Financial statements release 2017

Indispensable stainless steel

Certain applications are impossible without stainless steel. Outokumpu's stainless steel is already serving as the backbone of industries like wind power and other production of renewable energy.

Building an offshore wind farm is a feat of human engineering and building one in the North Sea takes this challenge to another level – with freezing temperatures, strong currents and corrosive sea spray, there is no room for failure. Under these extreme conditions, only the best materials are able to perform: Outokumpu provided Merkur offshore wind farm Forta DX 2205 duplex stainless steel that has extraordinary mechanical properties and superior resistance to corrosion. Stainless steel is used in transition pieces built by industrial equipment manufacturers Idesa and Windar Renovable.

outokumpu
high performance stainless steel

Contents

Significant improvement in 2017. Full-year adjusted EBITDA more than doubled to EUR 631 million

Highlights in the fourth quarter of 2017

Outokumpu's fourth-quarter adjusted EBITDA amounted to EUR 82 million, compared to EUR 98 million in the fourth quarter of 2016. Profitability declined due to maintenance work and lower deliveries in Europe and higher costs in the Americas, whereas the result was supported by higher ferrochrome volume and prices, as well as improved overall efficiency. Raw material-related inventory and metal derivative gains were EUR 6 million (EUR 0 million)[1].

- Stainless steel deliveries were 561,000 tonnes (596,000 tonnes).
- Adjusted EBITDA[2] was EUR 82 million (EUR 98 million).
- EBITDA was EUR 82 million (EUR 128 million).
- Adjusted EBIT[3] was EUR 30 million (EUR 38 million).
- EBIT was EUR 30 million (EUR 69 million).
- Operating cash flow was EUR 104 million (EUR 199 million).

Highlights of 2017

- Stainless steel deliveries were 2,448,000 tonnes (2,444,000 tonnes).
- Adjusted EBITDA was EUR 631 million (EUR 309 million).
- EBITDA was EUR 663 million (EUR 355 million).
- Adjusted EBIT was EUR 414 million (EUR 57 million).
- EBIT was EUR 445 million (EUR 103 million).
- Net result was EUR 392 million (EUR 144 million)
- Operating cash flow was EUR 328 million (EUR 389 million).
- Net debt decreased to EUR 1,091 million (EUR 1,242 million).
- Gearing was 40.1% (51.4%).
- Return on capital employed (ROCE) was 11.3% (2.6%).
- The Board of Directors proposes a dividend of EUR 0.25 per share for 2017

[1] Figures in parentheses refer to the corresponding period for 2016, unless otherwise stated.
[2] EBITDA excluding items classified as adjustments. Adjustments are material income and expense items such as restructuring costs, and gains or losses on sale of assets or businesses.
[3] EBIT excluding items classified as adjustments.

Group key figures

		IV/17	IV/16	III/17	2017	2016
Sales	EUR million	**1,465**	1,506	1,482	**6,363**	5,690
EBITDA	EUR million	**82**	128	62	**663**	355
Adjusted EBITDA [1)]	EUR million	**82**	98	56	**631**	309
EBIT	EUR million	**30**	69	9	**445**	103
Adjusted EBIT [2)]	EUR million	**30**	38	2	**414**	57
Result before taxes	EUR million	**0**	43	-24	**327**	-13
Net result for the period	EUR million	**128**	192	-27	**392**	144
Earnings per share	EUR	**0.31**	0.46	-0.07	**0.95**	0.35
Diluted earnings per share	EUR	**0.29**	0.46	-0.07	**0.90**	0.35
Return on capital employed	%	**11.3**	2.6	12.4	**11.3**	2.6
Net cash generated from operating activities	EUR million	**104**	199	126	**328**	389
Net debt at the end of period	EUR million	**1,091**	1,242	1,130	**1,091**	1,242
Debt-to-equity ratio at the end of period	%	**40.1**	51.4	44.4	**40.1**	51.4
Capital expenditure	EUR million	**84**	61	40	**174**	164
Stainless steel deliveries [3)]	1,000 tonnes	**561**	596	623	**2,448**	2,444
Personnel at the end of period		**10,141**	10,600	10,276	**10,141**	10,600

[1)] Adjusted EBITDA = EBITDA – Items classified as adjustments.

[2)] Adjusted EBIT = EBIT – Items classified as adjustments.

[3)] Excludes ferrochrome deliveries.

Business and financial outlook for the first quarter of 2018

Driven by healthy underlying stainless steel demand both in Europe and the US, as well as a seasonally strong market, Outokumpu expects higher stainless steel deliveries in the first quarter compared to the fourth quarter of 2017.

However, increased graphite electrode, ferrosilicon and energy costs, as well as weakening US dollar and lower ferrochrome price are expected to have a significant negative impact on profitability.

Outokumpu expects its first-quarter adjusted EBITDA to be higher compared to the previous quarter (IV/17: EUR 82 million).

CEO Roeland Baan:

"2017 was a successful year for Outokumpu both financially and operationally. I want to start with safety and organizational development. We made tremendous progress on safety and reduced our total recordable incident frequency rate from 8.7 to 4.4 which is well below the industry average. Based on our annual survey, our Organizational Health Index improved by one quartile indicating that we are steadily becoming a high-performing organization.

Outokumpu's full-year adjusted EBITDA more than doubled from EUR 309 million to EUR 631 million on sales of EUR 6.4 billion. While the strong results were supported by higher ferrochrome and base prices, a big portion of the value creation can be tracked back to our relentless focus on cost control and productivity measures. As an example, we achieved our target to reduce SG&A costs by 25 per cent since 2015 to an annual run rate of EUR 300 million.

I am especially pleased with the substantial progress made in improving the financial position of the company. We met our ambitious target of net debt below EUR 1.1 billion thanks to the solid operating cash flow of EUR 328 million. The profile of our debt also improved with the renewal of our EUR 650 million syndicated credit facility and the redemption of the 2019 bonds. In light of all these positive developments, Outokumpu's corporate family and senior secured notes ratings were upgraded during the final quarter of the year.

Rigorous execution of our six must-win battles continued in all business areas leading to higher earnings, efficiency improvements and continuously strong market position. Business area Europe's profitability nearly doubled thanks to our stainless business delivering record high results. The financial performance of our ferrochrome operations was also on a good level despite production volumes being lower due to operational issues. After a tough 2016, Long Products' profitability recovered to healthy levels as a result of decisive cost control, and the business area is well positioned for further growth.

In 2017, the Americas team continued to drive improvement measures based on the strong progress achieved the year before. Record-high delivery volumes and tight cost control form a sound basis for further development. Despite some unexpected external factors straining the Americas' profitability in the second half of the year, the business area's full-year adjusted EBITDA of EUR 21 million marked a substantial positive swing of almost EUR 50 million over 2016.

As a result of the relentless strategy execution by the whole Outokumpu team during the past two years, we have strengthened our financial position, as well as our status as the leading stainless steel provider on the market. To further lever these strengths, one of our key targets for 2018 is to enhance the reliability of all our operations throughout the whole value chain. Having the best delivery performance of the industry is essential to become the best value creator in stainless steel by 2020."

Market development

Stainless steel demand

Global apparent stainless steel consumption[4] increased by 6.0% in 2017 compared to the previous year. APAC contributed with a growth of 6.5% followed by growth of 4.7% in the Americas and 4.6% in EMEA. In the fourth quarter, global apparent consumption increased by 6.9% compared to the fourth quarter of 2016, driven by growth of 8.7% in APAC, 3.0% in the Americas and 1.9% in EMEA.

Global real demand for stainless steel products reached 41.2 million tonnes in 2017, an increase of 5.5% from 39.1 million tonnes in 2016. The growth was most pronounced in the APAC region at 6.3%, while demand grew by 3.4% in EMEA and by 3.2% in the Americas.

Global real demand increased by 6.3% in the fourth quarter of 2017 compared to the fourth quarter of 2016, mainly driven by growth of 8.2% in the APAC region. The Americas and EMEA regions were showing growth of about 1.0% each in the same period.

