

Interim report

Q2
2014

Outokumpu's superduplex endures in Valmet's flue-gas cleaning equipment

Outokumpu delivers altogether 40 tonnes of Outokumpu 2507, 2205, 254 SMO® and 316L stainless steel grades for two flue-gas desulphurization units designed by Valmet (formerly Metso). After the European Union's sulphur directive comes into force in 2015, sulphur concentration in the ship fuel must be below 0.1% in the Baltic and Northern Sea. In practice, ships need to either install flue-gas desulphurization units to remove sulphur dioxide or use more expensive low-sulphur fuel.

"The environment in the flue-gas desulphurization unit is harsh and it varies depending on where ships are sailing. Sulphur, seawater and heat put together require highly corrosion resistant materials. Due to the presence of such demanding environments, we decided to use duplex stainless steel grades. We get good benefits of Outokumpu's duplex grades in flue-gas cleaning, where material is under a lot of pressure. Duplex is an excellent material in this use," says Juha Laukka at Valmet.

outokumpu
high performance stainless steel



CONTENTS

Highlights in the second quarter 2014	2
Update on profitability improvement programs	5
Ongoing ramp-ups.....	6
Market development.....	7
Business areas	9
Financial performance.....	12
Market and business outlook.....	18
Key targets updated.....	19
Risks and uncertainties	20
Environment	21
Share development and shareholders	22
Condensed consolidated financial statements	25

Financial results continued to improve but cash flow was negative

Highlights in the second quarter 2014

Outokumpu's operational performance continued to improve in line with management expectations. The second-quarter underlying EBIT¹⁾ loss was EUR 6 million. Operating cash flow was EUR -257 million.

- Stainless steel deliveries stayed on a constant level at 675,000 tonnes²⁾ (I 2014: 676,000 tonnes).
- Underlying EBITDA¹⁾ doubled to EUR 75 million versus EUR 37 million in the first quarter and underlying EBIT was EUR -6 million (I 2014: EUR -45 million). The improvement shows a better product mix in deliveries and an average EUR 20-30/tonne higher base prices coupled with traction from cost savings benefits.
- EBIT was EUR -10 million (I 2014: EUR -188 million). EBIT includes non-recurring items of EUR -7 million as well as positive net effect of raw material-related inventory and hedging gains/losses of EUR 3 million (I 2014: EUR -140 million and EUR -3 million).
- Operating cash flow was EUR -257 million (I 2014: EUR -14 million) due to the increase in working capital.
- Net interest-bearing debt increased to EUR 2,068 million (March 31, 2014: EUR 1,733 million) and gearing to 92.5% (March 31, 2014: 75.9%).

1) Due to the revised metal hedging policy from the beginning of 2014 Outokumpu has adjusted the definition for underlying EBIT and underlying EBITDA: In addition to non-recurring items and raw material-related inventory gains/losses, Outokumpu now also excludes the metal derivative gains/losses.

2) metric ton = 1,000 kg

Group key figures

		II/14	I/14	II/13	2013
Sales	EUR million	1,753	1,617	1,738	6,745
EBITDA	EUR million	70	-78	-86	-165
EBITDA excl. non-recurring items	EUR million	78	34	-40	-87
Underlying EBITDA ¹⁾	EUR million	75	37	-2	-32
EBIT	EUR million	-10	-188	-171	-510
EBIT excl. non-recurring items	EUR million	-3	-48	-125	-432
Underlying EBIT ²⁾	EUR million	-6	-45	-87	-377
Result before taxes	EUR million	-48	-262	-236	-822
Net result for the period from continuing operations	EUR million	-49	-267	-231	-832
excluding non-recurring items	EUR million	-42	-128	-185	-706
Net result for the period	EUR million	-58	-248	-250	-1,003
Earnings per share ³⁾	EUR	-0.14	-1.66	-1.87	-7.52
excluding non-recurring items ³⁾	EUR	-0.12	-0.71	-1.53	-6.56
Return on capital employed	%	-1.0	-18.3	-12.0	-10.3
excluding non-recurring items	%	-0.3	-4.7	-8.8	-8.7
Net cash generated from operating activities, continuing oper.	EUR million	-257	-14	-175	34
Net interest-bearing debt at the end of period	EUR million	2,068	1,733	3,859	3,556
Debt-to-equity ratio at the end of period	%	92.5	75.9	152.9	188.0
Capital expenditure, continuing operations	EUR million	33	15	30	183
Stainless steel deliveries, continuing operations ⁴⁾	1,000 tonnes	675	676	640	2,585
Stainless steel base price ⁵⁾	EUR/tonne	1,093	1,070	1,137	1,103
Personnel at the end of period, continuing oper, excl. summer trainees ⁶⁾		12,365	12,436	13,021	12,561

¹⁾ EBITDA excluding non-recurring items, other than impairments; raw material-related inventory gains/losses and as of I/14 metal derivative gains/losses, unaudited.

²⁾ EBIT excluding non-recurring items, raw material-related inventory gains/losses and as of I/14 metal derivative gains/losses, unaudited.

³⁾ Calculated based on the rights-issue-adjusted weighted average number of shares, comparative figures adjusted accordingly. Comparative figures adjusted to reflect the reverse split on June 20, 2014.

⁴⁾ Excludes ferrochrome deliveries.

⁵⁾ Stainless steel: CRU - German base price (2 mm cold rolled 304 sheet).

⁶⁾ On June 30, 2014 Group employed in addition some 800 summer trainees (June 30, 2013: some 700).

Business and financial outlook for the third quarter of 2014

Outokumpu estimates overall stainless steel demand and pricing environment to remain relatively healthy in the third quarter, with a seasonal slowdown in the European market. The company estimates somewhat lower delivery volumes and some improvement in stainless steel base prices in the third quarter. Outokumpu expects continued progress, although with a slower rate, in the cost efficiency initiatives and synergies.

For the third quarter of 2014, Outokumpu expects sequentially slightly worse underlying EBIT primarily due to seasonal impacts. Net impact of raw material-related inventory and metal hedging gains/losses on profitability is expected to be EUR 10-20 million positive.

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

CEO Mika Seitovirta:

“During the second quarter we saw interesting developments in the stainless steel market. Nickel price continued its sharp increase, peaking above 21,200 US dollars per tonne in May and averaging 26% above the first quarter. Even more importantly, stainless steel demand continued to recover and base prices increased moderately in both Europe and US. Import levels into Europe were exceptionally high, close to 30%, reflecting the turbulence in the Asian stainless steel market.

Our financial performance developed in line with our expectations. There was a visible improvement in underlying EBIT compared to the previous quarter. Delivery volumes stayed on a similar level to the first quarter, and both product mix and base prices were better. These, together with continued progress on the savings programs resulted in improved financial performance. Looking at our biggest profitability improvement levers, we saw Stainless Americas to reach break-even quarterly EBITDA for the first time, and in EMEA we saw continued improvement in profitability despite lower delivery volumes.

The increase in nickel price and typical seasonal build-up of inventories had an anticipated adverse effect on cash flow. For the first half of the year, operating cash flow was EUR 271 million negative. While increase in inventories is typical for the second quarter, we still see further room for improvement in our inventory and net working capital management in general. Thus, we will continue focused efforts on these. Furthermore, as we execute the large scale industrial changes in Europe and ramp-up in the United States, it is crucial that we address any production and delivery issues promptly and take necessary corrective measures.

We have moved in to the second half of the year in a relatively healthy operating environment. The demand in Americas remains robust. In Europe we expect some slowdown for the summer period. Thus, we estimate lower delivery volumes for Outokumpu in the third quarter which will affect our financial results negatively. However, we remain confident that the positive momentum continues, and believe that Outokumpu is well positioned to continue towards profitability.”

Update on profitability improvement programs

Synergy savings

In the second quarter of 2014, additional synergy savings of EUR 29 million have been achieved, leading to total cumulative synergy savings of EUR 147 million since the beginning of 2013. Roughly 60% of total savings came from raw material and general procurement. The Krefeld melt shop closure at the end of 2013 and the headcount reductions also contributed to the overall achievement. Stainless EMEA's share in overall synergy savings added up to 73% by the end of the second quarter, followed by Specialty Stainless with 24%. Outokumpu expects cumulative synergy savings to reach more than EUR 170 million in 2014, with majority coming from production optimization. The synergy savings target of EUR 200 million latest by the end of 2017 remains unchanged.

P150 savings

Outokumpu introduced its P150 cost reduction program in the beginning of 2013 with the goal of reaching a EUR 150 million reduction in Outokumpu's annual fixed and variable costs by the end of 2014. These savings are on top of the synergy measures. The main drivers of the program are savings in procurement, IT, operational costs as well as in general and administration costs, including headcount reductions. During the second quarter of 2014, EUR 37 million of cost savings were reached leading to cumulative realized savings of EUR 169 million and thereby already exceeding the original target. Especially EMEA, Americas and Specialty Stainless contributed to this as well as very good results in raw material procurement. Outokumpu is currently working on identifying and implementing further cost saving potential and plans to introduce new target levels in the coming months.

EMEA restructuring savings

Outokumpu reached an agreement with the German labor unions regarding the EMEA restructuring plan in March 2014. Implementation of the plans stays with the original targeted annual savings of EUR 100 million by the end of 2017 intact. The closure of the melt shop in Bochum will take place in 2015 following a production transfer process to other sites. Between 2014 and 2016, a EUR 108 million investment will be made at the Krefeld cold rolling center in Germany to optimize ferritic stainless steel production. The Benrath cold rolling mill is expected to be closed in 2016 after the production transfer to Krefeld has been completed. 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 2017.

One-time initial cash costs for all three programs are expected to amount to approximately EUR 200 million between 2013 and 2017. By the end of June 2014, EUR 174 million of provisions related to these programs had been recorded. Cash out from these are estimated to impact primarily years 2014 and 2015.

Cumulative savings from corporate programs

EUR million	2013	I/14	II/14	2014f	Target 2017
Total cumulative savings	199	251	316	>340	>470
of which: Synergies	95	119	147	>170	200
of which: P150	104	132	169	>170	>170
of which: EMEA restructuring	-	-	-	-	100

P300 net working capital program

In February 2013, Outokumpu announced a two-year working capital reduction program, P300. The program targets a net working capital reduction of EUR 300 million through active inventory, accounts receivable and accounts payable management. Since the beginning of 2013, EUR 151 million of net working capital has been reduced, mainly through reduction of inventories.

