
OUTOKUMPU STAINLESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

OUTOKUMPU STAINLESS LIMITED

COMPANY INFORMATION

| | |
|-----------------------------|---|
| Directors | I Holdsworth J Homewood J Stansfield K Tuutti |
| Company secretary | R Waugh |
| Registered number | 02794127 |
| Registered office | Main Administration Building PO Box 161 Europa Link Sheffield Yorkshire S9 1TZ |
| Independent auditors | PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Leeds Central Square Wellington Street Leeds LS1 4DL |

OUTOKUMPU STAINLESS LIMITED

CONTENTS

| | Page(s) |
|--|---------|
| Strategic report | 1 - 3 |
| Directors' report | 4 - 5 |
| Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements | 6 |
| Independent auditors' report to the members of Outokumpu Stainless Limited | 7 - 8 |
| Profit and Loss Account | 9 |
| Statement of Other Comprehensive Income | 10 |
| Balance Sheet | 11 |
| Statement of Changes in Equity | 12 |
| Notes | 13 - 34 |

OUTOKUMPU STAINLESS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Principal activities

The Company is a subsidiary of Outokumpu Stainless Holdings Limited, a wholly owned subsidiary of Outokumpu Stainless AB and hence 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 and distribution 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 9.

The Business has reported an operating profit before exceptional items in the current year of £5.3m (2016: £12.4m). The profit for the financial year before taxation was £11.8m (2016: £13.1m).

Outokumpu's adjusted EBITDA more than doubled from EUR 309 million to EUR 631 million. While the positive development in ferrochrome pricing during the first half of the year supported these numbers, the bulk of the improvement can be attributed to our relentless focus on costs and productivity, during sustainable value creation.

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.

Key performance indicators

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

| | 2017 | 2016 | |
|----------------------------|-------|------|---|
| Operating margin | 1.0% | 3.1% | Operating profit before exceptional/turnover |
| Return on Capital Employed | 10.1% | 9.0% | Operating profit before exceptional/average operating capital |
| Revenue per employee | 1.01 | 0.74 | Turnover / employee numbers (£m/person) |
| Debtor days | 53 | 50 | Trade debtors / last quarter turnover |
| Stock days | 40 | 42 | Stock / Last quarter cost of sales |
| Employee numbers | 534 | 538 | Average during the year |
| Accident rate | 1.9 | 2.8 | 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.

OUTOKUMPU STAINLESS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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 has focused on the following six areas to reach its vision during 2017:

1. **Safety:** a standardised 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 organisation:** a lean, simple and flat organization that takes its lead from market trends and requirements, and drives a high level of individual accountability that is enforced through vigorous performance management.
3. **World-class supply chain:** the role of the supply chain function elevated to drive optimal matching of market demand and the manufacturing capabilities, managing manufacturing programming and planning as well as the required resources and logistics. This will allow our production units to focus on achieving a benchmark level in cost efficiency.
4. **Manufacturing excellence:** implementing a standardized operating model to ensure continuous productivity gains in all the mills across the Company, leading to industry benchmark competitiveness.
5. **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.

OUTOKUMPU STAINLESS LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Future developments (continued)

According to research institute SMR, global real demand for stainless steel products reached 41.2 million tonnes in 2017, an increase of 5.5% from 38.5 million tonnes in 2016. The growth was most pronounced in the APAC region at 6.3%, while demand grew by 3.4% in EMEA and by 3.2% in the Americas.

This report was approved by the board and signed by its order.



R Waugh
Company Secretary

Date: 29 November 2018

OUTOKUMPU STAINLESS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and financial statements for the year ended 31 December 2017.

Dividends and results

The directors do not recommend the payment of dividend (2016: £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 who served during the year upto the date of signing the financial statements were

I Holdsworth (appointed 24 April 2017)
J Homewood (appointed 8 January 2018)
J Stansfield (appointed 13 July 2018)
K Tuutti
J Beeley (resigned 8 January 2018)
T Collins (resigned 13 July 2018)
A Kinna (resigned 26 April 2017)
N Oliver (resigned 26 April 2017)
P Rodrigo (resigned 26 April 2017)
D Scaife (resigned 26 April 2017)

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Future developments

A review of the business and likely future developments is contained in the strategic report.

