

Outokumpu Stainless Limited

Annual report and financial statements

Registered number 2794127

31 December 2016

Contents

Strategic report	1
Directors' report	4
Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements	5
Independent auditor's report to the members of Outokumpu Stainless Limited	6
Profit and loss account	8
Statement of Other Comprehensive Income	9
Balance sheet	10
Statement of Changes in Equity	11
Notes	12

Strategic Report

Principal activities

The company is a subsidiary of Outokumpu Stainless Holdings Limited, a wholly owned subsidiary of Outokumpu Stainless AB and thence Outokumpu Stainless Steel Oy. Outokumpu Stainless Steel Oy is itself a subsidiary of Outokumpu Oyj, a company listed on the Finnish stock exchange.

The principal activity of the company is the manufacture of stainless steel products.

Business model

The UK entity consists of several divisions operating within the Long Products and European business areas of the Outokumpu Group. The divisions supply a worldwide customer base with a range of manufactured stainless products e.g slab, billets, rod, bar, coil and sheet.

Business review and results

The profit and loss account for the year is shown on page 8.

The Business has reported an operating profit before exceptional items in the current year of £12.4m (2015: loss £5.9m). The profit for the financial year before taxation was £13.1m (2015: loss £6.4m).

Outokumpu's Group profitability improved significantly in 2016 with positive underlying EBIT of EUR 45 million compared to EUR -101 million in 2015. This was driven by significant reduction in costs, as well as higher delivery volumes particularly in the Americas. This pattern can be seen with the UK result also. During 2016 the UK closed its defined benefit pension scheme to future accrual contributing significant savings to the Groups improvement programs.

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

As Outokumpu Stainless Limited is a party to the Group cash pooling facility and funds are swept on a daily basis, the liquidity of the company is directly linked to that of Outokumpu Oyj.

Outokumpu granted a security package to secure its debt financing. As security, Outokumpu has pledged certain of its subsidiary shares for example in Finland, Sweden and the USA as well as certain other assets. The shares of Outokumpu Stainless Ltd are also part of the share pledge. The security package ensures financing on competitive prices and its benefits clearly surpass its costs, which are only marginal.

Strategic Report *(continued)*

Key performance indicators

The following KPI's form a part of the overall management administration structure used by unit management to monitor business performance:

	2016	2015	
Operating margin	3.1%	(1.6)%	Operating (loss)/profit before exceptional/ turnover
Return on Capital Employed	9.0%	(1.9)%	Operating profit before exceptional / average operating capital
Revenue per employee	0.74	0.68	Turnover / employee numbers (£m/person)
Debtor days	50	42	Trade debtors/last quarter turnover
Stock days	42	53	Stock / last quarter cost of sales
Employee numbers	538	549	Average during the year
Accident rate	2.8	3.8	Lost time accidents per million working hours

The above KPI's form part of a comprehensive set of KPI's used throughout the business on a daily, weekly, monthly and quarterly basis.

Business activity is monitored at local and business area performance reviews held on a monthly basis.

Principal risks and uncertainties

The management of the business is subject to a number of risks. The key business risks affecting the group relate to competition from manufacturers overseas, currency exchange and metal price volatility. The risk from overseas competitors is managed by continuously developing products, processes and the business's cost base. Outokumpu Stainless Limited utilises Outokumpu Oyj policies to effectively manage its currency and metal exposures

Operational risks include inadequate or failed internal processes, employee actions, systems, or events such as natural catastrophes and misconduct or crime. Risks of these types are often connected with production operations, logistics, financial processes, major investment projects, other projects or information technology and, should they materialize, can lead to personal injury, liability, loss of property, interrupted operations or environmental impacts.

Outokumpu's operational risks are partly covered by insurance. Key operational risks for Outokumpu are: a major fire or accident; IT dependency; project implementation risks and personnel related risks. To minimize possible damage to property and business interruptions which could result from a fire occurring at some of its major production sites, Outokumpu has systematic fire and security audit programs in place.

