Outokumpu financial statements release

2018

outokumpu
high performance stainless steel

Contents

Outokumpu financial statements release 2018

Outokumpu's progress in 2018 overshadowed by exceptional market environment. Group adjusted EBITDA at EUR 485 million.

Highlights in the fourth quarter of 2018

- Stainless steel deliveries were 534,000 tonnes (561,000 tonnes)[1].
- Adjusted EBITDA was EUR 89 million (EUR 82 million).
- EBITDA was EUR 92 million (EUR 82 million).
- Operating cash flow was EUR 43 million (EUR 104 million).
- Net debt increased to EUR 1,241 million (September 30, 2018: EUR 1,205 million).
- Gearing was 45.1% (September 30, 2018: 44.5%).

Highlights of 2018

- Stainless steel deliveries were 2,428,000 tonnes (2,448,000 tonnes).
- Adjusted EBITDA was EUR 485 million (EUR 631 million).
- EBITDA was EUR 496 million (EUR 663 million).
- Operating cash flow was EUR 214 million (EUR 328 million).
- Net result was EUR 130 million (EUR 392 million).
- Return on capital employed (ROCE) was 7.0% (11.3%).
- The Board of Directors proposes a dividend of EUR 0.15 per share for 2018.

Group key figures		IV/18	IV/17 restated	III/18	2018	2017 restated
Sales	EUR million	**1,586**	1,463	1,733	**6,872**	6,356
EBITDA	EUR million	**92**	82	128	**496**	663
Adjusted EBITDA 1)	EUR million	**89**	82	128	**485**	631
EBIT	EUR million	**38**	30	65	**280**	445
Adjusted EBIT 1)	EUR million	**35**	29	75	**279**	414
Result before taxes	EUR million	**20**	0	36	**175**	327
Net result for the period	EUR million	**27**	128	29	**130**	392
Earnings per share	EUR	**0.07**	0.31	0.07	**0.32**	0.95
Diluted earnings per share	EUR	**0.07**	0.29	0.07	**0.32**	0.90
Return on capital employed	%	**7.0**	11.3	6.9	**7.0**	11.3
Net cash generated from operating activities	EUR million	**43**	104	61	**214**	328
Net debt at the end of period	EUR million	**1,241**	1,091	1,205	**1,241**	1,091
Debt-to-equity ratio at the end of period	%	**45.1**	40.1	44.5	**45.1**	40.1
Capital expenditure	EUR million	**104**	84	56	**260**	174
Stainless steel deliveries	1,000 tonnes	**534**	561	582	**2,428**	2,448
Personnel at the end of period		**10,449**	10,141	10,459	**10,449**	10,141

Outokumpu has adopted IFRS 15 – Revenue from Contracts with Customers retrospectively. Comparable financial figures for 2017 have been restated accordingly.

Further information on changes to Outokumpu's accounting principles and restatement impacts can be found in the Financial Information section of this report.

1) Adjusted EBITDA or EBIT = EBITDA or EBIT – Items classified as adjustments.

[1] Figures in parentheses refer to the corresponding period for 2017, unless otherwise stated.

President & CEO Roeland Baan

"2018 marked an exceptional year for the European steel industry. The unforeseen trade disruption caused by the US steel tariffs led to a surge of low-cost imports into Europe and to heavy price pressure that put a strain on the entire European steel industry.

In the midst of the market turbulence, we kept our focus on areas that were within our control. We made great progress in improving our safety performance, operational reliability and cost efficiency. Furthermore, our organizational health improved for the second year in a row reaching the second quartile.

Full-year adjusted EBITDA amounted to EUR 485 million (EUR 631 million) reflecting the unstable markets and substantially higher input costs. In Europe, we defended our margins through a significantly improved product mix whereas in the Americas, higher costs together with misalignment between commercial and supply chain processes led to disappointing financial results. In order to improve the business area performance, we have made changes to commercial and supply chain processes and we are revamping the Americas' commercial organization. Furthermore, we are investing in ferritics capabilities in our Calvert mill to expand our product offering into a segment that represents over one third of the US stainless steel market.

Our net debt rose to EUR 1.2 billion mainly due to unsatisfactory inventory management. Hence, strengthening of our balance sheet and reducing net debt are key priorities for 2019.

The EU's permanent safeguards that are now in force are expected to stabilize the import situation in Europe during 2019. In addition to decisive execution of our must-win battles and improving our profitability in the Americas, a balanced market in Europe is crucial for us to reach our 2020 targets."

Outlook for Q1/2019

The stainless steel market is expected to remain challenging in the first quarter due to high distributor inventory levels.

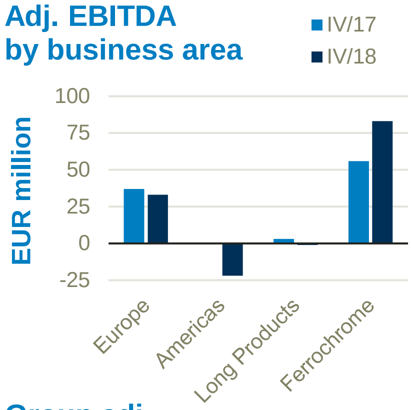
Outokumpu expects its stainless steel deliveries to higher than in the fourth quarter of 2018.

In the Americas, first-quarter financial performance is expected to remain weak. Initiated actions to improve business performance are expected to yield results as the year progresses.

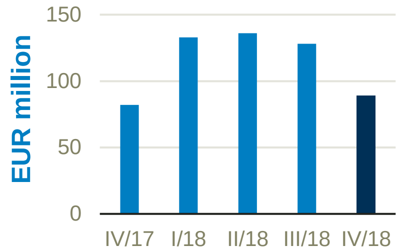
The Ferrochrome result will be negatively impacted by the lower ferrochrome benchmark price.

Outokumpu expects its first-quarter adjusted EBITDA to be lower than in the fourth quarter of 2018 (Q4/18: EUR 89 million).

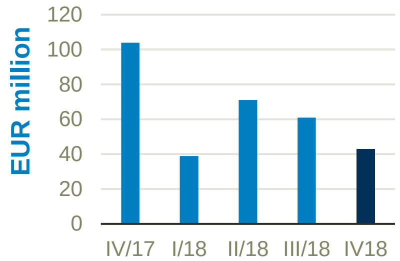
Adj. EBITDA by business area



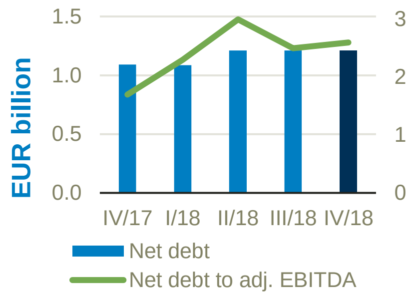
Group adj. EBITDA



Operating cash flow



Net debt and net debt to adj. EBITDA



Results

Q4/2018 compared to Q4/2017

Outokumpu's sales increased to EUR 1,586 million (EUR 1,463 million). The fourth-quarter adjusted EBITDA of EUR 89 million was higher than EUR 82 million in the fourth quarter of 2017 driven by improved mix in Europe and higher base prices in the US, as well as an insurance compensation of EUR 32 million in business area Ferrochrome. These positive impacts were partly offset by lower stainless steel deliveries, as well as higher graphite electrode and other input costs. Raw material-related inventory and metal derivative losses were EUR 15 million compared to gains of EUR 6 million in the fourth quarter of 2017. Other operations and intra-group items' adjusted EBITDA of EUR -4 million (EUR -13 million) includes a loss of EUR 5 million resulting from an interpretation change related to guaranteed minimum pensions in the UK.

