OUR YEAR

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Our Year

What is the big deal?

The biggest news of 2012 in the stainless steel industry was the combination of Outokumpu and Inoxum to become the world's number one provider of stainless steel and high-performance alloys. The industry has been saying it for years, something has to happen. The rise in the number of stainless steel manufacturers, particularly in Asia, subsequent over-capacity and shaky global economy have all led to dwindling margins and fierce competition.

Widest product portfolio in the industry. Outokumpu's strength in high value added austenitic and duplex grades blends perfectly with Inoxum's leadership in ferritic grades and high-performance alloys. It even gives the company all-round expertise to address all customer segments, from demanding industrial applications to consumer focused industries, and to better cater to customer requirements.

Global market position. With the acquisition, Outokumpu strengthens its foothold in Asia and the Americas, where it is ramping up a new integrated mill. Outokumpu's global market share rose to 12% from 5%.

Synergy savings. Acquiring Inoxum offers significant synergy savings that neither company could have reached alone. Annually, these synergy savings will amount to EUR 200 million. While Inoxum's and Outokumpu's activities are complimentary, there are of course some overlaps. This means difficult but necessary decisions, and Outokumpu has already announced its intention to close the Krefeld and Bochum mills in Germany.

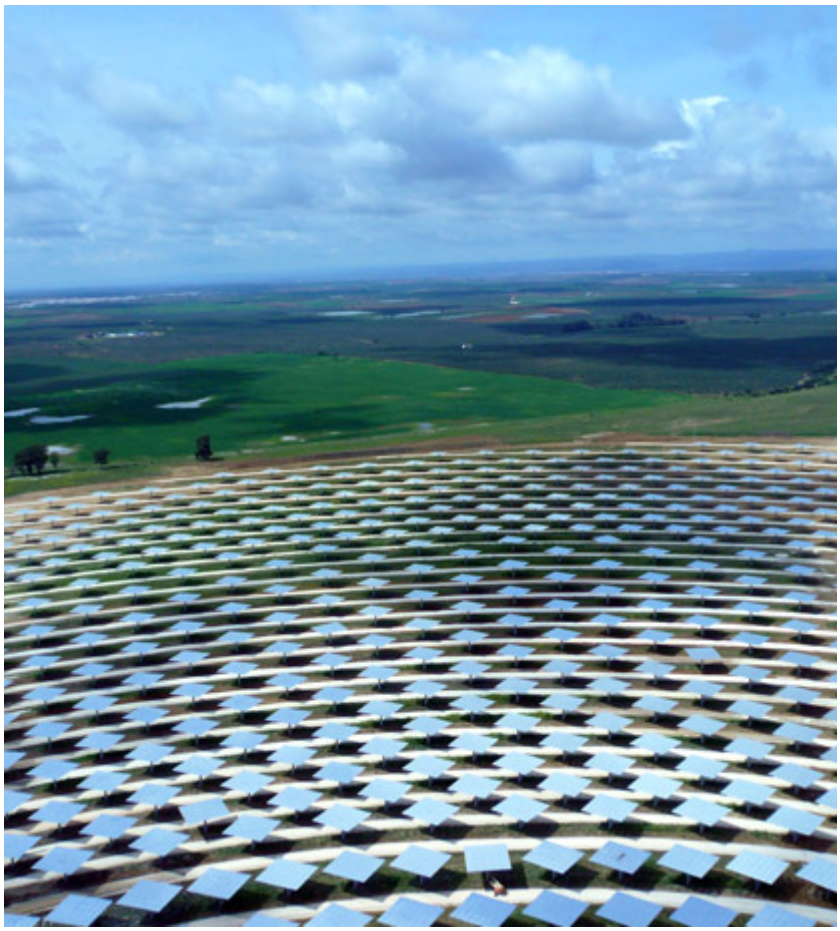
Here today, strong tomorrow

In Europe, Middle-East and Africa (EMEA), the market situation is tough, with supply outstripping a depressed demand, increasing imports from Asia and economic downturn. Outokumpu's recipe for it is to streamline operations and take special care of existing customers.