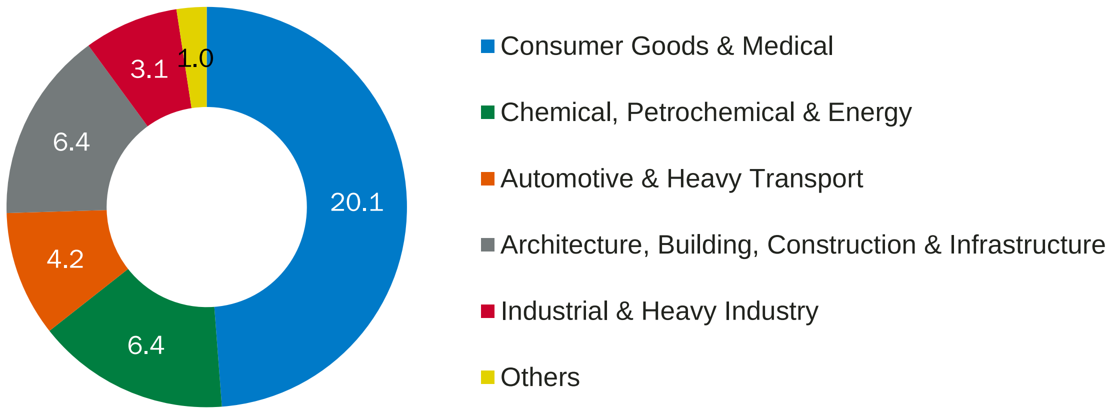
Market development of total stainless steel real demand

Million tonnes	IV/17	IV/16	III/17	2017	2016	2017 vs. 2016	IV/17 vs. IV/16
EMEA	1.9	1.9	1.9	7.7	7.4	3.4%	1.0%
Americas	0.9	0.9	0.8	3.5	3.4	3.2%	1.3%
APAC	7.9	7.3	7.8	30.0	28.2	6.3%	8.2%
Total	10.6	10.0	10.5	41.2	39.1	5.5%	6.3%

Source: SMR January 2018

In 2017, the real demand growth was strongest in Consumer Goods & Medical and ABC & Infrastructure end-use segments at 6.7% and 6.0%, respectively. Meanwhile, Automotive & Heavy Transport achieved growth of 4.5%, followed by growth of 3.7% in Chemical, Petrochemical & Energy and 3.0% in the Industrial & Heavy Industries segment.

Stainless steel real demand by customer segment in 2017, million tonnes
(Total: 41.2 million tonnes)



Source: SMR January 2018

[4] Apparent consumption = real demand + stock change

EU cold rolled imports from third countries are expected to have reached a level of 27.6% of the total consumption in 2017, up from the average level of 24.6% in 2016. Imports from Malaysia, the US, India and Taiwan were growing, while the volumes from South Korea, Vietnam and Brazil decreased. In the fourth quarter, EU imports are expected to have reached a level of 28.4%, slightly down from the level of 28.6% in the third quarter. (Source: EUROFER January 2018)

The average cold rolled imports into the US are expected to have reached 22.5% of the total US consumption in 2017, lower than the average of 23.3% in 2016. Chinese imports decreased significantly, while imports from almost all other major exporting countries increased. Average cold rolled imports into the US reached 25.0% of the total consumption in October-November 2017, flat compared to the third quarter of 2017. (Source: American Iron & Steel Institute, November 2017)

Price development of alloying metals

The nickel price was trending downwards in the first half of 2017 due to the expectations of increased ore availability from both Indonesia and the Philippines, as well as cyclically slowing apparent demand from the Chinese stainless steel sector. In the second half of the year, the price was underpinned by increased investor interest, weaker US dollar and the bright outlook for stainless steel demand as a result of global economic recovery. Prices hit the highest level of the year of USD 12,830/tonne in early November, before easing slightly to around USD 12,000/tonne levels at the end of the year. The average price of the year of USD 10,411/tonne was 8.5% higher than the average of USD 9,600/tonne in 2016.

The European benchmark price for ferrochrome increased to USD 1.65/lb in the first quarter of 2017 as a result of weak availability of ore as well as strong demand of ferrochrome due to increased stainless steel production in China. For the second and third quarters, the ferrochrome price decreased to USD 1.54/lb and USD 1.10/lb, respectively, as a result of improved availability and declined demand of ferrochrome in China. Prices increased to USD 1.39/lb in the fourth quarter, but retreated to USD 1.18/lb for the first quarter of 2018, following the apparent supply and demand situation of ferrochrome in China.

Market prices

			IV/17	IV/16	III/17	2017	2016	2017 vs. 2016	IV/17 vs. IV/16
Stainless steel									
Europe	Base price	EUR/t	1,127	1,090	1,107	1,123	1,063	5.7%	3.4%
	Alloy surcharge	EUR/t	1,291	1,108	1,135	1,292	966	33.8%	16.5%
	Transaction price	EUR/t	2,418	2,198	2,241	2,415	2,028	19.1%	10.0%
USA	Base price	USD/t	1,374	1,323	1,382	1,374	1,286	6.9%	3.9%
	Alloy surcharge	USD/t	1,327	960	1,008	1,232	831	48.2%	38.2%
	Transaction price	USD/t	2,701	2,283	2,390	2,606	2,117	23.1%	18.3%
China	Transaction price	USD/t	2,020	1,900	2,032	1,951	1,684	15.9%	6.3%
Nickel		USD/t	11,584	10,858	10,528	10,411	9,600	8.5%	6.7%
Ferrochrome (Cr-content)		USD/lb	1.39	1.10	1.10	1.42	0.96	48.4%	26.4%
Molybdenum		USD/lb	8.80	6.67	8.11	8.17	6.52	25.3%	31.9%
Recycled steel		USD/t	298	234	304	275	216	27.2%	27.2%

Sources:
Stainless steel: CRU January 2018, 2mm 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

Market outlook

In the first quarter of 2018, global real demand is expected to increase by 0.6% compared to the fourth quarter of 2017, driven by increases of 6.6% in EMEA and 7.9% the Americas, while demand in APAC is expected to decrease by 1.7%. Compared to last year's first quarter, demand is expected to grow by 5.9%, as a result of growth of 5.3% in EMEA, 0.9% in the Americas and 6.6% in APAC. Total global demand for 2018 is estimated to grow by 3.7% compared to 2017.

Market development for real demand total stainless steel products between 2017 and 2023

Million tonnes	2017f	2018f	2019f	2020f	2021f	2022f	2023f
EMEA	7.7	7.9	8.2	8.4	8.5	8.7	9.0
Americas	3.5	3.6	3.8	3.9	4.0	4.1	4.3
APAC	30.0	31.2	32.7	33.8	34.5	35.9	37.7
Total	41.2	42.8	44.7	46.1	47.0	48.7	51.0

Source: SMR January 2018
f = forecast

The long-term outlook for stainless steel demand remains positive. Key global megatrends such as urbanization, climate change, and increased mobility combined with growing global demand for energy, food, and water are expected to support the future growth of stainless steel demand. Growth in stainless steel consumption between 2017 and 2023 is expected to be relatively well-balanced between the end-use segments. SMR forecasts growth rates of 5.0% in Architecture/Building/ Construction & Infrastructure, 3.6% in Chemical/Petrochemical & Energy, 3.4% in Consumer Goods & Medical, 3.3% in Industrial & Heavy Industries and 2.6% in Automotive & Heavy Transport segment.

Business areas

Europe

Europe key figures

		IV/17	IV/16	III/17	2017	2016
Stainless steel deliveries	1,000 tonnes	**371**	395	397	**1,582**	1,625
Sales	EUR million	**1,057**	1,034	1,026	**4,455**	3,927
Adjusted EBITDA	EUR million	**90**	110	90	**615**	374
Adjustments						
Redundancy costs	EUR million	**-**	3	-	**-**	-22
Restructuring provisions, other than redundancy	EUR million	**-**	-	-	**-**	-8
Changes to the UK pension scheme	EUR million	**-**	4	-	**-**	4
EBITDA	EUR million	**90**	117	90	**615**	348
Operating capital	EUR million	**2,485**	2,419	2,546	**2,485**	2,419

Certain activities were transferred from Other operations to Europe in 2017. Comparable figures for 2016 are presented accordingly.

Underlying stainless steel demand continued strong in the fourth quarter. Towards the end of the quarter, typical year-end distributor destocking had an impact on apparent stainless steel consumption. Distributor inventories declined to below long-term averages and reached the lowest levels since 2014 at the end of the fourth quarter. The European base prices were gradually increasing during the quarter reaching the CRU reported average of EUR 1,127/tonne, an increase of EUR 20/tonne compared to the third quarter. According to CRU, the base prices were EUR 37/tonne higher than in the fourth quarter of 2016.

The overall stainless steel market was robust in 2017. Underlying stainless steel demand was particularly strong during the first half of the year and started to soften in the summer. During the third quarter, demand started to gradually strengthen again. Base prices increased from 2016 with the CRU reported European base price averaging to EUR 1,123/tonne, EUR 60/tonne higher than in 2016. The share of import volumes in the European market increased during the first half of the year and stabilized at higher levels during the second half.

Business area Europe’s fourth-quarter stainless steel deliveries declined to 371,000 tonnes (395,000 tonnes) primarily due to planned maintenance work in the Tornio and Krefeld mills. The average base price in the business area’s coil product deliveries was EUR 10/tonne higher than in the fourth quarter of 2016. Business area Europe’s sales increased to EUR 1,057 million (EUR 1,034 million), driven mainly by higher ferrochrome and base prices.

