Interim report

Q2 2016

Bridging the Gap

The Gap attracts over 200,000 visitors per year to the rocky cliffs near Albany, Western Australia. It is a 40-meter deep channel carved into a cliff face by countless ocean waves cutting into the granite in a breath-taking display. In April 2016, the Gap got stainless steel walkways and viewing platforms, delivered by Outokumpu.

The stainless grade used for the project was Forta DX 2205, prized for its strength and corrosion resistance. It is a fitting choice considering the tough requirements of the job: a platform suspended over a steep cliff, subject to high winds, weight bearing load and saltwater wave spray.

A #600 high-chromium polish further helps the Gap to fight the corrosion.

Contents

Group underlying EBIT EUR -5 million and operating cash flow EUR 54 million – record-high deliveries and improving performance in Americas

Highlights in the second quarter 2016

Outokumpu's underlying EBIT was EUR -5 million, compared to EUR -20 million in the first quarter. The improved earnings were mainly the result of higher delivery volumes and decreased production costs in the Americas. Profitability in Europe was negatively impacted by lower ferrochrome prices.

- Stainless steel deliveries were 629,000 tonnes[1] (610,000 tonnes)[2].
- Underlying EBITDA[3] was EUR 51 million (EUR 38 million).
- Underlying EBIT[4] was EUR -5 million (EUR -20 million). Underlying EBIT includes net adjustments of EUR 11 million in the second quarter (EUR 8 million), including the net effect of raw material-related inventory and metal derivative gains/losses of EUR 15 million (EUR -9 million).
- EBIT was EUR 6 million (EUR -12 million).
- Operating cash flow was EUR 54 million (EUR 74 million).
- Net debt decreased to EUR 1,485 million (EUR 1,551 million).
- Gearing was 69.1% (69.6%).
- Return on capital employed (ROCE) was 6.2% (5.3%).

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[1] Metric ton = 1,000 kg
[2] Figures in parentheses refer to the previous quarter, unless otherwise stated.
[3] EBITDA excluding items classified as adjustments. Adjustments are material income and expense items such as restructuring costs, impairments, and gains or losses on sale of assets or businesses, as well as raw material related inventory gains/losses and metal derivative gains/losses.
[4] EBIT excluding items classified as adjustments.

Figures in parentheses refer to the previous quarter, unless otherwise stated.

Group key figures

		II/16	I/16	II/15	2015
Sales	EUR million	**1,379**	1,386	1,694	6,384
EBITDA	EUR million	**62**	46	55	531
Underlying EBITDA [1]	EUR million	**51**	38	57	196
EBIT	EUR million	**6**	-12	-26	228
Underlying EBIT [2]	EUR million	**-5**	-20	-25	-101
Result before taxes	EUR million	**-22**	-47	-65	127
Net result for the period	EUR million	**-20**	-41	-62	86
Earnings per share	EUR	**-0.05**	-0.10	-0.14	0.23
Return on capital employed	%	**6.2**	5.3	-1.8	5.3
Net cash generated from operating activities	EUR million	**54**	74	-41	-34
Net debt at the end of period	EUR million	**1,485**	1,551	2,116	1,610
Debt-to-equity ratio at the end of period	%	**69.1**	69.6	96.4	69.1
Capital expenditure	EUR million	**28**	32	35	154
Stainless steel deliveries [3]	1,000 tonnes	**629**	610	616	2,381
Personnel at the end of period [4]		**10,645**	10,920	11,665	11,002

[1] EBITDA excluding items classified as adjustments, unaudited.

[2] EBIT excluding items classified as adjustments, unaudited.

[3] Excludes ferrochrome deliveries.

[4] On June 30, 2016 Group employed in addition some 800 summer trainees (June 30, 2015: some 800).

Business and financial outlook for the third quarter of 2016

Third quarter market outlook is impacted by typical seasonal decline in demand, particularly in Europe. In Europe, stock levels among distributors are currently at historical averages and the underlying demand in key sectors outside of Oil & Gas is expected to continue to be relatively healthy. In Americas, while a drop in demand is expected in the third quarter, there are also a number of positive signs: stock levels among distributors are below historical average levels, the announced price increases are gaining traction, and the preliminary antidumping ruling is expected to curb unfair competition.

Outokumpu expects sequentially flat delivery volumes for the third quarter. Outokumpu's ferrochrome operations will be impacted by major maintenance work during the third quarter, partly offsetting the positive impact of higher ferrochrome prices. Outokumpu expects the pace of the efficiency improvements to continue and the Group's underlying EBIT to turn positive in the third quarter.

CEO Roeland Baan:

"Outokumpu recorded an underlying EBIT loss of EUR 5 million for the second quarter. While our financial results are still not where they should be, we are clearly gaining momentum: during the quarter, we achieved record deliveries in Americas, applied vigorous cost control, released net working capital, generated positive cash flow, and further reduced our net debt.

At the start of the quarter, we announced the new vision for Outokumpu, including measures to drive competitiveness and further improve the financial performance of the company. We took decisive steps and started the implementation of these measures during the quarter by streamlining our organizational structure and initiating related job reductions.

One of the main levers to achieve our vision is ensuring continuous productivity gains through manufacturing excellence. This focus on production costs and efficiency is already reflected in our second quarter results. In the business area Americas, we achieved a 14% reduction in variable costs during the quarter, and record-high deliveries of 177,000 tonnes. The improved efficiency has put us in a good position to capture the positive market momentum in the Americas, and helped us reduce the business area's underlying EBIT loss to EUR 24 million from the first-quarter loss of EUR 43 million. This is good progress, and we expect the trend to continue, with significant further improvement potential.

Parallel to these efforts, we continued our relentless drive to improve efficiency and reduce our cost base also in Europe. In the second quarter, we achieved further EUR 15 million cost savings in the business area Europe. However, the financial performance was burdened by the weaker ferrochrome price, slightly lower stainless steel deliveries and increase in raw material prices. While these negative impacts were partly offset by the reduced costs and improved productivity, the business area Europe's profitability declined from EUR 42 million to EUR 29 million.

With the positive development in the Americas, our total deliveries for the Group increased to 629,000 tonnes. Even with the higher deliveries, we continued to reduce our net working capital across the Group, achieving EUR 117 million net working capital reduction for the first half of the year and a positive operating cash flow of EUR 54 million for the second quarter. Debt reduction remains a key priority for us: at the end of the second quarter our net debt was EUR 1,485 million, down from EUR 1,551 million at the end of the first quarter, and gearing at 69.1%.

We have improved our financial performance throughout this year, and expect the pace of efficiency improvements to continue. Thus, for the third quarter, we expect a positive underlying EBIT for the Group, driven mainly by further improvement in Americas. In Europe, the typical seasonal effects will have a negative impact. Additionally, a planned major maintenance on our largest ferrochrome furnace will reduce our ferrochrome output by approximately 30% in the third quarter.

While we still have a long way to go to realize our full potential, I am encouraged by the momentum and convinced of our ability to reach our vision and target of EUR 500 million EBIT in 2020."

Outokumpu strategy

At the beginning of April, Outokumpu announced its new vision and measures to drive competitiveness and further improve the financial performance of the company. The new vision has been defined as: to be the best value creator in stainless steel by 2020 through customer orientation and efficiency. Simultaneously, Outokumpu outlined its long-term financial targets connected to this vision.

Outokumpu will focus on the following six areas to reach its vision:

1. Safety: a standardized and disciplined approach to safety that correlates with improved quality and operational efficiency, leading to a top decile position in the industry.
2. High performing organization: a lean, simple and flat organization that takes its lead from market trends and requirements, and drives a high level of individual accountability that is enforced through vigorous performance management.
3. Word-class supply chain: the role of the supply chain function elevated to drive optimal matching of market demand and the manufacturing capabilities, managing manufacturing programming and planning as well as the required resources and logistics. This will allow our production units to focus on achieving a benchmark level in cost efficiency.
4. Manufacturing excellence: implementing a standardized operating model to ensure continuous productivity gains in all the mills across the company, leading to industry benchmark competitiveness.
5. Americas: the single biggest profitability improvement lever for Outokumpu, with significant improvement potential in both cost and market position.
6. Portfolio: continuous review of product portfolio, assets and operations to maximize the profitability of the business and minimize complexity.