Q4/2018 compared to Q3/2018

Outokumpu's sales decreased to EUR 1,586 million compared to EUR 1,733 million in the third quarter of 2018. Adjusted EBITDA decreased by EUR 39 million to EUR 89 million, primarily impacted by 8% lower deliveries due to seasonality and high distributor inventories in both Europe and the US. The result was further burdened by a lower ferrochrome contract price, as well as higher costs due to a planned maintenance shutdown in the Tornio stainless steel mill. The insurance compensation in Ferrochrome had a positive impact on the result. Raw material-related inventory and metal derivative losses were EUR 15 million compared to gains EUR 3 million in the third quarter of 2018.

2018 compared to 2017

In 2018, Outokumpu's sales increased to EUR 6,872 million (2017: EUR 6,356 million). Adjusted EBITDA decreased to EUR 485 million (2017: EUR 631 million) burdened by higher graphite electrode, other input and freight costs of approximately EUR 140 million. In Europe, base prices reached historically low levels due to heavy import pressure while in the US, base prices increased. Improved product mix in both regions had a positive impact on the result. Earnings were further supported by improved cost efficiency and reliability of the mills. Raw material-related inventory and metal derivative losses were EUR 16 million (losses of EUR 10 million).

EBIT amounted to EUR 280 million (EUR 445 million) in 2018 and net result to EUR 130 million (EUR 392 million). The net result includes EUR 34 million (EUR 125 million) of previously unrecognized deferred tax assets mainly in the UK.

Financial position and cash flow

Operating cash flow amounted to EUR 43 million in the fourth quarter (EUR 104 million). The decrease in working capital was EUR 15 million, compared to a decrease of EUR 48 million in the fourth quarter of 2017. Inventories increased to EUR 1,555 million (EUR 1,380 million) mainly due to higher input prices. During the full year 2018, operating cash flow of EUR 214 million compared to EUR 328 million in 2017.

Capital expenditure increased to EUR 104 million in the fourth quarter (EUR 84 million). In 2018, capital expenditure increased to EUR 260 million (EUR 174 million) primarily as a result of ongoing investments in the Kemi mine, the digital transformation project Chorus, including the ERP renewal, as well as the acquisition of Fagersta Stainless.

Net debt increased to EUR 1,241 million compared to EUR 1,205 in September 2018 and EUR 1,091 million at the end of 2017. Gearing increased to 45.1% (September 30, 2018: 44.5%; December 31, 2017: 40.1%).

Net financial expenses were EUR 19 million in the fourth quarter (EUR 32 million) and EUR 107 million in 2018 (EUR 127 million). Interest expenses were EUR 17 million in the fourth quarter (EUR 22 million) and decreased to EUR 70 million in 2018 (EUR 92 million). Cash and cash equivalents were at EUR 68 million at the end of the year (EUR 112 million) and overall liquidity reserves were above EUR 0.7 billion (EUR 0.8 billion). In addition to these reserves, in December Outokumpu agreed a EUR 120 million long-term loan facility to finance its DeepMine project in Kemi, Finland.

Market development

According to SMR's latest estimates (February 2019), global apparent stainless steel consumption increased by 1.1% in the fourth quarter compared to the same period last year. Americas contributed with a growth of 5.8%, while EMEA and APAC recorded a growth of 1.8% and 0.4% respectively. In 2018, global apparent consumption increased by 5.4% compared to the previous year. Americas contributed with a growth of 7.8% followed by growth of 5.6% in APAC and 3.4% in EMEA.

Global real demand for stainless steel products reached 43.2 million tonnes in 2018, an increase of 4.9% from 41.2 million tonnes in 2017. Real demand growth was strongest in the Architecture, Building, Construction & Infrastructure end-user segment at 5.8%, while Industrial & Heavy Industries, Petrochemical & Energy both grew by 5.7%. Consumer Goods & Medical and Automotive & Heavy Transport achieved growth of 4.5% and 3.5%, respectively.

In the first quarter of 2019, global real demand is expected to increase by 1.0% compared to the fourth quarter of 2018, driven by increases of 2.6% in EMEA and 1.0% in APAC, while demand in the Americas is expected to decrease by 1.8%. Compared to last year's first quarter, demand is expected to grow by 4.8% with growth of 8.2% in the Americas and 5.6% in APAC and 0.4% in EMEA. Total global demand for 2019 is estimated to grow by 3.2% compared to 2018.

Business area Europe

Europe key figures		IV/18	IV/17 restated	III/18	2018	2017 restated
Stainless steel deliveries	1,000 tonnes	**341**	371	369	**1,547**	1,582
Sales	EUR million	**970**	973	1,034	**4,267**	4,156
Adjusted EBITDA	EUR million	**33**	37	60	**248**	404
Adjustments						
Gain on the sale of PPE and release of provisions related to EMEA restructuring	EUR million	**3**	-	-	**10**	-
EBITDA	EUR million	**36**	37	60	**259**	404
Operating capital	EUR million	**1,934**	1,848	1,917	**1,934**	1,848

Ferrochrome has been reported separately as of Jan 1, 2018. Comparable figures are presented accordingly.

Comparable financial figures restated due to IFRS 15 adoption.

Results

Q4/2018 compared to Q4/2017

Sales amounted to EUR 970 million (EUR 973 million).
Adjusted EBITDA decreased to EUR 33 million (EUR 37 million).

- Stainless steel deliveries were 8% lower due to high distributor inventory levels.
- Realized base prices decreased due to high import pressure but this negative impact was largely offset by improved product and raw material mix.
- Despite lower maintenance costs, total costs increased due to higher graphite electrode and other input costs.
- Raw material-related inventory and metal derivative losses were EUR 11 million (losses of EUR 4 million).
- Adjusted EBITDA includes a gain of EUR 11 million resulting from an amendment of Outokumpu's pension plan in Germany.

Q4/2018 compared to Q3/2018

Adjusted EBITDA decreased to EUR 33 million compared to EUR 60 million in Q3/18.

- Stainless steel deliveries were 8% lower.
- Realized base prices remained relatively flat. Both raw material and product mix continued to improve.
- Costs were higher due to the Tornio stainless steel mill planned maintenance shutdown impact of approx. EUR 20 million, as well as higher graphite electrode and other input costs.
- Raw material-related inventory and metal derivative losses were EUR 11 million compared to losses of EUR 1 million in Q3/18.