In the second quarter of 2014, the expected build-up of inventories and sharp increase in nickel price had an adverse effect on cash flow. Thus, inventory days, Outokumpu's key metric for inventory efficiency, increased from 85 days in the first quarter to an average of 96 days in the second quarter. While seasonal increase in inventories is typical for the quarter, Outokumpu will continue its tight control over net working capital and inventories in line with the anticipated market demand. The target for working capital efficiency measured in inventory days is 91 on average for 2014.

Ongoing ramp-ups

Ferrochrome production ramp-up

The ramp-up of new capacity at the integrated ferrochrome operations in Finland continued according to plans. Quarterly ferrochrome production was 98,000 tonnes (I 2014: 121,000 tonnes). The second-quarter production was reduced because of a transformer breakdown in one of the two older ferrochrome smelters earlier this year as well as an annual maintenance break at smelter number 1. Corrective actions for the transformer breakdown are in place and the estimated impact on full year 2014 production volume is minor. The full technical production capacity of 530,000 tonnes is expected to be reached in 2015.

Calvert ramp-up

The ramp-up of Outokumpu's integrated stainless steel mill in Calvert, USA continues to develop positively with improvements and better production stability over the previous quarters. The ramp-up of the cold rolling mill is proceeding with an expanded product portfolio in order to match customer needs. The production covers both standard austenitic and ferritic grades as well as widths ranging from 36 to 72 inches wide. Product quality is improving as the ramp-up progresses, and delivery reliability remains a key. In April there was a 2-week maintenance break on the hot annealing and picking line and in May and June production was again at record levels. However, the maintenance break had a small impact on second-quarter deliveries. In June one of the three cold rolling lines in Calvert was taken down for technical reasons. Corrective actions are being implemented to limit any negative impact on customer deliveries.

The melt shop ramp-up continues with operations aligned with the higher production levels of 2014. A fourth shift was introduced in the melt shop in May. Special efforts are being made to optimize and stabilize the raw material mix and scrap ratios. During the second quarter, black hot band supply from Calvert to Mexinox almost doubled, replacing the earlier supply from Europe.

Market development

Stainless steel demand recovery continued during the second quarter

Global demand for stainless steel products totaled 9.3 million tonnes in the second quarter of 2014, up by 0.9% compared to the first quarter of 2014. Demand in the Americas increased by 2.4%. Demand in the EMEA and the APAC regions grew moderately by 0.8% and 0.7% respectively.

Market development of total stainless steel real demand in Q2 2014

Million tonnes	2013	II/13	I/14	II/14e	Δ y-o-y	Δ q-o-q
EMEA	6.9	1.8	1.8	1.8	-2.0%	0.8%
Americas	3.4	0.9	0.9	0.9	0.4%	2.4%
APAC	24.5	6.1	6.5	6.6	8.6%	0.7%
Total	34.8	8.8	9.2	9.3	5.5%	0.9%

Source: SMR July 2014

e = estimate

In the Architecture/Building & Construction and Chemical/Petrochemical & Energy segments global demand increased in the second quarter of 2014 by 4.0% and 3.2% respectively as compared to the first quarter of 2014. Additionally growth was seen in the Industrial & Heavy Industries and Automotive & Heavy Transport segments with quarter-on-quarter growth rates of 1.0% and 1.2% respectively. In the Consumer Goods & Medical segments demand decreased by 1.0% in the second quarter of 2014.

Imports into the EU reached 29.8% of total consumption in the second quarter of 2014 compared to an average level of 24.9% in the first quarter 2014 and compared to an average level of 23.8% for the full year of 2013. The largest countries in terms of imports to the EU included China, Taiwan, South Korea, the USA, South Africa, India and Japan.

Sources: Eurofer July 2014

Average imports into the NAFTA region are expected to reach 18.2% of the total consumption in the second quarter of 2014, up from 14.5% in the previous quarter. The average import level in 2013 was 13.4%.

Sources: Foreign Trade Statistics July 2014

Stainless steel transaction prices

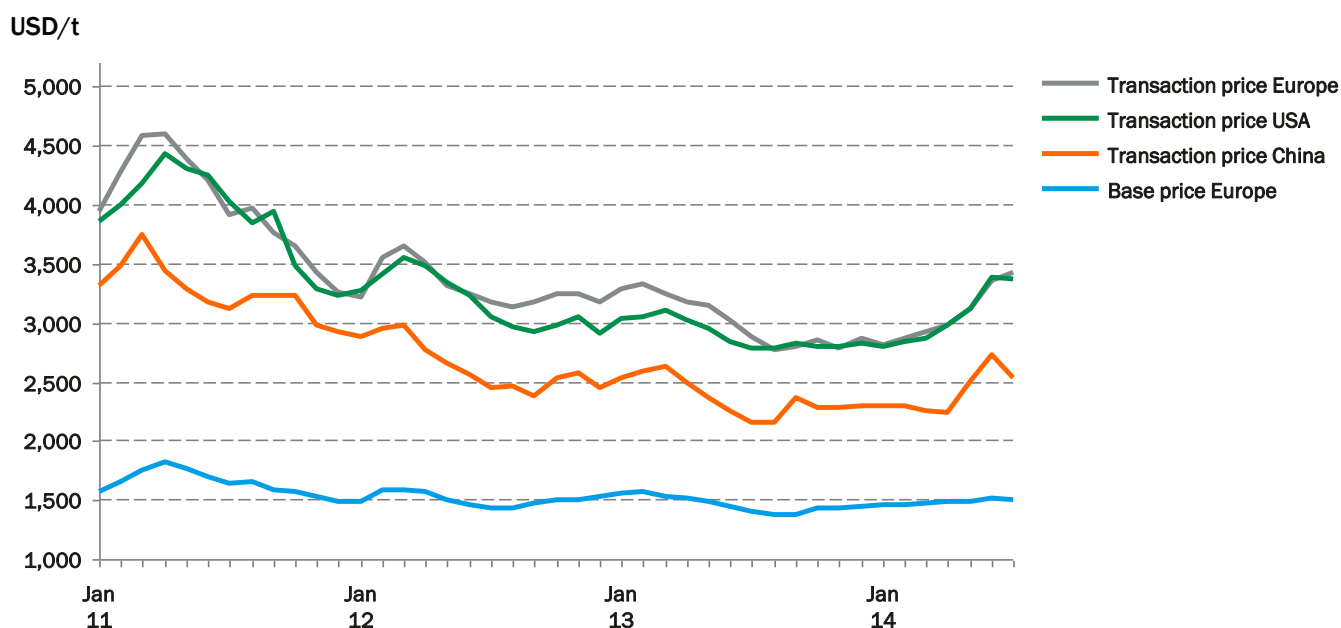
According to CRU, average transaction prices in the second quarter of 2014 for 2mm cold rolled 304 stainless steel in all regions increased in a range of 9-12% compared to the previous quarter, mainly driven by the increase in raw material prices. Base prices in Europe and the US showed moderate improvement. Compared to last year's second quarter, average transaction price levels in the EU, USA and China increased by 1.1%, 7.7% and 5.0% respectively.

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

USD/t	2013	II/13	I/14	II/14	Δ y-o-y	Δ q-o-q
Europe Base	1,465	1,485	1,466	1,498	0.9%	2.2%
Alloy	1,550	1,634	1,405	1,652	1.1%	17.6%
Transaction price	3,015	3,119	2,872	3,152	1.1%	9.7%
USA Base	1,348	1,323	1,367	1,396	5.5%	2.1%
Alloy	1,554	1,613	1,468	1,765	9.4%	20.2%
Transaction price	2,902	2,936	2,835	3,161	7.7%	11.5%
China Transaction price	2,370	2,373	2,283	2,492	5.0%	9.2%

Source: CRU July 2014

Regional developments in the transaction price for stainless steel flat cold-rolled 304 2mm sheet



Source: CRU July 2014

Price development of alloying metals

During the second quarter 2014, the nickel price¹⁾ traded in the range from 15,780 to 21,200 USD/tonne. While the nickel price was surging strongly until mid-May, driven by concerns about the future availability of laterite nickel ore as a result of the Indonesian ore export ban and strong demand, it came down subsequently and closed the quarter at 18,715 USD/tonne. The quarterly average price was 18,464 USD/tonne, 26.2% higher than 14,632 USD/tonne in the first quarter of 2014.

The European benchmark price²⁾ for ferrochrome increased from 1.18 USD/lb. in the first quarter to 1.22 USD/lb. in the second quarter, on the back of strong demand from the stainless steel mills. The third-quarter benchmark price has not been announced yet.

The average molybdenum price³⁾ for the second quarter was 13.7 USD/lb., up by 36.9% from 10.0 USD/lb. in the first quarter of 2014.

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

On June 18, 2014, Outokumpu announced changes in its operational model and Leadership Team. The purpose of the changes is to increase customer and market orientation, drive business performance and increase speed and accountability. As of September 1, 2014 Outokumpu will consist of five business areas with sales, production, and profit responsibility:

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

Outokumpu plans to report its 2014 third-quarter results according to a new segment structure.

Stainless EMEA

The key focus of Stainless 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 key in returning the company to profitability.

In the second quarter, Stainless EMEA's stainless steel deliveries declined to 370,000 tonnes, (I 2014: 392,000 tonnes). Although demand for stainless steel continued to recover and order books are healthy, deliveries were down. Main reason was transportation disruption in Germany after a heavy storm in early June. Also, the focus on higher margin deliveries are paying off, impacting overall delivery numbers slightly negative. Sales were EUR 947 million, largely on par with the first quarter (I 2014: EUR 959 million).

Outokumpu achieved around EUR 25/tonne price increase in Europe for standard austenitic grade deliveries in the second quarter. Further price increases have been announced for September deliveries. The ferrochrome investment ramp-up continued: production for the quarter was 98,000 tonnes (I 2014: 121,000 tonnes), reduced due to the transformer breakdown at one of the two older ferrochrome smelters earlier this year as well as an annual maintenance break in the smelter number 1.