Work has started in all areas, and benefits are expected to start materializing from the beginning. However, reaching the full potential and run rate impact will take some years triggering the need for a set of immediate measures to deliver a step change in our cost and competitive position.

Short-term actions

- New organizational set-up: a simplified organization with three business areas, less management layers and a lighter cost structure.
- A reduction of EUR 100 million in sales, general and administrative costs (SG&A) by the end of 2017 against the baseline of EUR 400 million at the end of 2015.
- A cash release of at least EUR 200 million from net working capital by the end of 2016, particularly through the reduction of inventory carry.

Outokumpu considers gearing (debt-to-equity ratio) to be a relevant key indicator for the health of a company in the cyclical stainless steel sector. Outokumpu is targeting to reduce its net debt to EUR 1.2 billion by the end of 2017, driven mainly by the expected improvement in operational performance as well as a significant uplift in net working capital efficiency.

Long-term financial targets

In connection with the new vision, Outokumpu has defined long-term financial targets to reflect the progress of our strategic initiatives and the development in profitability and further deleveraging:

- EBIT of EUR 500 million
- ROCE of 12%
- Gearing of <35%

These group-level targets are expected to be reached by the end of 2020 at the latest. While the global demand for stainless steel continues to grow, Outokumpu takes a conservative approach on the market growth and metal price assumptions, and expects the targeted profitability improvement to come primarily through efficiency and cost improvements in the current scope of business, supported by further strengthening of Outokumpu's cost competitiveness and market position particularly in the Americas.

Market development

Stainless steel demand

In the second quarter of 2016, apparent consumption[5] of stainless steel products increased globally by 1.9% compared to the first quarter. The increase in apparent consumption was driven by growth of 0.8% in EMEA, 2.1% in Americas and 2.2% in APAC. Global real demand grew by 0.4% in the second quarter compared to the first quarter. Demand in APAC increased by 1.6% while it decreased by 3.8% in Americas and 1.8% in EMEA.

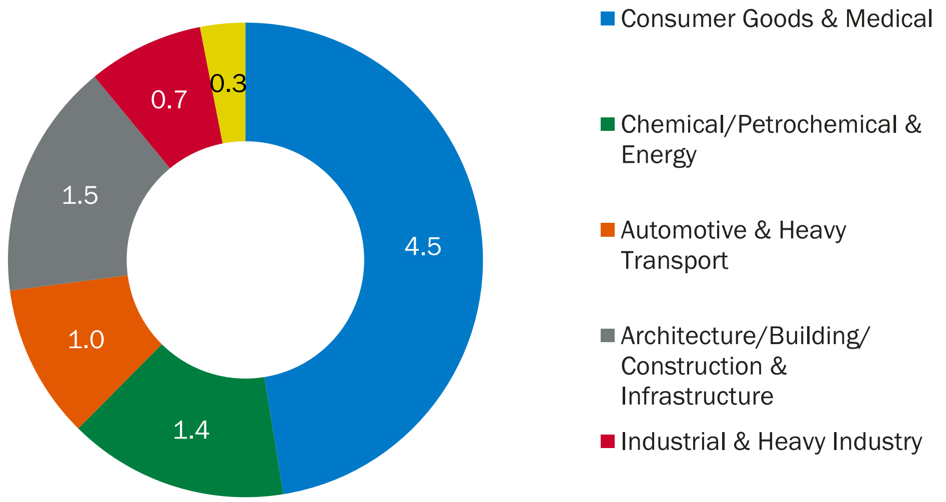
Market development of total stainless steel real demand

Million tonnes	II/16	I/16	II/15	2015	y-o-y	q-o-q
EMEA	1.8	1.9	1.9	7.2	-2.2%	-1.8%
Americas	0.9	0.9	0.9	3.6	0.4%	-3.8%
APAC	6.8	6.7	6.8	26.7	-0.1%	1.6%
Total	9.5	9.4	9.5	37.4	-0.4%	0.4%

Source: SMR May 2016

The second-quarter real demand grew fastest in the ABC & Infrastructure segment, at 3.9% compared to the first quarter. Also the Automotive & Heavy Transport and Industrial & Heavy Industries segments showed growth of 0.4% and 0.3%, respectively, while demand in the Consumer Goods & Medical and the Chemical, Petrochemical & Energy segments decreased by 0.3% and 0.8%, respectively.

Stainless steel demand by customer segments in the second quarter 2016, million tonnes



Source: SMR July 2016

[5] Apparent consumption = real demand + stock change

EU cold-rolled imports from third countries decreased to 21.1% of total consumption in April-May, from the average of 24.8% in the first quarter of 2016. Average cold-rolled imports into the NAFTA region totaled 21.0% of total consumption in April-May, relatively flat compared to 21.2% in the first quarter of 2016. (Source: Eurofer and Foreign Trade Statistics July 2016)

Price development of alloying metals

The nickel[6] price rallied in April on signs of Chinese manufacturing recovery, weaker US dollar and higher oil prices. At its highest, the nickel prices hit a level of USD 9,555/tonne in early May. Subsequently, the prices trended down thereafter but started to increase again in June and closed the quarter at USD 9,415/tonne. The average price for the quarter was USD 8,826/tonne (USD 8,504/tonne).

The European benchmark price for ferrochrome[7] fell from USD 0.92/lb in the first quarter to USD 0.82/lb in the second quarter. For the third quarter, the price increased to USD 0.98/lb on the back of higher demand in China, supported by domestic stainless steel production.

Market prices

			II/16	I/16	II/15	y-o-y	q-o-q
Stainless steel							
Europe	Base price	EUR/t	1,050	1,050	1,057	-0.6%	0.0%
	Alloy surcharge	EUR/t	879	875	996	-11.8%	0.4%
	Transaction price	EUR/t	1,929	1,925	2,053	-6.0%	0.2%
USA	Base price	USD/t	1,271	1,227	1,257	1.2%	3.6%
	Alloy surcharge	USD/t	765	725	903	-15.2%	5.6%
	Transaction price	USD/t	2,037	1,952	2,160	-5.7%	4.3%
China	Transaction price	USD/t	1,635	1,524	1,632	0.2%	7.3%
Nickel		USD/t	8,826	8,504	9,412	-6.2%	3.8%
Ferrochrome (Cr-content)		USD/lb	0.82	0.92	1.04	-21.2%	-10.9%
Molybdenum		USD/lb	6.99	5.32	4.84	44.4%	31.4%
Recycled steel		USD/t	254	177	169	50.1%	43.6%

Sources:

Stainless steel: CRU July 2016, 2 mm cold-rolled 304 stainless steel sheet

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

[6] Nickel Cash LME Daily Official Settlement USD per tonne

[7] Ferrochrome contract: Ferrochrome Lumpy CR charge basis 52% Cr quarterly major European destinations USD per lb Cr

Business areas

Europe

Europe key figures

		II/16	I/16	II/15	I-II/16	I-II/15	2015
Stainless steel deliveries	1,000 tonnes	**413**	421	413	**834**	822	1,578
Sales	EUR million	**958**	987	1,140	**1,945**	2,303	4,316
Underlying EBIT	EUR million	**29**	42	41	**71**	67	85
Adjustments							
Redundancy costs	EUR million	**-29**	-	-	**-29**	-	-25
Restructuring provisions, other than redundancy	EUR million	**-**	-8	-	**-8**	-	-
Impairments related to EMEA restructuring	EUR million	**-**	-	-	**-**	-	-6
Net of raw material-related inventory and metal derivative gains/losses, unaudited	EUR million	**7**	-2	16	**6**	36	31
EBIT	EUR million	**7**	32	57	**40**	103	84
Operating capital	EUR million	**2,536**	2,628	2,894	**2,536**	2,894	2,680

The European coil products market was relatively healthy in the second quarter, with apparent consumption increasing by 0.8%. The import volumes decreased compared to the first quarter, particularly from Asian countries. As the nickel price remained low, distributor sector demand continued to be subdued, and distributor stocks remained at long-term average levels. The base prices remained flat during the quarter. The operating environment for plate products continued subdued as the general investment climate was characterized by uncertainty.