During 2017, Europe’s stainless steel deliveries amounted to 1,582,000 tonnes. Deliveries were lower than 1,625,000 tonnes in 2016 which included deliveries of 65,000 tonnes from the Benrath mill that was closed in September 2016. However, business area Europe’s sales increased by 13.5% to EUR 4,455 million (EUR 3,927 million) due to higher prices resulting from a strong market and improved product mix. The average base price in the business area’s coil product deliveries was EUR 70/tonne higher than in 2016.

Ferrochrome operations’ adjusted EBITDA improved to EUR 56 million in the fourth quarter (EUR 23 million). The result was supported by increased ferrochrome prices and higher production of 121,000 tonnes (109,000 tonnes). Ferrochrome operations’ full-year 2017 adjusted EBITDA amounted to EUR 217 million (EUR 80 million). The significant improvement in profitability was a result of strong ferrochrome prices particularly during the first half of the year. However, strong prices were partially offset by technical issues and maintenance of a ferrochrome furnace, resulting in lower production volume of 415,000 tonnes in 2017 compared to 469,000 tonnes in 2016. The operations were further negatively impacted by higher coke and electricity prices, as well as higher maintenance costs.

Despite the strong ferrochrome contribution, business area Europe's fourth-quarter adjusted EBITDA declined to EUR 90 million compared to EUR 110 million in the fourth quarter of 2016. The decrease was a result of planned maintenance work, lower stainless steel deliveries and increased raw material costs resulting from higher ferrosilicon and graphite electrode prices. The net impact of raw material-related inventories and metal derivatives was EUR -4 million on the result (EUR -6 million).

Business area Europe's full-year adjusted EBITDA improved by EUR 241 million to EUR 615 million (EUR 374 million). In addition to the strong ferrochrome result, earnings were further supported by solid progress in improved cost efficiencies and commercial initiatives. Furthermore, higher base prices had a positive impact on profitability. Raw material-related inventories and metal derivatives had a negative impact of EUR 24 million on the result (negative impact of EUR 1 million).

Americas

Americas key figures

		IV/17	IV/16	III/17	2017	2016
Deliveries	1,000 tonnes	**171**	167	203	**742**	690
Sales	EUR million	**345**	342	376	**1,546**	1,325
Adjusted EBITDA	EUR million	**-0**	1	-34	**21**	-27
Adjustments						
Net insurance compensation and costs related to technical issues in Calvert	EUR million	**-**	-	-	**-**	24
Redundancy costs	EUR million	**-**	-0	-	**-**	-3
EBITDA	EUR million	**-0**	1	-34	**21**	-6
Operating capital	EUR million	**1,072**	1,127	1,049	**1,072**	1,127

Seasonal slowdown had a negative impact on the US stainless steel market in the fourth quarter. Distributor stocks decreased below long-term averages due to typical year-end destocking. Underlying stainless steel demand, however, continued to be healthy and base prices remained relatively flat compared to the third quarter. Compared to the fourth quarter of 2016, the CRU reported average US base price was USD 51/tonne higher.

For the full year 2017, the US stainless steel market was healthy overall. The demand remained strong throughout the year and the base prices were on an increasing trend for the first ten months of the year, until a clear decline in prices in November and December. The CRU reported US base price averaged USD 1,374/tonne, USD 88/tonne higher compared to 2016. The share of import volumes in the US market remained stable at reasonably modest levels during the year.

Business area Americas' fourth-quarter stainless steel deliveries were seasonally low at 171,000 tonnes (167,000 tonnes). The average base price in the business area's coil product deliveries was USD 10/tonne lower compared to the fourth quarter of 2016 as a result of a weaker product mix. Sales remained flat at EUR 345 million (EUR 342 million).

The full-year stainless steel deliveries increased to 742,000 tonnes compared to 690,000 tonnes in 2016. Driven by higher deliveries, the Americas' sales increased to EUR 1,546 million (EUR 1,325 million). The average base price in the business area's coil product deliveries was USD 60/tonne higher compared to 2016.

Business area Americas' fourth-quarter adjusted EBITDA was EUR -0 million (EUR 1 million). The reference period of 2016 includes a negative EUR 9 million impact related to a supplier invoicing correction. The fourth-quarter 2017 result was negatively impacted by higher costs of approximately EUR 5 million and weaker product mix resulting from third-party supplier maintenance work. The earnings were supported by improved efficiency and higher deliveries. Raw material-related inventories and metal derivatives had a positive impact of EUR 9 million on the result (EUR 5 million).

In 2017, business area Americas achieved a tangible improvement in profitability and recorded a positive adjusted EBITDA of EUR 21 million, a EUR 48 million improvement compared to 2016 (EUR -27 million). The improved performance was a result of higher deliveries and base prices, as well as increased operational efficiency with clearly decreased variable and SG&A costs. Raw material-related inventories and metal derivatives had a positive impact of EUR 7 million (EUR 10 million) on the result in 2017.

Long Products

Long Products key figures

		IV/17	IV/16	III/17	**2017**	2016
Deliveries	1,000 tonnes	**70**	65	51	**264**	245
Sales	EUR million	**149**	134	109	**591**	487
Adjusted EBITDA	EUR million	**3**	2	-2	**16**	-1
Adjustments						
Changes to the UK pension scheme	EUR million	**-**	21	-	**-**	21
Redundancy costs	EUR million	**-**	-0	-	**-**	-2
EBITDA	EUR million	**3**	23	-2	**16**	18
Operating capital	EUR million	**113**	139	152	**113**	139

The long products market recovered strongly in the fourth quarter after seasonally slow third quarter. The demand in both Europe and the US was strong and the prices increased. During full year 2017, underlying demand for long products grew both in Europe and in the US compared to the previous year, driven particularly by Automotive, Oil & Gas and Aerospace segments. Prices remained stable throughout the year and started to gradually increase towards the end of the year. Import pressure in the US remained relatively high due to the lack of antidumping duties for long products.

Business area Long Products’ fourth-quarter stainless steel deliveries increased to 70,000 tonnes (65,000 tonnes), primarily due to higher demand in Europe. Driven by higher deliveries, reduced costs and improved long product prices, the business area’s adjusted EBITDA increased to EUR 3 million from EUR 2 million in the fourth quarter of 2016. The net impact of raw material-related inventories and metal derivatives amounted to EUR 0 million (EUR 1 million).

Deliveries for the full year 2017 increased to 264,000 tonnes compared to 245,000 tonnes in 2016 driven by strong demand. The product mix improved during the year. The full-year adjusted EBITDA amounted to EUR 16 million, a clear improvement compared to EUR -1 million in 2016. The net impact of raw material-related inventories and metal derivatives amounted to EUR 3 million (EUR -1 million).

Financial performance

Deliveries

Deliveries

1,000 tonnes	**IV/17**	IV/16	III/17	**2017**	2016
Cold rolled	**391**	415	449	**1,713**	1,731
White hot strip	**98**	104	106	**428**	425
Quarto plate	**20**	27	17	**79**	100
Long products	**17**	15	16	**70**	65
Semi-finished products	**55**	64	53	**262**	247
Stainless steel [1)]	**33**	34	35	**157**	121
Ferrochrome	**22**	30	17	**105**	126
Tubular products	**0**	0	0	**1**	1
Total deliveries	**583**	626	641	**2,553**	2,570
Stainless steel deliveries	**561**	596	623	**2,448**	2,444

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

Outokumpu's fourth-quarter stainless steel deliveries of 561,000 tonnes were lower than 596,000 tonnes in the fourth quarter of 2016 driven by decreased deliveries in business area Europe. Deliveries increased in business areas Americas and Long Products.

For the full year 2017, stainless steel deliveries remained flat at 2,448,000 tonnes (2,444,000 tonnes). Deliveries increased clearly in business area Americas and Long Products but decreased in business area Europe.

Sales and profitability

Outokumpu's sales in the fourth quarter decreased by 2.8% to EUR 1,465 million (EUR 1,506 million) primarily due to lower deliveries. Higher base prices in business area Europe and increased ferrochrome prices had a positive impact on sales.

In 2017, sales amounted to EUR 6,363 million, 11.8% higher than in 2016 (EUR 5,690 million). The increase was mainly a result of higher alloy surcharges and average base prices in both Europe and the Americas.

Profitability

EUR million	**IV/17**	IV/16	III/17	**2017**	2016
Adjusted EBITDA	**82**	98	56	**631**	309
Adjustments					
Gain on the quarto plate mill divestment	**-**	-	-	**15**	-
Gain on the sale of land in Sheffield	**-**	-	-	**9**	-
Gain on the pipe plant divestment	**-**	-	7	**7**	-
Redundancy costs	**-**	3	-	**-**	-30
Gain on the SKS divestment	**-**	2	-	**-**	28
Changes to the UK pension scheme	**-**	26	-	**-**	26
Net insurance compensation and costs related to technical issues in Calvert	**-**	-	-	**-**	24
Restructuring provisions, other than redundancy	**-**	-	-	**-**	-8
Gain on the Guangzhou divestment	**-**	-	-	**-**	6
EBITDA	**82**	128	62	**663**	355

As of the beginning of 2017, raw material-related inventory and metal derivative gains/losses are no longer classified as an adjustment. Comparable figures for 2016 are presented accordingly.