Stainless EMEA key figures

		I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
Stainless steel deliveries	1,000 tonnes	457	402	859	365	352	1,575	392	370	762
Ferrochrome deliveries, continuing oper.	1,000 tonnes	28	65	93	57	62	212	25	25	51
Sales	EUR million	1,340	1,111	2,450	943	874	4,267	959	947	1,906
EBITDA	EUR million	19	-4	15	8	5	28	-46	46	0
EBITDA excl. non-recurring items	EUR million	19	28	47	8	27	82	47	53	100
Underlying EBITDA	EUR million	na	na	na	na	na	na	51	55	107
EBIT	EUR million	-28	-49	-78	-37	-44	-158	-118	3	-115
EBIT excl. non-recurring items	EUR million	-28	-17	-46	-37	-21	-104	2	9	11
Underlying EBIT	EUR million	na	na	na	na	na	na	7	12	18
Depreciation and amortization	EUR million	-44	-45	-89	-45	-45	-179	-45	-43	-88
Capital expenditure	EUR million	26	14	40	14	15	69	7	17	24
Operating capital	EUR million	2,368	2,425	2,425	2,401	2,218	2,218	2,131	2,195	2,195

EBITDA excluding non-recurring items improved quarter-on-quarter from EUR 47 million to EUR 53 million. There was a small improvement despite lower delivery volumes due to cost streamlining measures. Additional non-recurring redundancy provisions of EUR 7 million were booked in the second-quarter. The first

quarter EBITDA included non-recurring items of EUR -93 million. Underlying EBIT for the quarter was EUR 12 million (I 2014: EUR 7 million).

Stainless Americas

Stainless Americas' key focus is to build up a strong position in the Americas market by focusing on superior product quality, technical service, and delivery reliability. Improvement in Stainless Americas' financial performance is a priority and driven by the ramp-up of the Calvert facility. The aim is to finalize the Calvert technical ramp-up during 2014 and implement the full commercial ramp-up by 2016. In addition, Stainless Americas focuses on ensuring performance of the Mexican operations.

Stainless Americas key figures

		I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
Deliveries	1,000 tonnes	102	116	218	129	119	465	135	143	278
Sales	EUR million	202	231	433	251	223	906	254	291	545
EBITDA	EUR million	-38	-70	-107	-50	-43	-201	-19	1	-18
EBITDA excl. non-recurring items	EUR million	-38	-70	-107	-50	-35	-193	-19	1	-18
Underlying EBITDA	EUR million	na	na	na	na	na	na	-23	-7	-30
EBIT	EUR million	-54	-87	-142	-68	-60	-270	-36	-17	-53
EBIT excl. non-recurring items	EUR million	-54	-87	-142	-68	-53	-262	-36	-17	-53
Underlying EBIT	EUR million	na	na	na	na	na	na	-40	-25	-65
Depreciation and amortization	EUR million	-17	-18	-34	-18	-17	-69	-17	-17	-35
Capital expenditure	EUR million	23	3	26	2	16	44	2	2	4
Operating capital	EUR million	1,290	1,271	1,271	1,157	1,040	1,040	993	1,111	1,111

Stainless Americas' operational performance continued to improve during the second quarter. Deliveries trended upwards due to progress in the Calvert ramp-up as well as a healthy demand situation. Deliveries were up by 5.9% to 143,000 tonnes (I 2014: 135,000 tonnes). Sales grew by 14.3% to EUR 291 million (I 2014: EUR 254 million). Outokumpu raised its base prices in the US twice in the second-quarter and there is an additional base price increase announced for September deliveries. The effective base price increase in second quarter deliveries was about 40 USD/tonne.

A gradual positive trend continued in Stainless America's profitability with the quarterly EBITDA excluding non-recurring items reaching a break-even for the first time (I 2014: EUR -19 million). The improvement is driven by better performance in Mexinox and the gradual improvement in Calvert. In April there was a 2-week maintenance break on the hot annealing and picking line in Calvert affecting second quarter deliveries. In June one of the three cold rolling lines in Calvert was taken down because of technical reasons. Corrective actions are being implemented to limit any negative impact on customer deliveries. The goal of break-even EBITDA for Stainless Americas for the full year 2014 remains intact.

Stainless APAC

Stainless APAC'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 stainless steel market in the APAC region was very turbulent in the second quarter. The spike in nickel price in May had an impact on hot band raw material prices for Outokumpu and some customers were holding back orders. For the European import business order intake has been sluggish and is affected by long lead times from Outokumpu's European mills and the rising prices. Order intake at the SKS cold rolling mill in China improved in the second quarter compared to the first quarter.

Stainless APAC key figures

		I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
Deliveries	1,000 tonnes	36	29	66	56	62	184	48	58	106
Sales	EUR million	85	74	159	111	117	388	88	118	206
EBITDA	EUR million	4	3	7	4	-3	9	-2	4	2
EBITDA excl. non-recurring items	EUR million	4	3	7	4	-3	9	-2	4	2
Underlying EBITDA	EUR million	na	na	na	na	na	na	-2	4	2
EBIT	EUR million	0	-1	-1	0	-7	-7	-5	1	-5
EBIT excl. non-recurring items	EUR million	0	-1	-1	0	-6	-7	-5	1	-5
Underlying EBIT	EUR million	na	na	na	na	na	na	-5	1	-5
Depreciation and amortization	EUR million	-4	-4	-8	-4	-4	-16	-3	-3	-6
Capital expenditure	EUR million	1	1	1	1	1	3	0	0	1
Operating capital	EUR million	229	222	222	210	189	189	177	183	183

Deliveries were 58,000 tonnes in the second quarter of 2014, up 11,000 tonnes quarter-on-quarter. The pickup in deliveries was due to SKS and trader business.

APAC's second-quarter EBITDA excluding non-recurring items improved to EUR 4 million from EUR -2 million driven by higher deliveries.

Specialty Stainless

The key focus of Specialty Stainless is to identify new customers and sales opportunities to drive profitability. In addition, Specialty Stainless is finalizing its ongoing investments in Degerfors, Sweden, and continuing several cost reduction and efficiency improvement initiatives. The closure of the Kloster operations in Sweden by the end of 2014 is progressing as planned.

Operating environment for quarto plate and long products businesses remained favorable in the second quarter of 2014. Both project business and underlying demand continued at a relatively healthy level for the most of the quarter slowing down a bit in June ahead of the European holiday period. Avesta and Degerfors experienced some production issues during the quarter which resulted in inventory build-up.

Specialty Stainless key figures

		I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
Deliveries	1,000 tonnes	143	116	260	109	121	490	133	136	269
Sales	EUR million	490	420	911	336	372	1,619	400	442	842
EBITDA	EUR million	25	1	26	-12	13	27	-2	21	19
EBITDA excl. non-recurring items	EUR million	25	1	26	-12	13	27	18	21	39
Underlying EBITDA	EUR million	na	na	na	na	na	na	19	21	39
EBIT	EUR million	9	-14	-5	-27	-1	-33	-16	7	-9
EBIT excl. non-recurring items	EUR million	9	-14	-5	-26	-1	-32	4	7	11
Underlying EBIT	EUR million	na	na	na	na	na	na	5	7	11
Depreciation and amortization	EUR million	-15	-15	-30	-14	-14	-58	-14	-14	-28
Capital expenditure	EUR million	10	10	20	21	13	54	5	8	13
Operating capital	EUR million	869	805	805	783	743	743	730	782	782

Deliveries were up slightly to 136,000 tonnes quarter-on-quarter despite the production and delivery reliability issues.

EBITDA excluding non-recurring items for the second quarter remained largely unchanged at EUR 21 million (I 2014: EUR 18 million).

Financial performance

Deliveries flat

Outokumpu's stainless steel deliveries in the second quarter of 2014 remained stable at 675,000 tonnes (I 2014: 676,000 tonnes). Higher quarter-on-quarter deliveries in Stainless Americas, Stainless APAC and Specialty Stainless were counterbalanced by a decrease in Stainless EMEA.

Capacity utilization rates of the Outokumpu production facilities have improved, reflecting the closure of the Krefeld melt shop in December 2013 and the progress in the Calvert ramp-up. In the second quarter, Outokumpu's average utilization rate in melting and cold rolling remained on par with first quarter at 85% and 75% respectively (2013 average: melting 65% and cold rolling 70%).

Continuing operations' deliveries

1,000 tonnes	I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
Cold rolled	480	456	936	483	460	1,879	487	489	976
White hot strip	103	94	197	81	92	370	103	107	210
Quarto plate	23	19	42	16	18	77	22	23	45
Long products	15	17	32	16	15	62	16	18	34
Semi-finished products	92	116	208	94	96	398	71	62	133
Stainless steel ¹⁾	64	51	115	38	33	186	46	37	83
Ferrochrome	28	65	93	57	62	212	25	25	51
Tubular products	6	3	8	2	2	12	2	2	4
Total deliveries	719	705	1,424	692	682	2,797	701	701	1,402
Stainless steel deliveries	691	640	1,330	635	620	2,585	676	675	1,352

¹⁾ Black hot band, slabs, billets and other stainless steel products

Sales and earnings up on higher prices and savings

Sales

EUR million	I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
Stainless EMEA	1,340	1,111	2,450	943	874	4,267	959	947	1,906
Stainless Americas	202	231	433	251	223	906	254	291	545
Stainless APAC	85	74	159	111	117	388	88	118	206
Specialty Stainless	490	420	911	336	372	1,619	400	442	842
Other operations	100	114	214	166	158	538	135	178	313
Intra-group sales	-350	-212	-562	-198	-214	-974	-220	-221	-441
	1,867	1,738	3,604	1,609	1,531	6,745	1,617	1,753	3,371

Outokumpu sales in the second quarter of 2014 grew by 8.4% to EUR 1,753 million (I 2014: EUR 1,617 million) mainly driven by higher stainless steel prices and a lower share of semi-finished products in delivery.

For Outokumpu, base prices increased by about 20-30 EUR/tonne during the second quarter. According to CRU, the average base price¹⁾ for the second quarter 2014 was 1,093 EUR/tonne (I 2014: 1,070 EUR/tonne).

¹⁾ Global average base price for 2 mm cold rolled 304 stainless steel sheet

Profitability

EUR million	I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
Underlying EBITDA ¹⁾	5	-2	3	-34	-1	-32	37	75	112
Adjustments to EBITDA									
Non-recurring items in EBITDA	-2	-46	-47	-1	-29	-78	-113	-7	-120
Net of raw material-related inventory and metal derivative gains/losses, unaudited ²⁾	-3	-38	-41	-15	1	-56	-3	3	-1
EBITDA	0	-86	-86	-50	-29	-165	-78	70	-8
Underlying EBIT ³⁾	-82	-87	-169	-118	-90	-377	-45	-6	-51
Adjustments to EBIT									
Non-recurring items in EBIT	-2	-46	-47	-1	-29	-78	-140	-7	-147
Net of raw material-related inventory and metal derivative gains/losses, unaudited ²⁾	-3	-38	-41	-15	1	-56	-3	3	-1
EBIT	-87	-171	-258	-134	-118	-510	-188	-10	-198

¹⁾ EBITDA excluding non-recurring items, raw material-related inventory gains/losses and as of I/14 metal derivative gains/losses, unaudited.