Future developments

In April 2016, Outokumpu announced its new vision and measures to drive competitiveness and further improve the financial performance of the company. The new vision has been defined as: to be the best value creator in stainless steel by 2020 through customer orientation and efficiency.

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

1. Safety: a standardized and disciplined approach to safety that correlates with improved quality and operational efficiency, leading to a top decile position in the industry.
2. High performing organization: a lean, simple and flat organization that takes its lead from market trends and requirements, and drives a high level of individual accountability that is enforced through vigorous performance management.

Strategic Report (*continued*)

4. Manufacturing excellence: implementing a standardized operating model to ensure continuous productivity gains in all the mills across the company, leading to industry benchmark competitiveness.

5. Commercial Excellence: a clear segment driven commercial strategy to drive margin growth. Profitability driven strategy to match market demand and optimal mix.

6. Americas: the single biggest profitability improvement lever for Outokumpu, with significant improvement potential in both cost and market position.

According to research institute SMR, global real demand for stainless steel products reached 38.5 million tonnes in 2016, a modest increase of 2.9% from 37.4 million tonnes in 2015. Overall demand growth recovered from a very low level in 2015 but still stood behind the average annual demand growth of about 8% in 2011–2014. Acceleration of the growth was most pronounced in the APAC region at 4.1%, driven by China returning to robust growth as a result of solid infrastructure and property sectors. Meanwhile, demand in EMEA grew by 1.4%, but decreased in the Americas by 3.2% in 2016.

Signed on behalf of the Board



Richard Waugh
Secretary

P O Box161
Europa Link
Sheffield
S9 1TZ
2017

Directors' report

The directors present their report and financial statements for the year to 31 December 2016.

Dividends and results

The directors do not recommend the payment of a dividend (2015: £nil).

Research and development

Management recognises the emphasis which needs to be placed on research and development activities to enhance the competitive position of the company's products and processes in their respective market places. For this reason, the company undertakes research and development.

Directors

The directors of the company during the year unless otherwise stated were:-

J Beeley
K Tuutti
A Kinna (resigned 26 April 2017)
P Rodrigo (resigned 26 April 2017)
D Scaife (resigned 26 April 2017)
J Stansfield (resigned 26 April 2017)
N Oliver (resigned 26 April 2017)
J Sharp (resigned 6 April 2016)
I Holdsworth (appointed 24 April 2017)
T Collins (appointed 24 April 2017)

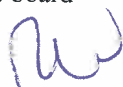
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The Audit and Finance Committee of the Board of Directors (the "Audit Committee") of the ultimate parent entity, Outokumpu Oyj has conducted a competitive process to select a firm to serve as the Group's independent accounting firm for the fiscal year ending 31 December 2017. The Audit Committee approved the engagement of PwC UK who will be appointed after the resignation of KPMG LLP which will take effect after the completion of the Group's 31 December 2016 audit.

By order of the board



Richard Waugh
Secretary

PO Box 161
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Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP
1 Sovereign Street
Sovereign Street
Leeds
LS1 4DA
United Kingdom

Independent auditor's report to the members of Outokumpu Stainless Limited

We have audited the financial statements of Outokumpu Stainless Limited for the year ended 31 December 2016 set out on pages 8 to 29. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS101 Reduced Disclosure Framework

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Outokumpu Stainless Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Adrian Stone (Senior Statutory Auditor)

for and on behalf of KPMG LLP Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

17 November 2017

Profit and loss account
for the year ended 31 December 2016

		2016 £m	2015 £m
Turnover	2	398.7	374.1
Cost of sales		(387.0)	(365.4)
Gross profit		11.7	8.7
Administrative expenses	3	(16.3)	(11.0)
Selling and distribution expense		(2.8)	(4.2)
Gains/(losses) related to defined benefit plans	17	19.8	-
Other operating income		-	0.6
Operating profit/(loss)	3	12.4	(5.9)
Other interest receivable and similar income	6	16.7	14.5
Interest payable and similar charges	7	(16.0)	(15.0)
Profit/(loss) before taxation		13.1	(6.4)
Tax charge on loss	8	(5.8)	(8.9)
Profit/(loss) for the financial year		7.3	(15.3)

The accompanying notes on pages 12 to 29 are an integral part of these financial statements.