Business area Europe's stainless steel deliveries decreased by 1.9% to 413,000 tonnes (421,000 tonnes). The average base price in Europe's coil product deliveries was flat compared to the first quarter (decrease of EUR 50/tonne in the first quarter). Ferrochrome production in the second quarter was in line with plans and amounted to 135,000 tonnes (132,000 tonnes). Business area Europe's sales amounted to EUR 958 million (EUR 987 million), down mainly as a result of lower deliveries.

Europe's second-quarter underlying EBIT declined to EUR 29 million (EUR 42 million). The decrease was mainly due to the lower ferrochrome prices. The profitability was also negatively impacted by lower stainless steel deliveries and higher raw material prices. The negative impacts were partly offset by improved productivity and lower costs. The EMEA restructuring program recorded savings of EUR 15 million bringing the total savings to EUR 50 million since the beginning of the program. Adjustments in the second quarter included EUR 29 million of redundancy costs related to the SG&A cost reduction program, and the net effect of raw material-related inventory and metal derivative gains/losses of EUR 7 million.

Americas

Americas key figures

		II/16	I/16	II/15	I-II/16	I-II/15	2015
Deliveries	1,000 tonnes	**177**	161	117	**338**	250	533
Sales	EUR million	**311**	301	284	**612**	621	1,214
Underlying EBIT	EUR million	**-24**	-43	-50	**-66**	-77	-163
Adjustments							
Net insurance compensation and costs related to technical issues in Calvert	EUR million	**-1**	25	-	**24**	-19	-17
Redundancy costs	EUR million	**-2**	-	-	**-2**	-	-
Net of raw material-related inventory and metal derivative gains/losses, unaudited	EUR million	**8**	-8	-15	**-0**	-17	-37
EBIT	EUR million	**-19**	-26	-65	**-45**	-113	-216
Operating capital	EUR million	**1,178**	1,211	1,346	**1,178**	1,346	1,279

There were a number of positive developments in the stainless steel markets in Americas during the second quarter. Apparent consumption grew by 2.1%, and the ongoing antidumping investigation curbed Chinese imports. The distributors started to restock again after the strong inventory decline seen during the past few quarters. In June, Outokumpu announced a price increase of USD 40/tonne, in addition to the three earlier price increase announcements. All in all, the announced price increases have totaled USD 280/tonne since December, 2015, moving the price levels closer to the levels of early 2015. The impact of the price increases will be visible over the coming quarters.

Business area Americas' second-quarter stainless steel deliveries increased by 9.9% to a record-high 177,000 tonnes (161,000 tonnes). The average base price in the Americas' coil product deliveries increased by USD 70/tonne during the second quarter (stable in the first quarter). Sales increased to EUR 311 million (EUR 301 million), driven by higher deliveries and higher prices.

Americas' second-quarter underlying EBIT improved to EUR -24 million (EUR -43 million) as a result of higher deliveries, improved efficiency and lower production costs in Calvert. Adjustments in the second quarter included EUR 2 million of redundancy costs, a EUR -1 million adjustment to earlier insurance compensation, and the net effect of raw material-related inventory and metal derivative gains/losses of EUR 8 million.

Long Products

Long Products key figures

		II/16	I/16	II/15	I-II/16	I-II/15	2015
Deliveries	1,000 tonnes	70	50	62	120	113	213
Sales	EUR million	133	100	159	233	309	551
Underlying EBIT	EUR million	-2	-4	4	-6	7	7
Adjustments							
Redundancy costs	EUR million	-1	-	-	-1	-	-
Net of raw material-related inventory and metal derivative gains/losses, unaudited	EUR million	-0	-3	1	-3	2	-5
EBIT	EUR million	-4	-6	5	-10	9	2
Operating capital	EUR million	132	136	167	132	167	151

Long products' order intake improved during the second quarter driven by growing demand across all markets, especially in Europe. The Automotive, Construction and Metal Processing segments saw healthy growth whereas Oil & Gas related project activity remained subdued. Long Products' base prices remained at first-quarter levels in both Europe and the US.

Long Products' deliveries increased to 70,000 tonnes (50,000 tonnes). Growth was driven both by internal slab deliveries to other Outokumpu units, as well as growth in external customer deliveries. Long Products' underlying EBIT amounted to EUR -2 million (EUR -4 million) as higher deliveries were offset by the GBP derivative losses of approximately EUR 5 million, and a weak product mix. Excluding the negative impact of the derivative losses, Long Products showed clear improvement in their financial performance. The weakening of the GBP is expected to improve the competitiveness of the Long Products operations in Sheffield, UK. Adjustments in the second quarter included EUR 1 million of redundancy costs, and the net effect of raw material-related inventory and metal derivative gains/losses of EUR -0 million.

Financial performance

Deliveries

Deliveries

1,000 tonnes	II/16	I/16	II/15	I-II/16	I-II/15	2015
Cold rolled	435	440	449	875	907	1,767
White hot strip	113	103	88	216	182	346
Quarto plate	25	28	31	52	55	102
Long products	19	15	16	35	32	63
Semi-finished products	72	57	52	129	101	222
Stainless steel [1)]	37	24	29	61	56	95
Ferrochrome	34	33	23	67	45	128
Tubular products	0	0	3	1	5	9
Total deliveries	664	643	640	1,307	1,282	2,509
Stainless steel deliveries	629	610	616	1,240	1,237	2,381

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

Outokumpu's stainless steel deliveries grew by 3.1% to 629,000 tonnes (610,000 tonnes). Outokumpu's average utilization rate was 95% in melting and 80% in cold rolling in the second quarter (90% and 75%).

Sales and profitability

Outokumpu's sales in the second quarter of 2016 declined by 0.5% to EUR 1,379 million (EUR 1,386 million), driven mainly by lower delivery volumes in Europe. This negative impact was partly offset by higher deliveries and prices in the Americas and higher deliveries in Long Products.

The average base price change in deliveries was marginal for Outokumpu in the second-quarter. Base prices were flat in Europe and increased in the US. According to CRU, the European average base price for the second quarter 2016 remained flat at EUR 1,050/tonne compared to the first quarter. In the Americas, the respective CRU market base price went up by USD 44/tonne to USD 1,271/tonne (USD 1,227/tonne).

Outokumpu's second-quarter underlying EBIT was EUR -5 million compared to EUR -20 million in the first quarter, driven mainly by higher deliveries and reduced costs. Profitability improved in the Americas and Long Products, while earnings in Europe declined. Other operations' underlying EBIT improved to EUR -8 million (EUR -15 million), mainly as a result of a decrease in net losses from derivatives.

Profitability

EUR million	II/16	I/16	II/15	I-II/16	I-II/15	2015
Underlying EBIT	**-5**	-20	-25	**-25**	-23	-101
Adjustments						
Redundancy costs	**-35**	-	-	**-35**	-	-25
Gain on the SKS divestment	**26**	-	-	**26**	-	409
Net insurance compensation and costs related to technical issues in Calvert	**-1**	25	-	**24**	-19	-17
Restructuring provisions, other than redundancy	**-**	-8	-	**-8**	-	-
Gain on the Guangzhou divestment	**6**	-	-	**6**	-	-
Impairments related to EMEA restructuring [1)]	**-**	-	-	**-**	-	-6
Net of raw material-related inventory and metal derivative gains/losses, unaudited	**15**	-9	-1	**6**	5	-31
EBIT	**6**	-12	-26	**-6**	-36	228

[1)] Not an EBITDA adjustment.