²⁾ I-IV/13 and 2013 exclude metal derivative gains/losses.

³⁾ EBIT excluding non-recurring items, raw material-related inventory gains/losses and as of I/14 metal derivative gains/losses, unaudited.

Outokumpu reached positive EBITDA of EUR 70 million during the second quarter of 2014, compared to EUR -78 million in the first quarter. Non-recurring items of EUR -7 million were booked related to redundancy provisions in Outokumpu's European operations (I 2014: EUR -113 million related to redundancy and environmental provisions).

The net effect from raw material-related inventory and hedging gains/losses in the second quarter of 2014 was EUR 3 million (I 2014: EUR -3 million).

Adjusted for non-recurring items and net of raw material-related inventory and metal derivative gains/losses underlying EBITDA was EUR 75 million, up from EUR 37 million in the first quarter of 2014 and EUR -2 million in the second quarter of 2013.

Underlying EBIT further improved to EUR -6 million compared to EUR -45 million in the first quarter of 2014 and EUR -87 million in the second quarter of 2013. The improvement in underlying profitability quarter-on-quarter shows traction from restructuring and saving programs, a better product mix and higher base prices.

Non-recurring items in EBITDA and EBIT

EUR million	I/13	II/13	I-II/13	III/13	IV/13	2013	I/14	II/14	I-II/14
EBITDA									
Redundancy provisions	-	-33	-33	-0	-20	-54	-88	-7	-95
Environmental provisions related to site closures	-	-	-	-	-	-	-25	-	-25
Inventory write-downs related to efficiency programs	-	-	-	-	-12	-12	-	-	-
Carrier settlement	-	-11	-11	-	-	-11	-	-	-
Costs related to Innoxum transaction	-2	-1	-3	-0	2	-1	-	-	-
Non-recurring items in EBITDA	-2	-46	-47	-1	-29	-78	-113	-7	-120
of which in gross margin	-	-24	-24	-0	-29	-53	-113	-7	-119
Additionally in EBIT									
Impairments related to EMEA restructuring	-	-	-	-	-	-	-27	-	-27
Non-recurring items in EBIT	-2	-46	-47	-1	-29	-78	-140	-7	-147

Lower financial expenses

Net financial income and expenses amounted to EUR -42 million (I 2014: EUR -78 million). Interest expenses for the second quarter were EUR 29 million (I 2014: EUR 49 million) reflecting the discontinuation of the ThyssenKrupp loan note at the end of February. Market price gains amounted to EUR 5 million compared to EUR 9 million losses in the first quarter.

Financial income and expenses in the second quarter included a fair value change of EUR 5 million (I 2014: EUR -6 million) for the 16% stake in Talvivaara Sotkamo Ltd due to the increase in the share price of Talvivaara Mining Company Plc during the quarter. At the end of June 2014, the remaining fair value for Outokumpu's Talvivaara stake was EUR 11 million.

Net result for the period

The net result for the second quarter of 2014 was EUR -58 million (I 2014: EUR -248 million), of which EUR -49 million (I 2014: EUR -267 million) was related to continuing operations and EUR -9 million (I 2014: EUR 20 million) to discontinued operations, showing adjustments to the result of the disposal of Terni remedy assets, VDM business and certain service centers relating mainly to working capital and net debt compensation to the extent that the items were not recognized in the first-quarter result. The current estimate of the total capital loss on the transaction is EUR 5 million net of transaction costs, out of which a gain of EUR 22 million is recognized in the result from the discontinued operations in the first half of 2014. Transaction costs of EUR -27 million were already recognized in 2013. See notes for details.

Earnings per share of the continuing operations were EUR -0.12 (I 2014: EUR -1.79, adjusted for rights issue and reverse split).

Operating cash flow clearly negative due to inventory build-up and higher nickel price

As expected, the build-up of inventories and the sharp increase in nickel price had an adverse effect on cash flow during the second quarter. The operating cash flow in the second quarter was EUR -257 million mainly driven by an increase in working capital by EUR 263 million. Outokumpu's current trade accounts payable went up by 11.1%, value of inventories up by 25.1% and current trade accounts receivable up by 10.6%.

Summary of cash flows

EUR million	April–June 2014	Jan–March 2014	April–June 2013	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Net result for the period	-58	-248	-250	-306	-402	-1,003
Non-cash adjustments	106	227	208	333	337	844
Change in working capital	-263	33	-90	-230	-109	297
Dividends received	0	3	0	3	0	2
Interests received	1	1	0	1	1	3
Interests paid	-42	-29	-42	-71	-58	-106
Income taxes paid	-0	-1	-0	-1	-1	-3
Net cash from operating activities	-257	-14	-175	-271	-233	34
Purchases of assets	-37	-32	-47	-70	-206	-287
Proceeds from the sale of subsidiaries, net of cash	-41	-10	-	-50	-1	-1
Proceeds from the sale of assets	8	1	0	9	0	187
Other investing cash flow	1	-0	0	0	-7	-7
Net cash from investing activities	-69	-42	-47	-111	-213	-108
Cash flow before financing activities	-327	-56	-222	-382	-446	-74
Net cash from financing activities	-396	341	258	-54	545	459
Net change in cash and cash equivalents	-722	286	36	-436	99	385

Cash flows are presented for continuing operations.

Net cash from investing activities was EUR -69 million (I 2014: EUR -42 million). Proceeds from the sale of subsidiaries, net of cash show the compensation of EUR 41 million paid to ThyssenKrupp related to working capital and the net debt levels of those companies.

Net cash from financing activities of EUR -396 million mainly reflects the repayment of long-term debt of EUR 402 million.

While a seasonal increase in inventories is typical for the quarter, Outokumpu will continue its tight control over net working capital and inventories in line with the anticipated market demand. Cash outflow from operating activities is expected to still be negative in the third quarter but less than in the second quarter.

Capital expenditure

Capital expenditure for continuing operations was kept at a low level during the quarter and was at EUR 33 million (I 2014: EUR 15 million). Capital expenditure related mostly to maintenance, projects in Stainless EMEA, Specialty Stainless and Stainless Americas.

Balance sheet

Summary of statement of financial position

EUR million	June 30 2014	March 31 2014	June 30 2013	Dec 31 2013
ASSETS				
Non-current assets	3,821	3,854	4,596	3,944
Current assets	2,821	3,104	3,767	2,679
Assets held for sale	-	-	1,285	2,200
TOTAL ASSETS	6,642	6,959	9,647	8,823
EQUITY AND LIABILITIES				
Equity	2,236	2,283	2,523	1,891
Non-current liabilities	2,275	2,843	3,399	3,791
Current liabilities	2,131	1,832	2,961	2,093
Liabilities directly attributable to assets held for sale	-	-	764	1,048
TOTAL EQUITY AND LIABILITIES	6,642	6,959	9,647	8,823

Total assets at the end of June 2014 declined by EUR 317 million to EUR 6,642 million (March 31, 2014: EUR 6,959 million) mainly driven by a net decrease in current assets by EUR 284 million. During the second quarter, inventories increased by EUR 334 million to EUR 1,662 million (March 31, 2014: EUR 1,328 million) due to the seasonal build-up as well as the sharp increase in nickel price. Cash and cash equivalents decreased by EUR 719 million to EUR 161 million (March 31, 2014: EUR 880 million) mainly reflecting the repayment of long-term debt of EUR 402 million as well as the net working capital increase of EUR 263 million.

Equity decreased by EUR 48 million to EUR 2,236 million (March 31, 2014: EUR 2,283 million) reflecting the relevant impact from the net loss for the period.

Long-term debt decreased by EUR 583 million to EUR 1,627 million compared to the end of March 2014 due to the repayment of long-term debt and the transfer of long-term to current debt.

Current debt increased by EUR 198 million from EUR 404 million to EUR 602 million mainly driven by the reclassification of the EUR 250 million outstanding bond from long-term to current debt.

As a result, net interest-bearing debt totaled EUR 2,068 million at the end of June 2014 (March 31, 2014: EUR 1,733 million) and gearing increased to 92.5% (March 31, 2014: 75.9%).

Financing

Cash and liquidity reserves

Cash decreased during the second quarter from EUR 880 million, which included the proceeds from the rights issue, to EUR 161 million. The main driver for the decrease was the use of the rights issue proceeds to repay long-term debt as well as the net working capital increase. The overall liquidity reserves of Outokumpu are in excess of EUR 1.4 billion (March 31, 2014: approx. EUR 1.8 billion).

People

Outokumpu's headcount declined by 71 during the second quarter of 2014 and totaled 12,365 at the end of June 2014 (March 31, 2014: 12,436). The decrease in the number of employees was mainly related to the ongoing integration and cost reduction programs in Europe. In connection with the P150 cost savings program, the synergy savings and the new EMEA industrial plan, Outokumpu plans to reduce up to 3,500 jobs globally by 2017. 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.

Personnel at the end of reporting period

	June 30 2014	March 31 2014	June 30 2013	Dec 31 2013
Stainless EMEA	7,226	6,706	7,768	6,887
Stainless Americas	2,142	2,093	2,055	2,006
Stainless APAC	612	627	654	630
Specialty Stainless	2,800	2,627	2,864	2,653
Other operations	379	383	404	385
Summer trainees	-794	-	-724	-
Continuing operations	12,365	12,436	13,021	12,561

Safety

A fatal accident occurred which involved a contractor in Outokumpu's US operations in Calvert in early June. This incident is being investigated. This was the first fatal injury in Outokumpu for nearly nine years, during which time the focus on safety has continued to develop significantly.

The lost-time injury frequency (lost-time accidents per million working hours) during the first half of 2014 was 2.7, below a target of less than 4.0. Outokumpu sites continue to work on contractor management and contractor behaviors during 2014.

Changes in Outokumpu Leadership Team

In June Outokumpu announced changes in its operational model and Leadership Team. Outokumpu Leadership Team will consist of following members as of September 1, 2014:

- Mika Seitovirta, CEO
- Reinhard Florey, CFO (Chief Financial Officer)
- Olli-Matti Saksi, Coil EMEA (as of July 1)
- Michael Wallis, Coil Americas
- Austin Lu, APAC
- Kari Tuutti, Long Products

- Kari Parvento, Quarto Plate
- Pekka Erkkilä, CTO (Chief Technology Officer)
- Johann Steiner, Human Resources, IT, Health and Safety
- Saara Tahvanainen, Communications & Marketing

Jarmo Tonteri, current head of the Stainless EMEA and Specialty Stainless business areas, will continue as an executive advisor to the Group, and he will retire during the next 12 months in line with earlier plans.