2018 compared to 2017

Sales increased to EUR 4,267 million (EUR 4,156 million).
Adjusted EBITDA decreased to EUR 248 million (EUR 404 million).

- Stainless steel deliveries decreased by 2%.
- Realized base prices decreased due to severe import pressure particularly during the second half of the year. This was partly offset by significantly improved product mix.
- Graphite electrode and other input costs were approximately EUR 80 million higher. Improved cost efficiency offset part of this impact.
- Raw material-related inventory and metal derivative losses were EUR 26 million (losses of EUR 24 million).

Market

- In the fourth quarter of 2018, real demand grew by 2.8% compared to Q4/17. In 2018, real demand increased by 2.4% compared to the previous year.
- EU cold rolled imports from the third countries reached a level of 27.8% in Q4/18, down from 28.6% in Q4/17. In 2018, EU cold rolled imports increased to 29.6% compared to 27.6% in 2017. (Source: EUROFER, January 2019).
- Distributor inventories were slightly above their long-term average level at the end of the year.
- The CRU reported average EU base price for Q4/18 decreased by EUR 396/tonne compared to Q4/17 and amounted to EUR 730/tonne. Compared to Q3/18, the average base price declined by EUR 69/tonne. The average EU base price for 2018 amounted to EUR 903/tonne (EUR 1,123/tonne).

Business area Americas

Americas key figures		IV/18	IV/17 restated	III/18	2018	2017 restated
Stainless steel deliveries	1,000 tonnes	**148**	171	190	**762**	742
Sales	EUR million	**351**	345	468	**1,715**	1,546
Adjusted EBITDA	EUR million	**-22**	-0	13	**-5**	21
EBITDA	EUR million	**-22**	-0	13	**-5**	21
Operating capital	EUR million	**1,084**	1,072	1,102	**1,084**	1,072

Comparable financial figures restated due to IFRS 15 adoption.

Results

Q4/2018 compared to Q4/2017

Sales increased to EUR 351 million (EUR 345 million).
Adjusted EBITDA decreased to EUR -22 million (EUR -0 million).

- Due to significantly increased distributor inventories, stainless steel deliveries decreased by 13%.
- Realized base prices were higher supported by lower stainless steel imports.
- Costs increased due to higher graphite electrode, other input and freight costs.
- Raw material-related inventory and metal derivative gains were EUR 0 million (gains of EUR 9 million).

Q4/2018 compared to Q3/2018

Adjusted EBITDA decreased to EUR -22 million compared to EUR 13 million in Q3/18.

- Due to seasonal slowdown and high distributor inventories, stainless steel deliveries decreased by 22%.
- Realized base prices decreased.
- Costs decreased mainly due to lower freight costs.
- Raw material-related inventory and metal derivative gains were EUR 10 million lower compared to Q3/18.

2018 compared to 2017

Sales increased to EUR 1,715 million (EUR 1,546 million).
Adjusted EBITDA decreased to EUR -5 million (EUR 21 million).

- Realized base prices increased supported by an improved product mix.
- Significantly higher graphite electrode and other input costs together with increased freight expenses had a negative impact of approximately EUR 40 million.
- Raw material-related inventory and metal derivative gains were EUR 20 million compared to gains of EUR 11 million in 2017.
- The reference period's adjusted EBITDA includes an accrual release of EUR 6 million.

Market

- In the fourth quarter of 2018, real demand grew by 5.8% compared to Q4/17. In 2018, real demand increased by 3.9% compared to the previous year.
- Cold-rolled imports into the US decreased to approx. 19% in October 2018[1] compared to 25% in Q4/17 in response to steel tariffs. For the full year 2018[1], cold-rolled imports decreased to approx. 19% compared to 24% in 2017. (Source: American Iron & Steel Institute, October. 2018).
- Distributor inventories were above their long-term average level at the end of the year.
- The CRU reported average US base price for Q4/18 increased by USD 118/tonne compared to Q4/17 and amounted to USD 1,492/tonne. Compared to Q3/18, the average base price declined by USD 7/tonne. Average US base price for 2018 was USD 90/tonne higher than in 2017 and amounted to USD 1,464/tonne.

[1] November-December import volume data unavailable due to the US government shutdown.

Business area Long Products

Long Products key figures		IV/18	IV/17 restated	III/18	2018	2017 restated
Stainless steel deliveries	1,000 tonnes	**64**	70	68	**285**	264
Sales	EUR million	**185**	149	194	**740**	591
Adjusted EBITDA	EUR million	**-1**	3	13	**25**	16
EBITDA	EUR million	**-1**	3	13	**25**	16
Operating capital	EUR million	**179**	113	168	**179**	113

Fagersta Stainless AB included in stainless steel deliveries, sales, adjusted EBITDA, and EBITDA as of July 1, 2018.

Comparable financial figures restated due to IFRS 15 adoption.

Results

Q4/2018 compared to Q4/2017

Sales decreased to EUR 64 million (EUR 70 million).
Adjusted EBITDA decreased to EUR -1 million (EUR 3 million).

- Stainless steel deliveries decreased by 9%.
- Realized base prices were clearly higher.
- Costs increased due to higher graphite electrode and other input costs.
- Raw material-related inventory and metal derivative gains were EUR 1 million compared to EUR 0 million in Q4/17.
- Adjusted EBITDA includes a loss of EUR 3 million resulting from an interpretation change related to guaranteed minimum pensions in the UK.

Q4/2018 compared to Q3/2018

Adjusted EBITDA decreased to EUR -1 million compared to EUR 13 million in Q3/18.

- Stainless steel deliveries decreased by 6%.
- Realized base prices decreased slightly.
- Graphite electrode and other input costs increased.
- Raw material-related inventory and metal derivative gains were EUR 1 million, similar as in Q3/18.
- The reference period’s adjusted EBITDA includes a gain of EUR 4 million resulting from a change in terms of Outokumpu’s defined benefit medical plan in the US, whereas current period includes a loss of EUR 3 million in the UK.

2018 compared to 2017

Sales increased to EUR 740 million (EUR 591 million).
Adjusted EBITDA increased to EUR 25 million (EUR 16 million).

- Stainless steel deliveries increased by 8%.
- Realized base prices increased significantly.
- Graphite electrode and other input costs were approximately EUR 20 million higher.
- Raw material-related inventory and metal derivative impact was EUR 0 million compared to gains of EUR 3 million in 2017.

Market

- Healthy underlying long products demand continued in Q4/18 in both Europe and the US, but the markets were affected by typical seasonality. During the full year, demand was robust in all markets.
- Order intake towards the end of the year weakened in Europe driven by slowdown particularly in automotive segment.
- Base prices remained flat during Q4/18. In 2018, base prices increased from the previous year.

Business area Ferrochrome

Ferrochrome key figures		IV/18	IV/17 restated	III/18	2018	2017 restated
Ferrochrome production	1,000 tonnes	**135**	121	127	**497**	415
Sales	EUR million	**143**	152	137	**542**	610
Adjusted EBITDA	EUR million	**83**	56	46	**210**	217
EBITDA	EUR million	**83**	56	46	**210**	217
Operating capital	EUR million	**640**	648	652	**640**	648

Comparable financial figures restated due to IFRS 15 adoption.