Modern Slavery Act

Outokumpu's ethics and values are core to our people and culture and how we conduct our business in the United Kingdom and around the world. Outokumpu is opposed to modern slavery or human trafficking in all its forms and we expect the same opposition from all who work for us and we demand it from anyone with whom we have business dealings. Our ethics and values are clearly embodied in our Code of Business Conduct, and, as directors, we have taken steps to ensure we have processes in place to ensure that all of our employees agree to comply with our Code of Business Conduct, and all employees undergo on-going training and are asked to certify such compliance. These same ethics and values are impugned to our suppliers and vendors through a series of measures, including our Business Partner Code of Conduct.

With regard to the major suppliers and vendors, global and local, to our business, the directors have taken steps to ensure we have employees focused on procurement activities who carry out proper due diligence and implement appropriate vendor selection criteria that include due regard to the ethical standards and corporate values which are consistent with the principles embodied in the Modern Slavery Act 2015. The directors have overseen that we have implemented contractual provisions into our standard terms and conditions of purchase and supplemental contracts for the supply of goods and services that require such suppliers and vendors to comply with the requirements of the Modern Slavery Act 2015, including our right to request evidence of compliance with such requirements at any time upon reasonable notice.

OUTOKUMPU STAINLESS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Modern Slavery Act (continued)

Outokumpu is committed to continuing to improve its procurement policies, processes and practices in order to play its part towards the goal of eradicating any form of modern slavery and human trafficking in global supply chains around the world.

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible be identical to that of other employees.

Post balance sheet events

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgement crystallises additional liabilities.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed by its order.



R Waugh
Company Secretary

Date: 29 November 2018

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT,
THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OUTOKUMPU STAINLESS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Outokumpu Stainless Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or ;
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

OUTOKUMPU STAINLESS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OUTOKUMPU STAINLESS LIMITED

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

Date: 29/11/18

OUTOKUMPU STAINLESS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017 £M | 2016 £M |
|--|------|-------------|-------------|
| Turnover | 2 | 541.5 | 398.7 |
| Cost of sales | | (524.3) | (387.0) |
| Gross profit | | 17.2 | 11.7 |
| Administrative expenses | | (9.6) | (16.3) |
| Selling and distribution expense | | (3.6) | (2.8) |
| Gains related to defined benefit plans | | - | 19.8 |
| Other operating income | | 1.3 | - |
| Operating profit | 3 | 5.3 | 12.4 |
| Profit on disposal of property | | 9.1 | - |
| Other interest receivable and similar income | 6 | 11.9 | 16.7 |
| Interest payable and similar charges | 7 | (14.5) | (16.0) |
| Profit before taxation | | 11.8 | 13.1 |
| Tax on profit | 8 | 2.9 | (5.8) |
| Profit for the financial year | | 14.7 | 7.3 |

The accompanying notes on pages 13 to 34 are an integral part of these financial statements.

OUTOKUMPU STAINLESS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Note | 2017 €M | 2016 €M |
|---|------|-------------|---------------|
| Profit for the financial year | | 14.7 | 7.3 |
| Other comprehensive income/expense: | | | |
| Remeasurements of defined benefit asset/liability | 17 | 15.2 | (30.2) |
| Income tax on items that will not be reclassified to profit or loss | | (2.6) | 6.1 |
| Other comprehensive income/expense for the year | | 12.6 | (24.1) |
| Total comprehensive income/expense for the year | | 27.3 | (16.8) |

The accompanying notes on pages 13 to 34 are an integral part of these financial statements.

OUTOKUMPU STAINLESS LIMITED
REGISTERED NUMBER: 02794127

BALANCE SHEET
AS AT 31 DECEMBER 2017

| | Note | 2017 £M | 2017 £M | 2016 £M | 2016 £M |
|--|------|--------------|--------------|--------------|--------------|
| Fixed assets | | | | | |
| Intangible assets | 9 | | 8.1 | | 8.1 |
| Tangible assets | 10 | | 41.4 | | 42.7 |
| Investments | 11 | | - | | - |
| | | | <u>49.5</u> | | <u>50.8</u> |
| Current assets | | | | | |
| Stocks | 12 | 61.5 | | 49.4 | |
| Debtors | 13 | 124.1 | | 88.6 | |
| Cash | | 0.2 | | 0.3 | |
| | | <u>185.8</u> | | <u>138.3</u> | |
| Creditors: amounts falling due within one year | 14 | (136.1) | | (92.7) | |
| Net current assets | | | <u>49.7</u> | | <u>45.6</u> |
| Total assets less current liabilities | | | <u>99.2</u> | | <u>96.4</u> |
| Provisions for liabilities | | | | | |
| Other provisions | 16 | (5.6) | | (6.2) | |
| Pension asset | 17 | | 62.8 | | 38.9 |
| Net assets | | | <u>156.4</u> | | <u>129.1</u> |
| Capital and reserves | | | | | |
| Called up share capital | 18 | | 10.0 | | 10.0 |
| Share premium account | 19 | | 324.0 | | 324.0 |
| Profit and loss account | 19 | | (177.6) | | (204.9) |
| Total shareholders' funds | | | <u>156.4</u> | | <u>129.1</u> |

