Outokumpu half-year report

H1/18

outokumpu
high performance stainless steel

Contents

Outokumpu half-year report

Good performance in an adverse environment. Group adjusted EBITDA at EUR 136 million supported by record-high stainless steel deliveries.

Highlights in the second quarter of 2018

- Stainless steel deliveries were 668,000 tonnes (625,000 tonnes)[1].
- Adjusted EBITDA was EUR 136 million (EUR 199 million).
- EBITDA was EUR 136 million (EUR 209 million).
- Operating cash flow was EUR 71 million (EUR 150 million).
- Net debt increased to EUR 1,211 million (March 31, 2018: EUR 1,086 million).
- Gearing was 45.1% (March 31, 2018: 40.9%).
- Return on capital employed (ROCE) was 5.5% (March 31, 2018: 7.2%).

Highlights in the first half of 2018

- Stainless steel deliveries were 1,312,000 tonnes (1,264,000 tonnes).
- Adjusted EBITDA was EUR 269 million (EUR 493 million).
- EBITDA was EUR 276 million (EUR 518 million).
- Operating cash flow was EUR 110 million (EUR 97 million).
- Net result was EUR 74 million (EUR 291 million).

Group key figures		II/18	II/17 restated	I/18	I–II/18	I–II/17 restated	2017 restated
Sales	EUR million	**1,883**	1,657	1,671	**3,553**	3,413	6,356
EBITDA	EUR million	**136**	209	140	**276**	518	663
Adjusted EBITDA 1)	EUR million	**136**	199	133	**269**	493	631
EBIT	EUR million	**86**	154	90	**176**	407	445
Adjusted EBIT 1)	EUR million	**86**	145	83	**169**	382	414
Result before taxes	EUR million	**49**	127	70	**119**	351	327
Net result for the period	EUR million	**25**	109	49	**74**	291	392
Earnings per share	EUR	**0.06**	0.26	0.12	**0.18**	0.71	0.95
Diluted earnings per share	EUR	**0.06**	0.25	0.12	**0.18**	0.67	0.90
Return on capital employed	%	**5.5**	13.2	7.2	**5.5**	13.2	11.3
Net cash generated from operating activities	EUR million	**71**	150	39	**110**	97	328
Net debt at the end of period	EUR million	**1,211**	1,239	1,086	**1,211**	1,239	1,091
Debt-to-equity ratio at the end of period	%	**45.1**	48.4	40.9	**45.1**	48.4	40.1
Capital expenditure	EUR million	**63**	31	37	**100**	50	174
Stainless steel deliveries	1,000 tonnes	**668**	625	644	**1,312**	1,264	2,448
Personnel at the end of period 2)		**10,419**	10,254	10,111	**10,419**	10,254	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.

2) On June 30, 2018, the Group employed, in addition, some 690 summer trainees (June 30, 2017: some 750).

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

outokumpu high performance stainless steel

President & CEO Roeland Baan

"Despite market volatility and the global uncertainty created by the US steel tariffs, we maintained our market position and financial performance during the second quarter. Our adjusted EBITDA amounted to EUR 136 million supported by record-high stainless steel deliveries. Business area Americas' result improved as expected, and business area Europe was able to maintain its good performance in a challenging market environment with unprecedented price pressure.

The impacts of the US steel tariffs implemented in early May have been two-fold. On the downside, we have witnessed surging imports to Europe resulting in heavy price pressure while in the Americas, base prices have risen throughout the spring benefiting local manufacturers including us. The provisional safeguard measures imposed by the European Commission as of July 19 are a logical reaction to restore balance in the European steel markets and stem the flow of low-priced steel imports. We expect the provisional safeguards to be commuted into permanent safeguards within the next 200 days.

We are halfway through our journey to become the best value creator in stainless steel. Despite substantial market headwinds during the past months, we delivered one of our strongest quarters in our history. This development highlights the significant progress we have made to achieve our 2020 targets."

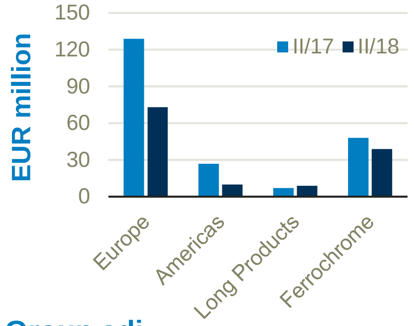
Outlook for Q3/2018

In line with the market, third-quarter stainless steel deliveries are expected to be seasonally lower in business area Europe and to remain stable in the Americas. Base price pressure continues in Europe but the negative impact of this is partly offset by higher base prices in the US supported by steel import tariffs.

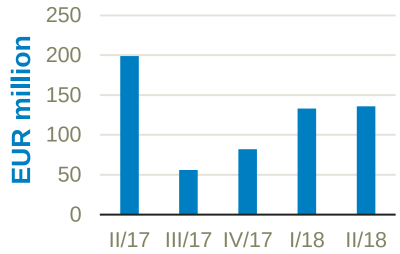
After the successful planned maintenance shutdown of a ferrochrome furnace, Outokumpu expects to achieve normalized ferrochrome production in the third quarter.