Market and business outlook

Market outlook

For the third quarter of 2014, global demand for stainless steel is expected to decrease slightly to 9.2 million tonnes due to the seasonal slow-down in Europe. Total global demand for 2014 is estimated at 37.3 million tonnes, up by 7.2% compared to 2013, mainly driven by increased consumption in APAC (8.7%). In Americas and EMEA, total stainless steel demand is estimated to grow as well (4.8% and 3.4% compared to 2013 respectively).

Market development for real demand total stainless steel products between 2013 and 2015

Million tonnes	2013	I/14	II/14e	III/14f	IV/14f	2014f	2015f
EMEA	6.9	1.8	1.8	1.7	1.8	7.2	7.4
Americas	3.4	0.9	0.9	0.9	0.9	3.5	3.7
APAC	24.5	6.5	6.6	6.6	6.8	26.6	28.5
Total	34.8	9.2	9.3	9.2	9.6	37.3	39.6

Source: SMR July 2014

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 SMR, growth in stainless steel consumption between 2013 and 2015 will mainly be attributable to increased demand from the Architecture/Building/Construction & Infrastructure (+8.5%), Industrial & Heavy Industries (+7.1%) and Automotive & Heavy Transport (+6.8%) segments. The Consumer Goods & Medical and Chemical/Petrochemical & Energy segments are expected to grow at average annual growth rates of 6.4% and 5.9% respectively.

Business and financial outlook for the third quarter of 2014

Outokumpu estimates overall stainless steel demand and pricing environment to remain relatively healthy in the third quarter, with a seasonal slowdown in the European market. The company estimates somewhat lower delivery volumes and some improvement in stainless steel base prices in the third quarter. Outokumpu expects continued progress, although with a slower rate, in the cost efficiency initiatives and synergies.

For the third quarter of 2014, Outokumpu expects sequentially slightly worse underlying EBIT primarily due to seasonal impacts. Net impact of raw material-related inventory and metal hedging gains/losses on profitability is expected to be EUR 10-20 million positive.

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

Key targets updated

- Progress in the Calvert operational ramp-up is expected to continue. We estimate EBITDA in Stainless Americas to break-even for the full year 2014 and delivery volumes of about 530,000 tonnes.
- Ferrochrome production is estimated at 470,000 tonnes in 2014 (2013: 434,000 tonnes). Once fully ramped-up in 2015 (technical capacity of 530,000 tonnes), annual ferrochrome deliveries will range between 500,000 and 530,000 tonnes depending on maintenance activities.
- Outokumpu's savings programs are expected to result in annual savings of more than EUR 340 million in 2014, EUR 380 million in 2015, EUR 440 million in 2016 and EUR 470 million in 2017. Savings relate to the synergies, fixed and variable cost savings (P150 program) as well as the European restructuring plan. The majority of savings are derived from the EMEA operations.
- Net working capital management remains high on the agenda. The original target of EUR 300 million reduction in net working capital during 2013-2014 remains intact assuming that raw material prices stay at current levels. The average target for working capital efficiency as measured in inventory days is 91.
- Capital expenditure¹⁾ to be below EUR 160 million in 2014 (2013: EUR 183 million).

¹⁾ Accounting capex

Risks and uncertainties

Outokumpu operates in accordance with the risk management policy approved by the Board of Directors. The 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 to identify, evaluate and mitigate risks from the perspective of shareholders, customers, suppliers, personnel, creditors and other stakeholders. Key risks are assessed and updated on a regular basis. A detailed description of Outokumpu's risk management and risk profile can be found in the annual report 2013, which is available at www.outokumpu.com.

In March–April 2014, Outokumpu completed the rights issue of EUR 665 million which further decreased company's interest costs and improved Outokumpu's risk tolerance, for example by strengthening liquidity. During the second quarter there was one very serious realized operational safety risk: Outokumpu's contractor's employee had a fatal injury in Calvert.

The nickel price continued to increase during the second quarter, peaking in early May at 21,200 USD/tonne level and then stabilizing at a somewhat lower figure for the remainder of the reporting period. The increase in nickel price supported demand for stainless steel but also had an adverse impact on cash flow.

Short-term risks and uncertainties

Outokumpu is exposed to the following risks and uncertainties in the short-term: risks and uncertainties in implementing its industrial plan in Europe, the risks related to possible failures or delays or the inadequate profitability of ramping up the stainless steel mill in Calvert, USA; risks related to stainless steel market developments and competitor actions, especially imports to Europe; major failures or delays in achieving the anticipated synergy benefits, reduction of costs and the release of cash from working capital; risk of increases in metals and other raw material prices which may tie excessive amounts of cash to working capital and reduce cash flow and risks related to ownership in Talvivaara Sotkamo Oy. Possible adverse changes in the global political and economic environment such as the crisis situation in Ukraine and related trade sanctions to Russia which can impact the stainless steel industry are risks for Outokumpu and also may have other adverse impacts on Outokumpu's business.

Significant legal proceedings

Outokumpu's 2013 annual report includes more detailed information on pending legal proceedings. Below are additions and changes to the descriptions in the annual report.

All legal disputes and litigations 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 have moved over to ThyssenKrupp upon the completion of the divestment to ThyssenKrupp on February 28, 2014. Due to the contractual agreements between ThyssenKrupp and Outokumpu, there will be no further liability risk for Outokumpu resulting from these legal disputes.

All charges cleared off 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 off 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 (the “USDOC”) 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 effective 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.

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 faced a bankruptcy. The administrator in bankruptcy have 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. Outokumpu finds there are strong arguments for rejecting the claim of EUR 20 million, given that there are two legal opinions stating that the recovery claim is statute-barred. Furthermore, creditors of the bankrupt company at the time of divestment have been paid. The judgment in this litigation is expected during the third quarter this year.

Settlement reached in damages contribution claims pursuant to EU sanitary copper tube cartel decision

On July 14, 2014 Outokumpu together with number of other companies reached full and final settlement agreement on sanitary copper tube cartel claims. In 2012 Outokumpu was served with a damages contribution claim in the English court by IMI (IMI Plc and IMI Kynoch Ltd) and Boliden AB, after Boliden AB and IMI were served claims for financial loss by members of the Travis Perkins Group. These claims related to a 2004 ruling by the European Commission which concluded that a number of companies were involved in price fixing and market sharing in the sanitary copper tube sector in Europe between June 1988 and March 2001. Outokumpu considered the claim for damages in the English court proceedings to lack merit, but has decided to contribute to the settlement in order to bring this matter to an end. The settlement amount is not significant and it will be recorded in the third quarter 2014 results.

Environment

Emissions to air and discharges to water remained within permitted limits and the breaches that occurred were temporary, were identified and had only a minimal impact on the environment. Outokumpu is not a party to any significant juridical or administrative proceedings concerning environmental issues, nor is it aware of any realized environmental risks that could have a material adverse effect on the corporation’s financial position.

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 2014. During the second quarter, Outokumpu did not trade any emission allowances (EUA’s).

Share development and shareholders

After the successfully implemented rights issue in March-April 2014, Outokumpu conducted a reverse share split in order to rationalize the number of outstanding shares, to increase the value of 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 twenty five (25) shares into one (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 June 30, 2014 and June 30, 2013.

Shareholders

	June 30	June 30
%	2014	2013
Finnish corporations	33.8	25.7
Foreign investors	33.2	40.2
Finnish private households	17.4	18.0
Finnish public sector institutions	9.9	10.0
Finnish financial and insurance institutions	5.0	5.0
Finnish non-profit organizations	0.7	1.1
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.

Share information

		Jan–June 2014	Jan–June 2013
Fully paid share capital at the end of the period	EUR million	311.1	311.1
Number of shares at the end of the period ^{1) 2)}		416,374,448	84,098,506
Average number of shares outstanding ^{1) 3)}		259,354,613	83,082,618
Average number of shares outstanding, rights-issue-adjusted ^{1) 3)}		282,599,252	132,578,646
Number of shares outstanding at the end of the period ^{1) 2) 3)}		415,426,724	83,082,618
Number of treasury shares held at the end of the period		947,724	1,015,888
Share price at the end of the period ⁴⁾	EUR	7.35	4.35
Average share price ⁴⁾	EUR	5.30	5.57
Highest price during the period ⁴⁾	EUR	7.50	7.39
Lowest price during the period ⁴⁾	EUR	3.37	3.95
Market capitalization at the end of period	EUR million	3,058	1,039
Share turnover ^{1) 5)}	million shares	250.5	29.4
Value of shares traded ⁵⁾	EUR million	1,344.7	468.9

Source of share information: NASDAQ OMX Helsinki (only includes OMX Helsinki trading)

¹⁾ Comparative figures adjusted to reflect the reverse split on June 20, 2014.

²⁾ June 30, 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 June 30, 2013 is 133,594,534 shares of which 132,578,646 shares are outstanding.

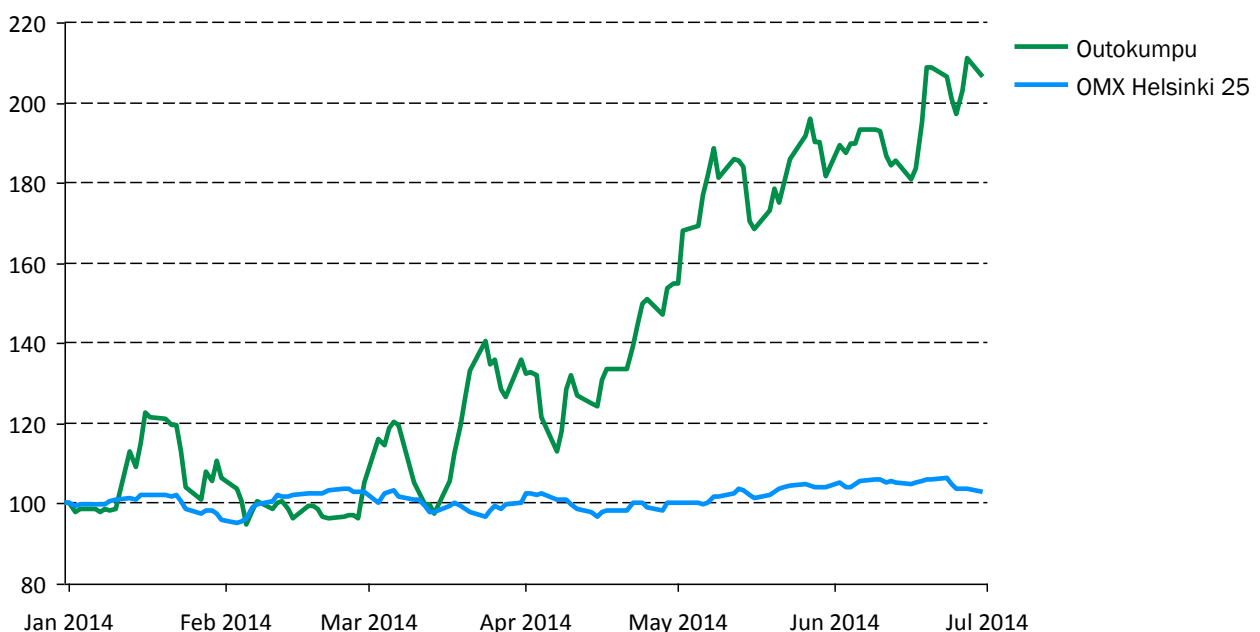
³⁾ The number of own shares repurchased is excluded. There are currently no programs with diluting effect in place.

