

Rita Uotila

Welcome to Outotec's CEO Q&A session. My name is Rita Uotila. In this session we will go through some information which gives some further clarity on information that we have published already earlier about the issues and questions that we get asked daily. This webcast will be recorded and it will be available as an on demand publication on our webcast centre. So let's go ahead and see who is answering the questions today. We have today our President and CEO, Pertti Korhonen.

Pertti Korhonen

Good afternoon.

Rita Uotila

And CFO, Vesa-Pekka Takala.

Vesa-Pekka Takala

Good afternoon.

Rita Uotila

And thanks for all the questions that we have received and I think we can kick off with some topical things, and I would like to start off with the questions about the market situation. Outotec has seen an improved activity in customer activity since the Q3 2009 and we have seen some big orders lately. What and how would you describe as a normalised order intake level, and how do you see the order intake pipeline developing.

Pertti Korhonen

Thank you, Rita. So as we have been commenting since fourth quarter, in our communication we have started to see increased activity in the market since, let's say, end of quarter three. The many negotiations for new projects have been activated and ones that were put on hold during 2009 have been reactivated, so the activity level is up significantly. And we are also seeing the order intake gradually improving.

Yes, we got two large orders during last weeks and those were orders which have been in the pipeline. They have been worked on already for a long time and they just happened to now materialise and get mature quite close to each other, but what is more important is really to look on the order intake in general and there we are seeing a slight gradual improvement.

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Rita Uotila

How would you describe the competitive environment?

Pertti Korhonen

Of course as the market is still recovering and in that sense still slower than what it was in 2007-2008, there's of course competition and companies are competing on those cases which are there to be taken on the market and of course that means that there is also some price competition there. However, we have tried to, so to speak, keep the head cool and not go into taking orders with poor margins.

Vesa-Pekka Takala

Actually, if I can complement a little bit there? When looking at the two large orders that we got recently, there the margin levels, for instance, are normal and the same applies to the payment terms which has been a small concern. But I can say that not only the down payments, but also equally importantly the milestone payments which currently that we have, we are continuously cash positive in these projects that, yes, is the case. And as such, those are positive signs and therefore we are not really seeing gross margins dilution.

Rita Uotila

Okay, thank you. That's helpful. Outotec operates also outside mining and metals. We received last year an order from Estonia relating to oil shale. How is the situation outside metals and mining in water and energy?

Pertti Korhonen

Well, of course as we have communicated, we are seeking for growth opportunities outside of the, let's say, the current core business of mining and metallurgy value chain and this Estonian project that you were referring to is a first big case in that area. And of course we will continue to work on, to expand our business in these areas where we can leverage our core technologies, core products in these new verticals, such as energy and water.

Rita Uotila

If we move from the market conditions a little bit forward, there have been two acquisitions which started late last year and now are close to finalising them, Larox and Ausmelt. So what is the integration process? Where are we at the moment and how are we going forward with those?

Pertti Korhonen

Well, of course now when, with Ausmelt the situation is such that we now own 100% of the company and we can now fully proceed with the integration. Regarding Larox, Larox is still a listed company and the squeeze out process is ongoing, so we are planning the integration and preparing everything. But of course we can then fully focus only after we have established the milestone where we have the full ownership of the company and Larox is delisted.

Rita Uotila

Thank you. How about going forward this year; are there any new good targets out there?

Pertti Korhonen

Well, of course we are following very carefully potential opportunities for acquisitions. Our acquisition strategy is such that we are seeking for technology companies which augment our offering in the core business of minerals and metals value chain. Larox and Ausmelt are very, very good examples of such technology companies which have a perfect fit with what Outotec is offering and hence complement our offering there.

Then we're also seeking for acquisition opportunities to grow our services business and recent acquisition that we announced about the Millteam is a good example of this kind of smaller service company acquisition. And then of course we are also seeking for acquisition opportunities, most likely technology oriented companies, to accelerate our growth in the new business areas such as energy and industrial water.