Outokumpu's fourth-quarter adjusted EBITDA amounted to EUR 82 million, compared to EUR 98 million in the fourth quarter of 2016. Profitability declined due to maintenance work and lower deliveries in Europe and higher costs in the Americas, whereas the result was supported by higher ferrochrome volume and prices, as well as improved overall efficiency. Raw material-related inventory and metal derivative gains were EUR 6 million (EUR 0 million). Other operations' adjusted EBITDA was at EUR -11 million (EUR -15 million).

The profitability for the full year 2017 improved significantly, with adjusted EBITDA more than doubling to EUR 631 million (EUR 309 million). This was primarily a result of higher ferrochrome and base prices, as well as improved cost efficiency. Raw material-related inventory and metal derivative losses for the full year 2017 were EUR 20 million (gains of EUR 11 million). Other operations' adjusted EBITDA was at EUR -22 million (EUR -37 million).

Income taxes for 2017 include deferred tax income of EUR 125 million (EUR 189 million) related to previously unrecognized deferred tax assets mainly in Germany. Impacted by the tax income, the net result for the fourth quarter of 2017 was EUR 128 million (EUR 192 million) and earnings per share was EUR 0.31 (EUR 0.46). For the full year 2017, the net result amounted to EUR 392 million (EUR 144 million) and the earnings per share was EUR 0.95 (EUR 0.35).

Outokumpu has remaining tax loss carry forwards of EUR 1,922 million mainly in the US for which deferred tax assets have not been booked. They can be recognized as deferred tax income when the company starts generating sufficient taxable income in respective countries.

Cash flow

Summary of cash flows

EUR million	**Oct–Dec 2017**	Oct–Dec 2016	July–Sept 2017	**Jan–Dec 2017**	Jan–Dec 2016
Net cash from operating activities	**104**	199	126	**328**	389
Net cash from investing activities	**-63**	-67	-13	**-63**	-81
Cash flow before financing activities	**41**	133	113	**264**	308
Net cash from financing activities	**-224**	-144	-107	**-353**	-291
Net change in cash and cash equivalents	**-182**	-11	6	**-89**	17

Outokumpu's operating cash flow amounted to EUR 104 million in the fourth quarter (EUR 199 million). A decrease in working capital had an impact of EUR 48 million (EUR 158 million) on the cash flow. Inventories increased to EUR 1,380 million (September 30, 2017: EUR 1,289 million).

Operating cash flow for the full year 2017 amounted to EUR 328 million (EUR 389 million), negatively impacted by an increase of EUR 180 million in working capital (decrease of EUR 307 million).

Financial position

Cash and cash equivalents were EUR 112 million at the end of 2017 (September 30, 2017: EUR 294 million) and overall liquidity reserves were approximately EUR 0.8 billion (September 30, 2017: EUR 1.1 billion). Overall liquidity reserves decreased mainly due to a cancellation of EUR 30 million long-term credit facility, a redemption of EUR 250 million notes due in 2019, and a partial redemption of EUR 22.5 million of notes due in 2021.

Debt information

EUR million	**Dec 31 2017**	Sept 30 2017	Dec 31 2016
Bonds	**201**	472	496
Convertible bonds	**229**	226	219
Long-term loans from financial institutions	**25**	26	84
Pension loans	**171**	120	165
Finance lease liabilities	**90**	113	155
Short-term loans from financial institutions	**10**	4	5
Commercial papers	**477**	463	321
	1,203	1,424	1,445

Net debt decreased to EUR 1,091 million compared to EUR 1,130 million at the end of the third quarter of 2017 and EUR 1,242 at the end of 2016. Gearing decreased to 40.1% (September 30, 2017: 44.4%, December 31, 2016: 51.4%).

Net financial expenses were EUR 32 million in the fourth quarter (EUR 29 million). Interest expenses were at EUR 22 million (EUR 27 million). During 2017, net financial expenses were relatively flat at EUR 127 million (EUR 121 million). Interest expenses decreased to EUR 92 million (EUR 105 million).

In order to decrease interest expenses further, Outokumpu prematurely redeemed its 6.625% senior secured fixed rate notes due in 2019. The notes with a total nominal amount of EUR 250 million were redeemed in full in December 2017. In addition, Outokumpu redeemed partially its outstanding EUR 250 million senior secured notes due in 2021. The redemptions were done in June and December 2017 with 10% of the outstanding amount each time. As a consequence, the total aggregate outstanding nominal amount of the notes due in 2021 was EUR 203 million at the end of December 2017. The interest rate for the notes is 7.25%.

Furthermore, Outokumpu signed an amendment and extension of its committed syndicated revolving credit facility in December 2017 and agreed a partial security release with its key lenders. The restated facility of EUR 650 million has its maturity in May 2021 and will be used for general corporate purposes.

Outokumpu is rated by Moody's Investors Service. In November 2017, Moody's upgraded Outokumpu's issuer corporate family rating to B1 from the previous rating of B2 and its probability default rating to B1-PD from the previous B2-PD. Moody's also upgraded the ratings for Outokumpu's senior secured notes to Ba3 from the previous rating of B1. The outlook of all ratings is stable.

Capital expenditure

Capital expenditure increased to EUR 84 million in the fourth quarter (EUR 61 million), driven mainly by planned maintenance work and investments in the Tornio mill. For the full year 2017, capital expenditure was EUR 174 million compared to EUR 164 million in 2016.

Safety, people and environment

Safety

The total recordable incident frequency rate (TRIFR) was 4.4 in 2017 (8.7) against the target of less than 8.0. Although the number of accidents has decreased compared to 2016, one fatal accident overshadowed the safety performance in 2017. Full measures were taken to thoroughly investigate all incidents and comprehensive improvements have been implemented. Outokumpu has continued its safety strategy throughout the year including ongoing work on standardizing its systems and practices.

People

Personnel at the end of the reporting period

	Dec 31 2017	Sept 30 2017	Dec 31 2016
Europe	**7,185**	7,279	7,464
Americas	**2,094**	2,126	2,219
Long Products	**584**	583	628
Other operations	**278**	288	289
	10,141	10,276	10,600

Certain activities were transferred from Other operations to Europe in 2017. Comparable figures for 2016 are presented accordingly.

Outokumpu's headcount decreased by 459 compared to the end of 2016 and totaled 10,141 at the end of December 2017. The decrease was driven primarily by divestments of quarto plate mill in New Castle, Indiana, US and pipe plant in Wildwood, Florida, US, as well as other continued restructuring and efficiency measures. All in all, Outokumpu plans to reduce its personnel to a level of 9,300 in the coming years.

Total wages and salaries amounted to EUR 549 million in 2017 (EUR 562 million). Indirect employee benefit expenses totaled EUR 135 million in 2017 (EUR 151 million).

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 proceedings 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 European operations under the EU ETS will continue to receive free emissions allocations according to efficiency-based benchmarks and historical activity. The total allocation is expected to be sufficient for the European operations during 2018.

Shares and shareholders

During 2017, the Outokumpu share price peaked at EUR 10.05 and was EUR 6.61 at its lowest (2016 high/low: EUR 8.51/ EUR 2.08). The share price closed at the end of the year at EUR 7.74, marking a decrease of 9% from the closing price of 2016 (Dec 31, 2016: EUR 8.51). At the end of 2017, the company's market capitalization was EUR 3,223 million, compared to EUR 3,541 million at the previous year's end. In total, 1,022 million Outokumpu shares were traded on Nasdaq Helsinki during 2017, representing a value of EUR 8,295 million.

Outokumpu's share capital was unchanged at EUR 311 million at the end of 2017. The total number of shares was 416,374,448 and the average number of shares outstanding in 2017 was 412,363,204.

Between February 6, 2017, and February 17, 2017, Outokumpu repurchased 2,000,000 of its own shares through public trading at Nasdaq Helsinki intending to use them for the reward under the share-based payment plans. On December 31, 2017, Outokumpu held 3,702,899 of its own shares, i.e. treasury shares.

Management shareholdings and share based incentive programs

On December 31, 2017, the members of the Board of Directors and the members of the Outokumpu Leadership Team (OLT) altogether held 1,915,835 shares, or 0.5% of the total number of shares.

Outokumpu has established share-based incentive programs for the OLT members, selected managers and key employees. Outokumpu's share-based incentive programs include Performance Share Plan, Restricted Share Pool and Matching Share Plans for the CEO and other key employees. In 2017, after deductions for applicable taxes, a total of 813,066 shares were delivered to the participants of the programs based on the achievements of the agreed targets and conditions of the programs. Outokumpu used its treasury shares for the reward payments.