Stainless Coil EMEA is the largest of the business areas: its operations account for almost half of Outokumpu's sales, employing some 7 200 professionals. "The European market situation in particular is tough," says Ulrich Albrecht-Früh, President of Stainless Coil EMEA. "But Outokumpu now has the combined skills and strengths to really change things in the coming years. European customers have a lot of choice but we have a real opportunity to differentiate through our culture of strong customer relationships and going the extra mile to provide tailored customer solutions."

With Inoxum, Outokumpu has an even stronger presence in Europe and it can offer its customers a comprehensive range of products. One key driver for the synergy savings, and ultimately profitability, is production optimization in Europe – balancing which stainless grades each mill produces and the optimum capacity for each mill. Part of the equation is to create a better balance between hot and cold rolling coil, which Outokumpu is now doing. Ulrich Albrecht-Früh says, "The main challenge in the EMEA region is to reach profitable business in a tough market while achieving a smooth and successful integration. In short term, it will require us to remain close to our customer, realize the synergies in a fast and practical way, and improve our cash flow and inventory efficiency."

Made in the USA



The Americas represent a diverse region of market growth for stainless steel with the United States topping the league with 2-million-tonne stainless steel consumption, the Mexican market growing fast and Canada, Brazil and South American markets following close behind.

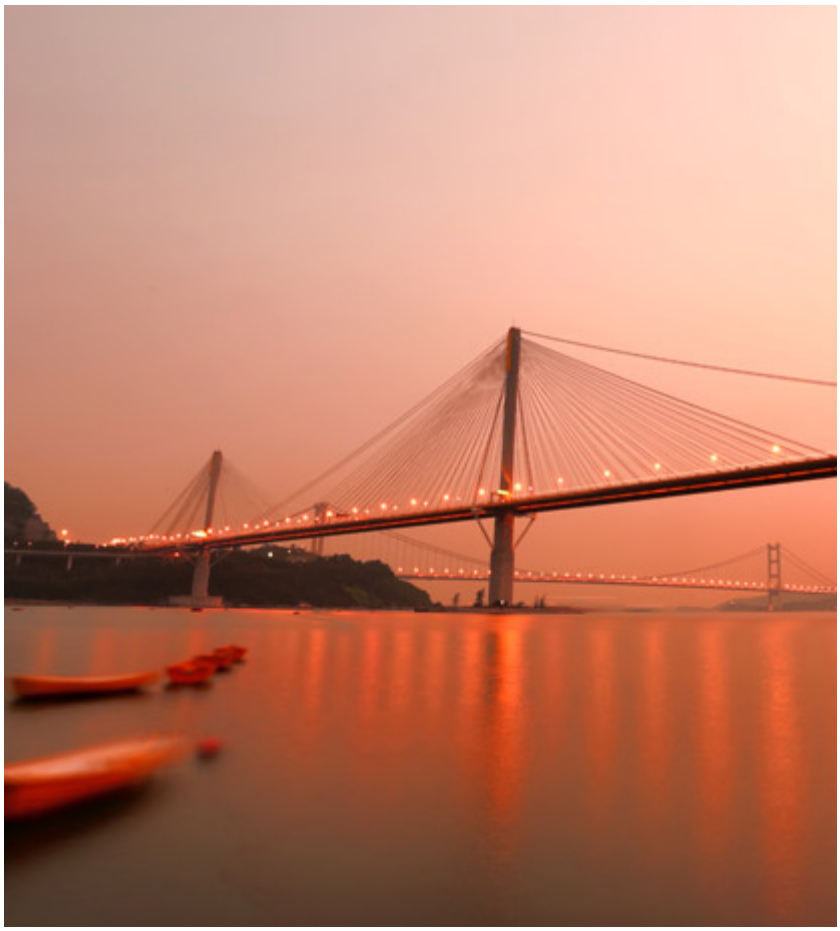
The new Outokumpu has well-established presence in the Americas. Its production split in stainless flat products fully reflects the industry needs, about 70% austenitic and 30% ferritic. Outokumpu has facilities in Mexico and the US, where the lynchpin of the future success is the new state-of-the-art, integrated stainless steel mill in Calvert, Alabama, US. It will be ramped up in 2013–2014. Local asset base will enable shorter delivery cycles for customers and enable Outokumpu to lower its own costs.