Vesa-Pekka Takala

Short-term I would say that we concentrate on integration of these two bigger acquisitions and then naturally we continue screening opportunities, like that mentioned, and smaller maintenance type of acquisitions. Naturally we have to look for and financially we would have the muscles to make acquisitions, but on the other hand we want to swallow and make sure that we can integrate successfully the companies that are in the integration phase at the moment.

Rita Uotila

Well, what about financial criteria?

Vesa-Pekka Takala

For acquisitions? Yes, we naturally continue to make sure that these acquisition candidates not only fulfil a strict strategic feed criteria, but in addition to that they have to fulfil a strict financial criteria – that goes without saying. We don't make acquisitions just for the sake of making those. They have to be well-argued.

Rita Uotila

Okay. Larox brings quite a bit of service business to us. Service business is something which is, which has been developed very strongly in the past two years. Could you describe about Larox's input and also how we get to the target 250 to 300 million levels at the end of this year, and maybe what would be the target going forward?

Pertti Korhonen

Yes, indeed Larox brings a significant addition to our current services business revenues and with the combined run rate of the service business now with what we used to have in Outotec going concern, plus then the addition from Larox, takes us already quite close to our strategic target which we have given, i.e. that we would reach 250 to 300 million services revenue by the end of this year. Naturally we need some organic growth on top of what is the current run rate, but reaching this target window of 250 to 300 looks very much possible still during this year.

What then comes to the further objectives, we have not yet released any new milestone or any new target setting, but naturally our objective will be to continue to increase the services revenues. We still have a lot of opportunities to productise new service offerings and then also the penetration to our installed base is such that there are quite good opportunities to increase that. We have to remember that the company set the services growth as a strategic target only a couple of years ago, so we are still in the beginning.

Rita Uotila

Okay, so the potential is there. Also, in the context of the financial year accounts we announced this savings target for €25 million as a run rate compared Q4 last year to Q4 this year. Can you describe what are the elements, where that is coming from?

Pertti Korhonen

Yes, indeed. We are seeking to achieve this reduction in our fixed operational costs. The elements there are coming; part of it will be coming from personnel costs, so the reduction of personnel, and then of course we are also looking at all other fixed operational cost elements, such as our business infrastructure, IT systems, external services, premises, leases, rents. Basically, all areas and we believe that through this kind of an exercise we can reach the target.

While we are doing it now, this is also linked to the announcement of the new operational model which will be effective 1st April. We are changing our organisational structure. We are regrouping our businesses and we're also restructuring how we operate internally, and this also gives us opportunities to improve our cost structure and that's part of this 25 million targeted savings as well. Also, our, the synergy savings which we are seeking to get from the integration of Larox and Outotec.

Rita Uotila

The final guidance given in the full year accounts was for sales and EBIT level. Can you comment a little bit how the sales guidance came about and the EBIT guidance? What are the elements in there?

Pertti Korhonen

Well, of course when we look at the sales guidance we have said that we expect that the revenue this year will be approximately 1 billion and the components there are really the, what used to be Outotec going concern 2009, plus then adding the Larox and Ausmelt revenues there. As we have said, going concern we expect that the, what used to be the scope of Outotec businesses is slightly going down

because of the result of the weak order intake still last year. So, all in all, these are then coming up to this roughly €1 billion.

Then what comes to the EBIT, there we expect that the profitability will continue approximately on the same level as last year. So before the purchase price allocations, then one-time costs coming from the restructuring, we expect explicitly saying that the EBIT would be approximately €70 billion. And then as we have, as we said in the Q4 conference call, the PPA is approximately one million there, sorry, ten million. VP, anything to add there?

Vesa-Pekka Takala

Well, if one wants to look at the simple mathematics, how to come up with that €1 billion sales guidance, we have said that 68% we expect to deliver from the opening backlog. Plus then, if one adds the volume, sales volume from acquired companies which will be fully consolidated since the 1st January, those bring along roughly €150 million sales.