Adjustments to EBIT include redundancy costs of EUR 35 million related to SG&A streamlining measures, a EUR 26 million additional gain on the SKS divestment, a EUR -1 million adjustment to earlier insurance compensation in Calvert, and a EUR 6 million gain from the divestment of the Guangzhou service center. The net effect of raw material-related inventory and metal derivative gains/losses in the second quarter was EUR 15 million (EUR -9 million).

The net result for the second quarter of 2016 was EUR -20 million (EUR -41 million) and earnings per share was EUR -0.05 (EUR -0.10).

Cash flow

Summary of cash flows

EUR million	April–June 2016	Jan–March 2016	April–June 2015	Jan–June 2016	Jan–June 2015	Jan–Dec 2015
Net cash from operating activities	**54**	74	-41	**129**	-103	-34
Net cash from investing activities	**-22**	-17	-34	**-40**	-65	239
Cash flow before financing activities	**32**	57	-75	**89**	-168	205
Net cash from financing activities	**-42**	-76	-18	**-118**	179	-213
Net change in cash and cash equivalents	**-10**	-19	-93	**-30**	11	-8

Outokumpu's operating cash flow was EUR 54 million in the second quarter (EUR 74 million). The change in working capital for the quarter was EUR 4 million (EUR 58 million), of which EUR -14 million was related to provisions and pension obligations (EUR -40 million). The net working capital release during the first half of 2016, excluding provisions and pension obligations, amounted to EUR 117 million. The second-quarter net cash from investing activities was EUR -22 million (EUR -17 million).

Financial position

Outokumpu continued to extend its debt maturity profile and address the 2017 maturities by issuing a EUR 250 million senior secured bond in June and by extending the maturities of its Finnish pension loans. The bond matures in June 16, 2021 and it carries a fixed coupon interest rate of 7.25% per annum. The net proceeds of the bond were used to prepay current debt.

Cash and cash equivalents stood at EUR 156 million at the end of the second quarter (EUR 166 million), and the overall liquidity reserves were approximately EUR 0.8 billion (approximately EUR 0.9 billion). In addition, EUR 124 million of the revolving credit facility maturing in February 2017 is available, but classified as short-term, hence not included in the overall liquidity. The overall liquidity reserves decreased, as a EUR 150 million bond was paid back in June, and the utilization of the Finnish commercial paper program decreased during the quarter. The impact of the matured bond was partly offset by positive cash flow before financing activities in the second quarter.

Debt information

EUR million	June 30 2016	March 31 2016	June 30 2015	Dec 31 2015
Bonds	**496**	398	397	398
Convertible bonds	**215**	212	206	210
Long-term loans from financial institutions	**323**	493	764	466
Pension loans	**165**	165	206	174
Finance lease liabilities	**194**	202	238	208
Short-term loans from financial institutions	**29**	-	88	0
Commercial paper	**220**	246	424	339
	1,641	1,717	2,323	1,796

Net debt at the end of June totaled EUR 1,485 million (EUR 1,551 million). Gearing remained stable at 69.1%, compared to 69.6% at the end of March, as the decrease in net debt was offset by a decline in equity.

Total assets at the end of June 2016 were relatively flat at EUR 5,674 million compared to EUR 5,684 million at the end of March. Non-current debt increased to EUR 1,162 million (EUR 870 million), whereas current debt decreased to EUR 478 million (EUR 848 million). The provisions increased to EUR 148 million (EUR 127 million), reflecting mainly the ongoing SG&A streamlining measures.

Net financial expenses were EUR 28 million in the second quarter (EUR 34 million). Interest expenses decreased slightly to EUR 25 million (EUR 26 million).

Outokumpu is rated by Moody’s Investors Service. In March, 2016, Moody’s assigned Outokumpu an issuer corporate family rating of B3 and a B3-PD probability default rating. In addition, Moody’s has assigned a B2 rating to the EUR 250 million senior secured bond due in 2019 and a B2 rating to the EUR 250 million senior secured bond due in 2021. The outlook on the ratings is positive.

Capital expenditure

Capital expenditure amounted to EUR 28 million in the second quarter (EUR 32 million) and was mainly related to maintenance and the Krefeld ferritics optimization investment.

Safety, people and environment

Safety

The Outokumpu Safety focus continues to develop positively. From the beginning of 2016, the company follows total recordable incident frequency (TRIFR) as its main indicator for safety performance. TRIFR includes fatal accidents, lost time incidents, restrictive work incidents, and medically treated incidents. In the second quarter, the TRIFR was 11.3 (11.0) against the target of 12.0 for 2016. There was one serious trapping incident in the second quarter in Sheffield, UK. The near miss reporting continues to highlight opportunities for rapid improvement across the organization.

People

Personnel at the end of the reporting period

	June 30 2016	March 31 2016	June 30 2015	Dec 31 2015
Europe	**7,561**	7,709	7,966	7,778
Americas	**2,170**	2,263	2,276	2,265
Long Products	**634**	656	668	658
Other operations	**280**	292	755	301
	10,645	10,920	11,665	11,002

Other operations' June 30, 2015 figure includes the divested SKS operations.

On June 30, 2016 Group employed in addition some 800 summer trainees (June 30, 2015: some 800).

Outokumpu's headcount decreased by 275 during the second quarter and totaled 10,645 at the end of June 2016 (10,920).

In April, Outokumpu announced efficiency measures that are expected to lead to the reduction of up to 600 jobs globally. During the second quarter, Outokumpu carried out related consultations with employee representatives in Finland and in Sweden, resulting in a reduction of approximately 180 jobs in these countries, and a further 150 jobs globally. These job reductions will become effective between the second and fourth quarters of 2016. Further implementation of the efficiency measures and job reductions continues in various countries in accordance with local legislation and practices. Redundancy costs of EUR 35 million were booked in the second quarter related to efficiency measures and job reductions. All in all, Outokumpu plans to reduce its personnel to a level of 9,300 in the coming years.

Environment

Emissions and effluents remained within permitted limits, and the minor breaches that occurred were temporary, identified, and had only a minimal impact on the environment. Outokumpu is not a party to any significant judicial or administrative proceeding concerning environmental issues, nor is it aware of any realized environmental risks that could have a material adverse effect on its financial position.

The EU Emissions Trading Scheme (ETS) is continuing with 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 total allocation will be sufficient for the Group's operations during 2016.

Shares and shareholders

On June 30, 2016, Outokumpu's share capital was EUR 311 million and the total number of shares was 416,374,448. At the end of the second quarter, Outokumpu held 2,698,925 of its own shares. The average number of shares outstanding was 415,154,119 for the first six months of 2016.

Outokumpu's market capitalization was EUR 1,564 million at the end of June (EUR 1,427 million). The share price averaged EUR 3.70 in the second quarter, closed the quarter at EUR 3.76, and was up by 9.6% compared to the end of the first quarter. At its highest, the share price closed at EUR 4.31, while at its lowest, the price was EUR 3.24. The share turnover was 246.3 million shares, compared to 283.3 million shares in the first quarter.

Risks and uncertainties

The main realized risks during the second quarter were related to the further declining ferrochrome contract price and losses from currency derivatives due to the continued decline of the GBP against the USD and the EUR. Furthermore, the decline of the GBP also caused negative translation differences for the Group's equity.

The consequences of the Brexit referendum have been analyzed and the main impacts to Outokumpu in the short-to-medium term include: possible further negative translation differences to equity, improved competitiveness of the Group's UK entities due to a significant cost base denominated in GBP, assuming the GBP exchange rate remained weak against the EUR and the USD, uncertainties in demand outlook for stainless steel in general due to the possible impacts on the European economy, and negative impacts on access to long-term funding for lower-rated corporations. The long-term impacts of Brexit depend e.g. on the agreement between the EU and the UK and are therefore difficult to estimate at this stage.