Results

Q4/2018 compared to Q4/2017

Sales decreased to EUR 143 million (EUR 152 million).
Adjusted EBITDA increased to EUR 83 million (EUR 56 million).

- Ferrochrome production and deliveries increased.
- Ferrochrome contract price was USD 0.15/lb. lower than in Q4/17.
- Adjusted EBITDA includes a gain of EUR 32 million from an insurance compensation related to earlier property damage and business interruption.

Q4/2018 compared to Q3/2018

Adjusted EBITDA increased to EUR 83 million compared to EUR 46 million in Q3/18.

- Ferrochrome production was higher, and deliveries increased clearly.
- Ferrochrome contract price decreased by USD 0.14/lb.
- Costs decreased driven primarily by lower electricity prices and improved cost efficiency.
- Adjusted EBITDA includes a gain of EUR 32 million from an insurance compensation.

2018 compared to 2017

Sales decreased to EUR 542 million (EUR 610 million).
Adjusted EBITDA decreased to EUR 210 million (EUR 217 million).

- Ferrochrome production and deliveries were clearly higher as ferrochrome production in 2017 was negatively impacted by production issues and maintenance work.
- Average ferrochrome contract price was USD 0.11/lb. lower than in 2017.
- Costs increased primarily due to higher coke costs.
- 2018 adjusted EBITDA was positive impacted by the insurance compensation.

Market

- The European benchmark price for ferrochrome followed the Chinese spot prices to USD 1.24/lb. in Q4, down from USD 1.38/lb. in Q3/18 and USD 1.39/lb. in Q4/17.
- In 2018, the average European benchmark price for ferrochrome was USD 1.31/lb. compared to USD 1.42/lb. in 2017.
- For Q1/19, the ferrochrome price decreased to USD 1.12/lb. as a result of softening stainless steel demand in China.

Safety and people

The total recordable injury frequency rate (TRIFR) was 4.1 in 2018 (2017: 4.4) against the target of less than 4.0. Outokumpu has continued its safety strategy including ongoing work standardizing its systems and practices.

Outokumpu's headcount increased by 308 compared to the end of 2017 and totaled 10,449 at the end of 2018 (10,141). The increase was driven primarily by the acquisition of Fagersta Stainless in Sweden.

Shares

On December 31, 2018, Outokumpu's share capital was EUR 311 million, and the total number of shares was 416,374,448. At the end of the fourth quarter, Outokumpu held 5,810,729 treasury shares. The average number of shares outstanding was 410,102,651 for the fourth quarter and the average number of shares outstanding in 2018 was 411,065,622.

Risks and uncertainties

The main realized risks in 2018 were related to increased costs in certain input materials, inadequate profitability of business area Americas, trade disruption related to Section 232 and delayed implementation of the digital transformation program Chorus.

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, improve operational reliability, drive competitiveness and further improve financial performance; the risk of permanent safeguard measures initiated by EU not being effective; risks and uncertainties related to global overcapacity in stainless steel, as well as to market development in stainless steel, ferrochrome and competitor actions; availability and price of certain critical supplies, including graphite electrodes; dependencies on certain critical suppliers; the risk of changes in metal prices impacting capital tied up in inventories and account receivables; 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; changes in interest margins applied for Outokumpu; fair value of shareholdings; project implementation risks; IT dependency and cyber security risks; risks due to 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, including a severe global economic downturn as well as an unfavorable Brexit scenario to Outokumpu, may have a significant adverse impact on Outokumpu's overall business and access to financial markets.

Board of Directors' proposal for profit distribution

According to Outokumpu's dividend 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, 2018 distributable funds totaled EUR 2,298 million, of which retained earnings were EUR 175 million.

The Board of Directors is proposing to the Annual General Meeting to be held on March 27, 2019 that a dividend of EUR 0.15 per share is paid for 2018.

Helsinki, February 7, 2019

Outokumpu
Board of Directors

Financial information

Condensed income statement (EUR million)	Oct–Dec 2018	Oct–Dec 2017 restated	Jan–Dec 2018	Jan–Dec 2017 restated
Sales	**1,586**	1,463	**6,872**	6,356
Cost of sales	**-1,534**	-1,353	**-6,398**	-5,627
Gross margin	**52**	111	**474**	729
Other operating income	**59**	5	**99**	58
Sales, general and administrative costs	**-70**	-67	**-275**	-307
Other operating expenses	**-2**	-19	**-19**	-35
EBIT	**38**	30	**280**	445
Share of results in associated companies and joint ventures	**1**	3	**3**	9
Interest expenses	**-17**	-22	**-70**	-92
Net other financial expenses	**-2**	-10	**-37**	-34
Total financial income and expenses	**-19**	-32	**-107**	-127
Result before taxes	**20**	0	**175**	327
Income taxes	**7**	127	**-45**	65
Net result for the period	**27**	128	**130**	392
Earnings per share for result attributable to the equity holders of the Company				
Earnings per share, EUR	**0.07**	0.31	**0.32**	0.95
Diluted earnings per share, EUR	**0.07**	0.29	**0.32**	0.90

Statement of comprehensive income (EUR million)	Oct–Dec 2018	Oct–Dec 2017 restated	Jan–Dec 2018	Jan–Dec 2017 restated
Net result for the period	**27**	128	**130**	392
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations				
Change in exchange differences	**8**	-12	**24**	-83
Reclassification adjustments from other comprehensive income to profit or loss	**-**	-	**-**	-3
Available-for-sale financial assets	**-**	2	**-**	0
Cash flow hedges	**1**	-1	**0**	-1
Items that will not be reclassified to profit or loss:				
Remeasurements on defined benefit obligation plans				
Changes during the accounting period	**4**	22	**-7**	18
Income tax relating to remeasurements	**2**	37	**-1**	37
Financial assets at fair value through other comprehensive income	**0**	-	**2**	-
Share of other comprehensive income in associated companies and joint ventures	**0**	0	**-0**	-1
Other comprehensive income for the period, net of tax	**15**	48	**18**	-32
Total comprehensive income for the period	**42**	176	**148**	359

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 2018	Dec 31 2017 restated
ASSETS		
Non-current assets		
Intangible assets	**585**	535
Property, plant and equipment	**2,659**	2,633
Investments in associated companies and joint ventures	**53**	73
Other financial assets	**88**	69
Deferred tax assets	**247**	295
Defined benefit plan assets	**72**	70
Trade and other receivables	**2**	1
Total non-current assets	**3,706**	3,675
Current assets		
Inventories	**1,555**	1,380
Other financial assets	**28**	60
Trade and other receivables	**640**	660
Cash and cash equivalents	**68**	112
Total current assets	**2,292**	2,212
TOTAL ASSETS	**5,998**	5,887
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Company	**2,750**	2,721
Non-current liabilities		
Non-current debt	**798**	698
Other financial liabilities	**1**	3
Deferred tax liabilities	**12**	10
Defined benefit and other long-term employee benefit obligations	**318**	337
Provisions	**65**	79
Trade and other payables	**35**	34
Total non-current liabilities	**1,229**	1,160
Current liabilities		
Current debt	**511**	505
Other financial liabilities	**20**	37
Provisions	**5**	14
Trade and other payables	**1,483**	1,449
Total current liabilities	**2,019**	2,005
TOTAL EQUITY AND LIABILITIES	**5,998**	5,887