The financial statements on pages 9 to 34 were approved by the board of directors and were signed on its behalf by:

I Holdsworth

Director

Date: 29 November 2018

The notes on pages 13 to 34 form part of these financial statements.

OUTOKUMPU STAINLESS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Called up share capital | Share premium account | Profit and loss account | Total equity |
|--|----------------------------|-----------------------------|-------------------------------|-----------------|
| | £M | £M | £M | £M |
| Balance at 1 January 2017 | 10.0 | 324.0 | (204.9) | 129.1 |
| Total comprehensive income for the year | | | | |
| Profit for the financial year | - | - | 14.7 | 14.7 |
| Other comprehensive income | - | - | 12.6 | 12.6 |
| Total comprehensive income for the year | - | - | 27.3 | 27.3 |
| Balance at 31 December 2017 | 10.0 | 324.0 | (177.6) | 156.4 |

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Called up share capital | Share premium account | Profit and loss account | Total equity |
|---|----------------------------|-----------------------------|----------------------------|-----------------|
| | £M | £M | £M | £M |
| Balance at 1 January 2016 | 10.0 | 324.0 | (188.1) | 145.9 |
| Total comprehensive income for the year | | | | |
| Profit for the financial year | - | - | 7.3 | 7.3 |
| Other comprehensive expense | - | - | (24.1) | (24.1) |
| Total comprehensive expense for the year | - | - | (16.8) | (16.8) |
| Balance at 31 December 2016 | 10.0 | 324.0 | (204.9) | 129.1 |

The accompanying notes on pages 13 to 34 are an integral part of these financial statements.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies

1.1 Basis of preparation of financial statements

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

These financial statements are presented in Pound Sterling (£) because that is the currency of the primary economic environment in which the Company operates.

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:

- 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.1 Basis of preparation of financial statements (continued)

- 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 24.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

1.3 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 December 2019. 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.

1.4 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.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.5 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.

1.6 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:

Depreciation is provided on the following basis:

| | |
|--------------------------------|--------|
| Freehold buildings and housing | - 4% |
| plant | |
| 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.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.7 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 17 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.

1.8 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 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.

1.9 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.

1.10 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.11 Impairments

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.12 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.

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.

1.13 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.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.14 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.

1.15 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.

1.16 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.

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.

OUTOKUMPU STAINLESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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:

| | 2017 | 2016 |
|-------------------|--------------|--------------|
| | £M | £M |
| United Kingdom | 90.5 | 73.0 |
| Rest of Europe | 355.2 | 245.4 |
| North America | 77.2 | 57.8 |
| Rest of the World | 18.6 | 22.5 |
| | 541.5 | 398.7 |

3. Operating profit

The operating profit is stated after charging:

| | 2017 | 2016 |
|---|-------------|-------------|
| | £M | £M |
| Depreciation | 3.6 | 3.6 |
| Research and development expensed as incurred | 0.4 | 0.4 |
| Operating leases - other | 1.1 | 1.0 |
| Auditor's remuneration for audit services | 0.1 | 0.1 |

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4. Staff numbers and costs

Staff costs were as follows:

| | 2017 £M | 2016 £M |
|---|------------|------------|
| Wages and salaries | 21.4 | 19.3 |
| Social security costs | 2.8 | 2.4 |
| Contributions to defined contribution plans | 2.4 | 1.2 |
| Expenses related to defined benefit plans (see note 16) | - | 1.2 |
| Curtailment gain (see note 16) | - | (21.0) |
| | 26.6 | 3.1 |

The average monthly number of employees, including the directors, during the year was as follows:

| | 2017 No. | 2016 No. |
|--------|-------------|-------------|
| Manual | 327 | 331 |
| Staff | 207 | 207 |
| | 534 | 538 |

5. Directors' remuneration

The aggregate of emoluments of the highest paid director was £148,000 (2016: £211,000). They are a member of a defined benefit scheme, under which accrued pension at the year end was £75,000 (2016: £60,000).

| | 2017 £M | 2016 £M |
|-----------------------|------------|------------|
| Directors' emoluments | 1.0 | 1.0 |
| | 1.0 | 1.0 |

Retirement benefits

Retirement benefits are accruing to 7 directors (2016: 6 directors) under a defined benefit scheme.