Outokumpu expects its third-quarter adjusted EBITDA to be lower than in the second quarter (Q2/18: EUR 136 million) but significantly higher than in the third quarter of 2017 (Q3/17: EUR 56 million).

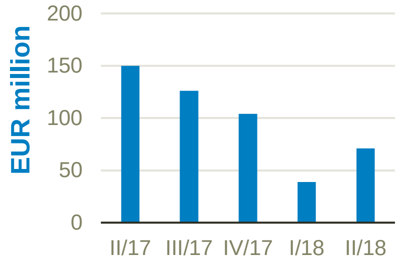
Adj. EBITDA per business area



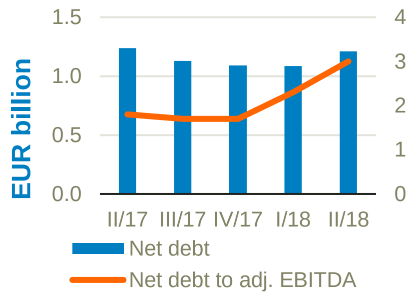
Group adj. EBITDA



Operating cash flow



Net debt and net debt to adj. EBITDA



Results

Q2/2018 compared to Q2/2017

Outokumpu's sales increased to EUR 1,883 million (EUR 1,657 million). The second-quarter adjusted EBITDA of EUR 136 million was significantly weaker than EUR 199 million in the second quarter of 2017. Lower European base prices, higher input costs and steep increases in the cost of truck freight in the Americas led to decreased profitability. The result was further negatively impacted by lower ferrochrome price. The record-high stainless steel deliveries had a positive impact on profitability supported by improved cost efficiency in all business areas. Raw material-related inventory and metal derivative gains were EUR 1 million (losses of EUR 9 million). Other operations and intra-group items' adjusted EBITDA increased to EUR 5 million (EUR -11 million) mainly due to gains from currency and other derivatives.

Q2/2018 compared to Q1/2018

Outokumpu's sales increased to EUR 1,883 million compared to EUR 1,671 million in the first quarter of 2018. Adjusted EBITDA remained stable at EUR 136 million compared to EUR 133 million in the first quarter of 2018. The result was positively impacted by record-high deliveries, as well as increased base prices in the Americas and a higher ferrochrome price. These positive impacts were largely offset by decreasing European base prices, as well as higher costs related to graphite electrodes, other inputs and truck freight in the Americas. Raw material-related inventory and metal derivative gains were EUR 1 million compared to losses of EUR 5 million in the first quarter of 2018.

H1/2018 compared to H1/2017

During the first half of 2018, Outokumpu's sales increased to EUR 3,553 million (H1/17: EUR 3,413 million). Adjusted EBITDA declined to EUR 269 million (H1/17: EUR 493 million) primarily driven by significantly lower ferrochrome price, as well as lower base prices in Europe. In addition, the input cost pressure has increased substantially compared to the previous year. These large negative impacts were partly offset by improved cost efficiency and higher stainless steel deliveries. Raw material-related inventory and metal derivative gains were EUR 25 million compared to losses of EUR 4 million in the first half of 2017. EBIT was EUR 176 million (H1/17: EUR 407 million) and net result amounted to EUR 74 million (H1/17: EUR 291 million).

.

outokumpu
high performance stainless steel

Financial position and cash flow

Operating cash flow amounted to EUR 71 million in the second quarter (EUR 150 million). The increase in working capital was EUR 18 million, compared to the increase of EUR 29 million in the second quarter of 2017.

Capital expenditure increased to EUR 63 million in the second quarter (EUR 37 million) primarily as a result of ongoing investments in the Kemi mine and the digital transformation project Chorus, including the ERP renewal, as well as the Fagersta Stainless acquisition.

Net debt increased to EUR 1,211 million (March 31, 2018: EUR 1,086 million) mainly due to a dividend payment of EUR 103 million, share repurchases of EUR 17 million, and the Fagersta Stainless acquisition for EUR 14 million. Gearing increased to 45.1% (March 31, 2018: 40.9%).

Net financial expenses were EUR 35 million in the second quarter (EUR 31 million) and the interest expenses at EUR 18 million (EUR 24 million). Cash and cash equivalents were at EUR 124 million at the end of June (March 31, 2018: EUR 297 million) and the overall liquidity reserves were approximately EUR 0.8 billion (March 31, 2018: EUR 0.9 billion). The overall liquidity reserves decreased mainly due to the dividend payment, share repurchases, and an increase in working capital, as well as the Fagersta Stainless acquisition.

In June, Outokumpu issued a EUR 250 million senior secured bond due 2024. The proceeds from the issue were primarily used for the voluntary redemption of the fixed rate notes due 2021. Therefore, the impact on liquidity reserves was minimal.

Market development

According to SMR's latest estimates, global apparent stainless steel consumption increased by 11.6% in the second quarter compared to the same period last year. APAC contributed with a growth of 14.7%, followed by growth of 4.9% in the Americas and 4.0% in EMEA. Global real demand for stainless steel products increased by 11.7% year-on-year to 10.9 million tonnes (9.8 million tonnes).