The Performance Share Plan and the Restricted Share Pool Program are currently ongoing for the periods 2016–2018 and 2017–2019 and their continuation for the period 2018–2020 was already approved by the Board of Directors in December 2017. The Performance Share Plan for the period 2017–2019 focuses on earnings criteria that measures Outokumpu's profitability and the efficiency with which its capital is employed compared to a peer group.

More details on the share-based incentive programs can be found in the Notes to the condensed financial statements.

Research and development

Outokumpu's research and development (R&D) involves process, product and application development. R&D works closely together with sales, operations and customers to align activities with customers' current and future needs. Outokumpu has three R&D centers located in Avesta in Sweden, in Krefeld in Germany and in Tornio in Finland.

In 2017, Outokumpu's R&D expenditure totaled EUR 13 million, 0.2% of net sales (EUR 20 million, 0.4%). During the year, the company implemented a new IT solution for R&D project management, which improved R&D efficiency substantially. Another major event boosting R&D effectiveness was the inauguration of the new R&D premises in Krefeld.

The process development teams continued to focus on supporting the operations and in transferring technological knowhow between Outokumpu's operational units. The major achievement of the product development was the launch of Outokumpu Ultra Alloy 825. Outokumpu stands out as the only major stainless steel company that can offer this nickel-based alloy in coils up to width of 1,500 mm. Another highlight of 2017 was the prize awarded to patented weldable sandwich technology in 15th Materialica Design and Technology Awards 2017.

Risks and uncertainties

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

Outokumpu has defined risk as anything that could have an adverse impact on achieving the Group's objectives. Risks can therefore be threats, uncertainties or lost opportunities connected with current or future operations. The risk management process is an integral part of the overall management processes and it is divided into four stages: risk identification, evaluation / prioritization, mitigation and reporting. Key risks are assessed and updated on a regular basis.

The focus in risk management in 2017 was on securing the steps in improving Outokumpu's cost competitiveness as well as continuous improvement of risk management, including actions in safety, securing liquidity, managing project risks and improving the efficiency and controls of Outokumpu's operations as part of large business transformation program aiming to renew fragmented IT systems going forward. Outokumpu continued its systematic fire safety and loss prevention audit programs, which also included machinery breakdown loss prevention. In total, approximately twenty fire safety and machinery breakdown loss prevention audits were carried out in 2017 using in-house expertise in cooperation with external advisors. The main realized risks in 2017 were a fatal accident to a contractor at Degerfors, Sweden in May, risks related to production stability, especially in ferrochrome, and inadequate profitability in the business area Americas.

Strategic and business risks

Outokumpu's key strategic and business risks currently include: risks and uncertainties in implementing the announced vision including measures to improve operational reliability, drive competitiveness and further improve financial performance; risks and uncertainties related to developments in the stainless steel and ferrochrome markets and competitor actions; changes in the prices of electrical power, fuels, nickel, iron and molybdenum impacting cash flow and availability of financing; fluctuations in exchange rates affecting the global competitive environment in stainless steel; and the risk of litigation or adverse political action affecting trade or changes that have an impact on environmental legislation.

Operational risks

Operational risks include inadequate or failed internal processes, employee actions, systems, or events such as natural catastrophes and misconduct or crime. These risks are often connected with production operations, logistics, financial processes, major investment projects, other projects or information technology and, should they materialize, can lead to personal injury, liability, loss of property, interrupted operations, or negative environmental impacts. Outokumpu's operational risks are partly covered by insurance. Key operational risks for Outokumpu are: a major fire or machinery breakdown and consequent business interruptions; environmental accidents; IT dependency and cyber security risks; risks due to a fragmented system environment; project implementation risks, especially related to implementation of a new ERP system; risks related to supply chain and certain critical supplier dependencies; risks related to compliance, crime and reputational harm; risk of fatalities or severe incidents and other personnel-related risks. To minimize the possible damage to property and business interruptions that could result from a fire occurring at some of its major production sites, Outokumpu has systematic fire safety audit programs in place. During the last year, further measures were taken to improve cyber security.

Financial risks

Key financial risks for Outokumpu include: changes in the prices of nickel, iron, molybdenum, power, and fuels; currency developments affecting the euro, the US dollar, the Swedish krona, and the British pound; interest rate changes connected to the US dollar, the euro, and the Swedish krona; counterparty risks related to customers and other business partners, including suppliers and financial institutions; risks related to liquidity and refinancing; risks related to the fair value of shareholdings; the risk of breaching financial covenants or other terms and conditions of debt leading to an event of default; and risks related to the prices of equities and fixed-income securities invested under defined benefit pension plans and risks related to valuation parameters, especially long-term interest rates, of defined benefit plans.

Short-term risks and uncertainties

Outokumpu is exposed to the following risks and uncertainties in the short term: risks and uncertainties in implementing the announced vision including measures to implement new IT systems and processes, to improve operational reliability, to drive competitiveness and to further improve financial performance; risks and uncertainties related to market development in stainless steel, ferrochrome and certain critical supplies as well as competitor 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, ferrochrome, nickel, iron, and molybdenum; currency developments affecting the euro, US dollar, Swedish krona, and British pound; the fair value of shareholdings; dependencies on certain critical suppliers; project implementation risks; IT dependency and cyber security risks; risks due to a fragmented system environment; counterparty risks related to customers and other business partners including suppliers and financial institutions. Possible adverse changes in the global political and economic environment may have a significant adverse impact on Outokumpu's overall business and access to financial markets.

Significant legal proceedings

Dispute over invention rights, Outotec vs. Outokumpu

Outokumpu and Outotec Oyj had a dispute since 2013 relating to innovations on ferroalloy technology. On January 9, 2017, the companies reached an agreement whereby both parties withdrew their claims. Outotec was granted an exclusive right to sell and license the relevant innovations and technology against an agreed license fee payable to Outokumpu. Outokumpu retains the right to use the innovations in its own business.

Claim in Spain related to the divested copper companies

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

Claim in Italy related to former tax consolidation group

In December 2015, Outokumpu Holding Italia and Acciai Speciali Terni (AST) entered into a dispute relating to the tax consolidation of the former ThyssenKrupp Tax Group in Italy. AST claims payment of approximately EUR 23 million resulting from the former tax consolidation of the Italian tax group managed by ThyssenKrupp. Outokumpu Holding Italia is the former ThyssenKrupp holding company and was transferred to Inoxum as part of the carve-out in 2011. The EUR 23 million claim resulted from former tax installments paid by ThyssenKrupp Italia in 2006 which have not been properly settled towards AST in the following years. The matter is currently pending in court.

Antitrust investigation in Germany

On September 22, 2016, Outokumpu's subsidiary in Germany (Outokumpu Nirosta GmbH) received a letter from the German Federal Cartel Office stating that the company has been included in an ongoing investigation of possible infringements of antitrust laws in the past. Following an internal investigation, Outokumpu's view is that the official investigation on it is without merit.

Corporate governance

Annual General Meeting

The Annual General Meeting of Outokumpu Oyj was held on March 21, 2017. The Meeting approved the financial statements and discharged the management of the company from liability for the financial year 2016. The Meeting decided that a dividend of 0.10 euro per share be paid for 2016. The Board of Directors was authorized to repurchase the company's own shares and decide on the issuance of shares as well as special rights entitling to shares. The Meeting also approved the amendments in the articles of association and the proposals of the Nomination Board regarding the members of the Board of Directors and their remuneration.

The Annual General Meeting decided that the Board of Directors would consist of eight members. Markus Akermann, Roberto Gualdoni, Kati ter Horst, Heikki Malinen, Saila Miettinen-Lähde, Jorma Ollila and Olli Vaartimo of the previous members of the Board of Directors were re-elected, and Eeva Sipilä was elected 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.

Changes in the Board of Directors and the Outokumpu Leadership Team

Saila Miettinen-Lähde resigned from Outokumpu's Board of Directors as of June 9, 2017. The Board of Directors continues to operate with seven members until the next Annual General Meeting.

Outokumpu Chief Technology Officer Pekka Erkkilä retired as of February 2, 2017. He continues to support the company in selected areas and to represent Outokumpu's interest in for example Fennovoima and the Association of Finnish Steel and Metal Producers.

In March 2017, Reeta Kaukiainen joined Outokumpu serving as Executive Vice President, Communications and Investor Relations and a member of the Outokumpu Leadership Team. Reeta joined Outokumpu from Accenture, where she led its communications and marketing activities in Finland.

In December 2017, Maciej Gwozdz, member of the Outokumpu Leadership Team, was appointed President of Business Area Europe as of January 1, 2018. He took over the position from CEO Roeland Baan who was leading the business area since 2016.