Additionally, the decline in interest rates led to a significant negative impact on equity due to re-measurement of defined benefit pension obligations.

The issue of the new bond maturing in 2021 together with the maturity extension of Finnish pension loans during the second quarter clearly improved liquidity and helped to reduce the refinancing risk particularly for 2017.

Short-term risks and uncertainties

Outokumpu is exposed to the following risks and uncertainties in the short-term: risks and uncertainties in implementing the new strategic plan, including major failures or delays in achieving the anticipated cost reductions, release of cash from working capital, the implementation of a new organizational structure, and the loss of key personnel; risks related to failures; risks related to market development in stainless steel and ferrochrome as well as competitors' actions; the risk of changes in metal prices impacting amounts of cash tied up in working capital; changes in the prices of electrical power, fuels, nickel and molybdenum; currency developments affecting the euro, US dollar, Swedish krona and British pound; counterparty risks related to customers and other business partners, including financial institutions; risks related to refinancing and liquidity; and a risk of breaching financial covenants or other relevant terms and conditions under any finance agreement, leading to an event of default. Possible adverse changes in the global political and economic environment (including the uncertainties caused by the Brexit referendum) may have a significant adverse impact on Outokumpu's overall business and access to financial markets.

Corporate governance

Annual General Meeting

Outokumpu held its Annual General Meeting on April 6, 2016. The Meeting approved the financial statements and discharged the management of the company from liability for the financial year 2015. It was also decided that no dividend be paid for 2015. The Meeting approved the proposals regarding the authorization to the Board of Directors to repurchase the company's own shares and to decide on the issuance of shares as well as special rights entitling to shares. The Meeting also approved the proposals of the Nomination Board regarding the members of the Board of Directors and their remuneration.

The Annual General Meeting decided that the number of the members of Board of Directors is nine. The Annual General Meeting decided to re-elect Markus Akermann, Roberto Gualdoni, Stig Gustavson, Heikki Malinen, Saila Miettinen-Lähde, Elisabeth Nilsson, Jorma Ollila and Olli Vaartimo of the current members and to elect Kati ter Horst as a new member for the term of office ending at the end of the next Annual General Meeting. The Annual General Meeting re-elected Jorma Ollila as the Chairman and Olli Vaartimo as the Vice Chairman of the Board of Directors.

Outokumpu Leadership Team

The new organizational set-up connected to Outokumpu's new vision and strategy came into force on June 1, 2016, and as of that date the Outokumpu Leadership Team comprises the following persons:

- Roeland Baan, President and CEO & head of business area Europe
- Christoph de la Camp, CFO (as of July 1, 2016)
- Michael S. Williams, head of business area Americas
- Kari Tuutti, head of business area Long Products
- Olli-Matti Saksi, head of Sales Europe
- Liam Bates, head of Supply Chain Europe
- Head of Operations Europe (to be nominated later)
- Pekka Erkkilä, Chief Technology Officer
- Jan Hofmann, Business Transformation & IT
- Johann Steiner, Human Resources & Organizational Development
- Saara Tahvanainen, Communications & Investor Relations

Market and business outlook

Market outlook

In the third quarter of 2016, global stainless steel real demand is expected to decrease by 1.0% compared to the second quarter, driven by decreases of 4.8% in EMEA and 4.4% in Americas. Meanwhile, demand in the APAC region is forecast to grow by 0.5%. Total global demand for 2016 is estimated to grow by 1.0% compared to 2015.

Market development for real demand total stainless steel products between 2014 and 2019

Million tonnes	2014	2015	2016f	2017f	2018f	2019f
EMEA	7.2	7.2	7.2	7.3	7.5	7.7
Americas	3.7	3.6	3.5	3.5	3.6	3.7
APAC	26.2	26.7	27.1	28.1	29.3	30.5
Total	37.0	37.4	37.8	38.9	40.5	41.9

Source: SMR May 2016

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 2015 and 2017 will mainly be attributable to increased demand from the Architecture/Building/Construction & Infrastructure (+4.0%), Automotive & Heavy Transport (+3.6%) and Consumer Goods & Medical (+2.8%) segments.

Business and financial outlook for the third quarter of 2016

Third quarter market outlook is impacted by typical seasonal decline in demand, particularly in Europe. In Europe, stock levels among distributors are currently at historical averages and the underlying demand in key sectors outside of Oil & Gas is expected to continue to be relatively healthy. In Americas, while a drop in demand is expected in the third quarter, there are also a number of positive signs: stock levels among distributors are below historical average levels, the announced price increases are gaining traction, and the preliminary antidumping ruling is expected to curb unfair competition.

Outokumpu expects sequentially flat delivery volumes for the third quarter. Outokumpu's ferrochrome operations will be impacted by major maintenance work during the third quarter, partly offsetting the positive impact of higher ferrochrome prices. Outokumpu expects the pace of the efficiency improvements to continue and the Group's underlying EBIT to turn positive in the third quarter.

Helsinki, July 26, 2016

Board of Directors

Condensed financial statements

Condensed income statement

EUR million	April–June 2016	Jan–March 2016	April–June 2015	Jan–June 2016	Jan–June 2015	Jan–Dec 2015
Sales	**1,379**	1,386	1,694	**2,765**	3,462	6,384
Cost of sales	**-1,287**	-1,309	-1,635	**-2,596**	-3,359	-6,273
Gross margin	**92**	76	59	**169**	103	111
Other operating income	**36**	26	9	**62**	36	472
Sales, general and administrative costs [1)]	**-112**	-104	-92	**-215**	-173	-342
Other operating expenses	**-10**	-11	-2	**-22**	-2	-13
EBIT	**6**	-12	-26	**-6**	-36	228
Share of results in associated companies and joint ventures	**1**	-1	0	**-0**	2	49
Financial income and expenses						
Interest expenses	**-25**	-26	-33	**-52**	-64	-130
Net other financial expenses	**-3**	-8	-7	**-11**	-13	-20
Result before taxes	**-22**	-47	-65	**-68**	-111	127
Income taxes	**1**	6	3	**7**	4	-41
Net result for the period	**-20**	-41	-62	**-61**	-107	86
Attributable to:						
Equity holders of the Company	**-20**	-41	-60	**-61**	-103	96
Non-controlling interests	**-**	-	-3	**-**	-4	-9
Earnings per share for result attributable to the equity holders of the Company (basic and diluted), EUR	**-0.05**	-0.10	-0.14	**-0.15**	-0.25	0.23

[1)] The EUR 400 million baseline for the EUR 100 million reduction target in sales, general and administrative costs includes EUR 58 million of costs that were reported as cost of sales in 2015. The corresponding costs for 2016 will be reported as sales, general and administrative costs.