Condensed statement of cash flows (EUR million)	Oct–Dec 2018	Oct–Dec 2017	Jan–Dec 2018	Jan–Dec 2017
Net result for the period [1)]	**27**	128	**130**	392
Adjustments				
Depreciation, amortization and impairments	**53**	53	**216**	219
Other non-cash adjustments [1)]	**-16**	-81	**96**	41
Change in working capital	**15**	48	**-112**	-180
Provisions, and defined benefit and other long-term employee benefit obligations paid	**-19**	-15	**-59**	-60
Dividends and interests received	**0**	0	**2**	3
Interests paid	**-15**	-27	**-54**	-78
Income taxes paid	**-2**	-2	**-5**	-8
Net cash from operating activities	**43**	104	**214**	328
Acquired businesses, net of cash	**-**	-	**-10**	-
Purchases of assets	**-86**	-71	**-245**	-186
Proceeds from the disposal of subsidiaries, net of cash and tax	**-**	-	**-**	90
Proceeds from the sale of assets	**11**	8	**26**	33
Net cash from investing activities	**-75**	-63	**-229**	-63
Cash flow before financing activities	**-32**	41	**-14**	264
Dividends paid	**-**	-	**-103**	-41
Treasury share purchase	**-**	-	**-17**	-20
Borrowings of non-current debt	**80**	120	**329**	190
Repayment of non-current debt	**-28**	-364	**-245**	-607
Change in current debt	**-132**	21	**7**	162
Other financing cash flow	**-3**	-	**1**	-37
Net cash from financing activities	**-82**	-224	**-29**	-353
Net change in cash and cash equivalents	**-114**	-182	**-43**	-89
Cash and cash equivalents at the beginning of the period	**182**	295	**112**	204
Net change in cash and cash equivalents	**-114**	-182	**-43**	-89
Foreign exchange rate effect	**0**	-0	**-1**	-3
Cash and cash equivalents at the end of the period	**68**	112	**68**	112

1) Comparable financial figures restated due to IFRS 15 adoption.

outokumpu
high performance stainless steel

Statement of changes in equity (EUR million)	Attributable to the equity holders of the parent									
	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 Dec 31, 2016	**311**	**714**	**2,103**	**2**	**1**	**3**	**-135**	**-19**	**-564**	**2,416**
IFRS 15 restatement	-	-	-	-	-	-	-	-	-0	-0
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										
Dividend distribution	-	-	-	-	-	-	-	-	-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**
Equity on Dec 31, 2017	**311**	**714**	**2,103**	**3**	**0**	**-81**	**-72**	**-26**	**-232**	**2,721**
IFRS 2 restatement	-	-	-	-	-	-	-	-	7	7
IFRS 9 restatement	-	-	-	-	-	-	-	-	-1	-1
Equity on Jan 1, 2018	**311**	**714**	**2,103**	**3**	**0**	**-81**	**-72**	**-26**	**-225**	**2,728**
Net result for the period	-	-	-	-	-	-	-	-	130	130
Other comprehensive income	-	-	-	-	2	24	-8	-	-0	18
Total comprehensive income for the period	-	-	-	-	2	24	-8	-	130	148
Transactions with equity holders of the Company										
Contributions and distributions										
Dividend distribution	-	-	-	-	-	-	-	-	-103	-103
Share-based payments	-	-	-	-	-	-	-	3	-8	-5
Treasury share purchase	-	-	-	-	-	-	-	-17	-	-17
Equity on Dec 31, 2018	**311**	**714**	**2,103**	**3**	**2**	**-56**	**-80**	**-40**	**-207**	**2,750**

Adjustments to EBITDA and EBIT (EUR million)	IV/18	IV/17	2018	2017
Gain on the sale of PPE and release of provisions related to EMEA restructuring	**3**	-	**10**	-
Gain on the quarto plate mill divestment	**-**	-	**-**	15
Gain on the sale of land in Sheffield	**-**	-	**-**	9
Gain on the pipe plant divestment	**-**	-	**-**	7
Adjustments to EBITDA	**3**	-	**10**	31
Impairment related to Group's digital transformation project	**-**	-	**-10**	-
Adjustments to EBIT	**3**	-	**0**	31

Group key figures		IV/18	IV/17 restated	2018	2017 restated
Scope of activity					
Capital employed at the end of period	EUR million	**4,086**	3,929	**4,086**	3,929
Capital expenditure	EUR million	**104**	84	**260**	174
Depreciation and amortization	EUR million	**-52**	-53	**-204**	-216
Impairments	EUR million	**-1**	-0	**-12**	-2
Personnel at the end of period		**10,449**	10,141	**10,449**	10,141
- average for the period		**10,459**	10,225	**10,468**	10,485
Profitability					
Adjusted EBITDA	EUR million	**89**	82	**485**	631
Adjustments to EBITDA	EUR million	**3**	-	**10**	31
EBITDA	EUR million	**92**	82	**496**	663
Earnings per share	EUR	**0.07**	0.31	**0.32**	0.95
Diluted earnings per share	EUR	**0.07**	0.29	**0.32**	0.90
Adjusted average number of shares [1)]	1,000 shares	**410,103**	412,255	**411,066**	412,363
Return on equity	%	**4.8**	15.4	**4.8**	15.4
Return on capital employed	%	**7.0**	11.3	**7.0**	11.3
Financing and financial position					
Non-current debt	EUR million	**798**	698	**798**	698
Current debt	EUR million	**511**	505	**511**	505
Cash and cash equivalents	EUR million	**-68**	-112	**-68**	-112
Net debt at the end of period	EUR million	**1,241**	1,091	**1,241**	1,091
Net debt to Adjusted EBITDA		**2.6**	1.7	**2.6**	1.7
Equity-to-assets ratio at the end of period	%	**45.9**	46.3	**45.9**	46.3
Debt-to-equity ratio at the end of period	%	**45.1**	40.1	**45.1**	40.1
Equity per share at the end of period [1)]	EUR	**6.70**	6.59	**6.70**	6.59

[1)] Excluding treasury shares.