Nomination Board

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

On October 1, 2017, the four largest shareholders of Outokumpu were Solidium Oy, Varma Mutual Pension Insurance Company, The Social Insurance Institution of Finland and Ilmarinen Mutual Pension Insurance Company, and they have appointed the following representatives to the Nomination Board:

- Antti Mäkinen, Managing Director at Solidium Oy
- Pekka Pajamo, CFO at Varma Mutual Pension Insurance Company
- Tuula Korhonen, Investment Director at The Social Insurance Institution of Finland
- Timo Ritakallio, President and CEO at Ilmarinen Mutual Pension Insurance Company

The Nomination Board will submit its proposals to Outokumpu's Board of Directors on January 31, 2018 at the latest. The proposals will be published as a part of the notice to the Annual General Meeting.

Board of Directors' proposal for profit distribution

The Board of Directors updated Outokumpu's dividend policy on January 31, 2018. According to the new policy, the dividend pay-out ratio throughout a business cycle shall be in a range of 30-50 per cent of net income.

According to the parent company's financial statements on December 31, 2017 distributable funds totalled EUR 2,413 million, of which retained earnings were EUR 289 million.

The Board of Directors is proposing to the Annual General Meeting to be held on March 22, 2018 that a dividend of EUR 0.25 per share is paid for 2017 and the remaining distributable funds are allocated to retained earnings.

Helsinki, January 31, 2018

Board of Directors

Condensed financial statements

Condensed income statement

EUR million	**Oct–Dec 2017**	Oct–Dec 2016	**Jan–Dec 2017**	Jan–Dec 2016
Sales	**1,465**	1,506	**6,363**	5,690
Cost of sales	**-1,353**	-1,400	**-5,626**	-5,298
Gross margin	**112**	106	**736**	392
Other operating income	**4**	27	**51**	88
Sales, general and administrative costs	**-67**	-60	**-307**	-331
Other operating expenses	**-19**	-4	**-35**	-46
EBIT	**30**	69	**445**	103
Share of results in associated companies and joint ventures	**3**	3	**9**	5
Financial income and expenses				
Interest expenses	**-22**	-27	**-92**	-105
Net other financial expenses	**-10**	-2	**-34**	-15
Result before taxes	**0**	43	**327**	-13
Income taxes	**127**	149	**64**	156
Net result for the period	**128**	192	**392**	144
Earnings per share for result attributable to the equity holders of the Company				
Earnings per share, EUR	**0.31**	0.46	**0.95**	0.35
Diluted earnings per share, EUR	**0.29**	0.46	**0.90**	0.35

Statement of comprehensive income

EUR million	**Oct–Dec 2017**	Oct–Dec 2016	**Jan–Dec 2017**	Jan–Dec 2016
Net result for the period	**128**	192	**392**	144
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations				
Change in exchange differences	**-12**	31	**-83**	-3
Reclassification adjustments from other comprehensive income to profit or loss	**-**	-	**-3**	-2
Available-for-sale financial assets	**2**	2	**0**	-0
Cash flow hedges	**-1**	1	**-1**	-4
Items that will not be reclassified to profit or loss:				
Remeasurements on defined benefit obligation plans				
Changes during the accounting period	**22**	31	**18**	-63
Income tax relating to remeasurements	**37**	20	**37**	20
Share of other comprehensive income in associated companies and joint ventures	**0**	0	**-1**	0
Other comprehensive income for the period, net of tax	**48**	85	**-32**	-53
Total comprehensive income for the period	**176**	276	**359**	91

Net result for the period and total comprehensive income for the period are fully attributable to the equity holders of the company.

Condensed statement of financial position

EUR million	**Dec 31 2017**	Dec 31 2016
ASSETS		
Non-current assets		
Intangible assets	**535**	504
Property, plant and equipment	**2,633**	2,874
Investments in associated companies and joint ventures	**73**	67
Other financial assets	**69**	54
Deferred tax assets	**295**	204
Defined benefit plan assets	**70**	45
Trade and other receivables	**1**	2
Total non-current assets	**3,675**	3,750
Current assets		
Inventories	**1,380**	1,232
Other financial assets	**60**	50
Trade and other receivables	**659**	687
Cash and cash equivalents	**112**	204
Total current assets	**2,211**	2,173
Assets held for sale	**-**	67
TOTAL ASSETS	**5,886**	5,990
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Company	**2,721**	2,416
Non-current liabilities		
Non-current debt	**698**	987
Other financial liabilities	**3**	4
Deferred tax liabilities	**10**	22
Defined benefit and other long-term employee benefit obligations	**337**	356
Provisions	**79**	118
Trade and other payables	**34**	37
Total non-current liabilities	**1,160**	1,525
Current liabilities		
Current debt	**505**	458
Other financial liabilities	**37**	63
Provisions	**14**	15
Trade and other payables	**1,448**	1,471
Total current liabilities	**2,004**	2,007
Liabilities directly attributable to assets held for sale	**-**	43
TOTAL EQUITY AND LIABILITIES	**5,886**	5,990

Condensed statement of cash flows

EUR million	**Oct–Dec 2017**	Oct–Dec 2016	**Jan–Dec 2017**	Jan–Dec 2016
Net result for the period	**128**	192	**392**	144
Adjustments				
Depreciation, amortization and impairments	**53**	60	**219**	252
Other non-cash adjustments	**-81**	-166	**41**	-118
Change in working capital	**48**	158	**-180**	307
Provisions, and defined benefit and other long-term employee benefit obligations paid	**-15**	-22	**-60**	-94
Dividends and interests received	**0**	0	**3**	1
Interests paid	**-27**	-21	**-78**	-94
Income taxes paid	**-2**	-1	**-8**	-9
Net cash from operating activities	**104**	199	**328**	389
Acquisition of businesses, net of cash	**-**	-10	**-**	-9
Purchases of assets	**-71**	-56	**-186**	-156
Proceeds from the disposal of subsidiaries, net of cash and tax	**-**	-	**90**	72
Proceeds from the sale of assets	**8**	0	**33**	8
Other investing cash flow	**0**	0	**0**	4
Net cash from investing activities	**-63**	-67	**-63**	-81
Cash flow before financing activities	**41**	133	**264**	308
Dividends paid	**-**	-	**-41**	-
Treasury share purchase	**-**	-	**-20**	-7
Borrowings of non-current debt	**120**	2	**190**	369
Repayment of non-current debt	**-364**	-233	**-607**	-685
Change in current debt	**21**	85	**162**	-13
Other financing cash flow	**-**	2	**-37**	45
Net cash from financing activities	**-224**	-144	**-353**	-291
Net change in cash and cash equivalents	**-182**	-11	**-89**	17
Cash and cash equivalents at the beginning of the period	**295**	213	**204**	186
Net change in cash and cash equivalents	**-182**	-11	**-89**	17
Foreign exchange rate effect	**-0**	2	**-3**	1
Cash and cash equivalents at the end of the period	**112**	204	**112**	204

Statement of changes in equity

	Attributable to the equity holders of the parent									
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	Other retained earnings	Total equity
Equity on Jan 1, 2016	**311**	**714**	**2,103**	**5**	**6**	**8**	**-92**	**-21**	**-704**	**2,329**
Net result for the period	-	-	-	-	-	-	-	-	144	144
Other comprehensive income	-	-	-	-	-4	-5	-43	-	0	-53
Total comprehensive income for the period	-	-	-	-	-4	-5	-43	-	144	91
Transactions with equity holders of the Company										
Contributions and distributions										
Share-based payments	-	-	-	-	-	-	-	9	-7	3
Treasury share purchase	-	-	-	-	-	-	-	-7	-	-7
Other	-	-	-	-2	-	-	-	-	2	-
Equity on Dec 31, 2016	**311**	**714**	**2,103**	**2**	**1**	**3**	**-135**	**-19**	**-564**	**2,416**
Equity on Jan 1, 2017	**311**	**714**	**2,103**	**2**	**1**	**3**	**-135**	**-19**	**-564**	**2,416**
Net result for the period	-	-	-	-	-	-	-	-	392	392
Other comprehensive income	-	-	-	-	-1	-86	56	-	-1	-32
Total comprehensive income for the period	-	-	-	-	-1	-86	56	-	391	359
Transactions with equity holders of the Company										
Contributions and distributions										
Dividends paid	-	-	-	-	-	-	-	-	-41	-41
Share-based payments	-	-	-	-	-	-	-	13	-6	7
Treasury share purchase	-	-	-	-	-	-	-	-20	-	-20
Changes in ownership interests										
Quarto plate mill and pipe plant divestments	-	-	-	-	-	3	8	-	-11	-
Other	-	-	-	1	-	-	-	-	-1	-
Equity on Dec 31, 2017	**311**	**714**	**2,103**	**3**	**0**	**-81**	**-72**	**-26**	**-232**	**2,721**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Basis of preparation

This financial statements release is prepared in accordance with IAS 34 Interim Financial Reporting, and the annual financial information in this release is based on audited IFRS figures. The same accounting policies and methods of computation have been followed when preparing the financial information as in the financial statements for 2016. The amended IFRS standards adopted from January 1, 2017 did not have an impact on the condensed consolidated financial statements.