Statement of comprehensive income

EUR million	April–June 2016	Jan–March 2016	April–June 2015	Jan–June 2016	Jan–June 2015	Jan–Dec 2015
Net result for the period	-20	-41	-62	-61	-107	86
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations						
Change in exchange differences	2	-30	-28	-28	82	75
Reclassification adjustments from other comprehensive income to profit or loss	-2	-	-	-2	-	-17
Available-for-sale financial assets	0	-0	0	0	0	-1
Cash flow hedges	-3	-1	1	-3	2	2
Items that will not be reclassified to profit or loss:						
Remeasurements on defined benefit obligation plans						
Changes during the accounting period	-52	-29	58	-80	39	3
Income tax relating to remeasurements	0	0	1	0	0	-7
Share of other comprehensive income in associated companies and joint ventures	0	0	0	0	-1	-1
Other comprehensive income for the period, net of tax	-54	-59	32	-114	123	56
Total comprehensive income for the period	-74	-101	-30	-175	16	142
Attributable to:						
Equity holders of the Company	-74	-101	-29	-175	19	150
Non-controlling interests	-	-	-1	-	-3	-8

Condensed statement of financial position

EUR million	June 30 2016	March 31 2016	June 30 2015	Dec 31 2015
ASSETS				
Non-current assets				
Intangible assets	495	496	572	498
Property, plant and equipment	2,911	2,924	3,138	3,005
Investments in associated companies and joint ventures	62	62	81	63
Other financial assets	46	45	35	41
Deferred tax assets	21	22	62	16
Defined benefit plan assets	23	47	40	35
Trade and other receivables	6	36	17	40
Total non-current assets	3,565	3,632	3,945	3,698
Current assets				
Inventories	1,153	1,147	1,552	1,251
Other financial assets	27	45	64	53
Trade and other receivables	773	694	798	686
Cash and cash equivalents	156	166	207	186
Total current assets	2,109	2,052	2,621	2,177
TOTAL ASSETS	5,674	5,684	6,566	5,874
EQUITY AND LIABILITIES				
Equity				
Equity attributable to the equity holders of the Company	2,148	2,229	2,197	2,329
Non-controlling interests	-	-	-3	-
Total equity	2,148	2,229	2,195	2,329
Non-current liabilities				
Non-current debt	1,162	870	1,576	1,249
Other financial liabilities	7	9	12	9
Deferred tax liabilities	9	16	39	16
Defined benefit and other long-term employee benefit obligations	413	388	332	369
Provisions	114	111	113	113
Trade and other payables	47	48	47	48
Total non-current liabilities	1,752	1,442	2,119	1,805
Current liabilities				
Current debt	478	848	747	547
Other financial liabilities	47	38	64	50
Provisions	34	17	21	23
Trade and other payables	1,215	1,111	1,420	1,121
Total current liabilities	1,774	2,014	2,252	1,741
TOTAL EQUITY AND LIABILITIES	5,674	5,684	6,566	5,874

Condensed statement of cash flows

EUR million	April–June 2016	Jan–March 2016	April–June 2015	Jan–June 2016	Jan–June 2015	Jan–Dec 2015
Net result for the period	-20	-41	-62	-61	-107	86
Adjustments						
Depreciation, amortization and impairments	56	58	82	114	157	304
Other non-cash adjustments	36	32	38	68	-40	-401
Change in working capital	4	58	-67	63	-53	94
Dividends and interests received	0	1	1	1	1	4
Interests paid	-22	-28	-33	-50	-60	-111
Income taxes paid	-1	-5	-1	-6	-1	-11
Net cash from operating activities	54	74	-41	129	-103	-34
Purchases of assets	-34	-40	-36	-74	-68	-151
Proceeds from the disposal of subsidiaries, net of cash and tax	7	17	-	24	-	375
Proceeds from the sale of assets	1	6	0	7	1	23
Other investing cash flow	3	-	2	3	2	-8
Net cash from investing activities	-22	-17	-34	-40	-65	239
Cash flow before financing activities	32	57	-75	89	-168	205
Capital contribution by the non-controlling interest holder	-	-	-	-	-	41
Treasury share repurchase	-7	-	-	-7	-	-
Borrowings of non-current debt	333	33	6	366	315	316
Repayment of non-current debt	-409	-17	-158	-426	-308	-648
Change in current debt	2	-93	134	-91	172	78
Other financing cash flow	38	0	0	39	0	0
Net cash from financing activities	-42	-76	-18	-118	179	-213
Net change in cash and cash equivalents	-10	-19	-93	-30	11	-8
Cash and cash equivalents at the beginning of the period	166	186	298	186	191	191
Foreign exchange rate effect	-0	-1	2	-1	4	2
Net change in cash and cash equivalents	-10	-19	-93	-30	11	-8
Cash and cash equivalents at the end of the period	156	166	207	156	207	186

Statement of changes in equity

EUR million	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	Total equity
	Attributable to the equity holders of the parent										
Equity on Jan 1, 2015	**311**	**714**	**2,103**	**5**	**5**	**-49**	**-89**	**-23**	**-846**	**0**	**2,132**
Net result for the period	-	-	-	-	-	-	-	-	-103	-4	-107
Other comprehensive income	-	-	-	-	2	81	39	-	-1	1	123
Total comprehensive income for the period	-	-	-	-	2	81	39	-	-103	-3	16
Transactions with equity holders of the Company											
Contributions and distributions											
Convertible bond	-	-	-	-	-	-	-	-	45	-	45
Share-based payments	-	-	-	-	-	-	-	2	-1	-	1
Equity on June 30, 2015	**311**	**714**	**2,103**	**5**	**6**	**32**	**-49**	**-21**	**-903**	**-3**	**2,195**
Equity on Jan 1, 2016	**311**	**714**	**2,103**	**5**	**6**	**8**	**-92**	**-21**	**-704**	**-**	**2,329**
Net result for the period	-	-	-	-	-	-	-	-	-61	-	-61
Other comprehensive income	-	-	-	-	-3	-31	-80	-	0	-	-114
Total comprehensive income for the period	-	-	-	-	-3	-31	-80	-	-61	-	-175
Transactions with equity holders of the Company											
Contributions and distributions											
Share-based payments	-	-	-	-	-	-	-	5	-4	-	1
Treasury share repurchase	-	-	-	-	-	-	-	-7	-	-	-7
Other	-	-	-	-0	-	-	-	-	0	-	-
Equity on June 30, 2016	**311**	**714**	**2,103**	**4**	**3**	**-23**	**-172**	**-23**	**-769**	**-**	**2,148**

NOTES TO THE CONDENSED 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 when preparing the interim financial information as in the financial statements for 2015. The following amended IFRS standards adopted from January 1, 2016 have impacted the disclosure of information in this interim financial report:

- **Annual Improvements to IFRSs (2012–2014 Cycle): Amendment to IAS 34 Interim financial reporting.** Disclosures can be provided elsewhere in the interim report with a reference from the interim financial statements to the location of the information.

- **Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative.** The amendments are designed to encourage companies to apply judgement in determining what information to disclose in the financial statements, clarifying for example the application of the materiality concept.

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, earnings and working capital of Outokumpu are subject to seasonal variations as a result of for example industry demand, the number of working days and vacation periods.

Managements' judgment and the 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. 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.

Reportable segments

As of the first quarter of 2016 Outokumpu launched new segment reporting structure based on three business areas: Europe, Americas and Long Products. Europe and Americas cover Outokumpu's entire flat products offering in these two markets, including all coil and plate business. The sales network in APAC is reported as part of Europe. Long Products cover all long product business. Business areas are Outokumpu's reportable segments under IFRS. Other operations cover activities outside the reportable segments as well as industrial holdings and expenses not allocated to the business areas.

Share-based payments

Outokumpu's share based payment programs include Performance Share Plan 2012 (Plans 2014–2016, 2015–2017 and 2016–2018), Restricted Share Pool Program (Plans 2014–2016, 2015–2017 and 2016–2018) and Matching Share Plans for the CEO and other key employees.

The plan 2013–2015 of both Performance Share Plan and Restricted Share Pool Program ended and based on the achievement of the targets, the participants received altogether 186,215 shares after deductions for applicable taxes. Outokumpu used its treasury shares for the reward payment.

In December 2015, the Board of Directors confirmed the commencement of plan 2016–2018 of the Performance Share Plan 2012 at the beginning of 2016. Its earnings criteria are Outokumpu's profitability and the efficiency with which its capital is employed compared to a peer group as well as Outokumpu's gearing in 2018. On the commencement date, the maximum number of gross shares (taxes included) to be allocated from the plan was 2,790,400 and 133 persons participated in the plan.

In December 2015, the Board of Directors also approved the commencement of Matching Share Plan for the CEO at the beginning of 2016, according to which the CEO is entitled to receive in total 1,157,156 gross shares including taxes on the condition that he personally invested EUR 1 million into Outokumpu shares by February 20, 2016. The matching shares will be delivered in four equal instalments at the end of 2016, 2017, 2018 and 2019, respectively. The CEO is required to keep at least all the shares he acquires and the first vesting portion, i.e. 25% of the net amount of the received matching shares throughout his service with Outokumpu.