Statement of Other Comprehensive Income
for the year ended 31 December 2016

	2016 £m	2015 £m
Profit/(loss) for the year	7.3	(15.3)
Other comprehensive income		
Remeasurements of defined benefit asset/liability	(30.2)	(3.0)
Income tax on items that will not be reclassified to profit or loss	6.1	1.1
Other comprehensive income for the year	(24.1)	(1.9)
Total comprehensive income for the year	(16.8)	(17.2)

Balance sheet
At 31 December 2016

	<i>Note</i>	2016 £m	2016 £m	2015 £m	2015 £m
Fixed assets					
Intangible assets	9		8.1		8.1
Tangible assets	10		42.7		45.3
Investments	11		-		-
			<hr/>		<hr/>
			50.8		53.4
Current assets					
Stocks	12	49.4		40.0	
Debtors	13	88.6		92.6	
Cash		0.3		0.6	
		<hr/>		<hr/>	
		138.3		133.2	
Creditors: amounts falling due within one year	14	(92.7)		(60.1)	
		<hr/>		<hr/>	
Net current assets			45.6		73.1
			<hr/>		<hr/>
Total assets less current liabilities			96.4		126.5
Provisions for liabilities					
Deferred tax	15		-		-
Other provisions	16		(6.2)		(6.3)
Pension asset	17		38.9		25.7
			<hr/>		<hr/>
Net assets			129.1		145.9
			<hr/>		<hr/>
Capital and reserves	18				
Called up share capital			10.0		10.0
Share premium account			324.0		324.0
Profit and loss account			(204.9)		(188.1)
			<hr/>		<hr/>
Equity shareholders' funds			129.1		145.9
			<hr/>		<hr/>

The financial statements on pages 8 to 29 were approved by the board of directors on 16 November 2017 signed on its behalf by:



Ian Holdsworth
Director

The accompanying notes on pages 12 to 29 are an integral part of these financial statements.

Statement of Changes in Equity

	Called up Share capital £m	Share Premium account £m	Profit and loss account £m	Total equity £m
Balance at 31 December 2014	10.0	324.0	(170.9)	163.1
Total comprehensive income for the period				
Profit or loss	-	-	(15.3)	(15.3)
Other comprehensive income	-	-	(1.9)	(1.9)
Total comprehensive income for the period	-	-	(17.2)	(17.2)
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2015	10.0	324.0	(188.1)	145.9
Balance at 31 December 2015	10.0	324.0	(188.1)	145.9
Total comprehensive income for the period				
Profit or loss	-	-	7.3	7.3
Other comprehensive income	-	-	(24.1)	(24.1)
Total comprehensive income for the period	-	-	(16.8)	(16.8)
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2016	10.0	324.0	(204.9)	129.1

Notes
(forming part of the financial statements)

1 Accounting policies

Outokumpu Stainless Limited (the “Company”) is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, Outokumpu Oyj includes the Company in its consolidated financial statements. The consolidated financial statements of Outokumpu Oyj are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Outokumpu Oyj, Corporate Communications, Salmisaarenranta 11, 2nd building, 3rd floor, P.O. Box 245, FI-00181 HELSINKI, Finland.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following a retrospective change in accounting policy; and
- Disclosures in respect of the compensation of Key Management Personnel.

Notes (continued)

1 Accounting policies (continued)

As the consolidated financial statements of Outokumpu Oyj include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in respect of the cash flows of discontinued operations;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company including the comparative period reconciliation for goodwill; and
- The disclosure required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of a trading portfolio or derivatives.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies, that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year are discussed in note 25.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

On the basis of their assessment of the Company's financial position, the Company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. In forming their conclusions, the directors have prepared forecasts in respect of the company for the period ending 31 October 2017. Forecasts are also prepared on a divisional basis for 3 years forward and are considered annually by management. The steel market is inherently cyclical and group management has a 2020 strategy which is noted in the strategic report. The Outokumpu Stainless Limited forecasts follow this strategy and expect to achieve the targets set. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Derivatives

The ultimate parent enters into forward currency contracts which are fair valued at the group level. These agreements are then allocated to the subsidiary divisions via an intercompany re-charge. The risk of the derivative arrangements are held by group. Outokumpu Stainless Limited does not hold any derivative agreements direct.