Kari Parvento, President of Stainless Coil Americas, will lead Outokumpu's team of 2 000 professionals in the Americas. His background is a melting pot of mining, metallurgy, sales and marketing, making him an ideal person to head the American operations and to bring more innovation to the American market with his team.

"Innovation is not simply creating a good idea; it's something that adds value to the customer's business. And it's more than just a product; it's having the local presence to listen to the customer and steer product development to make sure that new products offer enough value for the customer to want to buy." He continues: "I am very excited about the future. Our customers expect a lot from quality and delivery. We have the capability to meet those expectations. Our number one priority is to ramp up production at the Calvert mill, quickly and safely. Then we'll build our business efficiency through delivering quality products and services."

Year of the Snake

Asia is the fastest growing region in the stainless steel consumption with a growth of around 6%. The whole Asia-Pacific region has driven much of the dramatic change in the industry over the last ten years or so. It's a huge market, accounting for about 60% of the global stainless steel consumption. The demand is not just for standard grade stainless, but increasingly for specialty grades as customers seek purpose-built solutions, long-term profitability and environmental safety.



Outokumpu has had a presence in Asia for many years, but more as a stainless steel importer from Europe. During the last year, however, the company has begun expanding the foothold into a full-scale materials solution provider. With the Inoxum acquisition, 9% of the sales come from the region. The biggest opportunities lie in high-end products, where the margins are better and Outokumpu has an advantage over the competition.

Austin Lu, President of Stainless APAC, says, "There is a huge opportunity for us. But this will take hard work and time. No one succeeds in Asia without putting the customer first. The good news is that we are making progress. We doubled our sales force during 2012 and we will continue to invest in customer-facing expertise, especially in the higher growth markets, like China, India and South-East Asia. Our strategy is based on growth in specialty stainless, utilizing our Chinese joint venture, driving localization and increasing profitability. It is very satisfying to recently win an important contract in China for hot water storage tanks in domestic water heaters. And I am sure that we can build on that success."

Outokumpu now has a cold-rolling unit in Shanghai, China and service centers in Australia and China as well as an extensive sales network covering the entire region to offer faster delivery times to all customers. Some 660 professionals work in the Outokumpu operations in the Asia and Pacific region.

Back to the future

Nowhere is the dual 100-year heritage of Outokumpu and Inoxum as visible as in high-performance stainless and alloys. These materials are designed to the highest requirements for grade, thickness and surface finish. They have better product characteristics than normal stainless steel: higher corrosion-resistance, resistance to extreme temperatures – both high and low – and the strength to withstand high pressure. All this enables the customers to make thinner, lighter and more cost-efficient tools and equipment.

Outokumpu is the global market leader in specialty stainless and alloys. The company's current line-up in high-performance materials is a perfect fusion of Outokumpu's specialty stainless steels and Inoxum's nickel-based alloys (VDM), even reaching up to titanium and zirconium where strength-to-weight ratios and biocompatibility are in a class of their own. The bulk of specialty products are divided into Special Coil, Thin Strip, Special Plate, Long Products and High Performance Alloys.

The High Performance Stainless and Alloys (HPSA) business area employs some 4 600 specialty professionals mostly in Germany, Sweden, the UK and US, where it also has its specialized production units. HPSA is headed by Jarmo Tonteri who says: "I started my career in Outokumpu but left back in 1985 to work on the customer side in the United States for two years and since 1992 for various steel companies in Sweden. When Outokumpu phoned me and asked me to come back, I was standing on the Singapore Marina Bay Bridge, which ironically had been built using Outokumpu's stainless steel. Whether it was fate or not, I'm very proud to be 'back home' in such an exciting business."