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

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

6. Other interest receivable and similar income

| | 2017 £M | 2016 £M |
|--|-------------|-------------|
| Bank interest receivable | 0.4 | 2.4 |
| Net interest on defined benefit plan asset | 11.5 | 14.3 |
| | <u>11.9</u> | <u>16.7</u> |

7. Interest payable and similar charges

| | 2017 £M | 2016 £M |
|---|-------------|-------------|
| Interest payable on amounts owed to group companies | 4.2 | 3.4 |
| Net interest on defined benefit plan liability | 10.3 | 12.6 |
| | <u>14.5</u> | <u>16.0</u> |

8. Tax on profit

| | 2017 £M | 2016 £M |
|--|--------------|--------------|
| Corporation tax | | |
| Current tax on profits for the year | - | (0.3) |
| Adjustments in respect of previous periods | (0.3) | - |
| | <u>(0.3)</u> | <u>(0.3)</u> |
| Total current tax | <u>(0.3)</u> | <u>(0.3)</u> |
| Deferred tax | | |
| Deferred tax charge arising in gains on the pension scheme | - | 8.5 |
| Effect of changes in tax rates | 0.3 | - |
| Movement on deferred tax | (2.9) | (2.4) |
| | <u>(2.6)</u> | <u>6.1</u> |
| Total deferred tax | <u>(2.6)</u> | <u>6.1</u> |
| Tax on profit | <u>(2.9)</u> | <u>5.8</u> |

OUTOKUMPU STAINLESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

8. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - *higher than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

| | 2017 £M | 2016 £M |
|--|--------------------|--------------------|
| Profit before taxation | 11.8 | 13.1 |
| Profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%) | 2.3 | (2.6) |
| Effects of: | | |
| Expenses not deductible | 0.1 | (0.1) |
| Use of tax losses brought forward not recognised | - | 2.4 |
| Adjustments in respect of prior years | (0.3) | - |
| Tax rate changes | 0.3 | - |
| Movement on deferred tax | - | 6.1 |
| Use of brought forward assets not recognised | (5.3) | - |
| Total tax credit/charge for the year | (2.9) | 5.8 |

Factors that may affect future tax charges

The tax rate for the current year is lower than the prior year due to changes in the UK tax legislation which provided for the rate to reduce from 20% to 19% from 1 April 2017. This change to the UK corporation tax rate was substantively enacted as part of the Finance Bill 2016, in addition to a future reduction to 17% from 1 April 2020. Deferred tax balances at the balance sheet date have been measured at this rate of 17% to reflect the expected future tax rate.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

9. Intangible assets

| | Goodwill £M |
|--|----------------|
| Cost | |
| Balance at 1 January 2017 and 31 December 2017 | 8.1 |
| Net book value | |
| At 31 December 2017 | 8.1 |
| At 31 December 2016 | 8.1 |

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

10. Tangible assets

| | Land and Building £M | Plant and machinery £M | Under construction £M | Total £M |
|----------------------------------|----------------------------|------------------------------|-----------------------------|-------------|
| Cost | | | | |
| Balance at 1 January 2017 | 52.9 | 183.9 | 1.6 | 238.4 |
| Additions | - | - | 2.3 | 2.3 |
| Transfers | 0.2 | 1.8 | (2.0) | - |
| At 31 December 2017 | 53.1 | 185.7 | 1.9 | 240.7 |
| Accumulated Depreciation | | | | |
| Balance at 1 January 2017 | 49.1 | 146.6 | - | 195.7 |
| Depreciation charge for the year | 0.2 | 3.4 | - | 3.6 |
| At 31 December 2017 | 49.3 | 150.0 | - | 199.3 |
| Net book value | | | | |
| At 31 December 2017 | 3.8 | 35.7 | 1.9 | 41.4 |
| At 31 December 2016 | 3.8 | 37.3 | 1.6 | 42.7 |