In March 2016, the Board of Directors approved the commencement of Matching Share Plan to maximum of 35 other key employees. According to the plan, the participants will invest 30–120% of their annual gross base salary into Outokumpu shares by September 30, 2016. Outokumpu will match each share acquired by the employee with two gross shares from which applicable taxes will be deducted and the remaining net number of shares will be delivered in four equal instalments at the end of 2017, 2018, 2019 and 2020. In order to receive the matching shares, the participants are required to keep all the shares they acquire until the vesting of the each matching share tranche. The maximum number of gross matching shares is 3,000,000 including taxes.

In May 2016, Outokumpu repurchased own shares for approximately EUR 7 million intending to use them for the reward under the share-based payment plans.

Disposals of subsidiaries

In February 2016, Outokumpu announced the divestment of its remaining 5% share in its Chinese subsidiary Shanghai Krupp Stainless which was recognized in the 2015 consolidated financial statements. In May Outokumpu agreed on the final terms and conditions of the transaction. The final transaction price for Outokumpu's 5% share rose to EUR 90 million, taking into account all adjustments. As a result, Outokumpu recognized additional gain of EUR 23 million net of taxes on the transaction into its second quarter profit and loss. In total, Outokumpu has recognized a gain of EUR 411 million net of taxes for the sale of its entire 60% share in SKS.

In April 2016, Outokumpu divested its subsidiary Outokumpu Stainless International (Guangzhou) Ltd., a service center in China. The gain on the transaction was EUR 6 million. The effect of the divestment on the Group's financial position was immaterial.

Restructuring

In April 2016, Outokumpu announced new efficiency measures to improve the financial performance of the company. See information in section Safety, people and environment in this interim report.

Issue of bond and Outokumpu's credit rating

See information in section Financial performance in this interim report.

Property, plant and equipment

EUR million	Jan–June 2016	Jan–June 2015	Jan–Dec 2015
Carrying value at the beginning of the period	**3,005**	3,138	3,138
Translation differences	**-35**	106	132
Additions	**56**	49	129
Disposals	**-1**	-2	-13
Disposed subsidiaries	**-2**	-	-86
Reclassifications	**-2**	-2	-2
Depreciation and impairments	**-110**	-151	-293
Carrying value at the end of the period	**2,911**	3,138	3,005

Commitments

EUR million	June 30 2016	June 30 2015	Dec 31 2015
Mortgages	**3,456**	3,691	3,559
Other pledges	**13**	-	30
Guarantees			
On behalf of subsidiaries for commercial and other commitments	**25**	31	30
On behalf of associated companies for financing	**-**	7	7
On behalf of other parties for financing	**1**	1	1
On behalf of other parties for commercial and other commitments	**3**	1	2
Other commitments	**9**	19	11
Minimum future lease payments on operating leases	**70**	60	72

Mortgages relate mainly to securing Group's financing. A major part of Outokumpu's borrowings are secured partly by mortgage over the real property of the Group's main production plants and partly by share pledges over the shares in selected Group companies.

Outokumpu has agreed a security, including a pledge of shares of a subsidiary company, related to AvestaPolarit pension scheme.

Certain guarantees issued by Outokumpu on behalf of the companies sold to ThyssenKrupp in 2014 have not yet been transferred to ThyssenKrupp as of June 30, 2016. These are presented as guarantees on behalf of other companies for financing and commercial and other commitments.

One remaining guarantee issued by ThyssenKrupp on behalf of Inoxum companies has not yet been transferred to Outokumpu Oyj as of June 30, 2016. However, Outokumpu Oyj has given ThyssenKrupp a counter-guarantee for this commitment amounting to EUR 4 million.

Outokumpu’s share of the Fennovoima investment is about EUR 250 million of which EUR 39 million has been paid by the end of the reporting period. Annual capital expenditure related to the project is expected to be around EUR 10–20 million in the coming years, and approximately half of the investment is expected to be paid only at the end of the construction phase in 2022–2023.

Group's other off-balance sheet investment commitments totaled EUR 38 million on June 30, 2016 (June 30, 2015: EUR 83 million, Dec 31, 2015: EUR 60 million).

Related party transactions

EUR million	Jan–June 2016	Jan–June 2015	Jan–Dec 2015
Transactions and balances with associated companies and joint ventures			
Sales	**82**	55	137
Purchases	**-3**	-3	-6
Trade and other receivables	**43**	40	64
Trade and other payables	**1**	1	1

EUR 22 million of receivables from associated companies were impaired on June 30, 2016 (June 30, 2015: EUR - million, Dec 31, 2015: EUR 10 million).

Property, plant and equipment with sales price of EUR 8 million was sold to an associated company in 2015.

Fair values and nominal amounts of derivative instruments

EUR million	June 30 2016 Net fair value	Dec 31 2015 Net fair value	June 30 2016 Nominal amounts	Dec 31 2015 Nominal amounts
Currency and interest rate derivatives				
Currency forwards	-13	5	1,749	2,284
Currency options, bought	0	-	5	-
Currency options, sold	-0	-	5	-
Interest rate swaps	-6	-7	715	578
			Tonnes	Tonnes
Metal derivatives				
Forward and futures nickel contracts	-8	-4	16,824	32,623
Forward and futures molybdenum contracts	-0	-3	22	212
Emission allowance derivatives	-9	-0	2,400,000	2,400,000
Propane derivatives	-5	-12	37,000	61,500
			MMBtu	MMBtu
Natural gas derivatives	-0	-1	300,000	705,000
	-42	-22		

Hierarchy of financial assets and liabilities measured at fair value on June 30, 2016

EUR million	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	0	3	1	5
Investment at fair value through profit or loss	16	-	1	17
Derivatives	-	12	-	12
	16	15	2	33
Liabilities				
Derivatives	-	54	-	54

The fair value of long-term debt is EUR 1,151 million (carrying amount EUR 1,163 million). The fair value of the convertible bonds includes the value of the conversion rights. For other financial instruments the carrying amount is a reasonable approximation of fair value.

Key figures by quarters

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	II/16	I–II/16
Adjustments									
Redundancy costs	-	-	-	-2	-23	-25	-	-35	-35
Gain on the SKS divestment	-	-	-	-	409	409	-	26	26
Net insurance compensation and costs related to technical issues in Calvert	-19	-	-19	-	2	-17	25	-1	24
Restructuring provisions, other than redundancy	-	-	-	-	-	-	-8	-	-8
Gain on the Guangzhou divestment	-	-	-	-	-	-	-	6	6
Net of raw material-related inventory and metal derivative gains/losses, unaudited	7	-1	5	-8	-29	-31	-9	15	6
Adjustments to EBITDA	-12	-1	-13	-10	359	336	8	11	19
Additionally to EBIT									
Impairments related to EMEA restructuring	-	-	-	-	-6	-6	-	-	-
Adjustments to EBIT	-12	-1	-13	-10	352	330	8	11	19
EBIT margin, %	-0.6	-1.5	-1.1	-5.2	23.8	3.6	-0.9	0.4	-0.2
Return on capital employed, %	-1.5	-1.8	-1.8	-3.4	5.3	5.3	5.3	6.2	6.2
Return on equity, %	-10.7	-11.0	-11.0	-12.9	3.9	3.9	4.1	6.0	6.0
Non-current debt	1,732	1,576	1,576	1,494	1,249	1,249	870	1,162	1,162
Current debt	600	747	747	743	547	547	848	478	478
Cash and cash equivalents	-298	-207	-207	-225	-186	-186	-166	-156	-156
Net debt at the end of period	2,034	2,116	2,116	2,012	1,610	1,610	1,551	1,485	1,485
Capital employed at the end of period	4,503	4,479	4,479	4,271	4,133	4,133	3,973	3,905	3,905
Equity-to-assets ratio at the end of period, %	32.3	33.5	33.5	33.6	39.6	39.6	39.2	37.9	37.9
Debt-to-equity ratio at the end of period, %	91.5	96.4	96.4	96.5	69.1	69.1	69.6	69.1	69.1
Net debt to underlying EBITDA	7.5	8.3	8.3	9.2	8.2	8.2	9.9	9.8	9.8
Earnings per share, EUR	-0.10	-0.14	-0.25	-0.27	0.74	0.23	-0.10	-0.05	-0.15
Equity per share at the end of period, EUR	5.35	5.29	5.29	4.93	5.60	5.60	5.36	5.19	5.19
Deliveries, 1,000 tonnes									
Cold rolled	458	449	907	433	426	1,767	440	435	875
White hot strip	93	88	182	79	85	346	103	113	216
Quarto plate	24	31	55	23	24	102	28	25	52
Long products	16	16	32	18	13	63	15	19	35
Semi-finished products	49	52	101	44	77	222	57	72	129
Stainless steel [1)]	27	29	56	16	23	95	24	37	61
Ferrochrome	22	23	45	29	54	128	33	34	67
Tubular products	2	3	5	2	2	9	0	0	1
Total deliveries	642	640	1,282	599	627	2,509	643	664	1,307
Stainless steel deliveries	620	616	1,237	570	574	2,381	610	629	1,240
Average personnel for the period	11,927	12,172	12,049	11,879	11,353	11,833	10,955	11,142	11,067