"High-performance stainless and alloys have always been a bit in the shadow of the big-volume standard stainless steel. So it's very motivating that the two specialty materials teams from Outokumpu and Inoxum are joining forces. We have an intense common interest in advanced technology – and we are really looking forward to working together, sharing best practices and supporting each other across the portfolio. This can only be good for customers."

Legacy of 100 years

The year 2012 marked the 100th year of stainless steel innovation. In the early 1900s, several discoveries in France, Britain, Germany and the United States led to the commercial development of stainless steel. Some years later, Sweden introduced the first commercial production of duplex stainless steel. It was in this age of metallurgical invention that Outokumpu was born. It can be said that the company cut its teeth on copper and learnt its trade in mining and metallurgy, before eventually settling down in stainless steel in the seventies.

Stainless steel was a great invention that significantly changed the standard of living in many areas. A product engineer once estimated that we interact with stainless steel products over 30 times a day; from cutlery and kitchen sinks to cars and building structures. And it is true that today Outokumpu has a global showroom of everyday tools and iconic landmarks across stainless grades, industries and geography. Most of us don't see the industrial applications but there are familiar names that carry Outokumpu's material; the double-helix Stonecutters' Bridge in Hong Kong, the inimitable "Bean" sculpture in Chicago, new look at Leicester Square in London, the Chrysler Building and Freedom Tower in New York and the majestic Burj Khalifa Tower in Dubai.

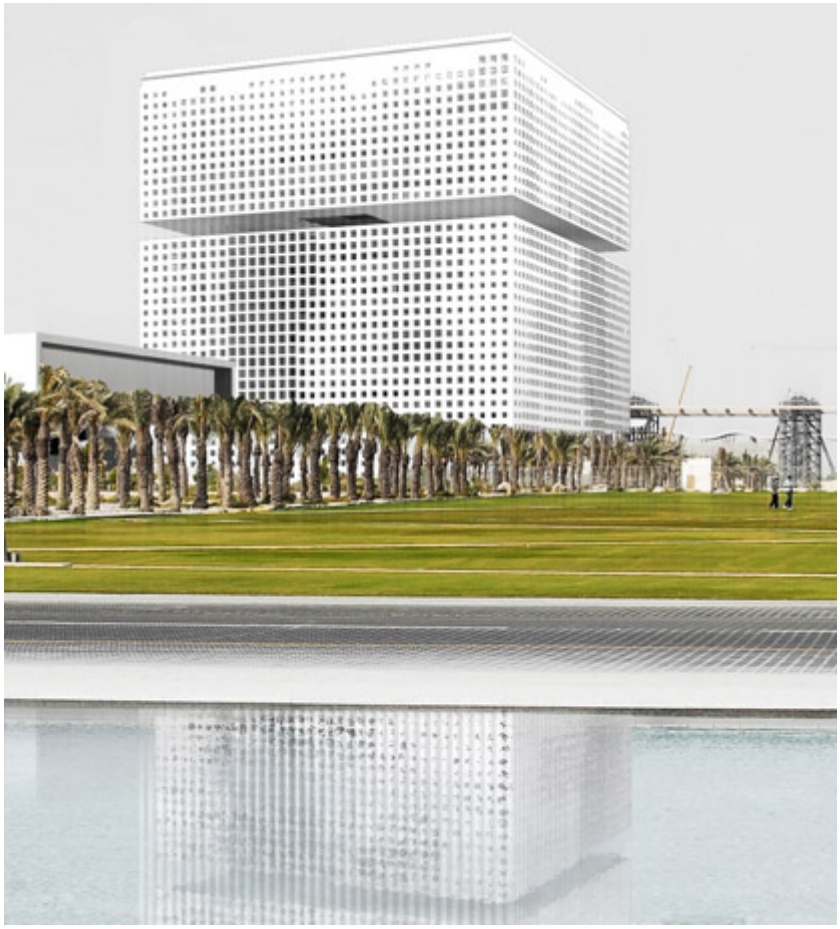
Both Outokumpu and Inoxum have been pioneers of stainless steel innovation for 100 years each. Both companies grew up in mining and metallurgy, with Outokumpu divesting its interest in gold, silver, copper and other metals to concentrate on stainless steel. As separate companies they have brought quality, efficiency and safety to their customers and best practices to the whole industry. So it is fitting that they have now come together to accelerate that pioneering product work.