Forward contracts are considered to be level 2 instruments. Fair value is considered by the group management, estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free rate. Any valuation is then allocated out on a divisional basis.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings and housing plant 4%
- Other freehold buildings 2.5%
- Heavy plant 5%
- Other plant 6-7%
- Office equipment 10%
- Motor vehicles 20%

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible fixed assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annual for impairment. See impairment section on page 15 for the annual treatment.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised only if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes.

Investments

Investments in subsidiaries are held at cost less provision for permanent diminution in value.

Stocks

Raw material, stocks of partly processed materials, finished products and stores are valued at the lower of cost and net realisable value. Cost is determined using the 'first in first out' method where necessary. Cost of partly processed and finished products comprises all direct costs of production including works overheads based on normal level of

Notes (continued)

1 Accounting policies (continued)

activity. Net realisable value is the price at which stocks can be realised in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and cost of disposal. Where necessary, provision is made for slow moving and obsolete items.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Notes (continued)

1 Accounting policies (continued)

Employees benefit (continued)

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Turnover

Sales represent the invoice value (which includes delivery charges) of products sold and services rendered less trade discounts. Sales exclude VAT and similar taxes.

Subject to any specific conditions of sale, sales are generally recognised at the time of despatch from works, for deliveries by truck, or sailing for deliveries by ship.

All income and charges relating to the financial year to which the accounts relate have been taken into account, irrespective of the date of receipt or payment.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Notes (continued)

1 Accounting policies (continued)

Taxation (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of tax provided is based on the tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2 Turnover

The directors consider that the company operates in one industrial segment, that of the manufacture and distribution of stainless steel products.

The geographical analysis of turnover is as follows:

	2016 £m	2015 £m
United Kingdom	73.0	62.5
Rest of Europe	245.5	225.3
North America	57.8	69.1
Rest of the World	22.5	17.2
	<hr/> 398.7 <hr/>	<hr/> 374.1 <hr/>

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2016 £m	2015 £m
Depreciation	3.6	4.4
Research and development expensed as incurred	0.4	0.4
Operating leases - other	1.0	1.0
Profit on sale of fixed assets	-	-
	<hr/> <hr/>	<hr/> <hr/>

Auditor's remuneration:

	2016 £m	2015 £m
Audit of these financial statements	0.1	0.1
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2016	2015
Manual	331	343
Staff	207	206
	<hr/>	<hr/>
	538	549
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£m	£m
Wages and salaries	19.3	20.5
Social security costs	2.4	2.4
Contribution to defined contribution plans	1.2	0.5
Expenses related to defined benefit plans	1.2	2.0
Curtailment gain	(21.0)	-
	<hr/>	<hr/>
	3.1	25.4
	<hr/>	<hr/>

5 Directors' remuneration

	2016	2015
	£'000	£'000
Directors' emoluments	892	748
	<hr/>	<hr/>

The aggregate of emoluments of the highest paid director was £211,000 (2015: £154,000). They are a member of a defined benefit scheme, under which accrued pension at the year end was £60,000 (2015: £48,000).

	Number of directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	6	7
	<hr/>	<hr/>

One director received no emoluments in his capacity as director of the company and was remunerated by Outokumpu Stainless Oyj.