Therefore, that leaves us with a gap of roughly €250 million that we need from new orders this year to be recognised in sales. And less than half of that is supposed to come from services where the turnover is fast, and the rest from project business where we apply percentage of completion method for the vast majority of those sales. And the fact that we got some fairly significant business so early on in the year we are quite confident that we can reach that €1 billion sales target.

Rita Uotila

Thank you, VP. I think we're ready now to take some questions from the telephone lines.

Questions and Answers

Operator

Ladies and gentlemen, if you do have a question at this time, please press star one on your telephone keypad. To cancel your question, please press the hash or pound key. The first question comes from the line of Rupesh Madlani. Please go ahead.

Rupesh Madlani – Barclays, London

Good afternoon. Rupesh Madlani from Barclays Capital in London. Thanks for the opportunity to ask questions and the introductory questions. A few questions from my side. Could you comment on the timing of expected release of provisions from some of the contract that you are delivering or have delivered, and what should we expect over the coming year in terms of the release of those provisions?

Second, you commented on conducting additional acquisitions subject to the ability to integrate those acquisitions and those that you've already announced. Perhaps you could talk about the size of acquisitions that you would find attractive for you, given that you've already completed two transactions?

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And lastly, a while ago the thinking around the company was to have a significantly enlarged balance sheet and capital structure and financial flexibility to allow you to sign medium to large-scale turnkey transactions. Given that you've now conducted a number of acquisitions, how do you see your ability to take on some of these larger transactions? Thank you.

Pertti Korhonen

All right, thank you for the question. So if I start regarding the release of the provisions of projects that we are delivering or have delivered here, we are just going as normal. There is no change in the, let's say, in the magnitude of, relative magnitude of provisions that we are making or what we have been releasing or are thinking of releasing, so this goes as very, very normal continue. We are looking this project by project. We have very diligent ways and logic how we do this and there is no expected change here. VP, anything you would like to add there?

Vesa-Pekka Takala

Well, maybe just for your benefit, Rupesh, I think you're aiming at seeing good provision releases towards the end of the projects and, well, it goes without saying that a lot of projects that we took over the last two or three years, they are gradually approaching completion and provided that we continue to be equally successful in execution as we have been in the past hopefully we will see some good provision releases this year and next year which naturally contribute positively to the growth margins.

Pertti Korhonen

But we have tried to include everything to our estimates and forecasts to the best knowledge that we have today about the risks and the levels of completion. Then the second question, it was about the additional potential acquisitions and the sizes of the acquisitions. So we believe that... the thinking is that we are really... the optimum acquisitions to make, we could call them so-called bolt on acquisitions that bring us technology and IP that complements our offering.

Now, the three last acquisitions, one was a company with a revenue of four million, then we had the Ausmelt, then we had the Larox, so perhaps this sets quite nicely the range of the sizes of the acquisitions that we are seeking for. And then what comes to the balance sheet and capital structure, VP, maybe you want to take this?

Vesa-Pekka Takala

Yes. I think currently we are clearly overcapitalised which is a good thing under these difficult market conditions and the financial turmoil that we have experienced. Previously I guess also investors appreciated as efficient balance sheet as ever possible. These days a strong balance sheet is a value of its own, and naturally we have the financial muscles to make acquisitions and to also take in large contracts. Balance sheet is not a restriction for those.

Thank you. And if I could just follow up, do you anticipate receiving similar levels of prepayments from some of the contracts that you're discussing now that you've achieved in the past, or are you noticing a distinct change in terms of the scope and scale and timing of prepayment?

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Pertti Korhonen

Well, basically, of course when the market was really heated, 2008, some prepayments ended up being very large in com... even 50, even up to 50% of the contract value. We do not expect that we would soon get to these kinds of levels, so we are back to normal levels in the prepayments. But really, we have been following our strategy that we have had previously here and we have been able to keep those levels. VP, anything you would like to add?

Vesa-Pekka Takala

Yes, 10 to 20% is a normal customer prepayment for Outotec's contracts. And in the case of these two large orders that has been the case, and equally importantly the milestone payments are normal, keeping us cash positive, so in that sense things look quite okay. And Pertti referred to some of the contracts that we took during the boom time where the down payments were sometimes very high, but I have to say that those are quite abnormal cases and also maybe the customer has been a little bit more risky and in a little bit strange country, for instance, and those have been the reasons for abnormally high down payments.

