August 2011
- President & CEO: Ahlstrom Corporation 1998–2004
- Chief Executive Officer: Borealis A/S 1994–1997
- Chief Financial Officer 1992–1994, Executive Vice President, Chemicals 1989–1992 and Executive Vice President, Gas 1986–1989: Neste Oy
- Chairman of the Board 2009–2011 and Board Member 2005–2009: Association of Finnish Steel and Metal Producers
- Chairman of the Board of Directors: Fennovoima Oy 2007–
- Chairman of the Board: Confederation of Finnish Industries EK 2003–2004
- Vice Chairman of the Board 2010– and Board Member 2008–2010: Stora Enso Oyj
- Vice Chairman of the Board: Moventas Oy 2007–2011
- Treasurer 2010–2011 and Board Member 2008–2011: International Stainless Steel Forum ISSF
- Board Member: Crisis Management Initiative 2011–
- Board Member: Technology Industries of Finland 2005–2011
- Supervisory Board Member: Varma Mutual Pension Insurance Company 2001–2011

## Karri Kaitue

b. 1964, Finnish citizen

- LL.Lic.
- Deputy CEO 2005– October 2011

- Member of the Group Executive Committee 2002– October 2011
- Vice Chairman of the Group Executive Committee 2005– October 2011
- Responsibility: Group strategy, Business Development and M&A, new ventures, Tornio Works and as of 1 March 2011 the Kloster plant in Sweden and Environment, Health and Quality
- Employed by the Outokumpu Group 1990– June 2012
- Executive Vice President – Strategy and Business Development: Outokumpu Oyj 2004
- President – Coil Products 2003–2004, Executive Vice President – Strategy and Business Development 2002–2003, Executive Vice President – M&A and Legal Affairs 2001–2002 and Member of the Executive Committee 2001–2003: AvestaPolarit Oy (former AvestaPolarit Oyj Abp)
- Senior Vice President – Corporate General Counsel: Outokumpu Oyj 1998–2001
- Assistant Vice President – Corporate Counsel: Outokumpu Group (USA) 1996–1998
- Chairman of the Board: Destia Oy 2009–
- Vice Chairman of the Board: Outotec Oyj 2006–
- Vice Chairman of the Board: Okmetic Oyj 2005–2010
- Board Member: Cargotec Oyj 2005–

## Jamie Allan

b. 1956, British citizen

- Executive Vice President – Supply Chain Management
- Member of the Group Executive Committee 2008–2011
- Responsibility: Production Excellence, Supply Chain Management operations, Procurement and Energy Procurement and Safety
- Employed by the Outokumpu Group 1978–2012
- Senior Vice President, Thin Strip Business Unit and Director: Outokumpu Oyj 2006–2007
- Senior Vice President, Coil Products Sheffield Business Unit and Director: Outokumpu Stainless Ltd 2003–2006
- Operations Director, Coil Products Sheffield, 2002–2003 and General Manager, Coil Products Sheffield, Panteg 2001–2002: AvestaPolarit Ltd
- General Manager, Operations: Avesta Sheffield Distribution Ltd 1996–2001
- Member of the British Stainless Steel Association

## Bo Annvik

b. 1965, Swedish citizen,

- M. Sc. (Econ.)
- Executive Vice President – Specialty Stainless
- Acting Executive Vice President – Group Sales and Marketing 2009–2010
- Member of the Group Executive Committee 2007– June 2011
- Responsibility: Special Coil and Plate as of 1 March 2011 and OSTP, Long Products and R&D
- Employed by the Outokumpu Group 2007– 2011
- President: SKF Sealing Solutions 2005–2007
- Vice President Business Development, Automotive Division 2002–2005: SKF Executive Vice President, Nordic/Sweden 2000–2002: Volvo Cars/PAG
- Vice President, Marketing, Europe 1998–2000, Vice President, Product Planning & Bus. Dev., North America 1996–1998, Act. Vice President, Business Strategy & Product Planning 1995–1996, Business Strategy Director 1994–1995: Volvo Car Corporation
- Chairman of the Board: SKGS (Skog, Kemi, Gruvor & Stål) 2011–
- Board Member: Tibnor AB 2009–
- Board Member: Jernkontorets Fullmäktige/Jernkontoret - The Swedish Steel Producers' Association 2008–

- Board Member: Stål & Metall/Employers' Association of The Swedish Steel and Metal Industry 2008–

# 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 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 organisation