Notes (continued)

6 Other interest receivable and similar income

	2016	2015
	£m	£m
Bank interest receivable	2.4	1.6
Net interest on net defined benefit plan asset	14.3	12.9
	<hr/>	<hr/>
	16.7	14.5
	<hr/>	<hr/>

7 Interest payable and similar charges

	2016	2015
	£m	£m
Interest payable on amounts owed to group companies	3.4	3.2
Net interest on net defined benefit plan liability	12.6	11.8
	<hr/>	<hr/>
	16.0	15.0
	<hr/>	<hr/>

Notes (continued)

8 Taxation

Recognised in the income statement

	2016 £m	2015 £m
<i>UK corporation tax</i>		
Current tax on income for the period	0.3	-
	<hr/>	<hr/>
Total current tax charge	0.3	-
<i>Deferred tax (see note 15)</i>		
Origination and reversal of temporary differences	-	(0.1)
Deferred tax charge arising in gains on the pension scheme	(8.5)	(0.1)
Movement on deferred tax (note 15)	2.4	(8.7)
	<hr/>	<hr/>
Total deferred tax	(6.1)	(8.9)
	<hr/>	<hr/>
Tax on loss on ordinary activities	(5.8)	(8.9)
	<hr/>	<hr/>

Income tax recognised in other comprehensive income

	2016 £m	2015 £m
Remeasurement of defined benefit liability/asset	6.1	(0.5)
	<hr/>	<hr/>
Total tax charge	6.1	(0.5)
	<hr/>	<hr/>

Reconciliation of effective tax rate

	2016 £m	2015 £m
Profit/(loss) excluding taxation	13.1	(6.3)
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	2.6	(1.3)
Expenses not deductible for tax purposes	0.1	0.1
Use of tax losses brought forward not recognised	(2.4)	0.5
Deferred tax not provided – timing differences	-	0.8
Movement on deferred tax (note 15)	(6.1)	(8.7)
	<hr/>	<hr/>
Total tax credit	(5.8)	(8.9)
	<hr/>	<hr/>

Notes (continued)

Reconciliation of effective tax rate (continued)

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at balance sheet date has been calculated based on these rates.

An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset.

9 Intangible assets

	Goodwill
Cost	
Balance at 31 December 2016 and 31 December 2015	8.1
	<hr/>
Net book value	
At 31 December 2016	8.1
	<hr/>
At 31 December 2015	8.1
	<hr/>

Goodwill has been allocated to the single industrial segment of the manufacture and distribution of stainless steel products.

Notes (continued)

10 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Cost				
Balance at 31 December 2015	52.9	179.7	4.6	237.2
Additions	-	-	1.2	-
Transfers	-	4.2	(4.2)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	52.9	183.9	1.6	238.4
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment				
Balance at 31 December 2015	48.8	143.1	-	191.9
Depreciation charge for the year	0.2	3.5	-	3.7
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	49.1	146.6	-	195.6
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2016	3.8	37.3	1.6	42.7
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2015	4.1	36.6	4.6	45.3
	<hr/>	<hr/>	<hr/>	<hr/>

11 Investments

On 30 July 2008 the company acquired 100% of the ordinary share capital of SoGePar UK Limited for a consideration of £7.9m and acquisition expense of £0.2m. The trade and assets of SoGePar UK Limited have been transferred into the ongoing activity, the Outokumpu Stainless Limited. As SoGePar UK Limited now has no ongoing activity, the value of the investor's assets would be considered to have been impaired. The remaining investment value of £8.1m was reclassified to goodwill. The accounting treatment adopted was grandfathered on conversion to FRS101 with the goodwill remaining in relation to the trade subsumed into the Outokumpu Stainless Limited business. This is considered to be necessary as the continuing trade that was transferred to the Company is felt to be profitable and enhances the investment value of that subsidiary.

The goodwill balance is considered to have an indefinite useful life, as the operations of SoGePar UK Limited are now part of the on-going core trading of the company. They are not considered to be subject to factors such as obsolescence of technology, methodology, know-how or brand that would indicate a finite life.

By virtue of the business transfer from Avesta Sheffield Distribution Limited effected on the 28 November 1999, the company hold investments in dormant subsidiaries Avesta Johnson Stainless Limited and Alloy & Metal (Overseas) Limited at book value of nil (2015: £nil).