⁴⁾ Comparative figures adjusted regarding the effect of the rights issue and the reverse split.

⁵⁾ Jan–June 2014 figures include the effect of share subscription rights traded during March 10–19, 2014.

Outokumpu’s market capitalization increased to EUR 3,058 million by the end of the second quarter of 2014 (June 30, 2013: EUR 1,039 million). Outokumpu share price more than doubled since the beginning of the year (based on rights issue and reverse share split adjusted share price).

The following graph sets out the indexed daily closing price of the Outokumpu share in the first half of 2014.



Annual General Meeting

The Annual General Meeting (AGM) was held on April 14, 2014, in Espoo, Finland. In accordance with a proposal by the Board of Directors, the AGM decided that no dividend shall be paid for the financial year 2013.

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

The AGM decided to maintain the earlier confirmed level for 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, which will be paid also for the Board Committee meetings, will be EUR 600 per meeting for each member of the Board of Directors residing in Finland and EUR 1,200 per meeting for the Board members residing outside Finland. 40% of the annual remuneration will be paid in the form of shares in the company, and the remainder in money. The shares were purchased two weeks after the release of the company's interim report January 1 - March 31, 2014.

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 Meeting

A second Extraordinary General Meeting (EGM) for this year was held on June 16, 2014 in Espoo, Finland. The EGM decided that the number of shares in Outokumpu be reduced without reducing the share capital by merging each twenty five (25) shares to one (1) share by means of a reverse share split as provided in Chapter 15, Section 9 of the Limited Liability Companies Act (the "LLCA") and following the procedure provided therein. The reverse split of shares was executed in the book-entry system after the close of trading 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 AGM 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 longer than May 31, 2015. To date the authorizations have not been used.

Espoo, July 23, 2014

Board of Directors

Condensed consolidated financial statements

Condensed income statement

EUR million	April–June 2014	Jan–March 2014	April–June 2013	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Continuing operations:						
Sales	1,753	1,617	1,738	3,371	3,604	6,745
Cost of sales	-1,665	-1,677	-1,769	-3,343	-3,620	-6,847
Gross margin	88	-60	-31	28	-16	-102
Other operating income	9	8	-1	17	8	24
Costs and expenses	-83	-92	-116	-176	-226	-400
Other operating expenses	-24	-43	-22	-67	-24	-31
EBIT	-10	-188	-171	-198	-258	-510
Share of results in associated companies	4	4	-3	8	-3	-2
Financial income and expenses						
Interest income	1	1	3	1	6	13
Interest expenses	-29	-49	-50	-78	-95	-210
Market price gains and losses	5	-9	-9	-4	-22	-37
Other financial income	1	0	0	1	0	0
Other financial expenses	-19	-22	-6	-40	-11	-76
Result before taxes	-48	-262	-236	-310	-383	-822
Income taxes	-1	-5	5	-6	7	-11
Net result for the period from continuing operations	-49	-267	-231	-316	-375	-832
Net result for the period from discontinued operation	-9	20	-19	11	-26	-170
Net result for the period	-58	-248	-250	-306	-402	-1,003
Attributable to:						
Equity holders of the Company	-58	-246	-248	-304	-399	-997
Non-controlling interests	-0	-2	-2	-3	-3	-6
Earnings per share for result attributable to the equity holders of the Company, EUR ¹⁾ :						
Earnings per share, continuing operations (basic and diluted)	-0.12	-1.79	-1.73	-1.11	-2.81	-6.23
Earnings per share, discontinued operation (basic and diluted)	-0.02	0.13	-0.14	0.04	-0.20	-1.29
Earnings per share (basic and diluted)	-0.14	-1.66	-1.87	-1.07	-3.01	-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 on June 20, 2014.

Statement of comprehensive income

EUR million	April–June 2014	Jan–March 2014	April–June 2013	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Net result for the period	-58	-248	-250	-306	-402	-1,003
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	18	9	-27	27	-19	-40
Available-for-sale financial assets						
Fair value changes during the period	-0	0	-3	0	-3	-2
Reclassification adjustments from other comprehensive income to profit or loss	3	-	-	3	-0	-0
Income tax relating to available-for-sale financial assets	-1	-0	1	-1	0	0
Cash flow hedges						
Fair value changes during the period	-1	1	-21	-0	-15	-11
Reclassification adjustments from other comprehensive income to profit or loss	-2	0	-1	-1	-2	-4
Income tax relating to cash flow hedges	1	1	3	2	2	4
Net investment hedges						
Income tax relating to net investment hedges	-	-	-	-	-	1
Share of other comprehensive income in associated companies	0	1	-	1	-	-
Items that will not be reclassified to profit or loss:						
Remeasurements on defined benefit obligation plans						
Changes during the accounting period	-9	-12	29	-21	31	15
Income tax relating to remeasurements	0	0	-8	1	-8	-8
Other comprehensive income for the period, net of tax	10	1	-27	11	-14	-44
Total comprehensive income for the period	-48	-247	-276	-295	-416	-1,047
Attributable to:						
Equity holders of the Company	-48	-245	-275	-293	-414	-1,040
Non-controlling interests	-0	-2	-2	-2	-2	-7

Condensed statement of financial position

EUR million	June 30 2014	March 31 2014	June 30 2013	Dec 31 2013
ASSETS				
Non-current assets				
Intangible assets	565	567	601	570
Property, plant and equipment	3,105	3,156	3,624	3,254
Investments in associated companies and joint ventures	71	67	66	66
Other financial assets	25	20	23	20
Deferred tax assets	36	23	90	24
Trade and other receivables	18	22	191	11
Total non-current assets	3,821	3,854	4,596	3,944
Current assets				
Inventories	1,662	1,328	2,182	1,216
Other financial assets	38	36	77	42
Trade and other receivables	960	860	1,180	813
Cash and cash equivalents	161	880	327	607
Total current assets	2,821	3,104	3,767	2,679
Assets held for sale	-	-	1,285	2,200
TOTAL ASSETS	6,642	6,959	9,647	8,823
EQUITY AND LIABILITIES				
Equity				
Equity attributable to the equity holders of the Company	2,234	2,281	2,513	1,887
Non-controlling interests	2	2	10	4
Total equity	2,236	2,283	2,523	1,891
Non-current liabilities				
Long-term debt	1,627	2,210	2,770	3,270
Other financial liabilities	16	13	16	15
Deferred tax liabilities	38	26	86	26
Defined benefit and other long-term employee benefit obligations	338	329	407	317
Provisions	208	217	114	115
Trade and other payables	48	48	7	48
Total non-current liabilities	2,275	2,843	3,399	3,791
Current liabilities				
Current debt	602	404	1,415	893
Other financial liabilities	29	40	57	35
Provisions	35	23	51	25
Trade and other payables	1,464	1,365	1,437	1,140
Total current liabilities	2,131	1,832	2,961	2,093
Liabilities directly attributable to assets held for sale	-	-	764	1,048
TOTAL EQUITY AND LIABILITIES	6,642	6,959	9,647	8,823

Condensed statement of cash flows

EUR million	April–June 2014	Jan–March 2014	April–June 2013	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Net result for the period	-58	-248	-250	-306	-402	-1,003
Adjustments						
Depreciation, amortization and impairments	84	110	85	194	172	346
Other non-cash adjustments	22	117	123	138	165	498
Change in working capital	-263	33	-90	-230	-109	297
Dividends received	0	3	0	3	0	2
Interests received	1	1	0	1	1	3
Interests paid	-42	-29	-42	-71	-58	-106
Income taxes paid	-0	-1	-0	-1	-1	-3
Net cash from operating activities	-257	-14	-175	-271	-233	34
Purchases of assets	-37	-32	-47	-70	-206	-287
Proceeds from the sale of subsidiaries, net of cash	-41	-10	-	-50	-1	-1
Proceeds from the sale of assets	8	1	0	9	0	187
Other investing cash flow	1	-0	0	0	-7	-7
Net cash from investing activities	-69	-42	-47	-111	-213	-108
Cash flow before financing activities	-327	-56	-222	-382	-446	-74
Rights issue	-	640	-	640	-	-
Borrowings of long-term debt	3	750	155	753	455	1,114
Repayment of long-term debt	-402	-719	-55	-1,121	-81	-708
Change in current debt	1	-326	158	-325	169	52
Other financing cash flow	2	-3	-0	-2	2	1
Net cash from financing activities	-396	341	258	-54	545	459
Net change in cash and cash equivalents	-722	286	36	-436	99	385
Cash and cash equivalents						
at the beginning of the period	880	607	290	607	222	222
Foreign exchange rate effect	3	-1	-3	2	-4	-11
Discontinued operations net change in cash effect	-	-12	4	-12	9	12
Net change in cash and cash equivalents	-722	286	36	-436	99	385
Cash and cash equivalents						
at the end of the period	161	880	327	161	327	607

Cash flows are presented for continuing operations.