Sales by segment (EUR million)	IV/18	IV/17 restated	2018	2017 restated
Europe total	**970**	973	**4,267**	4,156
of which intra-group	**18**	17	**97**	81
Americas total	**351**	345	**1,715**	1,546
of which intra-group	**2**	11	**45**	33
Long Products total	**185**	149	**740**	591
of which intra-group	**40**	55	**220**	186
Ferrochrome total	**143**	152	**542**	610
of which intra-group	**68**	129	**345**	483
Other operations total	**135**	120	**587**	503
of which intra-group	**70**	64	**273**	266
Group total sales	**1,586**	1,463	**6,872**	6,356

Adjusted EBITDA by segment (EUR million)	IV/18	IV/17 restated	2018	2017 restated
Europe	**33**	37	**248**	404
Americas	**-22**	-0	**-5**	21
Long Products	**-1**	3	**25**	16
Ferrochrome	**83**	56	**210**	217
Other operations and intra-group items	**-4**	-13	**7**	-27
Group total adjusted EBITDA	**89**	82	**485**	631

Adjustments to EBITDA and EBIT by segment (EUR million)	IV/18	IV/17	2018	2017
Europe	**3**	-	**10**	-
Americas	**-**	-	**-**	-
Long Products	**-**	-	**-**	-
Ferrochrome	**-**	-	**-**	-
Other operations	**-**	-	**-**	31
Group total adjustments in EBITDA	**3**	-	**10**	31
Other operations	**-**	-	**-10**	-
Group total adjustments in EBIT	**3**	**-**	**0**	31

EBITDA by segment (EUR million)	IV/18	IV/17 restated	2018	2017 restated
Europe	**36**	37	**259**	404
Americas	**-22**	-0	**-5**	21
Long Products	**-1**	3	**25**	16
Ferrochrome	**83**	56	**210**	217
Other operations and intra-group items	**-4**	-13	**7**	5
Group total EBITDA	**92**	82	**496**	663

Adjusted EBIT by segment (EUR million)	IV/18	IV/17 restated	2018	2017 restated
Europe	**-0**	7	**134**	281
Americas	**-35**	-13	**-56**	-31
Long Products	**-3**	2	**18**	10
Ferrochrome	**75**	48	**179**	187
Other operations and intra-group items	**-1**	-15	**4**	-33
Group total adjusted EBIT	**35**	29	**279**	414

EBIT by segment (EUR million)	IV/18	IV/17 restated	2018	2017 restated
Europe	**3**	7	**144**	281
Americas	**-35**	-13	**-56**	-31
Long Products	**-3**	2	**18**	10
Ferrochrome	**75**	48	**179**	187
Other operations and intra-group items	**-1**	-15	**-6**	-2
Group total EBIT	**38**	30	**280**	445

Depreciation and amortization by segment (EUR million)	IV/18	IV/17	2018	2017
Europe	**-32**	-30	**-114**	-123
Americas	**-13**	-12	**-51**	-52
Long Products	**-2**	-1	**-6**	-7
Ferrochrome	**-8**	-7	**-30**	-29
Other operations	**3**	-2	**-3**	-6
Group total depreciation and amortization	**-52**	-53	**-204**	-216

Capital expenditure by segment (EUR million)	IV/18	IV/17	2018	2017
Europe	**39**	40	**76**	70
Americas	**9**	7	**18**	18
Long Products	**6**	1	**30**	8
Ferrochrome	**30**	18	**79**	34
Other operations	**19**	18	**57**	44
Group total capital expenditure	**104**	84	**260**	174

Operating capital by segment (EUR million)	IV/18	IV/17 restated	2018	2017 restated
Europe	**1,934**	1,848	**1,934**	1,848
Americas	**1,084**	1,072	**1,084**	1,072
Long Products	**179**	113	**179**	113
Ferrochrome	**640**	648	**640**	648
Other operations and intra-group items	**15**	-36	**15**	-36
Group total operating capital	**3,851**	3,645	**3,851**	3,645

Personnel at the end of period by segment	IV/18	IV/17	2018	2017
Europe	**6,806**	6,748	**6,806**	6,748
Americas	**1,991**	2,094	**1,991**	2,094
Long Products	**892**	584	**892**	584
Ferrochrome	**441**	437	**441**	437
Other operations	**319**	278	**319**	278
Group total personnel at the end of period	**10,449**	10,141	**10,449**	10,141

Geographical information – Sales by destination (EUR million)	Jan–Dec 2018	Jan–Dec 2017
Finland	**230**	222
Germany	**1,456**	1,507
Sweden	**214**	174
The United Kingdom	**243**	242
Other Europe	**2,038**	1,984
North America	**1,820**	1,458
Asia and Oceania	**440**	434
Other countries	**431**	336
Group total sales	**6,872**	6,356

Sales to other countries include the parent company's nickel w arrant sales. In 2017 consolidated financial statements these w ere presented as sales to the UK as the counterparties are London-based brokers.

Total external sales by segment		
Europe	**4,169**	4,074
of which to Finland	**219**	211
of which to Germany	**1,380**	1,463
of which to Sweden	**144**	119
of which to the UK	**234**	233
of which to other Europe	**1,719**	1,655
of which to North America	**74**	58
of which to Asia and Oceania	**349**	301
of which to other counties	**50**	33
Americas	**1,670**	1,512
of which to other Europe	**40**	173
of which to North America	**1,551**	1,209
of which to Asia and Oceania	**12**	65
of which to other counties	**67**	66
Long Products	**521**	405
of which to Germany	**66**	32
of which to Sweden	**47**	33
of which to the UK	**9**	8
of which to other Europe	**161**	116
of which to North America	**195**	191
of which to Asia and Oceania	**42**	25
Ferrochrome	**197**	127
of which to Finland	**10**	10
of which to Germany	**10**	12
of which to Sweden	**22**	22
of which to other Europe	**118**	40
of which to Asia and Oceania	**37**	43
Other operations	**314**	237
of which other countries	**314**	237
Group total sales	**6,872**	6,356

Sales of other operations include the parent company's nickel w arrant sales.

Property, plant and equipment (EUR million)	Jan–Dec 2018	Jan–Dec 2017
Carrying value at the beginning of the period	**2,633**	2,874
Translation differences	**28**	-130
Additions	**189**	130
Acquired subsidiaries	**9**	-
Disposals	**-1**	-7
Disposed subsidiaries	**-**	-8
Reclassifications	**-1**	-17
Depreciation and impairments	**-197**	-210
Carrying value at the end of the period	**2,659**	2,633

Commitments (EUR million)	Dec 31 2018	Dec 31 2017
Mortgages	**3,055**	2,984
Other pledges	**28**	13
Guarantees		
On behalf of subsidiaries for commercial and other commitments	**28**	27
On behalf of associated companies for finaning	**4**	-
Other commitments	**19**	21
Minimum future lease payments on operating leases	**90**	88

Mortgages relate mainly to securing the 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 the AvestaPolarit pension scheme.

Other pledges include Outokumpu's shares in Manga LNG Oy of EUR 13 million to secure certain liabilities of Manga LNG Oy. Outokumpu's total liability on Dec 31, 2018 amounted to EUR 33 million (Dec 31, 2017: EUR 31 million), and the part exceeding the share pledge and guarantee is presented under other commitments. Other commitments include also Outokumpu's liabilities for the net debt in Tornion Voima Oy.