Summary of investments

	Class of share	Per value	% held
SoGePar UK Limited	Ordinary	£1	100
Outokumpu Holdings UK Limited	Ordinary	£1	100
Alloy & Metal (Overseas) Limited	Ordinary	£1	100
Avesta Johnson Stainless Limited	Ordinary	£1	100

All four subsidiaries are registered and incorporated in England and Wales.

Notes (continued)

12 Stocks

	2016	2015
	£m	£m
Raw materials and consumables	22.7	19.4
Work in progress	14.0	8.7
Finished goods	12.7	11.9
	<hr/> 49.4 <hr/>	<hr/> 40.0 <hr/>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £276.6m (2015: £369.9m). The write-down of stocks to net realisable value amounted to £0.3m (2015: £0.3m). The write-down is included in cost of sales.

13 Debtors

	2016	2015
	£m	£m
Trade debtors	35.9	16.8
Amounts owed by group undertakings	47.9	72.6
Deferred tax assets (see note 15)	-	-
Prepayments and accrued income	0.5	1.0
Other debtors	4.3	2.2
	<hr/> 88.6 <hr/>	<hr/> 92.6 <hr/>

14 Creditors: amounts falling due within one year

	2016	2015
	£m	£m
Trade creditors	50.4	19.7
Amounts owed to group undertakings	35.7	35.6
Taxation and social security	0.5	0.5
Other creditors	2.6	1.2
Accruals and deferred income	3.5	3.1
	<hr/> 92.7 <hr/>	<hr/> 60.1 <hr/>

Amounts owed to group are interest bearing at rates in place at the time the loans are agreed and taken. They are repayable on demand.

Notes (continued)

15 Deferred assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	(7.0)	(4.6)	-	-	(7.0)	(4.6)
Other timing differences	-	-	-	-	-	-
Deferred tax on pension scheme asset	-	-	7.0	4.6	7.0	4.6
Tax (assets) / liabilities	(7.0)	(4.6)	7.0	4.6	-	-

As at the balance sheet date the Company recognised a deferred tax asset to the extent that it is reasonable to assume the future utilisation of that asset. The unrecognised deferred tax asset related to losses at 31 December 2016 is £19.6m (2015: £19.1m). The unrecognised deferred tax asset related to capital allowances at 31 December 2015 is £3.4m (2015: £6.9m).

As at 31 December 2016 a deferred tax liability of £7.0m (2015: £4.6m) was recognised in relation to the surplus on the pension scheme at that time. Of the £2.4m movement £8.5m was a charge to the p&l and £6.1m a credit to the OCI.

Deferred tax expected to reverse in the future has been measured using the effective rate that will apply for the period (17%).

Movement in deferred tax during the year

	31 December	Recognised	31
	2015	in income	December
	£m	£m	2016
Accelerated capital allowances	4.6	2.4	7.0
Other timing differences	-	-	-
Deferred tax on pension scheme	(4.6)	(2.4)	(7.0)
	-	-	-

Notes (continued)

16 Provisions

	Environmental (a-c) Provision 1 £m	Rationalisation (d-e) Provision 2 £m	Total £m
Balance at 31 December 2015	5.7	0.6	6.3
Provisions made during the year	-	0.2	0.2
Provisions used during the year	-	(0.3)	(0.3)
Balance at 31 December 2016	5.7	0.5	6.2

- a) Landfill provisions relate to the cost of capping a landfill site on the Europa Link site, £1.7m of costs are expected to be incurred up to 2019, the decision delayed from the original 2014 date due to the timing of the fill and decisions around when to cap each phase. A further £0.6m incurred in the following 25 years for aftercare. The provision has been based on current environmental standards and current prices. The total provision at 31 December 2016 was £2.0m (2015: £2.0m).
- b) During the year 2000, the company's routine operating practices identified a low level of radioactive contamination during testing of waste materials. This is believed to have arisen from contamination within a scrap load – scrap is used as a primary raw material. The Health and Safeway Executive and Environmental Agency have indicated that the company has done everything possible to address this issue and that any risk to the public or employees is insignificant. A provision of £2.9m is retained for the disposal of this and other similar waste material has been carried out with the relevant organisations and disposal commenced in 2007.
- c) A balance at 31 December 2016 of £0.8m exists relating to other environmental provisions (2015: £0.8m).
- d) During 2008 the Company decided to close its Sheffield Special Strip factory at Meadowhall, Sheffield in Spring 2009. £4.7m was provided in 2008 for redundancy, £4.0m cash cost of curtailment and £10.4m for other costs. Of these costs £0.4m remained provided at 31 December 2016 (2015: £0.5m).
- e) A redundancy provision of £0.1m was held at 31 December 2016 (2015: £0.1m).