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 (2016: £nil).

| Summary of investments | Class of share | Per Value | % held | Principal activity | Registered office |
|----------------------------------|----------------|-----------|--------|--------------------|--|
| SoGePar UK Limited | Ordinary | £1 | 100 | Dormant Company | PO Box 161, Europa Link, Sheffield, S9 1TZ |
| Outokumpu Holdings UK Limited | Ordinary | £1 | 100 | Dormant Company | PO BOX 161, Europa Link, Sheffield, S9 1TZ |
| Alloy & Metal (Overseas) Limited | Ordinary | £1 | 100 | Dormant Company | PO Box 161, Europa Link, Sheffield, S9 1TZ |
| Avesta Johnson Stainless Limited | Ordinary | £1 | 100 | Dormant Company | PO Box 161, Europa Link, Sheffield, S9 1TZ |

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

12. Stocks

| | 2017 £M | 2016 £M |
|-------------------------------|-------------|-------------|
| Raw materials and consumables | 23.0 | 22.7 |
| Work in progress | 20.4 | 14.0 |
| Finished goods | 18.1 | 12.7 |
| | 61.5 | 49.4 |

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £424.0m (2016: £276.6m). The write-down of stocks to net realisable value amounted to £nil (2016: £0.3m). The write-down is included in cost of sales.

OUTOKUMPU STAINLESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. Debtors

| | 2017 | 2016 |
|------------------------------------|--------------|-------------|
| | £M | £M |
| Trade debtors | 37.2 | 35.9 |
| Amounts owed by group undertakings | 80.1 | 47.9 |
| Prepayments and accrued income | 4.2 | 0.5 |
| Other debtors | 2.6 | 4.3 |
| | 124.1 | 88.6 |

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

14. Creditors: amounts falling due within one year

| | 2017 | 2016 |
|------------------------------------|--------------|-------------|
| | £M | £M |
| Trade creditors | 95.5 | 50.4 |
| Amounts owed to group undertakings | 35.7 | 35.7 |
| Taxation and social security | - | 0.5 |
| Other creditors | 1.7 | 2.6 |
| Accruals and deferred income | 3.2 | 3.5 |
| | 136.1 | 92.7 |

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.

OUTOKUMPU STAINLESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

15. Deferred assets and liabilities

Recognised deferred tax and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|--------------------------------------|---------------|--------------|-------------|------------|----------|----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | £M | £M | £M | £M | £M | £M |
| Accelerated capital allowances | (10.5) | (7.0) | - | - | (10.5) | (7.0) |
| Deferred tax on pension scheme asset | - | - | 10.5 | 7.0 | 10.5 | 7.0 |
| Tax (assets) / liabilities | (10.5) | (7.0) | 10.5 | 7.0 | - | - |

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 2017 is £ 20.2m (2016: £ 19.6m). The unrecognised deferred tax asset related to capital allowances at 31 December 2017 £ 23.8m (2016: £ 3.4m)

As at 31 December 2017 a deferred tax liability of £ 10.5m (2016: £ 7.0m) was recognised in relation to the surplus on the pension scheme at that time. Of the £ 3.5m movement £ 0.9m was credited to the profit and loss and £ 2.6m charged 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 2016 | Recognised in income | 31 December 2017 |
|--------------------------------|---------------------|-------------------------|---------------------|
| | £M | £M | £M |
| Accelerated capital allowances | 7.0 | 3.5 | 10.5 |
| Deferred tax on pension scheme | (7.0) | (3.5) | (10.5) |
| | - | - | - |

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

16. Other provisions

| | Environmental (a-c) £M | Rationalisation (d-e) £M | Total £M |
|--------------------------------|------------------------------|--------------------------------|-------------|
| Balance at 1 January 2017 | 5.7 | 0.5 | 6.2 |
| Provision made during the year | - | 0.3 | 0.3 |
| Provision used during the year | (0.8) | (0.1) | (0.9) |
| At 31 December 2017 | 4.9 | 0.7 | 5.6 |

- 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 2017 was £2.0m (2016: £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) There are no other environmental provisions as at 31 December 2017 (2016: £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 2017 (2016: £0.4m).
- e) A redundancy provision of £0.2m was held at 31 December 2017 (2016: £0.1m).