And my very last question, have you seen any additional or new competition, either Chinese or Asian operators, that you think could be a challenge for you in the future? Are you still confident of your IP and customer relationship going forward?

Pertti Korhonen

Well, I would say that no new competition has emerged. Of course there continues to be a kind of competition which you are referring to. However, we have also seen that some customers have experienced problems when they have gone for the lowest price, which we believe doesn't equal with the lowest total cost of ownership, and customers have in some cases been disappointed about the quality or about the capability of the supplier to really commission and ramp up the process. And so we have started to see also these kinds of signals recently, which is of course very encouraging for Outotec.

Great answers, thank you.

Operator

The next question comes from the line of Kas Vardhanabhuti. Please go ahead.

Kas Vardhanabhuti – Morgan Stanley

Good afternoon, gentlemen. My name is Kas Vardhanabhuti, calling from Morgan Stanley. Just a couple of questions from my side please. Firstly, having recently received orders from Chile, South Africa and China, which regions do you see as becoming more and more attractive for you going forward?

And the second question relates to the companies that you are discussing orders with. The recent orders that you have been announcing have come from emerging market companies. How much

tendering activities are you having and how much discussions are you having with major international companies like BHP, Rio Tinto, and the likes?

Pertti Korhonen

All right. So if I start with this question regarding the regions; we, Outotec, we are present in all market areas and of course that means that we can leverage the opportunities wherever they happen in the world. It goes without saying that China and India, those are now the growth engines of the economy. The West is having, is experiencing really a pretty dramatic slowdown, so Northern America and Europe. So the activity is in China, India, and then Southern America as examples, and that's also visible with our activity and in the order intake.

And then regarding the companies, we are having active discussions basically globally with all kinds of players; seniors, juniors, Greenfield, brown field, so all these activities are there in the funnel. I don't know, VP, anything you would like to add there?

Vesa-Pekka Takala

Yes, maybe. What comes to the large orders, there our customers, for instance, are Codelco, who is the world biggest copper producer, and Arcelor Mittal together with its joint venture partners; although the project happens to be located in South Africa, still the customers are big global players of course. And, by the way, these two companies, for instance, are quite famous for being cautious in their cash investments and as such it is a good sign that these kinds of companies have committed into new Greenfield projects after a while.

Okay, thank you very much.

Operator

The next question comes from the line of Sasu Ristimaki. Please go ahead.

Sasu Ristimaki – Carnegie, Helsinki

Yes, good afternoon. This is Sasu Ristimaki from Carnegie. Two questions, if I may. Firstly, just to check up, I think in your presentation you said consolidated revenues from acquisitions in 2010 would come to about €150 million. I think that was the 2009 reported figure, but did you also guide that to happen in 2010?

Vesa-Pekka Takala

Well, that's roughly the guidance for those two companies combined. Maybe it is a little bit more or, in a worst case, a little bit less, but roughly speaking that brings along €150 million top line to Outotec.

Okay, thank you. Then the second question is, can you shed a little bit of light on what is happening in Canada and specifically with your Auburn subsidiary there because I seem to remember that you had some issues with customer shortages in the fourth quarter.

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Pertti Korhonen

Right. So as we have been commenting, 2009 the activity level in the services business has also been slower because the customers plants have been not running on full capacity or they have been shut down or reduced production quantities and that has of course impacted our services business, including Auburn. And now when the capacity utilisations are starting to get back to a more normal level this will contribute to, let's say, in such a way that the service activity will start to resume back to more normal levels and this will also be then contributing to reaching this growth target of 250 to 300 million services revenues this year. So we expect that also Auburn activities are recovering.

Okay. Then just a quick third question maybe, that in terms of your project mix going forward, 2010-2011, do you expect any change in the share of your EPC projects versus others, or is the mix going to continue roughly on the historical level?