Stainless steel spins in Miele's washing machines

A good case in point to demonstrate Outokumpu's increased customer focus in Europe is the recent delivery of critical stainless steel flat products to the German company, Miele, which manufactures the world's longest-lasting washing machines and dryers. Independent tests have confirmed that Miele machines have the world's longest product life. They sailed through tests of 5 000 wash cycles (about 20 years of normal use) with flying colors. With its products constantly subject to tough usage and wet conditions around the world, Miele can only rely on the very best materials to secure widespread consumer confidence and protect its slogan "Forever better". That's why Miele chose Outokumpu. The ferritic stainless steel grade used offers high corrosion-resistance, durability and a glossy, mirror-like surface. Believe it or not, stockings are used in tests to demonstrate surface smoothness after prolonged machine use. Initial and successful tests and trial runs of components for the drums of washing machines and tumble dryers in 2011 led to ramping up of full-scale deliveries in 2012.

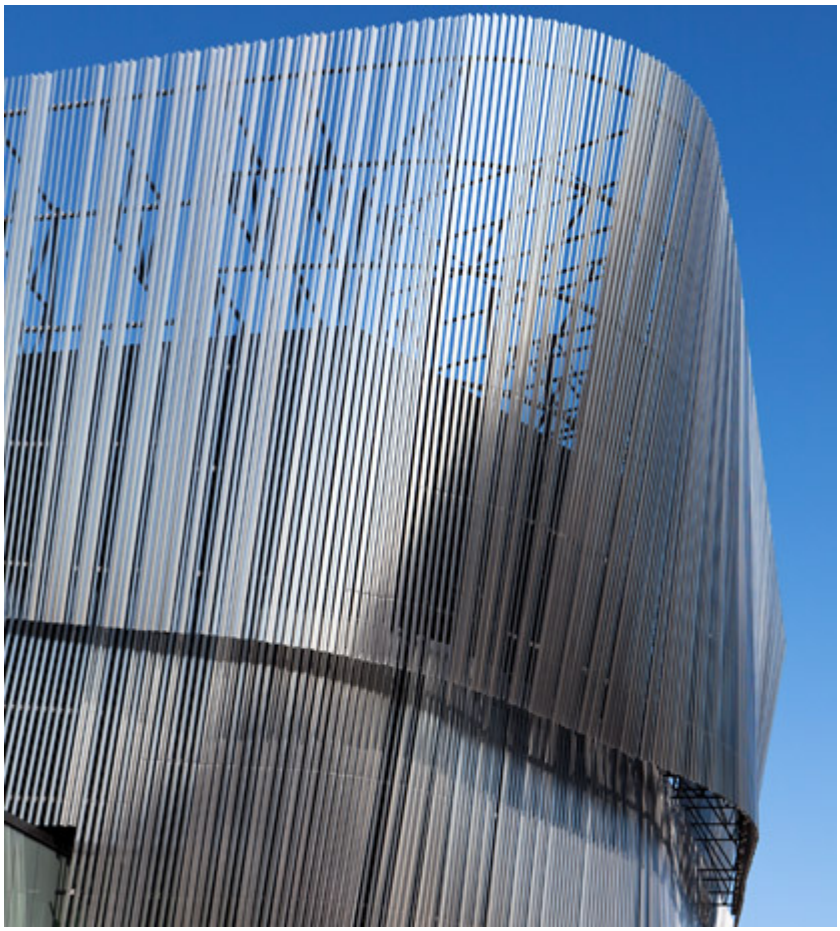
Supported by stainless steel

Qatar Foundation is building a new, modern headquarters in Education City on the outskirts of Doha, Qatar. Outokumpu delivers some 170 tonnes of specialty steel for the structural section made out of duplex stainless steel to provide support for the 57-meter tall, cube-shaped building. Outokumpu supplies rectangular hollow sections and L-profiles manufactured from duplex plate. Duplex was chosen as it provides required strength for the core of the structure. Also, the Qatar Foundation headquarters project is a prime example of the added value services Outokumpu can provide to its customers. The production of the structural sections included various steps from cutting and bending to edge preparation to ensure a smooth installation at the construction site. The building is scheduled for completion in mid-2013.



Paving the path for profitability

Two years ago, radical changes that had been happening in the market required Outokumpu to make some quick decisions to increase its business focus and pursue global expansion. Since then, the company has rearranged its organization and shifted its operations up a gear through ambitious plans and fast implementation. This move already resulted in improved cash flow and capital management in 2012, and cash flow continued to be positive throughout the year. Read more about P100 and P250 in the Our strategy section.



Highlight of the year and the starting point of the turnaround was the completion of the acquisition of Inoxum, the stainless steel arm of ThyssenKrupp. This deal created a new global leader in stainless steel and paves the path for profitability through significant synergy savings – savings that neither company could have reached alone.