Outokumpu’s share of the Fennovoima investment is about EUR 250 million, of which EUR 79 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.

The Group's other off-balance sheet investment commitments totaled EUR 106 million on Dec 31, 2018 (Dec 31, 2017: EUR 28 million).

Related party transactions (EUR million)	Jan–Dec 2018	Jan–Dec 2017 Restated
Transactions and balances with related companies		
Sales and other operating income	100	104
Purchases	-16	-5
Dividends received	1	2
Trade and other receivables	24	25
Trade and other payables	3	0

Fair values and nominal amounts of derivative instruments (EUR million)	Dec 31 2018 Net fair value	Dec 31 2017 Net fair value	Dec 31 2018 Nominal amounts	Dec 31 2017 Nominal amounts
Currency and interest rate derivatives				
Currency forwards	**-4**	11	**2,289**	2,994
Currency options, bought	**-**	0	**-**	12
Interest rate swaps	**2**	-3	**200**	150
			Tonnes	Tonnes
Metal derivatives				
Forward and futures nickel contracts	**-5**	-6	**12,266**	18,581
Forward and futures molybdenum contracts	**-0**	-	**34**	-
Nickel options, bought	**3**	-1	**8,000**	9,800
Nickel options, sold	**-0**	-	**3,000**	-
Propane derivatives	**0**	-	**18,000**	-
Emission allowance derivatives	**-**	3	**-**	2,400,000
	-4	4		

Hierarchy of financial assets and liabilities measured at fair value on Dec 31, 2018 (EUR million)	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through OCI	0	-	86	86
Investment at fair value through profit or loss	13	-	0	13
Derivatives	-	17	-	17
	13	17	86	116
Liabilities				
Derivatives	-	21	-	21

A major part of financial assets at fair value through other comprehensive income at hierarchy level 3 relate to investments in unlisted energy producing companies. Valuation model of energy producing companies is based on discounted cash flow model, which takes into account the market prices of electricity, discount rate, inflation rate, the estimated amount of electricity to be received and estimated production costs.

Additional parameters for Voimaosakeyhtiö SF valuation include e.g. expected purchase price of electricity under the Mankala principle, expected project completion date and cost of debt in Fennovoima Oy. The fair value of Voimaosakeyhtiö SF shares is highly sensitive to the valuation parameters and especially to long-term market price of electricity, Fennovoima's capacity utilization rate, discount rates for cash flows and the terminal value, inflation rates for costs and market price of electricity, and project completion date.

Long-term market price for electricity for the time when the plant is expected to be commissioned has been estimated by the management, and the estimate assumes an increase compared to the current market price level. However, the long time periods to complete project and to operate the plant affect the reliability of such estimate, and reasonable changes in the electricity price estimate or in other valuation parameters can significantly impact the fair value of the investment. In general, the project risk is considered high with the estimated completion of the project in 2028, and the range of potential fair values is wide.

The fair value of non-current debt is EUR 814 million (carrying amount EUR 798 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.

Definitions of financial key figures

EBITDA	=	EBIT before depreciation, amortization and impairments
Adjustments to EBITDA or EBIT	=	Material income and expense items which affect the comparability between periods because of their unusual nature, size or incidence resulting for example from group-wide restructuring programs or disposals of assets or businesses.
Adjusted EBITDA or EBIT	=	EBITDA or 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 – financial assets at fair value through other comprehensive income – financial assets 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	=	$\frac{\text{Equity attributable to the owners of the parent}}{\text{Adjusted number of shares at the end of the period}}$

outokumpu
high performance stainless steel

Acquisition of Fagersta Stainless AB

In June 2018, Outokumpu acquired full ownership of Fagersta Stainless AB, a wire rod mill in Sweden. Prior to the acquisition, Outokumpu held 50% of the Fagersta Stainless shares, and it was included in Outokumpu's consolidated financial statements with the equity method. Outokumpu reports Fagersta Stainless as part of the Long Products segment.

The cash consideration of the transaction was EUR 18 million of which EUR 14 million, representing 80% of the total consideration, was paid at closing with an additional 40% of the shares transferred to Outokumpu. The remaining 20% will be paid in the end of 2019 at which point Outokumpu will receive the final 10% of the shares. Outokumpu does not present non-controlling interest related to the 10% shareholding of Fagersta Stainless AB in its statement of financial position as the terms regarding the transfer of the shares to Outokumpu have already been agreed upon. The transaction price of the final 10% portion is reported in current trade and other payables.

The consideration, net of cash and cash equivalents acquired amounts to EUR 13 million. Assets acquired and liabilities assumed include non-current assets of EUR 9 million, current assets of EUR 75 million, non-current liabilities of EUR 2 million and current liabilities of EUR 47 million. The transaction resulted in no goodwill.

Share-based payments

Outokumpu's share-based payment programs include Performance Share Plan 2012 (Plans 2016–2018, 2017–2019 and 2018–2020), Restricted Share Pool 2012 (Plans 2016–2018, 2017–2019 and 2018–2020) and Matching Share Plans for the CEO and other key management.

The Performance Share Plan 2015–2017 ended and based on the achievement of the targets the participants received 413,896 shares after deductions for applicable taxes. Regarding the Restricted Share Pool Program, plan 2015–2017, after deductions for applicable taxes in total 12,139 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 281,058 shares to the management. Outokumpu used its treasury shares for the reward payments.

In December 2017, the Board of Directors approved the commencement of the new plan (plan 2018–2020) of the Performance Share Plan 2012 as of the beginning of 2018. The maximum number of gross shares (taxes included) that could be allocated from the plan is 1,459,600 and at the end of the reporting period 141 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 2017, the Board also approved the commencement of the new plan (plan 2018–2020) of Restricted Share Pool Program 2012 as of the beginning of 2018. 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 106,500 and at the end of the reporting period 46 key employees participated in the plan.

In December 2018, the Board of Directors approved the commencement of plans 2019–2021 of the Performance Share Plan 2012 and the Restricted Share Pool 2012 as of the beginning of 2019.

In May 2018, Outokumpu repurchased its own shares for EUR 17 million intending to use them for the reward under the share-based payment plans.

Voluntary total redemption of Outokumpu's senior secured fixed rate notes due 2021 and issue of EUR 250 million bond

See information in the section Financial position and cash flow in this report.

Antitrust investigation in Germany completed

In September 2016, Outokumpu learned of a cartel investigation initiated by the German Federal Cartel Office involving, among others, Outokumpu Nirosta

GmbH, Outokumpu's subsidiary in Germany. Outokumpu initiated, at that time, an internal investigation and became convinced that the official investigation is without merit, as far as Outokumpu is concerned.

In May 2018, Outokumpu reported having received an official notification from the German Federal Cartel Office stating that the investigation against Outokumpu Nirosta GmbH had been terminated.

Outokumpu received an insurance compensation of EUR 32 million

In November 2018, Outokumpu completed negotiations with insurance companies regarding the property damage and business interruption at Tornio ferrochrome production in 2017. Outokumpu received an insurance compensation of EUR 32 million which was booked to Ferrochrome segment's fourth-quarter result.