The real demand growth year-on-year was strongest in the Industrial & Heavy Industries end-user segment at 15.5%, followed by Consumer Goods & Medical and Chemical, Petrochemical & Energy at 13.0% and 10.9%, respectively. Meanwhile, ABC & Infrastructure and Automotive & Heavy Transport achieved growth of 10.7% and 7.4%, respectively.

In the third quarter of 2018, global real demand is expected to decrease by 0.9% compared to the second quarter, driven by decreases of 7.1% in EMEA while the Americas and APAC are expected to increase by 3.9% and 0.2%, respectively. Compared to last year's third quarter, demand is expected to grow by 2.7% with growth of 2.2% in EMEA, 6.1% in the Americas and 2.5% in APAC. Total global demand for 2018 is estimated to grow by 5.9% compared to 2017.

Business area Europe

Europe key figures		II/18	II/17 restated	I/18	I–II/18	I–II/17 restated	2017 restated
Stainless steel deliveries	1,000 tonnes	425	398	412	837	813	1,582
Sales	EUR million	1,174	1,080	1,087	2,262	2,199	4,156
Adjusted EBITDA	EUR million	73	129	83	156	298	404
Adjustments							
Gain on the sale of PPE and release of environmental provisions in Sweden	EUR million	-	-	8	8	-	-
EBITDA	EUR million	73	129	90	163	298	404
Operating capital	EUR million	1,877	1,905	1,894	1,877	1,905	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

Q2/2018 compared to Q2/2017

Sales increased to EUR 1,174 million (EUR 1,080 million).

Q2 adjusted EBITDA declined to EUR 73 million (EUR 129 million).

- Base prices declined clearly.
- Graphite electrode and other input costs were approx. EUR 17 million higher.
- Raw material-related inventories and metal derivatives had a negative impact of EUR 9 million compared to a negative impact of EUR 8 million in Q2/17.
- The negative impacts were partly offset by higher deliveries and lower SG&A costs.

Q2/2018 compared to Q1/2018

Q2 adjusted EBITDA declined to EUR 73 million compared to EUR 83 million in Q1/18.

- Base prices declined clearly.
- Raw material-related inventories and metal derivatives had a negative impact of EUR 9 million on the result (Q1/18: EUR -5 million).
- Higher deliveries had a positive impact.

Market

- Real demand grew by 5.0% compared to Q2/17.
- EU cold rolled imports from third countries are expected to have reached a level of 31% in Q2/18, up from 28% in Q2/17. While imports were growing across the board, the growth was most pronounced by imports from Taiwan (Source: EUROFER, July 2018).
- Distributor inventories were slightly above the long-term average level.
- The CRU reported average EU base price for Q2/18 decreased by EUR 153/tonne compared to Q2/17 and amounted to EUR 984/tonne. Compared to Q1/18, the average base price declined by EUR 116/tonne.

Business area Americas

Americas key figures		II/18	II/17 restated	I/18	I–II/18	I–II/17 restated	2017 restated
Stainless steel deliveries	1,000 tonnes	210	186	214	424	369	742
Sales	EUR million	483	409	413	895	825	1,546
Adjusted EBITDA	EUR million	10	27	-6	4	56	21
EBITDA	EUR million	10	27	-6	4	56	21
Operating capital	EUR million	1,151	1,139	1,032	1,151	1,139	1,072

Comparable financial figures restated due to IFRS 15 adoption.

Results

Q2/2018 compared to Q2/2017

Sales increased to EUR 483 million (EUR 409 million).
Q2 adjusted EBITDA declined to EUR 10 million (EUR 27 million).

- Graphite electrode and other input costs increased substantially.
- In addition, significantly increased truck freight costs had a negative impact of approx. EUR 6 million.
- The negative impacts were partly offset by 24,000 tonnes higher deliveries, as well as increased base prices.
- Raw material-related inventories and metal derivatives had a positive impact of EUR 10 million (EUR 0 million).
- The reference period included a positive impact of EUR 6 million from a release of accruals.

Q2/2018 compared to Q1/2018

Q2 adjusted EBITDA increased to EUR 10 million compared to EUR -6 million in Q1/18.

- Base prices increased clearly.
- Product mix improved.
- Raw material-related inventories and metal derivatives had a positive impact of EUR 10 million compared to a negative impact of EUR 1 million in Q1/18. The positive impacts were partly offset by significantly increased truck freight costs.
- Graphite electrode and other input costs increased.

Market

- Real demand grew by 7.8% compared to Q2/17.
- Cold-rolled imports into the US decreased to approx. 21% in Q2 compared to 24% in Q2/17 in response to steel tariffs (Source: American Iron & Steel Institute, Jun. 2018).
- Distributor inventories were at a long-term average level.
- The CRU reported average US base price for Q2/18 was USD 96/tonne higher compared to Q2/17 and amounted to USD 1,470/tonne. The average base price increased by USD 74/tonne from Q1/18.

Business area Long Products

Long Products key figures		II/18	II/17 restated	I/18	I–II/18	I–II/17 restated	2017 restated
Stainless steel deliveries	1,000 tonnes	77	68	76	153	143	264
Sales	EUR million	196	160	165	361	333	591
Adjusted EBITDA	EUR million	9	7	4	13	16	16
EBITDA	EUR million	9	7	4	13	16	16
Operating capital	EUR million	152	167	122	152	167	113

Comparable financial figures restated due to IFRS 15 adoption.