All presented figures in this bulletin 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.

Management 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.

Adoption of new IFRS standards and changes to current IFRS standards

Outokumpu will adopt the following new and amended IFRS standards in 2018: IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments, and amendments to IFRS 2 Share-based Payments – Classification and Measurement of Share-based Payment Transactions. Outokumpu has concluded that the changes do not have material impact on the consolidated financial statements. Outokumpu's consolidated financial statements for 2017 will include further information on the adoptions.

Share-based payments

Outokumpu's share based payment programs include Performance Share Plan 2012 (Plans 2015–2017, 2016–2018 and 2017–2019), Restricted Share Pool 2012 (Plans 2015–2017, 2016–2018 and 2017–2019) and Matching Share Plans for the CEO and other key management.

The Performance Share Plan 2014–2016 ended and based on the achievement of the targets the participants received 293,761 shares after deductions for applicable taxes. Regarding the Restricted Share Pool Program, plan 2014–2016, after deductions for applicable taxes, in total 10,557 shares were delivered to the participants based on the conditions of the plan. Regarding Matching Share Plans, after deductions for applicable taxes, in total 185,077 shares were delivered to the CEO and 323,671 shares to the management. Outokumpu used its treasury shares for the reward payments.

In December 2016, the Board of Directors approved the commencement of the new plan (plan 2017–2019) of the Performance Share Plan 2012 as of the beginning of 2017. The maximum number of gross shares (taxes included) that could be allocated from the plan is 1,789,000 and at the end of the reporting period 138 key employees participated in the plan. The plan's earnings criteria measure Outokumpu's profitability and the efficiency with which its capital is employed compared to a peer group.

In December 2016, the Board also approved the commencement of the new plan (plan 2017–2019) of Restricted Share Pool Program 2012 as of the beginning of 2017. Restricted share grants are approved annually by the CEO based on the authorization granted by the Board of Directors, except any allocations to Leadership Team members, which will be approved by the Board of Directors. The maximum number of gross shares (taxes included) that could be allocated from the plan is 81,500 and at the end of the reporting period 58 key employees participated in the plan.

In December 2017, the Board of Directors approved the commencement of plan 2018–2020 of the Performance Share Plan 2012 and the Restricted Share Pool 2012 as of the beginning of 2018. In February 2017, Outokumpu repurchased own shares for EUR 20 million intending to use them for the reward under the share-based payment plans.

Divestments

In January 2017, Outokumpu divested its quarto plate mill Outokumpu Stainless Plate, LLC within the Americas segment. The consideration of the transaction was EUR 27 million and the gain, recognized in other operating income, was EUR 15 million, of which EUR 7 million were cumulative translation differences reclassified to profit or loss. In the consolidated financial statements for 2016 the subsidiary was presented as a disposal group held for sale with assets held for sale amounting to EUR 67 million and liabilities directly attributable to assets held for sale amounting to EUR 43 million. Cash and cash equivalents of the divested subsidiary were EUR 0 million.

In July 2017, Outokumpu divested its pipe plant Outokumpu Stainless Pipe, Inc. in Wildwood within the Long Products segment. The consideration of the transaction was EUR 26 million and the gain, recognized in other operating income, was EUR 7 million, which included EUR -4 million of cumulative translation differences that were reclassified to profit or loss. The divestment did not have any material impact on the consolidated statement of financial position. Cash and cash equivalents of the divested subsidiary were EUR 0 million.

Voluntary partial redemptions of Outokumpu's senior secured fixed rate notes due 2021, and Premature redemption of Outokumpu's senior secured fixed rate notes due 2019

See information in section Financial performance in this interim report.

Events after the reporting period

Outokumpu has changed its segment structure as of January 1, 2018 by separating Ferrochrome operations from Business Area Europe as a new operating segment. In the new structure, Outokumpu has four operating segments – Europe, the Americas, Long Products and Ferrochrome. Outokumpu's financial reporting will be changed accordingly as of the first-quarter interim statement 2018.

Property, plant and equipment

EUR million	**Jan–Dec 2017**	Jan–Dec 2016
Carrying value at the beginning of the period	**2,874**	3,005
Translation differences	**-130**	8
Additions	**130**	151
Acquired subsidiaries	**-**	3
Disposals	**-7**	-29
Disposed subsidiaries	**-8**	-2
Reclassifications	**-17**	-1
Depreciation and impairments	**-210**	-225
Reclassification to assets held for sale	**-**	-35
Carrying value at the end of the period	**2,633**	2,874

Commitments

EUR million	**Dec 31 2017**	Dec 31 2016
Mortgages	**2,984**	3,447
Other pledges	**13**	13
Guarantees		
On behalf of subsidiaries for commercial and other commitments	**27**	27
On behalf of other parties for commercial and other commitments	**-**	2
Other commitments	**21**	16
Minimum future lease payments on operating leases	**88**	87

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.

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

Other pledges include Outokumpu's shares in Manga LNG Oy to secure certain liabilities of Manga LNG Oy. Outokumpu's total liability on December 31, 2017 amounted to EUR 31 million (Dec 31, 2016: EUR 22 million), and the part exceeding the share pledge is presented under other commitments. Other commitments include also Outokumpu's liabilities for the net debt in Rapid Power Oy and Tornion Voima Oy.
One remaining guarantee issued by ThyssenKrupp on behalf of Inoxum companies has not yet been transferred to Outokumpu Oyj as of December 31, 2017. However, Outokumpu Oyj has given ThyssenKrupp a counter-guarantee for this commitment amounting to EUR 3 million.

Outokumpu’s share of the Fennovoima investment is about EUR 250 million of which EUR 63 million has been paid by the end of the reporting period. Annual capital expenditure related to the project is expected to be around EUR 15–20 million in the coming years, and approximately half of the investment is expected to be paid at the end of the construction phase.

Group's other off-balance sheet investment commitments totaled EUR 28 million on December 31, 2017 (Dec 31, 2016: EUR 19 million).

Related party transactions

EUR million	**Jan–Dec 2017**	Jan–Dec 2016
Transactions and balances related companies		
Sales	**104**	142
Purchases	**-5**	-6
Dividends received	**2**	-
Trade and other receivables	**25**	29
Trade and other payables	**0**	1

Fair values and nominal amounts of derivative instruments

EUR million	**Dec 31 2017 Net fair value**	Dec 31 2016 Net fair value	**Dec 31 2017 Nominal amounts**	Dec 31 2016 Nominal amounts
Currency and interest rate derivatives				
Currency forwards	**11**	-25	**2,994**	2,647
Currency options, bought	**0**	-	**12**	-
Interest rate swaps	**-3**	-5	**150**	777
			Tonnes	Tonnes
Metal derivatives				
Forward and futures nickel contracts	**-6**	-2	**18,581**	27,233
Nickel options, bought	**-1**	-	**9,800**	-
Nickel options, sold	**-**	-1	**-**	1,800
Emission allowance derivatives	**3**	-	**2,400,000**	-
	4	-33		

Hierarchy of financial assets and liabilities measured at fair value on December 31, 2017

EUR million	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	0	-	4	4
Investment at fair value through profit or loss	16	-	0	17
Derivatives	-	44	-	44
	17	44	4	65
Liabilities				
Derivatives	-	40	-	40