Statement of changes in equity

EUR million	Attributable to the owners of the parent										Total equity
	Share capital	Premium fund	Invested unrestricted equity reserve	Other reserves	Fair value reserves	Cumulative translation differences	Remeasurements of defined benefit plans	Treasury shares	Retained earnings	Non-controlling interests	
Equity on Jan 1, 2013	311	714	1,462	7	22	-81	-75	-25	591	26	2,952
Result for the period	-	-	-	-	-	-	-	-	-399	-3	-402
Other comprehensive income	-	-	-	-	-18	-21	24	-	-	1	-14
Total comprehensive income for the period	-	-	-	-	-18	-21	24	-	-399	-2	-416
Transactions with owners of the Company											
Contributions and distributions											
Share-based payments	-	-	-	-	-	-	-	-	0	-	0
Changes in ownership interests											
Disposal of subsidiary	-	-	-	-	-	-	3	-	-3	-15	-15
Equity on June 30, 2013	311	714	1,462	7	5	-102	-48	-25	189	10	2,523
Equity on Jan 1, 2014	311	714	1,462	7	9	-119	-65	-24	-410	4	1,891
Result for the period	-	-	-	-	-	-	-	-	-304	-3	-306
Other comprehensive income	-	-	-	-	3	26	-19	-	1	0	11
Total comprehensive income for the period	-	-	-	-	3	26	-19	-	-303	-2	-295
Transactions with owners of the Company											
Contributions and distributions											
Rights issue	-	-	640	-	-	-	-	-	-	-	640
Share-based payments	-	-	-	-	-	-	-	1	-0	-	1
Changes in ownership interests											
Acquisition of a non-controlling interest	-	-	-	-	-	-	-	-	-0	-0	-1
Disposal of subsidiary	-	-	-	-1	-	-	4	-	-3	-0	-0
Other	-	-	-	-2	-	-	-	-	2	-	-
Equity on June 30, 2014	311	714	2,102	5	13	-93	-80	-23	-714	2	2,236

NOTES TO THE FINANCIAL STATEMENTS

Basis of preparation

This interim report is unaudited and it is prepared in accordance with IAS 34 (Interim Financial Reporting). The same accounting policies and methods of computation have been followed in this interim report as in the financial statements for 2013 except for those new and revised IFRS standards adopted from January 1, 2014.

All presented figures in this interim report have been rounded and consequently, the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures. The sales, profits and working capital of Outokumpu are subject to seasonal fluctuations as a result of industry demand, the number of working days, weather conditions and vacation periods. For example, production and shipment volumes with respect to stainless steel products are generally higher in the spring and fall seasons and generally lower in the winter and summer seasons. These seasonal fluctuations have a direct impact on the use of working capital and, therefore, also on net financial debt and cash flows of Outokumpu.

The following amendments to IFRS standards and interpretations were adopted from January 1, 2014:

- IFRS 10 Consolidated Financial Statements and related amendments: the standard 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 didn't affect the consolidated financial statements.
- IFRS 11 Joint Arrangements and related amendments: In the accounting of joint arrangements the new standard 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. Jointly controlled entities are to be accounted for using equity method, and the other alternative, proportional consolidation is no longer allowed. In connection with the new IFRS 11 standard, IAS 28 was revised and includes the requirements for joint ventures, as well as associates, to be equity accounted. The new and revised standards didn't have an impact on the consolidated financial statements.
- IFRS 12 Disclosures of Interests in Other Entities and related amendments the standard 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 will have an impact on the disclosures of the consolidated financial statements.

Additionally there were some amendments to the existing standards clarifying the accounting practices and an IFRIC interpretation with the effective date of January 1, 2014. They had no impact on the consolidated financial statements.

Use of estimates

The preparation of the financial statements in accordance with IFRSs requires management to make judgments 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. Accounting estimates are employed in the financial statements to determine reported amounts, including the realizability of certain assets, the useful lives of tangible and intangible assets, income taxes, inventories, provisions, defined benefit and other long-term employee benefit obligations, impairments and derivative instruments. These are those financial statement items that are mostly affected by management judgments made. The management estimates and judgments 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.

Share based payment plans

Outokumpu's share based payment programs include 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).

Regarding the terminated 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. Regarding the Performance Share Plan 2012, total of 20,159 pre reverse split shares and cash of EUR 50 thousand were given based on the achieved savings targets in 2013 to the persons that left the plan during the period.

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 are 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. During the second quarter 140 persons were invited to participate in the plan.

The Board of Directors also approved the commencement of the third plan of the Restricted Share Pool, plan 2014–2016. 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. During the second quarter 5 persons were invited to participate in the plan.

Due to the rights issue in 2014 the number of gross shares allocated from the plans which 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. The numbers of shares regarding the commenced plans presented above represent the adjusted numbers. Additionally, the EBITDA 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.

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

Refinancing measures

The new credit revolving facility of EUR 900 million became effective as of February 28, 2014. The facility has its maturity in February 2017 and replaced the previous EUR 900 million revolving credit facility that would have matured in June 2015. Also, a new EUR 500 million liquidity facility was signed that was effective as of February 28, 2014 and matures in February 2017. The purpose of this new facility is to further strengthen Outokumpu's liquidity. Both the EUR 900 million and EUR 500 million facilities include financial covenants on gearing and liquidity. Furthermore, Outokumpu extended and amended or refinanced its bilateral loan portfolio of approximately EUR 600 million to mature in February 2017.

Additionally, Outokumpu granted a security package for its debt and bond financing. As security, Outokumpu has pledged the shares of certain of its subsidiary companies for example in Finland, Sweden and the United States as well as certain other fixed assets. In addition, certain subsidiary companies have provided guarantees as security. The security package covers most of Outokumpu's debt financing, including the new EUR 500 million liquidity facility, the EUR 900 million revolving credit facility, bilateral bank loans as well as the two outstanding notes.

The granting of the proposed security package required the consent of the holders of the Outokumpu's notes maturing in 2015 and 2016 as well as certain related amendments to the terms and conditions of such notes. The holders of both notes resolved to approve the related proposals and the amendments entered into force as of February 28, 2014 following the completion of the refinancing measures.

Rights issue and the reverse split of shares

Based on the authorization granted by the Extraordinary General meeting of shareholders, the Board of Directors of Outokumpu Oyj resolved on February 28, 2014 on the rights offering for a total of 8,308,534,476 new shares to raise net proceeds of approximately EUR 640 million. The proceeds from the rights offering were for strengthening Outokumpu's financial position to complete its turnaround plan aimed at returning to sustainable profitability. One subscription right entitled the holder to subscribe for four offer shares at a subscription price of EUR 0.08.

Subscription period began on March 10 and ended on March 26, 2014. As a result of the rights offering, the total number of shares in Outokumpu increased to 10,386,615,824. New shares were registered on April 7, 2014. The net proceeds have been recognized in the invested unrestricted equity reserve in the consolidated statement of financial position.

In June 2014, the Extraordinary General meeting decided that the number of shares in Outokumpu be reduced without reducing the share capital by merging each twenty five (25) shares to one (1) share by means of a reverse share split. The new number of shares in Outokumpu Oyj is 416,374,448 and it was registered on June 20, 2014. The procedure didn't reduce the number of company's treasury shares.

Restructuring of production in Germany and Sweden

At the end of March, Outokumpu announced that the negotiations regarding the industrial plan were completed with the employee representatives and unions in Germany. The industrial plan for Business Area EMEA Stainless was originally announced in October 2013, with a target of EUR 100 million annual savings, contributing to the overall annual synergy and cost savings of EUR more than 470 million in 2017. Key elements of the agreement were the closure of Bochum meltshop in 2015, investments of EUR 108 million to the Krefeld cold rolling center between 2014 and 2016 through ferritic production optimization (NIFO project) and closure of Benrath cold rolling mill in 2016.

In June 2013, Outokumpu announced a strategic review of its thin and precision strip operations in Kloster and Nyby, Sweden and in Dahlerbrück, Germany with the aim of reducing capacities and achieving cost savings through increased efficiencies. Following the review, Outokumpu announced in February 2014 the discontinuation of its operations in Kloster, Sweden.

As a result, restructuring and environmental provisions of EUR 120 million and impairment losses of EUR 27 million were recognized for the reporting period.

Tax audit

Outokumpu Oyj is currently subject to a tax audit in Finland. No exact information exists on the outcome of the audit.

Disposal of businesses

On November 30, 2013 Outokumpu announced its plans to divest the VDM business and the remedy assets, which include Terni and certain service centers, to ThyssenKrupp. The transaction was closed on February 28, 2014.

Outokumpu's loan note to ThyssenKrupp was used as a consideration for the transaction and thus derecognized. The sale also 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 divested entities remained in force at the date of divestment and became Outokumpu's external receivables and payables.

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 2013 and 2014.

The estimated loss on the sale, net of transaction costs, amounts to EUR 5 million, out of which a gain of EUR 22 million is included in the net result from discontinued operations in January–June, 2014. Transaction costs of EUR 27 million were already recognized in the 2013 net result from discontinued operations. The loss also includes transactions costs of EUR 7 million in 2014 and foreign exchange losses of EUR 4 million reclassified into profit or loss on disposal.

Result from discontinued operations

EUR million	Jan–June 2014	Jan–Dec 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 for the period from discontinued operations	11	-170

Effect of disposal on the financial position of the Group

EUR 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 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 condensed statement of cash flows on line proceeds from the sale 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.

Non-recurring items in EBIT and financial income and expenses

EUR million	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Redundancy provisions	-95	-33	-54
Impairments related to EMEA restructuring	-27	-	-
Environmental provisions related to site closures	-25	-	-
Inventory write-downs related to efficiency programs	-	-	-12
Carrier settlement	-	-11	-11
Costs related to Inoxum transaction	-	-3	-1
Total non-recurring items in EBIT	-147	-47	-78

Jan–June 2014 does not include any non-recurring items in financial income and expenses (Jan–June 2013: none, Jan–Dec 2013: loss of EUR 49 million on the sale of Luvata loan receivable).

Property, plant and equipment

EUR million	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Carrying value at the beginning of the period	3,254	3,716	3,716
Translation differences	-2	-1	-57
Additions	44	113	231
Disposals	-6	-0	-4
Reclassifications	-1	-0	47
Depreciation and impairments	-183	-173	-355
Disposed subsidiaries	-	-30	-28
Reclassification to assets held for sale	-	-	-296
Carrying value at the end of the period	3,105	3,624	3,254

Provisions

On December 31, 2013, Outokumpu reported restructuring provisions totaling EUR 72 million. Of these provisions, EUR 2 million was reversed as unused during January–June 2014.