Results

Q2/2018 compared to Q2/2017

Sales increased to EUR 196 million (EUR 160 million).
Q2 adjusted EBITDA increased to EUR 9 million (EUR 7 million).

- Deliveries increased by 9,000 tonnes and product mix improved.
- Profitability was further positively impacted by improved base prices in both Europe and the US.
- Graphite electrode and other input costs were approx. EUR 5 million higher.
- Raw material-related inventories and metal derivatives had a negative impact of EUR 1 million compared to a positive impact of EUR 1 million in Q2/17.

Q2/2018 compared to Q1/2018

Q2 adjusted EBITDA increased to EUR 9 million compared to EUR 4 million in Q1/18.

- Long products base prices continued to increase.
- Higher amount of external deliveries led to an improved product mix.
- The positive impacts were partly offset by higher graphite electrode and freight costs.

Market

- Underlying long products demand continued strong in the second quarter both in Europe and in the US.
- Base prices increased in Europe and the US supported by the strong demand and longer lead times.

Business area Ferrochrome

Ferrochrome key figures		II/18	II/17 restated	I/18	I–II/18	I–II/17 restated	2017 restated
Ferrochrome production	1,000 tonnes	110	86	124	234	191	415
Sales	EUR million	131	149	131	262	347	610
Adjusted EBITDA	EUR million	39	48	42	81	145	217
EBITDA	EUR million	39	48	42	81	145	217
Operating capital	EUR million	649	656	655	649	656	648

Comparable financial figures restated due to IFRS 15 adoption.

Results

Q2/2018 compared to Q2/2017

Sales decreased to EUR 131 million (EUR 149 million).
Q2 adjusted EBITDA decreased to EUR 39 million (EUR 48 million).

- Ferrochrome contract price was lower at USD 1.42/lb. compared to USD 1.54/lb. in Q2/17.
- Profitability was negatively impacted by higher maintenance costs due to a planned maintenance shutdown of a ferrochrome furnace.
- Results were further negatively affected by the weaker US dollar, as well as higher coke prices.
- The negative impacts were partly offset by higher ferrochrome production as the reference period was affected by technical issues.

Q2/2018 compared to Q1/2018

Q2 adjusted EBITDA decreased to EUR 39 million compared to EUR 42 million in Q1/18.

- Ferrochrome production was lower due to the maintenance shutdown.
- Profitability was negatively impacted by higher maintenance costs and higher coke prices.
- The negative impacts were largely offset by higher ferrochrome contract price.

Market

- The European benchmark price for ferrochrome followed the Chinese spot prices up to USD 1.42/lb. in Q2, up from USD 1.18/lb. in the first quarter of 2018.
- For Q3, the ferrochrome price decreased to USD 1.38/lb., as a result of slowing stainless steel demand in China.

Safety and people

The total recordable injury frequency rate (TRIFR) was 4.7 for the first half of 2018 (H1/17: 4.6) against the target of less than 4.0 for 2018. Outokumpu has continued its safety strategy including ongoing work standardizing its systems and practices.

Outokumpu's headcount increased by 165 compared to the second quarter of 2017 and totaled 10,419 at the end of June 2018 (10,254). The increase was driven by the acquisition of the Fagersta Stainless in Sweden.

Shares

On June 30, 2018, Outokumpu's share capital was EUR 311 million, and the total number of shares was 416,374,448. During the second quarter, Outokumpu repurchased 3,000,000 own shares that are intended to be used mainly for the payouts under the share based incentive programs. At the end of the second quarter, Outokumpu held 6,276,864 treasury shares. The average number of shares outstanding was 411,239,122 for the second quarter.

Risks and uncertainties

The US steel import tariffs (Section 232) were extended in June to include steel products imported from the European Union, Canada and Mexico. The tariffs have both positive and negative implications for Outokumpu. In the second quarter, this resulted in lower imports to the US and increase in the domestic base prices. For the European market, imports were increasing and spot prices decreasing, having a negative impact on business area Europe's profitability. Volatility in metal prices and foreign exchange rates continued in the second quarter. Higher metal prices and a stronger US dollar are expected to increase net working capital but have a positive impact on profitability.

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; risks and uncertainties related to market development in stainless steel, ferrochrome and competitor actions; availability and price of certain critical supplies; dependencies on certain critical suppliers; the risk of changes in metal prices impacting cash tied up in working capital; changes in the prices of electrical power, fuels, ferrochrome, nickel, ferrosilicon, iron and molybdenum; currency developments affecting the euro, the US dollar, the Swedish krona, and the British pound; fair value of shareholdings; 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.