Pertti Korhonen

Well, of course as our strategic goal we want to expand the scopes of our deliveries, so leveraging our intellectual property, our technology, our products to more solution deliveries. That is our strategy to continue to strengthen the value capture and gradually, hopefully, we will get more and more projects that contribute in this, in reaching the strategic goal.

Great, thank you very much.

Vesa-Pekka Takala

Maybe one more aspect to that is that at least short-term if one believes in our top line guidance of €1 billion and the after sales or services sales guidance 250 to 300 million range, even if that would end up to the low level, €250 million, that suggests that all of a sudden services business represents 25% of our sales volume and that as such is a change in project mix and naturally the higher the portion of services business that contributes positively to the gross margins of the company.

Sure. Again, thank you.

Pertti Korhonen

Thank you.

Rita Uotila

From this topic we easily move to gross margins and potential in developing those. One of the bright spots last year was definitely how well the gross margins held up and also a question that we often get is about the EBIT margin; what is the potential for those and as a technology company how come they are only that low? Can you describe what are the elements and elaborate on how they are, where are they coming from?

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Pertti Korhonen

Okay. So first to the gross margin levels, so the reason why 2009 gross margins were on sustained good level is, that's stemming really from the solid execution of the projects in the backlog. So we have been able to execute them as planned and with the costs as have been planned – that's where the sustainability of the gross margins is coming from. And then as VP was referring to, also the order intake that we are having is having normal healthy gross margins, so we have all the reasons to expect that this would continue on a sustained level.

Then what comes to the EBIT margins, here it's very important to remember or notice that it's not the margin percentages which are only important, but it's actually the absolute margin. And if we would only, let's say, focus on licensing technology and selling some, let's say, proprietary equipment the percentage EBIT margins for such kind of a deal would be higher, but the absolute Euros coming in would be really much, much lower.

So we really need to pay attention and focus on earning real money and not the percentages. And that's why the margin structure in these kinds of larger scopes and larger packages is not the same as with only technology licensing or proprietary equipment sale.

Vesa-Pekka Takala

And Outotec's cost structure is a little bit unique in that sense that we use so extensively subcontracting and basically we have outsourced all our fabrication of our products, with the exception of now Larox which brings along assembly workshops, but that is not any heavy work, mechanical workshop capacity, but rather light assembly capacity and that explains our, the level of Outotec's gross margins to a large extent. And therefore, as we have employed so little capital in our business, meaning that the total capital turnover is very fast and therefore with, let's say, five to 10% EBIT margins we can deliver very strong returns on capital or returns on equity.

Rita Uotila

Thank you, very helpful. Well, I suppose that as the last question is good to go through the financial, long-term financial targets. As a newly appointed CEO there's been questions about reviewing them. What is your comment on that?

Pertti Korhonen

Well, I have been asked this question and my response has been that I'm not planning to negotiate them down so that perhaps goes without saying. I think they are good targets, they are good objectives and let's see how we can continue to develop that but, for the time being, we will stick to the earlier objectives that we have given.

Vesa-Pekka Takala

I think it's quite natural that companies, Outotec, like other companies, assess their long-term financial targets as part of the annual strategy processes. Those cannot be really determined in isolation but they an integral part of companies' strategy.

Michael Feniger – Merrill Lynch

Hi, guys. This is Michael Feniger from Merrill Lynch. Discussing two big orders, that they've been in the pipeline for a while. I was just wondering if you could explain the process of what's going to make these orders come through. Is financing still an issue or what's clogging up waiting for orders to come through?

Pertti Korhonen

Well, these two large orders that have come through, we have been working on those for quite some time. They have been in our final for quite some time and all in all, I think the logic, the causalities go in such a way that when the confidence to the market started to return on the second half of 2009, then our customers started to basically reactivate their investment programmes. They came out to the market with the new guidance for this year's investment levels so basically the wheels are starting to roll again slowly. And then when you are taking a project case, an investment case, for evaluation, and when the customers go through it, they do the planning, they do the checking and everything, it takes some time before then all the details are fine-tuned and ironed out and a final contract is made. So there is this kind of a very natural lead time there. I think that, VP, you will probably add something to this but the financing has been returning more to the normal level and financing is not any more as such kind of an issue as it was still last year.