The fair value of long-term debt is EUR 802 million (carrying amount EUR 698 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/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Adjustments										
Gain on the quarto plate mill divestment	-	-	-	-	-	15	-	-	**-**	**15**
Gain on the sale of land in Sheffield	-	-	-	-	-	-	9	-	**-**	**9**
Gain on the pipe plant divestment	-	-	-	-	-	-	-	7	**-**	**7**
Redundancy costs	-	-35	2	3	-30	-	-	-	**-**	**-**
Gain on the SKS divestment	-	26	-	2	28	-	-	-	**-**	**-**
Changes to the UK pension scheme	-	-	-	26	26	-	-	-	**-**	**-**
Net insurance compensation and costs related to technical issues in Calvert	25	-1	-	-	24	-	-	-	**-**	**-**
Restructuring provisions, other than redundancy	-8	-	-	-	-8	-	-	-	**-**	**-**
Gain on the Guangzhou divestment	-	6	-	-	6	-	-	-	**-**	**-**
Adjustments to EBITDA and EBIT	17	-3	2	31	47	15	9	7	**-**	**31**
EBIT margin, %	-0.9	0.4	2.8	4.6	1.8	14.4	9.3	0.6	**2.0**	**7.0**
Return on capital employed, %	5.3	6.2	9.3	2.6	2.6	9.4	13.2	12.4	**11.3**	**11.3**
Return on equity, %	4.1	6.0	11.9	6.4	6.4	16.0	21.1	18.7	**15.4**	**15.4**
Non-current debt	870	1,162	1,109	987	987	1,010	996	919	**698**	**698**
Current debt	848	478	500	458	458	447	532	505	**505**	**505**
Cash and cash equivalents	-166	-156	-213	-204	-204	-81	-289	-294	**-112**	**-112**
Net debt at the end of period	1,551	1,485	1,396	1,242	1,242	1,376	1,239	1,130	**1,091**	**1,091**
Capital employed at the end of period	3,973	3,905	3,815	3,816	3,816	4,075	3,991	3,830	**3,929**	**3,929**
Equity-to-assets ratio at the end of period, %	39.2	37.9	37.7	40.4	40.4	41.6	42.7	42.8	**46.3**	**46.3**
Debt-to-equity ratio at the end of period, %	69.6	69.1	65.3	51.4	51.4	55.0	48.4	44.4	**40.1**	**40.1**
Net debt to adjusted EBITDA	14.0	12.3	6.0	4.0	4.0	2.4	1.8	1.7	**1.7**	**1.7**
Earnings per share, EUR	-0.10	-0.05	0.03	0.46	0.35	0.44	0.26	-0.07	**0.31**	**0.95**
Diluted earnings per share, EUR	-0.10	-0.05	0.03	0.46	0.35	0.42	0.25	-0.07	**0.29**	**0.90**
Equity per share at the end of period, EUR	5.36	5.19	5.17	5.84	5.84	6.07	6.21	6.17	**6.59**	**6.59**
Deliveries, 1,000 tonnes										
Cold rolled	440	435	441	415	1,731	445	427	449	**391**	**1,713**
White hot strip	103	113	105	104	425	112	112	106	**98**	**428**
Quarto plate	28	25	21	27	100	22	19	17	**20**	**79**
Long products	15	19	15	15	65	18	19	16	**17**	**70**
Semi-finished products	57	72	54	64	247	84	71	53	**55**	**262**
Stainless steel [1)]	24	37	26	34	121	42	47	35	**33**	**157**
Ferrochrome	33	34	29	30	126	42	24	17	**22**	**105**
Tubular products	0	0	0	0	1	0	0	0	**0**	**1**
Total deliveries	643	664	637	626	2,570	681	649	641	**583**	**2,553**
Stainless steel deliveries	610	629	608	596	2,444	639	625	623	**561**	**2,448**
Average personnel for the period	10,955	11,142	11,167	10,699	10,977	10,507	10,620	10,652	**10,225**	**10,485**

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

Business Area key figures by quarters

Stainless steel deliveries 1,000 tonnes	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe total	421	413	396	395	1,625	415	398	397	**371**	**1,582**
of which intra-group	5	4	5	3	16	3	5	8	**5**	**21**
Americas total	161	177	185	167	690	182	186	203	**171**	**742**
of which intra-group	0	0	3	0	3	0	0	2	**15**	**18**
Long Products total	50	70	59	65	245	75	68	51	**70**	**264**
of which intra-group	18	26	25	28	97	30	22	18	**31**	**101**
Group total deliveries	610	629	608	596	2,444	639	625	623	**561**	**2,448**

Sales EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe total	988	958	946	1,034	3,927	1,225	1,147	1,026	**1,057**	**4,455**
of which intra-group	35	36	43	36	151	61	62	50	**77**	**250**
Americas total	301	311	372	342	1,325	416	409	376	**345**	**1,546**
of which intra-group	4	5	10	2	21	9	10	4	**11**	**33**
Long Products total	100	133	119	134	487	173	160	109	**149**	**591**
of which intra-group	27	38	40	48	153	56	43	32	**55**	**186**
Other operations total	134	131	159	144	567	141	121	125	**121**	**507**
of which intra-group	70	74	84	61	289	72	64	68	**64**	**268**
Group total sales	1,386	1,379	1,419	1,506	5,690	1,757	1,659	1,482	**1,465**	**6,363**

EBITDA EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	74	47	111	117	348	257	178	90	**90**	**615**
Americas	-12	-6	12	1	-6	29	27	-34	**-0**	**21**
Long Products	-4	-2	2	23	18	9	7	-2	**3**	**16**
Other operations and intra-group items	-11	24	-5	-12	-5	14	-3	9	**-11**	**10**
Group total EBITDA	46	62	119	128	355	309	209	62	**82**	**663**

Adjusted EBITDA EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	82	76	107	110	374	257	178	90	**90**	**615**
Americas	-37	-3	12	1	-27	29	27	-34	**-0**	**21**
Long Products	-4	-1	2	2	-1	9	7	-2	**3**	**16**
Other operations and intra-group items	-11	-6	-4	-15	-37	-1	-12	2	**-11**	**-22**
Group total adjusted EBITDA	29	66	116	98	309	294	199	56	**82**	**631**

Adjustments to EBITDA and EBIT EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	-8	-29	4	7	-26	-	-	-	**-**	**-**
Americas	25	-3	-0	-	21	-	-	-	**-**	**-**
Long Products	-	-1	-	20	19	-	-	-	**-**	**-**
Other operations and intra-group items	-	30	-1	3	32	15	9	7	**-**	**31**
Group total adjustments	17	-3	2	31	47	15	9	7	**-**	**31**

Certain activities were transferred from Other operations to Europe in 2017. Comparable figures for 2016 are presented accordingly.

EBIT

EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	33	7	48	76	164	218	140	52	**53**	**463**
Americas	-26	-19	-2	-13	-60	15	14	-47	**-13**	**-31**
Long Products	-6	-4	-0	21	11	7	5	-4	**2**	**10**
Other operations and intra-group items	-13	22	-6	-15	-12	13	-4	7	**-12**	**3**
Group total EBIT	-12	6	40	69	103	252	154	9	**30**	**445**

Adjusted EBIT

EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	40	36	44	68	190	218	140	52	**53**	**463**
Americas	-50	-16	-1	-13	-81	15	14	-47	**-13**	**-31**
Long Products	-6	-3	-0	1	-8	7	5	-4	**2**	**10**
Other operations and intra-group items	-13	-8	-5	-18	-44	-2	-14	1	**-12**	**-28**
Group total adjusted EBIT	-29	9	38	38	57	238	145	2	**30**	**414**

Depreciation and amortization

EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	-41	-40	-40	-38	-158	-38	-38	-38	**-37**	**-151**
Americas	-13	-13	-13	-14	-54	-13	-13	-13	**-12**	**-52**
Long Products	-2	-2	-2	-2	-7	-2	-2	-2	**-1**	**-7**
Other operations	-1	-1	-1	-3	-7	-2	-2	-2	**-2**	**-6**
Group total depreciation and amortization	-58	-56	-56	-56	-226	-55	-54	-54	**-53**	**-216**

Capital expenditure

EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	25	23	28	25	101	10	12	23	**58**	**104**
Americas	0	2	5	10	17	1	6	4	**7**	**18**
Long Products	0	1	2	5	8	3	1	2	**1**	**8**
Other operations	6	2	8	20	37	5	11	11	**18**	**44**
Group total capital expenditure	32	28	43	61	164	19	31	40	**84**	**174**

Operating capital

EUR million	I/16	II/16	III/16	IV/16	2016	I/17	II/17	III/17	**IV/17**	**2017**
Europe	2,636	2,545	2,463	2,419	2,419	2,546	2,548	2,546	**2,485**	**2,485**
Americas	1,211	1,178	1,175	1,127	1,127	1,245	1,139	1,049	**1,072**	**1,072**
Long Products	136	132	139	139	139	165	167	152	**113**	**113**
Other operations and intra-group items	-16	39	22	-51	-51	-21	0	-42	**-26**	**-26**
Group total operating capital	3,967	3,893	3,799	3,635	3,635	3,934	3,854	3,705	**3,645**	**3,645**

Certain activities were transferred from Other operations to Europe in 2017. Comparable figures for 2016 are presented accordingly.

Definitions of financial key figures

EBITDA	=	EBIT before depreciation, amortization and impairments
Adjusted EBITDA/EBIT	=	EBITDA/EBIT – items classified as adjustments
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 asset
Return on capital employed (ROCE)	=	$\frac{\text{EBIT (4-quarter rolling)}}{\text{Capital employed (4-quarter rolling average)}} \times 100$
Return on equity (ROE)	=	$\frac{\text{Net result for the financial period (4-quarter rolling)}}{\text{Total equity (4-quarter rolling average)}} \times 100$
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 adjusted EBITDA	=	$\frac{\text{Net debt}}{\text{Adjusted EBITDA (4-quarter rolling)}}$
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	=	$\frac{\text{Equity attributable to the owners of the parent}}{\text{Adjusted number of shares at the end of the period}}$