Helsinki, July 24, 2018

Outokumpu
Board of Directors

outokumpu
high performance stainless steel

Financial information

Condensed income statement (EUR million)	April–June 2018	April–June 2017 restated	Jan–June 2018	Jan–June 2017 restated	Jan–Dec 2017 restated
Sales	**1,883**	1,657	**3,553**	3,413	6,356
Cost of sales	**-1,727**	-1,432	**-3,243**	-2,868	-5,627
Gross margin	**156**	224	**311**	545	729
Other operating income	**7**	21	**18**	42	58
Sales, general and administrative costs	**-72**	-84	**-144**	-171	-307
Other operating expenses	**-5**	-7	**-9**	-9	-35
EBIT	**86**	154	**176**	407	445
Share of results in associated companies and joint ventures	**-1**	4	**1**	7	9
Interest expenses	**-18**	-24	**-36**	-47	-92
Net other financial expenses	**-18**	-8	**-22**	-16	-34
Total financial income and expenses	**-35**	-31	**-58**	-63	-127
Result before taxes	**49**	127	**119**	351	327
Income taxes	**-24**	-19	**-44**	-60	65
Net result for the period	**25**	109	**74**	291	392
Earnings per share for result attributable to the equity holders of the Company					
Earnings per share, EUR	**0.06**	0.26	**0.18**	0.71	0.95
Diluted earnings per share, EUR	**0.06**	0.25	**0.18**	0.67	0.90

Statement of comprehensive income (EUR million)	April–June 2018	April–June 2017 restated	Jan–June 2018	Jan–June 2017 restated	Jan–Dec 2017 restated
Net result for the period	**25**	109	**74**	291	392
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations					
Change in exchange differences	**22**	-45	**9**	-52	-83
Reclassification adjustments from other comprehensive income to profit or loss	**-**	-	**-**	-7	-3
Available-for-sale financial assets	**-**	-0	**-**	-2	0
Cash flow hedges	**0**	-1	**-2**	-1	-1
Items that will not be reclassified to profit or loss:					
Remeasurements on defined benefit obligation plans					
Changes during the accounting period	**0**	-6	**0**	-25	18
Income tax relating to remeasurements	**-0**	0	**-0**	0	37
Financial assets at fair value through other comprehensive income	**1**	-	**0**	-	-
Share of other comprehensive income in associated companies and joint ventures	**0**	0	**-0**	-1	-1
Other comprehensive income for the period, net of tax	**23**	-52	**7**	-88	-32
Total comprehensive income for the period	**48**	56	**82**	203	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)	June 30 2018	June 30 2017 restated	Dec 31 2017 restated
ASSETS			
Non-current assets			
Intangible assets	**585**	489	535
Property, plant and equipment	**2,616**	2,730	2,633
Investments in associated companies and joint ventures	**50**	73	73
Other financial assets	**70**	56	69
Deferred tax assets	**248**	159	295
Defined benefit plan assets	**80**	14	70
Trade and other receivables	**1**	2	1
Total non-current assets	**3,651**	3,523	3,675
Current assets			
Inventories	**1,496**	1,282	1,380
Other financial assets	**60**	73	60
Trade and other receivables	**926**	841	660
Cash and cash equivalents	**124**	289	112
Total current assets	**2,605**	2,484	2,212
TOTAL ASSETS	**6,256**	6,007	5,887
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company	**2,686**	2,561	2,721
Non-current liabilities			
Non-current debt	**740**	996	698
Other financial liabilities	**0**	4	3
Deferred tax liabilities	**11**	22	10
Defined benefit and other long-term employee benefit obligations	**333**	344	337
Provisions	**63**	101	79
Trade and other payables	**33**	35	34
Total non-current liabilities	**1,179**	1,502	1,160
Current liabilities			
Current debt	**595**	532	505
Other financial liabilities	**58**	22	37
Provisions	**16**	12	14
Trade and other payables	**1,721**	1,377	1,449
Total current liabilities	**2,392**	1,944	2,005
TOTAL EQUITY AND LIABILITIES	**6,256**	6,007	5,887

Condensed statement of cash flows (EUR million)	April–June 2018	April–June 2017	Jan–June 2018	Jan–June 2017	Jan–Dec 2017
Net result for the period [1)]	**25**	109	**74**	291	392
Adjustments					
Depreciation, amortization and impairments	**50**	54	**100**	111	219
Other non-cash adjustments [1)]	**45**	45	**77**	75	41
Change in working capital	**-18**	-29	**-79**	-310	-180
Provisions, and defined benefit and other long-term employee benefit obligations paid	**-16**	-11	**-34**	-30	-60
Dividends and interests received	**2**	2	**2**	3	3
Interests paid	**-17**	-18	**-28**	-39	-78
Income taxes paid	**-1**	-1	**-3**	-4	-8
Net cash from operating activities	**71**	150	**110**	97	328
Acquired businesses, net of cash	**-10**	-	**-10**	-	-
Purchases of assets	**-63**	-30	**-99**	-75	-186
Proceeds from the disposal of subsidiaries, net of cash and tax	**-**	2	**-**	64	90
Proceeds from the sale of assets	**0**	23	**3**	23	33
Other investing cash flow	**4**	-4	**4**	0	0
Net cash from investing activities	**-69**	-9	**-102**	12	-63
Cash flow before financing activities	**2**	141	**8**	109	264
Dividends paid	**-103**	-	**-103**	-41	-41
Treasury share purchase	**-17**	-	**-17**	-20	-20
Borrowings of non-current debt	**249**	20	**249**	70	190
Repayment of non-current debt	**-204**	-49	**-208**	-134	-607
Change in current debt	**-100**	97	**80**	141	162
Other financing cash flow	**2**	0	**4**	-38	-37
Net cash from financing activities	**-175**	69	**4**	-22	-353
Net change in cash and cash equivalents	**-173**	210	**13**	87	-89
Cash and cash equivalents at the beginning of the period	**297**	81	**112**	204	204
Net change in cash and cash equivalents	**-173**	210	**13**	87	-89
Foreign exchange rate effect	**-0**	-2	**-1**	-1	-3
Cash and cash equivalents at the end of the period	**124**	289	**124**	289	112