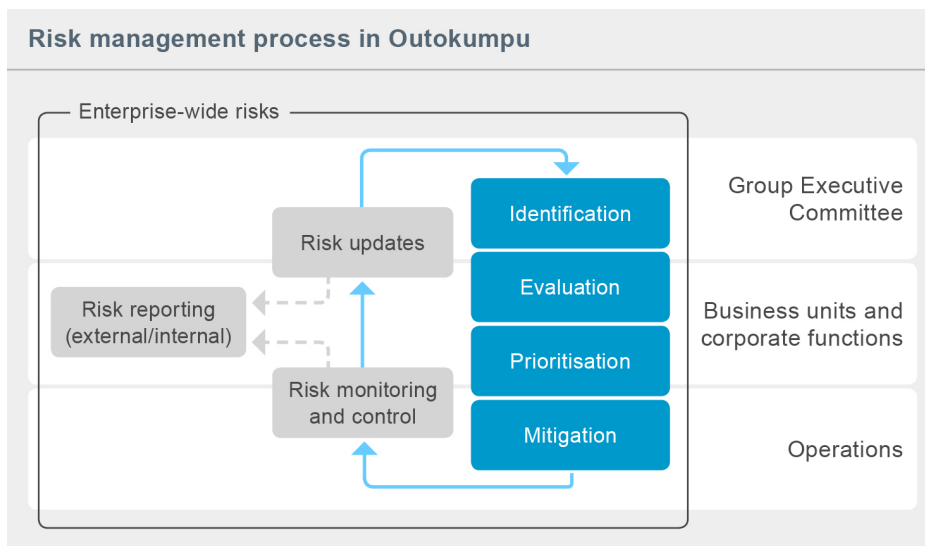
The Outokumpu Board of Directors carries ultimate responsibility for risk management within the Group. Outokumpu's CEO and the Group Executive Committee are responsible for defining and implementing risk management procedures, and for ensuring that risks are both properly addressed and taken into account in strategic and business planning. Business Units and Group functions are responsible for managing risks connected with their own operations.

Auditors and Internal Audit monitor risk management processes, and the Group Executive Committee, the Board's Audit Committee and Outokumpu's Board of Directors review both key risks and actions taken to manage these risks on a regular basis. The Treasury and Risk Management function supports implementation of Outokumpu's risk management policy, facilitates and coordinates risk management, and prepares quarterly risk reports for management, the Board's Audit Committee and the Group's auditors.

## The 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 Outokumpu's overall management processes and is divided into four stages: risk identification, risk evaluation, risk prioritisation and risk mitigation.



Outokumpu's risk management process is monitored and controlled at different organisational levels in a systematic manner. Regular risk updates are performed to make sure that the process continues in an uninterrupted manner. The monitoring, analysis of results and risk updates also ensures that accurate information is provided both internally – to Business Unit management teams and the Group Executive Committee – and to external parties such as shareholders and other stakeholders.

## Focus areas

### Risk workshops

The risk management process was instituted at all organisational levels within Outokumpu during 2011 through risk workshops covering the subjects of risk identification, evaluation, prioritisation and mitigation. The Group's risk tolerance and key risks were also updated by the Group Executive Committee during 2011. The revisions to risk tolerance reflect Outokumpu's reduced risk-bearing capacity. Risk workshops held during 2011 were mainly focusing on the Tornio site business unit, where some 50 people were trained to run risk workshops within the unit's various departments and functions. The aim of these workshops was to provide guidance on identifying, evaluating and mitigating operational risks. Risk workshops were also arranged in other Group functions, including the Treasury and Risk Management function.

### Management of credit risks

All external sales contracted by Outokumpu must be covered by approved credit limits or secured payment terms. Most of the Group's current outstanding trade receivables have been secured by credit insurance which typically covers approximately 90% of an insured credit loss. Part of the credit risk which relates to trade receivables is managed through letters of credit, advance payments and bank guarantees. Outokumpu's credit risk insurances were renewed in 2011 through long-term agreements at lower premiums than in the preceding agreements. The utilisation of credit limit capacity also improved significantly due to a change in policy structure and this, in combination with improved credit limit availability and higher acceptance rates, reduced the level of uninsured sales made during 2011. In connection with the worsening European debt crisis, Group exposure to related risks was closely monitored and analysed.

Negative impacts on the outlook for credit limit availability from major credit risk insurers are likely if the European financial crisis continues. This would mean that Outokumpu will be exposed to increased credit risks as customers' liquidity and the credit limits available to them weaken. Country-specific actions by credit risk insurers may also expand in the future.

### Fire safety

Fire safety is systematically audited through a survey programme linked to Outokumpu's insurances. Some 30 safety audits were conducted in 2011 in co-operation with insurers and insurance brokers. Progress in fire safety during 2011 included also the launch of fire safety standards and the development of instructions for maintaining business continuity.

### Realised risks

No major damage to Outokumpu's property or significant business interruptions occurred in 2011. The most significant risks to the Group's operations during the year were associated with overcapacity in stainless steel markets, the continuing negative influence of global economic uncertainty, and declining prices for nickel and molybdenum. The deepening debt crisis in Europe had a negative impact on demand for stainless steel resulting in a negative effect on Outokumpu's profitability and gearing. Realised business risks resulted in impairments of Group assets (Outokumpu's tubular products business and the Kloster Thin Strip unit) being booked in the second quarter of 2011.

Outokumpu is a leading global stainless steel company.

The Group's products and solutions are used by customers worldwide across different industries.

Being fully recyclable, maintenance free, as well as a very strong and durable material, stainless steel is one of the key building blocks for a sustainable future.