Outokumpu expects these synergy savings to be 200 million euros per year. More than one third of these will come from production site closures in Germany, which will also help to balance the company's melting and cold-rolling capacities. Further opportunities for capacity utilization and optimization – through specialization, product swaps and lower variable costs – will bring another quarter of the savings. Economies of scale and the centralization of vast procurement and raw material purchases allow savings of some 50 million euros on an annual basis. Last but not least, a reduction in general costs, including streamlining of sales offices, service centers, head office and IT, will bring the remaining 15% of savings.

All in all, in the face of a very challenging market situation, the company managed not only to make progress in its savings programs but also to go a good deal further with an acquisition that is enabling structural change, significant synergy savings and expansion to the growth markets in Asia and the Americas. Although progress to date is not sufficient to turn Outokumpu's fortunes around, it provides the right platform to continue to reshape operations through necessary restructuring, to capitalize on the investment the company has made and to utilize the growth opportunities that lie ahead.

Forward with P100 and P250

Outokumpu made good headway in 2012 in two key financially related programs – P100 and P250. P100 aimed to cut annual costs by 100 million euros by the end of 2012, while P250 had a target of lowering working capital tied up in inventories by 250 million euros.

P100 was a success and cut annual costs by 100 million euros per year, with the full impact of savings materializing from the beginning of 2013. To cut costs, Outokumpu reduced production shifts, streamlined the organization, outsourced some support functions and divested non-core businesses, such as the remaining brass-rod business. Unfortunately, the necessary streamlining of the organization resulted in a reduction of more than 1 200 jobs during the year. Some 50% of the savings came from job-related costs and the other half from fixed costs, such as transportation, material efficiency and IT. The progress made in P100 has been a key principle for planning and budgeting for 2013 to ensure that the company maintains lower cost levels also in the future.

P250 has also reaped significant benefits, releasing cash and improving inventory efficiency in 2012. Outokumpu reached the 90-day target well before the end of the year – at the year-end inventory days stood at 86. Cash released from inventories was 600 million euros, significantly higher than the targeted 250 million euros. The total release of cash from working capital since June 2011, starting point of the program, was 886 million euros at the end of 2012, including a significant positive contribution from accounts payable and receivable.

Work continues in the new Group: In February, new Outokumpu initiated further cost-saving measurements – a further reduction of 100 million euros in annual costs and a further release of cash from inventories, targeted at 300 million euros.

Thinking big

Outokumpu is doubling the annual production capacity of ferrochrome in northern Finland to 530 000 tonnes, gearing up the operations to meet the challenge of its new position as world leader in stainless steel.