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

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	-	-	-	-	-	-	-	-	291	291
Other comprehensive income	-	-	-	-	-3	-60	-25	-	-1	-88
Total comprehensive income for the period	-	-	-	-	-3	-60	-25	-	290	203
Transactions with equity holders of the Company										
Contributions and distributions										
Dividend distribution	-	-	-	-	-	-	-	-	-41	-41
Share-based payments	-	-	-	-	-	-	-	7	-4	4
Treasury share purchase	-	-	-	-	-	-	-	-20	-	-20
Changes in ownership interests										
Quarto plate mill divestment	-	-	-	-	-	3	6	-	-8	-
Other	-	-	-	2	-	-	-	-	-2	-
Equity on June 30, 2017	**311**	**714**	**2,103**	**5**	**-2**	**-55**	**-154**	**-31**	**-330**	**2,561**
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	-	-	-	-	-	-	-	-	74	74
Other comprehensive income	-	-	-	-	-2	9	0	-	-0	7
Total comprehensive income for the period	-	-	-	-	-2	9	0	-	74	82
Transactions with equity holders of the Company										
Contributions and distributions										
Dividend distribution	-	-	-	-	-	-	-	-	-103	-103
Share-based payments	-	-	-	-	-	-	-	1	-4	-3
Treasury shares acquired	-	-	-	-	-	-	-	-17	-	-17
Equity on June 30, 2018	**311**	**714**	**2,103**	**3**	**-2**	**-71**	**-72**	**-41**	**-259**	**2,686**

Adjustments to EBITDA and EBIT (EUR million)	II/18	II/17	I–II/18	I–II/17	2017
Gain on the sale of PPE and release of environmental provisions in Sweden	**-**	-	**8**	-	-
Gain on the quarto plate mill divestment	**-**	-	**-**	15	15
Gain on the sale of land in Sheffield	**-**	9	**-**	9	9
Gain on the pipe plant divestment	**-**	-	**-**	-	7
Adjustments to EBITDA and EBIT	**-**	9	**8**	24	31

Group key figures		II/18	II/17 restated	I–II/18	I–II/17 restated	2017 restated
Scope of activity						
Capital employed at the end of period	EUR million	**4,023**	3,991	**4,023**	3,991	3,929
Capital expenditure	EUR million	**63**	31	**100**	50	174
Depreciation and amortization	EUR million	**-50**	-54	**-100**	-110	-216
Impairments	EUR million	**-0**	-	**-0**	-1	-2
Personnel at the end of period [1)]		**10,419**	10,254	**10,419**	10,254	10,141
- average for the period		**10,492**	10,620	**10,333**	10,584	10,485
Profitability						
Adjusted EBITDA	EUR million	**136**	199	**269**	493	631
Adjustments	EUR million	**-**	9	**8**	24	31
EBITDA	EUR million	**136**	209	**276**	518	663
Earnings per share	EUR	**0.06**	0.26	**0.18**	0.71	0.95
Diluted earnings per share	EUR	**0.06**	0.25	**0.18**	0.67	0.90
Adjusted average number of shares [2)]	1,000 shares	**411,289**	412,165	**412,047**	412,514	412,363
Return on equity	%	**6.7**	21.1	**6.7**	21.1	15.4
Return on capital employed	%	**5.5**	13.2	**5.5**	13.2	11.3
Financing and financial position						
Non-current debt	EUR million	**740**	996	**740**	996	698
Current debt	EUR million	**595**	532	**595**	532	505
Cash and cash equivalents	EUR million	**-124**	-289	**-124**	-289	-112
Net debt at the end of period	EUR million	**1,211**	1,239	**1,211**	1,239	1,091
Net debt to Adjusted EBITDA		**3.0**	1.8	**3.0**	1.8	1.7
Equity-to-assets ratio at the end of period	%	**43.0**	42.7	**43.0**	42.7	46.3
Debt-to-equity ratio at the end of period	%	**45.1**	48.4	**45.1**	48.4	40.1
Equity per share at the end of period	EUR	**6.55**	6.21	**6.55**	6.21	6.59

[1)] On June 30, 2018, the Group employed, in addition, some 690 summer trainees (June 30, 2017: some 750).

[2)] Excluding treasury shares.