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 £2.4m (2016: £1.2m). There were no contributions prepaid or outstanding at 31 December 2017 (2016: £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 led 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 is 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.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

17. Pension scheme (continued)

| | 2017 £M | 2016 £M |
|---|------------|------------|
| Defined benefit asset | 430.0 | 424.8 |
| Total defined benefit asset | 430.0 | 424.8 |
| Total defined benefit liability | (367.7) | (385.9) |
| Net asset for defined benefit obligations (see following table) | 62.3 | 38.9 |
| Deferred tax liability on pension scheme liability | - | (7.0) |
| Total employee benefits | 62.8 | 31.9 |

Movements in net defined benefit liability/asset

| | Defined benefit obligation | | Fair value of plan assets | | Net defined benefit asset | |
|---------------------------------------|----------------------------|--------------|---------------------------|----------------|---------------------------|---------------|
| | 2017 £M | 2016 £M | 2017 £M | 2016 £M | 2017 £M | 2016 £M |
| Balance at 1 January | 385.9 | 318.1 | (424.8) | (343.8) | (38.9) | (25.7) |
| Included in profit or loss | | | | | | |
| Current service cost | - | 1.2 | - | - | - | 1.2 |
| Gains on curtailments and settlements | - | (21.0) | - | - | - | (21.0) |
| Interest cost/(income) | 10.3 | 12.6 | (11.5) | (14.3) | (1.2) | (1.7) |
| | 10.3 | (7.2) | (11.5) | (14.3) | (1.2) | (21.5) |
| Included in OCI | | | | | | |
| Remeasurements loss/(gain): | | | | | | |
| Actuarial loss (gain) arising from | | | | | | |
| - Change in financial assumptions | 4.1 | 93.0 | - | - | 4.1 | 93.0 |
| - Experience adjustment | (16.6) | (2.4) | (10.2) | (60.4) | (26.8) | (62.8) |
| - Demographic adjustment | 7.5 | - | - | - | 7.5 | - |
| | (5.0) | 90.6 | (10.2) | (60.4) | (15.2) | 30.2 |
| Other | | | | | | |
| Contributions paid by the employer | - | - | (7.0) | (21.9) | (7.0) | (21.9) |
| Contributions paid by the employees | - | 0.4 | - | (0.4) | - | - |
| Benefits paid | (23.5) | (16.0) | 23.5 | 16.0 | - | - |
| Balance at 31 December | 367.7 | 385.9 | (430.0) | (424.8) | (62.8) | (38.9) |

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. Pension scheme (continued)

| | 2017 €M | 2016 €M |
|---------------------------|--------------|--------------|
| Plan assets | | |
| Cash and cash equivalents | - | - |
| Equity instruments | 60.3 | 65.2 |
| Debt instruments | 240.6 | 234.0 |
| Real estate | 1.1 | 3.3 |
| Other assets | 128.0 | 122.3 |
| Total | 430.0 | 424.8 |

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)

| | 2017 % | 2016 % |
|------------------------------|-----------|-----------|
| Plan assets | | |
| Discount rate at 31 December | 2.5 | 2.75 |
| Future salary increases | N.A | N.A |
| Price inflation | 3.2 | 3.5 |
| Future pension increases | 2.95 | 3.15 |

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 96% 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 22.4 years (2016: 21.7), and a 65 year old female to live for 24.2 years (2016: 24 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.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

18. Called up share capital

| | 2017 £M | 2016 £M |
|---|------------|------------|
| Allotted, called up and fully paid | | |
| 10,000,004 (2016 - 10,000,004) Ordinary shares of £1 each | 10.0 | 10.0 |

19. Reserves

Share premium account

The account relates to premium paid for the issued and paid up capital.

Profit and loss account

The account represents cumulative profits or losses, net of dividends paid and other adjustments.

20. 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 financial statements.

21. Commitments

For the year ended 31 December 2017 there were nil capital commitments (2016: £nil).

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

22. Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | 2017 £M | 2016 £M |
|----------------------------|------------|------------|
| Less than one year | 1.2 | 1.3 |
| Between one and five years | 1.4 | 1.4 |
| | <u>2.6</u> | <u>2.7</u> |

23. 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.

24. Post balance sheet events

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgement crystallises additional liabilities.

25. 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.

OUTOKUMPU STAINLESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

26. 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 or 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 different 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 management's best assessment based on the facts available at the time and may be subject to change as situations develop and change.