Vesa-Pekka Takala

I think you're right. I would say that in the summer of 2009, financing was still a major obstacle for so very many companies but currently I would make such a distinction that for juniors, arranging for financing is more challenging as that capital structure and covenant requirements set by the banks are more stringent than before. Before they can wait and get financing for the project. However, for larger companies, I think they have first of all been able to restore their balance sheets and their sources of funding are diverse. They can... For instance, convertible bond markets, CB markets are very active at the moment so they are not that dependent on commercial bank financing only. So I don't see that as a major obstacle any more.

Pertti Korhonen

And of course we think these metal prices, the cash flows of many of our customers are actually very strong and healthy and of course that's a major contributor in the finance.

Michael Feniger – Merrill Lynch

Thanks, guys. That was a big help.

Sasu Ristimäki – Carnegie, Helsinki

Yes, thanks for saving a follow-up. Just that, in relation to the previous question, if I think of your peer group from a Nordic perspective, companies such as FLS, Metso, yourselves, Sandvik have all actually been generating very good order development in the last month but what strikes me is that there's not

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much overlap in the projects being announced. They come from very different geographies, very different customer types and many product categories. Are we seeing just a hugely broad-based industry recovery here, where everybody is again spending money, or is this just a slightly random development that companies that are supposedly competitors are seeing just their business come from randomly different customers at the moment?

Pertti Korhonen

Well, of course, this is still actually a little bit difficult to say, since we have only so few months of this kind of a strong development behind us. We have to remember that still Q3 last year, the market was pretty slow, so we probably do not have full visibility to what is going on on a larger scale but I would... I think that the situation suggests that perhaps it is a bit more towards the first option that you have given. So rather than random, we are seeing activity level picking up in various parts of the world and also in several metals – of course iron and copper are leading – and then also in different kind of product categories. The strength is building basically, should we say, from the pit, so really in the concentrated brand end and we are seeing perhaps still more slowness on the metals processing side because there is still unused capacity in the world, especially in the western part of the world. VP, anything you would like to add there?

Vesa-Pekka Takala

I guess that's about it. On the other hand, one can say that companies have to take into account the long lead times because for a large mining process or downstream process, the lead times from feasibility to an operating mine or an operating plant are quite long, three to even five years before they have full capacity in use. So they have to think a little bit long-term and there was an era of one-and-a-half years when companies really cut back their outflow of capex wherever they can, didn't commit into new green-field process at all, they even saved from maintenance capex in order to restore their balance sheets and now, I guess, it's time for many of the companies to start investing again.

Sasu Ristimäki – Carnegie, Helsinki

Great, thank you for a helpful answer.

Rita Uotila

There's also been a question about working capital and we saw a little bit of outflow of that in Q4 2009. Can you describe, is it, how is that developing now with the new orders coming in?

Pertti Korhonen

Yes, of course, the fact that the operating cash flow was slightly negative last year is coming from the fact that we were really delivering from the order book and the book to bill ratio was less than one and therefore there was, relatively speaking, little cash flow coming in from the prepayments and new orders. Now, when the situation is stabilising, then of course also the cash flow is developing more to a favourable direction and naturally if the order intake continues to strengthen we should then be getting gradually back to a positive operating cash flow as well. VP, anything you would like to add?

Vesa-Pekka Takala

Yes, and I guess it's a good observation that even in a fairly deep recession we were able to keep or maintain working capital on the negative territory and we are one of those, Outotec is one of those few companies who can manage a sizable business with clearly negative working capital.

Rita Uotila

I think that was actually all the topics at this time. I would like to thank CEO Pertti Korhonen and CFO Vesa-Pekka Takala for answering all these questions and you for participating in this webcast. And for the next events, we have Q1 report coming out April 23rd and then the next Q&A session will be in June 21st. So until then, bye-bye from us.