Sales by segment (EUR million)	II/18	II/17 restated	I–II/18	I–II/17 restated	2017 restated
Europe total	**1,174**	1,080	**2,262**	2,199	4,156
of which intra-group	**31**	23	**53**	40	81
Americas total	**483**	409	**895**	825	1,546
of which intra-group	**22**	10	**28**	19	33
Long Products total	**196**	160	**361**	333	591
of which intra-group	**58**	43	**123**	99	186
Ferrochrome total	**131**	149	**262**	347	610
of which intra-group	**83**	121	**188**	259	483
Other operations total	**158**	120	**297**	260	503
of which intra-group	**65**	63	**131**	134	266
Group total sales	**1,883**	1,657	**3,553**	3,413	6,356

Adjusted EBITDA by segment (EUR million)	II/18	II/17 restated	I–II/18	I–II/17 restated	2017 restated
Europe	**73**	129	**156**	298	404
Americas	**10**	27	**4**	56	21
Long Products	**9**	7	**13**	16	16
Ferrochrome	**39**	48	**81**	145	217
Other operations and intra-group items	**5**	-11	**15**	-20	-27
Group total adjusted EBITDA	**136**	199	**269**	493	631

Adjustments to EBITDA and EBIT by segment (EUR million)	II/18	II/17	I–II/18	I–II/17	2017
Europe	**-**	-	**8**	-	-
Americas	**-**	-	**-**	-	-
Long Products	**-**	-	**-**	-	-
Ferrochrome	**-**	-	**-**	-	-
Other operations	**-**	9	**-**	24	31
Group total adjustments	**-**	9	**8**	24	31

EBITDA by segment (EUR million)	II/18	II/17 restated	I–II/18	I–II/17 restated	2017 restated
Europe	**73**	129	**163**	298	404
Americas	**10**	27	**4**	56	21
Long Products	**9**	7	**13**	16	16
Ferrochrome	**39**	48	**81**	145	217
Other operations and intra-group items	**5**	-2	**15**	4	5
Group total EBITDA	**136**	209	**276**	518	663

Adjusted EBIT by segment (EUR million)	II/18	II/17 restated	I–II/18	I–II/17 restated	2017 restated
Europe	**46**	98	**101**	236	281
Americas	**-2**	14	**-21**	29	-31
Long Products	**7**	5	**10**	12	10
Ferrochrome	**32**	41	**66**	130	187
Other operations and intra-group items	**3**	-13	**12**	-23	-33
Group total adjusted EBIT	**86**	145	**169**	382	414

EBIT by segment (EUR million)	II/18	II/17 restated	I–II/18	I–II/17 restated	2017 restated
Europe	**46**	98	**108**	236	281
Americas	**-2**	14	**-21**	29	-31
Long Products	**7**	5	**10**	12	10
Ferrochrome	**32**	41	**66**	130	187
Other operations and intra-group items	**3**	-3	**12**	1	-2
Group total EBIT	**86**	154	**176**	407	445

Depreciation and amortization by segment (EUR million)	II/18	II/17	I–II/18	I–II/17	2017
Europe	**-27**	-31	**-55**	-62	-123
Americas	**-13**	-13	**-25**	-27	-52
Long Products	**-1**	-2	**-3**	-4	-7
Ferrochrome	**-7**	-7	**-15**	-14	-29
Other operations	**-2**	-2	**-3**	-3	-6
Group total depreciation and amortization	**-50**	-54	**-100**	-110	-216

Capital expenditure by segment (EUR million)	II/18	II/17	I–II/18	I–II/17	2017
Europe	**11**	8	**20**	15	70
Americas	**3**	6	**5**	7	18
Long Products	**19**	1	**20**	4	8
Ferrochrome	**17**	5	**33**	8	34
Other operations	**12**	11	**21**	16	44
Group total capital expenditure	**63**	31	**100**	50	174

Operating capital by segment (EUR million)	II/18	II/17 restated	I–II/18	I–II/17 restated	2017 restated
Europe	**1,877**	1,905	**1,877**	1,905	1,848
Americas	**1,151**	1,139	**1,151**	1,139	1,072
Long Products	**152**	167	**152**	167	113
Ferrochrome	**649**	656	**649**	656	648
Other operations and intra-group items	**-44**	-13	**-44**	-13	-36
Group total operating capital	**3,786**	3,854	**3,786**	3,854	3,645

Personnel at the end of period by segment	II/18	II/17	I–II/18	I–II/17	2017
Europe	**6,794**	6,773	**6,794**	6,773	6,748
Americas	**2,011**	2,112	**2,011**	2,112	2,094
Long Products	**853**	672	**853**	672	584
Ferrochrome	**447**	417	**447**	417	437
Other operations	**314**	280	**314**	280	278
Group total personnel at the end of period	**10,419**	10,254	**10,419**	10,254	10,141

On June 30, 2018, the Group employed, in addition, some 690 summer trainees (June 30, 2017: some 750).

Geographical information – Sales by destination (EUR million)	Jan–June 2018	Jan–June 2017	Jan–Dec 2017
Finland	**143**	126	222
Germany	**809**	821	1,507
Sweden	**118**	98	174
The United Kingdom	**130**	118	242
Other Europe	**1,046**	1,058	1,984
North America	**891**	783	1,458
Asia and Oceania	**193**	248	434
Other countries	**224**	160	336
Group total sales	**3,553**	3,413	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	**2,208**	2,159	4,074
of which to Finland	**137**	120	211
of which to Germany	**784**	797	1,463
of which to Sweden	**81**	62	119
of which to the UK	**123**	114	233
of which to other Europe	**856**	864	1,655
of which to North America	**39**	31	58
of which to Asia and Oceania	**159**	152	301
of which to other counties	**30**	18	33
Americas	**868**	806	1,512
of which to other Europe	**70**	97	173
of which to North America	**758**	646	1,209
of which to Asia and Oceania	**9**	47	65
of which to other counties	**30**	17	66
Long Products	**238**	234	405
of which to Germany	**19**	17	32
of which to Sweden	**25**	23	33
of which to the UK	**6**	3	8
of which to other Europe	**77**	71	116
of which to North America	**95**	106	191
of which to Asia and Oceania	**16**	13	25
Ferrochrome	**74**	88	127
of which to Finland	**5**	6	10
of which to Germany	**6**	7	12
of which to Sweden	**12**	13	22
of which to other Europe	**42**	26	40
of which to Asia and Oceania	**9**	35	43
Other operations	**165**	126	237
of which other countries	**165**	126	237
Group total sales	**3,553**	3,413	6,356