Notes (continued)

17 Pension scheme

Employee benefits

The company operates one pension scheme, which is the AvestaPolarit Pension Scheme ("APPS"). This has two sections:

Defined Contribution

The Defined Contribution section of the scheme is open to members who joined the company on or after 1 April 2003. The core employer contribution rates are 3.0% to 5.0% of pensionable pay, depending on age. The cost for the year was £1.2m (2015: £1.5m). There were no contributions prepaid or outstanding at 31 December 2016 (2015: £nil).

Defined Benefit

- The scheme was established on 1 October 2001 under trust and is governed by the scheme's Trust Deed and Rules dated 5 April 2006. The Trustees are responsible for the operation and governance of the scheme, including making decisions regarding the scheme's funding and investment strategy.
- The scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary at retirement (or leaving if earlier) and their length of service. Since 1 April 2003 the scheme has been closed to new entrants and on 30 September 2016 the scheme was frozen with no further accrual possible. From 1 October members then joined the DC section.
- The scheme is registered under UK legislation and is contracted out of the State Second Pension. The scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation, performed at 1 January 2014, showed a deficit of £27.0m. A recovery plan, established on 01 June 2015 lead to the Company agreeing to pay this amount eliminating the shortfall by 06 Feb 2018.
- The main risk to the Company is that the investment returns are insufficient to meet the requirement to pay pensions and benefits in the future, and the Company is required to make additional payments. The benchmark asset allocation in 30%/70% return-seeking/liability matching. This strategy reflects the scheme's liability profile and the Trustee's attitude to risk. The Trustees monitor the investment objectives and asset allocation policies on a regular basis.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2016	2015
	£m	£m
Defined benefit asset	424.8	343.8
Effect of net asset ceiling	-	-
	<hr/>	<hr/>
Total defined benefit asset	424.8	343.8
Total defined benefit liability	(385.9)	(318.1)
	<hr/>	<hr/>
Net asset for defined benefit obligations (see following table)	38.9	25.7
Deferred tax liability on pension scheme liability (note 15)	(7.0)	(4.6)
	<hr/>	<hr/>
Total employee benefits	31.9	21.1
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

17 Pension scheme (continued)

Movements in net defined benefit liability/asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	318.1	319.4	(343.8)	(347.3)	(25.7)	(27.9)
Included in profit or loss*						
Current service cost	1.2	1.8	-	-	1.2	1.8
Losses/(gains) on curtailments and settlements	(21.0)	-	-	-	(21.0)	-
Interest cost/(income)	12.6	11.8	(14.3)	(12.9)	(1.7)	(1.1)
	(7.2)	13.6	(14.3)	(12.9)	(21.5)	0.7
Included in OCI*						
Remeasurements loss/(gain):						
Actuarial loss (gain) arising from						
- Change in financial assumptions	93.0	(8.0)	-	-	93.0	(8.0)
- Experience adjustment	(2.4)	0.5	(60.4)	10.5	(62.8)	11.0
- Demographic adjustment	-	-	-	-	-	-
	90.6	(7.5)	(60.4)	10.5	30.2	3.0
Other						
Contributions paid by the employer	-	-	(21.9)	(1.5)	(21.9)	(1.5)
Contributions paid by the employees	0.4	0.6	(0.4)	(0.6)	-	-
Benefits paid	(16.0)	(8.0)	16.0	8.0	-	-
Balance at 31 December	385.9	318.1	(424.8)	(343.8)	(38.9)	(25.7)
Plan assets					2016 £m	2015 £m
Cash and cash equivalents					-	-
Equity instruments					65.2	49.9
Debt instruments					234.0	248.5
Real estate					3.3	4.5
Other assets					122.3	40.9
Total					424.8	343.8