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

Business Area key figures by quarters

Stainless steel deliveries

1,000 tonnes	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe total	410	413	822	375	381	1,578	421	**413**	**834**
of which intra-group	5	7	12	4	6	23	5	**4**	**9**
Americas total	133	117	250	139	144	533	161	**177**	**338**
of which intra-group	0	0	1	12	1	14	0	**0**	**0**
Long Products total	52	62	113	58	42	213	50	**70**	**120**
of which intra-group	16	22	38	30	12	80	18	**26**	**43**
Other operations total	48	56	103	45	27	176	-	**-**	**-**
of which intra-group	-	2	2	1	1	3	-	**-**	**-**
Group total deliveries	620	616	1,237	570	574	2,381	610	**629**	**1,240**

Sales

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe total	1,163	1,140	2,303	1,019	995	4,316	987	**958**	**1,945**
of which intra-group	36	40	76	49	40	165	35	**36**	**71**
Americas total	337	284	621	301	292	1,214	301	**311**	**612**
of which intra-group	7	5	12	21	4	37	4	**5**	**9**
Long Products total	149	159	309	142	100	551	100	**133**	**233**
of which intra-group	36	46	83	56	23	162	27	**38**	**65**
Other operations total	274	273	547	231	201	979	135	**132**	**267**
of which intra-group	75	71	146	79	86	311	71	**75**	**147**
Group total sales	1,768	1,694	3,462	1,487	1,435	6,384	1,386	**1,379**	**2,765**

EBIT

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	46	57	103	-19	0	84	32	**7**	**40**
Americas	-48	-65	-113	-49	-54	-216	-26	**-19**	**-45**
Long Products	4	5	9	1	-8	2	-6	**-4**	**-10**
Other operations and intra-group items	-12	-23	-35	-9	403	359	-12	**22**	**9**
Group total EBIT	-10	-26	-36	-77	341	228	-12	**6**	**-6**

Underlying EBIT

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	27	41	67	-15	33	85	42	**29**	**71**
Americas	-28	-50	-77	-44	-41	-163	-43	**-24**	**-66**
Long Products	3	4	7	3	-3	7	-4	**-2**	**-6**
Other operations and intra-group items	0	-20	-20	-11	1	-30	-15	**-8**	**-23**
Group total underlying EBIT	2	-25	-23	-67	-11	-101	-20	**-5**	**-25**

Adjustments to EBIT

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	20	16	36	-4	-33	-1	-9	**-22**	**-31**
Americas	-21	-15	-36	-5	-12	-54	17	**4**	**21**
Long Products	1	1	2	-3	-4	-5	-3	**-1**	**-4**
Other operations and intra-group items	-12	-3	-15	2	402	389	3	**30**	**33**
Group total adjustments to EBIT	-12	-1	-13	-10	352	330	8	**11**	**19**

Other operations' figures for 2015 include the divested SKS operations.

EBITDA

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	98	108	206	32	47	286	74	**47**	**121**
Americas	-26	-43	-69	-27	-40	-136	-12	**-6**	**-18**
Long Products	5	8	13	3	-6	10	-4	**-2**	**-6**
Other operations and intra-group items	-12	-18	-30	-5	407	372	-11	**23**	**12**
Group total EBITDA	65	55	120	3	408	531	46	**62**	**108**

Underlying EBITDA

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	78	92	170	36	74	280	83	**69**	**152**
Americas	-5	-27	-33	-22	-28	-83	-29	**-11**	**-40**
Long Products	5	7	11	5	-1	15	-2	**-1**	**-2**
Other operations and intra-group items	-1	-15	-15	-6	5	-17	-14	**-7**	**-20**
Group total underlying EBITDA	77	57	133	13	50	196	38	**51**	**89**

Depreciation and amortization

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	-51	-51	-103	-51	-41	-196	-41	**-40**	**-81**
Americas	-22	-22	-45	-22	-14	-80	-13	**-13**	**-27**
Long Products	-2	-2	-4	-2	-2	-8	-2	**-2**	**-4**
Other operations	-5	-5	-10	-4	-4	-18	-1	**-1**	**-3**
Group total depreciation and amortization	-80	-81	-162	-80	-61	-302	-58	**-56**	**-114**

Capital expenditure

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	20	16	37	19	41	96	25	**23**	**48**
Americas	1	4	5	2	12	19	0	**2**	**2**
Long Products	1	0	1	1	5	7	0	**1**	**1**
Other operations	4	14	18	6	7	32	6	**2**	**9**
Group total capital expenditure	26	35	61	29	65	154	32	**28**	**60**

Operating capital

EUR million	I/15	II/15	I–II/15	III/15	IV/15	2015	I/16	**II/16**	**I–II/16**
Europe	2,894	2,894	2,894	2,800	2,680	2,680	2,628	**2,536**	**2,536**
Americas	1,405	1,346	1,346	1,249	1,279	1,279	1,211	**1,178**	**1,178**
Long Products	176	167	167	166	151	151	136	**132**	**132**
Other operations and intra-group items	12	48	48	34	22	22	-8	**47**	**47**
Group total operating capital	4,486	4,455	4,455	4,248	4,133	4,133	3,967	**3,893**	**3,893**

Other operations' figures for 2015 include the divested SKS operations.

Definitions of financial key figures

Underlying EBIT	=	EBIT excluding items classified as adjustments
EBITDA	=	EBIT before depreciation, amortization and impairments
Capital employed	=	Total equity + net debt + net defined benefit and other long-term employee benefit obligations + net interest rate derivative liabilities + net accrued interest expenses – net assets held for sale – loans receivable – available-for-sale financial assets – investments at fair value through profit or loss – investments in associated companies and joint ventures
Operating capital	=	Capital employed + net deferred tax liability
Return on equity (ROE)	=	$\frac{\text{Net result for the financial period (4-quarter rolling)}}{\text{Total equity (4-quarter rolling average)}} \times 100$
Return on capital employed (ROCE)	=	$\frac{\text{EBIT (4-quarter rolling)}}{\text{Capital employed (4-quarter rolling average)}} \times 100$
Net debt	=	Non-current 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	=	$\frac{\text{Net debt}}{\text{Total equity}} \times 100$
Net debt to underlying EBITDA	=	$\frac{\text{Net debt}}{\text{Underlying EBITDA (4-quarter rolling)}}$
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	=	$\frac{\text{Equity attributable to the owners of the parent}}{\text{Adjusted number of shares at the end of the period}}$