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

Property, plant and equipment (EUR million)	Jan–June 2018	Jan–June 2017	Jan–Dec 2017
Carrying value at the beginning of the period	**2,633**	2,874	2,874
Translation differences	**9**	-80	-130
Additions	**63**	45	130
Acquired subsidiaries	**9**	-	-
Disposals	**-1**	-3	-7
Disposed subsidiaries	**-**	-0	-8
Reclassifications	**-0**	0	-17
Depreciation and impairments	**-96**	-108	-210
Carrying value at the end of the period	**2,616**	2,730	2,633

Commitments (EUR million)	June 30 2018	June 30 2017	Dec 31 2017
Mortgages	**2,986**	3,400	2,984
Other pledges	**13**	13	13
Guarantees			
On behalf of subsidiaries for commercial and other commitments	**31**	27	27
Other commitments	**20**	19	21
Minimum future lease payments on operating leases	**82**	85	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 to secure certain liabilities of Manga LNG Oy. Outokumpu's total liability on June 30, 2018 amounted to EUR 31 million (June 30, 2017: EUR 29 million, Dec 31, 2017: EUR 31 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.

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.

The Group's other off-balance sheet investment commitments totaled EUR 116 million on June 30, 2018 (June 30, 2017: 39 million, Dec 31, 2017: EUR 28 million).

Related party transactions (EUR million)	Jan–Jun 2018	Jan–Jun 2017 Restated	Jan–Dec 2017 Restated
Transactions and balances with related companies			
Sales	**64**	59	104
Purchases	**-2**	-3	-5
Dividends received	**1**	-	2
Trade and other receivables	**23**	32	25
Trade and other payables	**1**	1	0

Comparable financial figures restated due to IFRS 15 adoption.

Fair values and nominal amounts of derivative instruments (EUR million)	June 30 2018 Net fair value	Dec 31 2017 Net fair value	June 30 2018 Nominal amounts	Dec 31 2017 Nominal amounts
Currency and interest rate derivatives				
Currency forwards	**-23**	11	**2,930**	2,994
Currency options, bought	**-**	0	**-**	12
Interest rate swaps	**1**	-3	**100**	150
			Tonnes	Tonnes
Metal derivatives				
Forward and futures nickel contracts	**3**	-6	**10,064**	18,581
Nickel options, bought	**2**	-1	**10,810**	9,800
Nickel options, sold	**-1**	-	**7,200**	-
Emission allowance derivatives	**9**	3	**3,600,000**	2,400,000
	-9	4		

Hierarchy of financial assets and liabilities measured at fair value on June 30, 2018 (EUR million)	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through OCI	0	-	68	68
Investment at fair value through profit or loss	12	-	0	12
Derivatives	-	49	-	49
	12	49	68	130
Liabilities				
Derivatives	-	58	-	58

Financial assets at fair value through OCI at hierarchy level 3 consist of unlisted equity investments. These include a EUR 63 million holding in Voimaosakeyhtiö SF providing ownership to Fennovoima, for which fair value cannot be reliably measured, and therefore the current fair value estimate is based on cost.

The fair value of non-current debt is EUR 786 million (carrying amount EUR 740 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	=	$\frac{\text{Equity attributable to the owners of the parent}}{\text{Adjusted number of shares at the end of the period}}$

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 the company 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 non-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 (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 415,873 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. 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 2,900,000 and at the end of the reporting period 144 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 150,000 and at the end of the reporting period 48 key employees participated in the plan.

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.

Basis of preparation

This half-year report is unaudited and it is prepared in accordance with IAS 34 Interim Financial Reporting. The same accounting policies and methods of computation have been followed when preparing the interim financial information as in the financial statements for 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 transaction price allocated to the transportation service and the movement in the obligation to provide the transportation service from one period to another are 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 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 transitioning 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. According to IAS 39, Outokumpu valued this holding at cost as fair valuation has not been reliable due to the early stage of the Fennovoima project. Outokumpu will assess the fair value measurement reliability topics alongside the progress of the Fennovoima project. Depending on the assumptions used, current management estimates result in a wide range for fair value, which can differ from the current fair value estimate based on cost.

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.

The transition will increase Outokumpu's non-current assets and non-current and current debt, affecting the accounting for the Group's leases that have currently been classified as operating leases. Additionally, Outokumpu has identified some service contracts related to logistics that include lease elements. The transition to IFRS 16 will improve adjusted EBITDA which is Outokumpu's main performance measure.