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are AAA- or AA-rated. All other plan assets are not quoted in an active market.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

Notes (continued)

17 Pension scheme (continued)

Plan assets

	2016	2015
	%	%
Discount rate at 31 December	2.75	4.00
Future salary increases	N.A	3.8
Price inflation	3.5	3.3
Future pension increases	3.15	3.00

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions used in both years are 110% SAPS All Pension Amounts tables with CMI Core Projection Model improvements from 2002 with a 1.25% pa long-term rate. The assumptions are equivalent to expecting a 65 year old male to live for 21.7 years (2015: 21.7), and a 65 year old female to live for 24 years (2015: 23.9 years).

Funding

The Plan is fully funded by the Company. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plans.

18 Capital and reserves

Share capital

	Ordinary shares	
	2016	2015
In thousands of shares		
On issue at 1 January 2015 and 31 December 2016	10,000	10,000
	2016	2014
	£m	£m
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	10.0	10.0
	10.0	10.0

19 Financial instruments

The ultimate parent enters into forward currency contracts which are fair valued at the group level. These agreements are then allocated to the subsidiary divisions via an intercompany re-charge. The risk of the derivative arrangements are held by group. Outokumpu Stainless Limited does not hold any derivative agreements direct.

Forward contracts are considered to be level 2 instruments. Fair value is considered by the group management, estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free rate. Any valuation is then allocated out on a divisional basis.

Full financial instruments disclosures, as required by IFRS7, are provided by the ultimate parent company in their financial statements. The valuations are considered annually at the Outokumpu Stainless Limited level and are not material to the accounts.

Notes (continued)

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £m	2015 £m
Less than one year	1.3	1.3
Between one and five years	1.4	2.0
	<u>2.7</u>	<u>3.3</u>

21 Commitments

For the year ended 31 December 2016 there were nil capital commitments (2015: £0.1m).

22 Contingencies

There are contingent liabilities in the ordinary course of business in connection with supplies and customers. In the opinion of the directors no loss will arise in connection with these matters.

23 Ultimate parent company and parent company of larger group

The company is a wholly owned subsidiary of Outokumpu Stainless Holdings Limited, a company incorporated in the UK. Outokumpu Stainless Holdings Limited is a wholly owned subsidiary of Outokumpu Stainless AB, a company incorporated in Sweden. Outokumpu Stainless AB is a subsidiary of Outokumpu Stainless Steel Oyj, which is a subsidiary of Outokumpu Oyj, a company listed on the Finnish stock exchange and viewed as the ultimate parent company.

The largest group in which the results of the Company are consolidated is that headed by Outokumpu Oyj, incorporated in Finland. This is the also the smallest group in which the results are consolidated. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public and may be obtained from Outokumpu Oyj, Corporate Communications, P.O. Box 245, FI-00181 Helsinki, Finland.

24 Accounting estimates and judgements

The preparation of financial statements involves, in certain areas, the use of accounting estimates and management judgement. The key areas involving estimates and judgements are as follows:

Impairment

The company carries out impairment reviews of its non-current assets on an annual basis, or when indications of impairment exist. Such reviews involve assessing the value in use of an asset of CGU by reference to estimated future cash flows, utilising discount rates relevant to the company. A degree of judgement is required in applying this review and the company is also required to utilise information provided by the wider group in this process.

Pensions (defined benefit)

In calculating the deficit or surplus on the defined benefit pension scheme, the company uses a number of actuarial assumptions, including mortality, inflation and discount rate. These assumptions are regularly reviewed in conjunction with the scheme's actuary but may prove to be difference in practice.

Provisions

The company makes provisions for inadvertent actions that have exposed them to the requirement to make environmental reparations. In addition, the company, from time to time, has been required to make restructuring and redundancy provisions. The estimate made represents managements best assessment based on the facts available at the time and may be subject to change as situations develop and change.