Stainless steel uses ferrochrome, which is an alloy of chromium and iron, to give the material its corrosion-resistance and shiny finish. The company's own mine at Kemi produces chromite concentrate as raw material for the ferrochrome works at Tornio, which is just down the road. The mine is not only the biggest one in Europe, it boasts the largest known chromite reserves in Europe. After the doubled production capacity, Outokumpu produces 5% of the world's ferrochrome production. It is a huge advantage when it comes to serving Outokumpu's new global network in mills and managing fluctuations in raw material sourcing. After doubling the capacity, it will cover a majority of the company's ferrochrome needs.

At the year-end, Matti Suurnäkki took on the responsibility to head the ferrochrome operations, which at the same time became part of the Stainless Coil EMEA operations, its biggest internal customer. Matti Suurnäkki says, "It is very exciting to enter the next phase of the strategy implementation of our ferrochrome operations. We have a great team and valuable assets in place to manage the operations and to maximize the cash flow and profitability of Outokumpu, in a safe and sustainable way. The role of ferrochrome operations remains as important as ever, as it gives Outokumpu competitive advantage of access to an essential raw material at a low cost."

The world needs advanced materials

Demand for stainless steel is forecast to continue its steady growth over the next few years. While demand is growing fastest in the Asia-Pacific region, there are global megatrends that drive the demand for stainless steel and high-performance alloys everywhere.

First, strong economic and population growth drive demand in many industries, such as energy, chemical, appliances, oil and gas just to name a few. As population grows, food and water supplies are becoming more important, and as standard of living is rising across the globe, some natural resources, such as metals, energy and fresh water, are becoming scarce. For example, the need for clean water has created a need for sea water desalination, something in which stainless steel has one of its uses.

Therefore stainless steel is closely linked to a high standard of living. Increasing urbanization means increasing demand for architecture, construction and transport and for white goods, such as cutlery, kitchen sinks and washing machines. As a material stainless steel satisfies high standards of hygiene, which is why, for instance, commercial kitchens around the world are built from stainless steel.

Climate change and limited resources create an urgent need for more efficient consumption solutions and for saving irreplaceable raw materials. Radical changes in the energy production towards renewable energy sources has created opportunities for stainless steel: there are strict requirements for material properties in energy applications – for strength and durability, hygiene and recyclability. Stainless steel and high-performance alloys can contribute to a sustainable future. As they are designed to last and are 100% recyclable, extremely strong, corrosion-resistant and heat-resistant, they are one of the best examples of life-cycle thinking. Moreover, Outokumpu strives to produce it in as sustainably as possible and to minimize the environmental impact of its production.

History may show the biggest discovery of this century to be our realization that we cannot continue to consume our own planet. Already now, we have alternatives to secure a more sustainable future while still reaching business goals. Outokumpu represents one such alternative.

Unique track record

For years, Outokumpu has been a leader in environmental performance in the industrial sector. Sustainability is the core of its operations: stainless steel in itself is sustainable material, and it is an integral part of production process. While pleased with the progress, Outokumpu sets ambitious targets to further improve its environmental performance. As a proof of its environmental work, the company has managed to decrease its carbon footprint by 40% since the 1990s, and targets to achieve a further 20% reduction by 2020. Another example is the recycled content of Outokumpu steel, which exceeds 80%, against the industry average of 60%. This was confirmed by external assurance in 2012.

Outokumpu's unique track record in sustainability is the result of a long-term commitment. Outokumpu's work has been recognized by Dow Jones Sustainability Indexes (for the sixth time in a row), by Carbon Disclosure Leadership Index (for the third time in a row) and by oekom research AG most recently, for the first time.

For example in Dow Jones, Outokumpu was particularly recognized for its environmental work, receiving highest possible score in the climate strategy, environmental policy and management system as well as the highest score in its industry for occupational health and safety.

These indices rate companies for their economic, environmental and social performance, serving as benchmark and reference point for investors and companies alike.