Commitments

EUR million	June 30	June 30	Dec 31
	2014	2013	2013
Mortgages and pledges			
Mortgages	3,538	301	284
Other pledges	5	9	8
Guarantees			
On behalf of subsidiaries for commercial commitments	28	31	34
On behalf of associated companies for financing	7	7	7
On behalf of other parties for commercial commitments	3	-	-
Other commitments	23	30	28
Minimum future lease payments on operating leases	67	98	82

The increase in mortgages and pledges relates to the refinancing measures becoming 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.

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 June 30, 2014. These guarantees are presented as commercial commitments on behalf of other parties.

Related to the Inoxum acquisition, certain guarantees issued by ThyssenKrupp on behalf of Inoxum companies have not yet been transferred to Outokumpu Oyj as of June 30, 2014. However, Outokumpu Oyj has given ThyssenKrupp a counter-guarantee for these commitments. The outstanding amount of guarantees to be transferred totals EUR 4 million as of June 30, 2014, including guarantees for commercial and financing.

Group's off-balance sheet investment commitments totaled EUR 88 million on June 30, 2014 (June 30, 2013: EUR 113 million, December 31, 2013: EUR 47 million).

Related party transactions

EUR million	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Transactions and balances with ThyssenKrupp AG			
Sales	33	290	376
Purchases	-20	-127	-175
Interest expenses	-10	44	-62
Trade and other receivables	-	79	23
Other financial assets	-	4	1
Trade and other payables	-	21	22
Loan note to ThyssenKrupp	-	1,256	1,283
Other interest-bearing debt	-	200	214
Other financial liabilities	-	19	3
Transactions and balances with associated companies and joint ventures			
Sales	77	86	161
Purchases	-3	-4	-6
Trade and other receivables and interest-bearing assets	51	64	44
Trade and other payables	1	2	1

On February 28, 2014, Outokumpu completed the divestment of the VDM business, 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.

Segment information

EUR million	Jan–June 2014	Jan–June 2013	Jan–Dec 2013
Sales by segment			
Stainless EMEA			
External sales	1,692	2,021	3,700
Internal sales	215	430	567
Stainless Americas			
External sales	530	419	884
Internal sales	15	13	23
Stainless APAC			
External sales	202	156	377
Internal sales	4	4	11
Specialty Stainless			
External sales	785	855	1,528
Internal sales	58	56	90
Other operations			
External sales	163	75	256
Internal sales	150	140	283
Eliminations	-441	-562	-974
Group sales	3,371	3,604	6,745
EBIT			
Stainless EMEA	-115	-78	-158
Stainless Americas	-53	-142	-270
Stainless APAC	-5	-1	-7
Specialty Stainless	-9	-5	-33
Reportable segments total	-182	-225	-468
Other operations	-14	-35	-39
Eliminations	-1	1	-3
Group EBIT	-198	-258	-510
Operating capital at the end of the period			
Stainless EMEA	2,195	2,425	2,218
Stainless Americas	1,111	1,271	1,040
Stainless APAC	183	222	189
Specialty Stainless	782	805	743

Fair values and nominal amounts of derivative instruments

EUR million	June 30	Dec 31	June 30	Dec 31
	2014	2013	2014	2013
	Net	Net	Nominal	Nominal
	fair value	fair value	amounts	amounts
Currency and interest rate derivatives				
Currency forwards including embedded derivatives	-12	-1	2,059	2,518
Currency options, bought	0	0	3	3
Currency options, sold	-0	-0	3	3
Interest rate swaps	-10	-9	541	714
Cross-currency swaps	-	-15	-	67
Interest rate options, bought	0	1	244	290
Interest rate options, sold	-3	-3	244	290
			Tonnes	Tonnes
Metal derivatives				
Forward and futures nickel contracts	4	-2	27,646	21,865
Forward and futures molybdenum contracts	2	-	365	-
Emission allowance derivatives	-0	-1	725,000	725,000
Propane derivatives	1	2	63,000	25,000
			MMBtu	MMBtu
Natural gas derivatives	0	0	1,140,000	1,372,182
	-19	-27		

Hierarchy of financial assets and liabilities measured at fair value on June 30, 2014

EUR million	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	1	2	0	3
Investment at fair value through profit or loss	5	-	13	17
Derivatives	-	27	-	27
	5	29	13	47
Liabilities				
Derivatives	-	46	-	46

Reconciliation of changes on level 3

EUR million	Available-for-sale financial assets	Investment at fair value through profit or loss
Carrying value on Jan 1, 2014	0	15
Fair value changes	0	-2
Carrying balance on June 30, 2014	0	13

The fair value of the level three relates mostly to investments in Talvivaara Sotkamo Ltd. Valuation of the investment to Talvivaara Sotkamo Ltd is based on the share value of Talvivaara Mining Company Plc. Change of +/- 10% in the share price of Talvivaara Mining Company Ltd leads to an increase of EUR 1 million or decrease of EUR 1 million in the value. The ownership in energy producing companies is valued at fair value. 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 0 million or decrease of EUR 0 million in valuation.

The fair value of the non-current loan receivables is EUR 5 million (carrying amount EUR 5 million) and the fair value of long-term debt is EUR 1,585 million (carrying amount EUR 1,627 million). For other financial instruments the carrying amount is a reasonable approximation of fair value.

Key figures by quarters

EUR million	I/13	II/13	I–II/13	III/13	IV/13	2013	I/14	II/14	I–II/14
EBITDA	0	-86	-86	-50	-29	-165	-78	70	-8
EBIT margin, %	-4.6	-9.8	-7.1	-8.3	-7.7	-7.6	-11.6	-0.6	-5.9
Return on capital employed, %	-6.1	-12.0	-9.2	-9.8	-9.9	-10.3	-18.3	-1.0	-9.4
Return on equity, %	-21.1	-37.6	-29.3	-39.8	-70.0	-41.4	-47.5	-10.3	-29.7
Return on equity, continuing operations, %	-20.1	-34.7	-27.4	-32.9	-50.0	-34.4	-51.2	-8.6	-30.6
Long-term debt	2,982	2,770	2,770	3,289	3,270	3,270	2,210	1,627	1,627
Current debt	979	1,415	1,415	1,011	893	893	404	602	602
Cash and cash equivalents	-290	-327	-327	-439	-607	-607	-880	-161	-161
Net interest-bearing debt at the end of period	3,671	3,859	3,859	3,861	3,556	3,556	1,733	2,068	2,068
Capital employed at the end of period	5,740	5,614	5,614	5,293	4,265	4,265	3,958	4,208	4,208
Equity-to-assets ratio at the end of period, %	28.0	26.2	26.2	25.0	21.5	21.5	32.8	33.7	33.7
Debt-to-equity ratio at the end of period, %	131.1	152.9	152.9	170.7	188.0	188.0	75.9	92.5	92.5
Earnings per share, EUR ^{1) 3)}	-1.14	-1.87	-3.01	-1.79	-2.72	-7.52	-1.66	-0.14	-1.07
Earnings per share from continuing operations, EUR ^{1) 3)}	-1.09	-1.73	-2.81	-1.48	-1.94	-6.23	-1.79	-0.12	-1.11
Earnings per share from discontinued operation, EUR ^{1) 3)}	-0.05	-0.14	-0.20	-0.31	-0.78	-1.29	0.13	-0.02	0.04
Equity per share at the end of period, EUR ^{2) 3)}	21.03	18.96	18.96	17.00	14.23	14.23	5.49	5.38	5.38
Capital expenditure, continuing operations	68	30	98	40	45	183	15	33	48
Depreciation and amortization, continuing operations	83	84	167	83	82	332	82	80	163
Average personnel for the period, continuing operations	13,379	13,467	13,423	13,129	12,625	13,150	12,443	12,833	12,638

¹⁾ Calculated based on the rights-issue-adjusted weighted average number of shares, comparative figures adjusted accordingly.

²⁾ I/2014 includes the effect of the Outokumpu rights issue.

³⁾ Comparative figures adjusted to reflect the reverse split on June 20, 2014.

Market prices and exchange rates

		I/13	II/13	III/13	IV/13	2013	I/14	II/14
Market prices ¹⁾								
Stainless steel								
Base price	EUR/t	1,177	1,137	1,043	1,057	1,103	1,070	1,093
Alloy surcharge	EUR/t	1,310	1,251	1,086	1,026	1,168	1,026	1,206
Transaction price	EUR/t	2,487	2,388	2,130	2,083	2,272	2,083	2,299
Nickel								
	USD/t	17,298	14,983	13,922	13,914	15,012	14,632	18,464
	EUR/t	13,107	11,457	10,510	10,223	11,303	10,683	13,467
Ferrochrome (Cr-content)								
	USD/lb	1.13	1.27	1.13	1.13	1.16	1.18	1.22
	EUR/kg	1.87	2.14	1.87	1.83	1.93	1.90	1.96
Molybdenum								
	USD/lb	11.39	10.92	9.47	9.66	10.35	9.98	13.70
	EUR/kg	19.01	18.45	15.75	15.65	17.18	16.06	22.03
Recycled steel								
	USD/t	375	342	344	358	354	343	346
	EUR/t	284	262	260	263	267	250	252
Exchange rates								
EUR/USD		1.321	1.306	1.324	1.361	1.328	1.370	1.371
EUR/SEK		8.497	8.565	8.680	8.858	8.834	8.857	9.052
EUR/GBP		0.851	0.851	0.855	0.841	0.827	0.828	0.815

¹⁾ Sources of market prices:

Stainless steel: CRU - German base price, alloy surcharge and transaction price (2 mm cold rolled 304 sheet), estimates for deliveries during the period;

Nickel: London Metal Exchange (LME) settlement quotation;

Ferrochrome: Metal Bulletin - Quarterly contract price, Ferrochrome lumpy chrome charge, basis 52% chrome;

Molybdenum: Metal Bulletin - Molybdenum oxide - Europe;

Recycled steel: Metal Bulletin - Ferrous Scrap Index HMS 1&2 (80:20 mix) fob Rotterdam

Definitions of key financial figures

EBITDA	=	Operating result before depreciation, amortization and impairments
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 tax liability
Return on equity	=	$\frac{\text{Net result for the financial period}}{\text{Total equity (average for the period)}} \times 100$
Return on capital employed (ROCE)	=	$\frac{\text{EBIT}}{\text{Capital employed (average for the period)}} \times 100$
Net interest-bearing debt	=	Long-term debt + current debt – cash and cash equivalents
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	=	$\frac{\text{Net result for the financial period attributable to the owners of the parent}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Equity attributable to the owners of the parent}}{\text{Adjusted number of shares at the end of the period}}$