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 interim financial information as in the financial statements for 2017 except for the new and amended IFRS standards (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) that were adopted in the beginning of 2018. The transition impacts and related changes in accounting principles are described later in this section of the report.

All presented figures in this report have been rounded and consequently, the sum of individual figures can deviate from the presented 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, as well as 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.

IFRS 15 – Revenue from Contracts with Customers

Outokumpu has adopted IFRS 15 retrospectively. The adoption had only minor impacts on Outokumpu's revenue recognition and the presentation of revenue in Outokumpu's consolidated financial statements.

Outokumpu generates revenue mainly from sales of stainless steel and ferrochrome. Outokumpu ships these goods to customers under a variety of Incoterms, and considers the transfers of physical possession and risks and rewards related to the ownership of the goods accordingly. Consequently, the performance obligations related to sales of stainless steel and ferrochrome are satisfied at a point of time, and the IFRS 15 adoption did not lead to changes in revenue recognition practices in this area.

With customer deliveries following the "C" Incoterms, whereby the control of the goods transfers to the customer before the delivery, Outokumpu remains responsible for organizing the transportation of the goods to the customer. In these cases, the transportation service is a separate performance obligation, which is satisfied over time of the transportation. Before the IFRS 15 adoption, the revenues were fully allocated to the goods sold and recognized at a point of time. The impact of the accounting principle change is only minor as the revenue and the related freight cost are recognized at the same time. Additionally, the movement in the obligation to provide the transportation service from one period to another is not material. Outokumpu has concluded that it acts as a principal with regards to the transportation service performance obligation. In some cases, Outokumpu had earlier recognized the freights recharged from its customers as a credit to freight cost instead of sales. This accounting principle has been changed, the impact not being material.

Stainless steel and ferrochrome sales prices are mainly fixed before delivery, and volume discounts estimated and accrued in the revenue recognition are the only variable component in pricing. The earlier volume discount accrual practices were in line with the IFRS 15 guidelines. In individual cases, the sales price of ferrochrome is based on the period of time when the customer uses the purchased ferrochrome. The payment terms used vary from advance payment to 90 days payment term, and they do not include any significant financing component.

In transition to IFRS 15, Outokumpu has restated its Jan 1, 2017 consolidated statement of financial position with the following impacts: contract liability of EUR 1 million related to the unperformed transportation service, impacting line trade and other payables; and accrued receivable related to purchased transportation of EUR 1 million impacting line trade and other receivables. The net impact of these items (net of tax) is recognized in retained earnings. The movement in the restated items impacted the following lines in the consolidated income statement of 2017: sales (impact of EUR 0 million), cost of sales (impact of EUR -0 million), and income taxes (impact of EUR 0 million). The reclassification of recharged freights from cost of sales to sales amounted to EUR 1 million in 2017.

In connection to the IFRS 15 adoption, Outokumpu reviewed the presentation of its revenue items in general, and concluded that certain items not related to Outokumpu's operations as a stainless steel and ferrochrome producer should be presented in other operating income rather than in sales. Consequently, items such as rental income are presented as other operating income going forward. The 2017 comparable figures are presented accordingly with a EUR -8 million impact on sales and EUR 8 million impact on other operating income.

IFRS 9 – Financial Instruments

Classification of financial assets:

	Classification under IFRS 9
Trade and other receivables	Amortized cost
Investments in equity	Fair value through OCI / Fair value through profit or loss
Derivatives held for trading	Fair value through profit or loss
Hedge accounted derivatives	Fair value through OCI
Cash and cash equivalents	Amortized cost

Financial assets that were categorized as available for sale under IAS 39, have been classified as financial assets measured at fair value through other comprehensive income in the initial application of IFRS 9 on Jan 1, 2018. In this measurement category, the fair value changes are recognized in the fair value reserve within equity. Gains or losses on disposal of these assets are not reclassified from equity to profit or loss. The financial assets in the category comprise mainly the Group's holdings in energy companies, including Voimaosakeyhtiö SF.

Outokumpu applies a simplified approach to analyze and recognize expected credit losses on trade receivables. The calculation model is based on overdue statistics and counterparty specific credit ratings linked with loss probabilities by rating. The new expected credit loss model resulted in an increase of allowance for impairment of trade receivables of EUR 1 million. This impact (net of tax) has been recognized as a decrease of retained earnings on Jan 1, 2018. Comparable information for 2017 is not restated.

Regarding hedge accounting, the changes did not have a material impact on the Group's current hedge accounting program. However, Outokumpu will analyze the opportunities for a wider application of hedge accounting in the future.

Amendments to IFRS 2 Share-based Payments – Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 accomplish, among other things, clarification of the classification of share-based payments settled net of tax withholdings. According to the amendment, Outokumpu's share-based payment plans are fully accounted as equity-settled, and consequently, the expense recognized over the vesting period is fully based on the grant date fair value. Earlier the plans have been divided into equity-settled and cash-settled portions.

In transition on Jan 1, 2018, the accrued liabilities for the cash-settled portion amounting to EUR 10 million on Dec 31, 2017 and the related deferred tax assets amounting to EUR 3 million have been recognized in retained earnings. Comparable figures for 2017 have not been restated.

Adoption of IFRS 16 Leases

IFRS 16 Leases, becoming effective for financial years beginning on or after January 1, 2019, replaces the current IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognize nearly all lease agreements as right-of-use assets and lease liabilities in the statement of financial position. The accounting model is similar as the current finance lease accounting according to IAS 17. The exceptions relate to short-term contracts with a lease term of 12 months or less and to low value items.

Outokumpu implements IFRS 16 on January 1, 2019 using the modified retrospective approach, where comparative financial information is not restated, but the transition impact is recognized to the balances of January 1, 2019. In transition, Outokumpu plans to use the following practical expedients allowed by the standard: (1) leases with remaining lease period of less than 12 months on January 1, 2019 are accounted as short-term leases, and thus excluded from the lease liability and right-of-use asset amounts recognized to the statement of financial position, and (2) initial direct costs of lease contracts already in place on December 31, 2018 are excluded from the right-of-use asset value.

In transition on January 1, 2019, Outokumpu estimates to recognize lease liabilities and right-of-use assets of approximately EUR 125-130 million to its statement of financial position. On December 31, 2018 Outokumpu reported minimum operating lease payments of EUR 90 million. The difference between the amounts result from contracts that have not been classified as lease contracts under IAS 17 and have been accounted as service contracts, but are under IFRS 16 considered as lease contracts, partly offset by the effect of discounting the future lease payments. A reconciliation between the amounts will be presented in connection with Outokumpu’s first quarter 2019 financial information.

Regarding contracts already in effect on December 31, 2018, Outokumpu estimates that the annual impact from the change in the accounting policy on EBITDA is approximately EUR 20 million. Correspondingly depreciation is estimated to increase by approximately the same amount. Increase in interest expenses is estimated not to be material.