

Improving profitability and cash flow

Outotec Capital Markets Day 2017

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Improving profitability and cashflow over the cycle







- **Current business status**
- **Fixed cost development**
- **Margin improvement**
- **Service business impact**
- **Balance sheet development**





- **Sales growth faster than the market**
- **Annual average service sales growth over 10%**
- **Profitability (adjusted EBIT) 10% of sales by 2020**
- **Gearing at maximum 50%**

Our businesses are in different phases

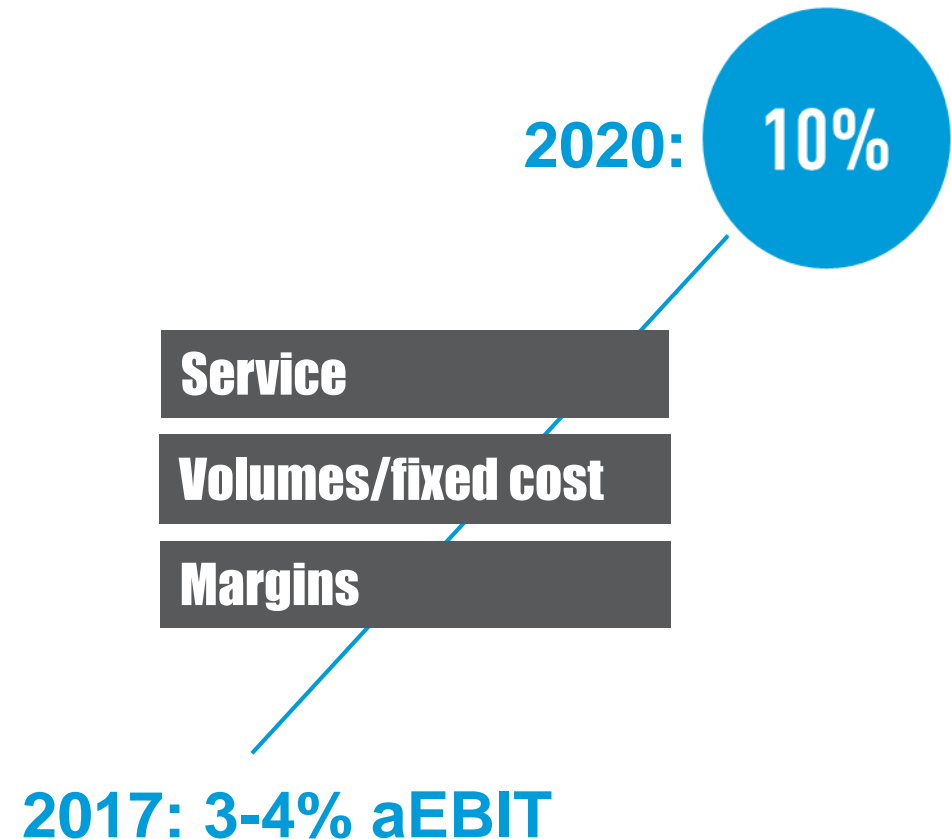
- **Minerals Processing to raise profitability and seek growth**
 - Significant equipment and smaller projects business
 - Significant service business (~50%) from parts, service and upgrades
- **Metals, Energy & Water to return to profitability**
 - Large part of volume from bigger projects
 - Moderate service business (~25%) from shutdown service, upgrades and modernizations

MP	MEW
Dewatering incl. Tailings & Industrial water 	Smelting & Hydro- metallurgy 
Beneficiation 	Metals & Chemicals processing 
Comminution 	Energy & Municipal water 

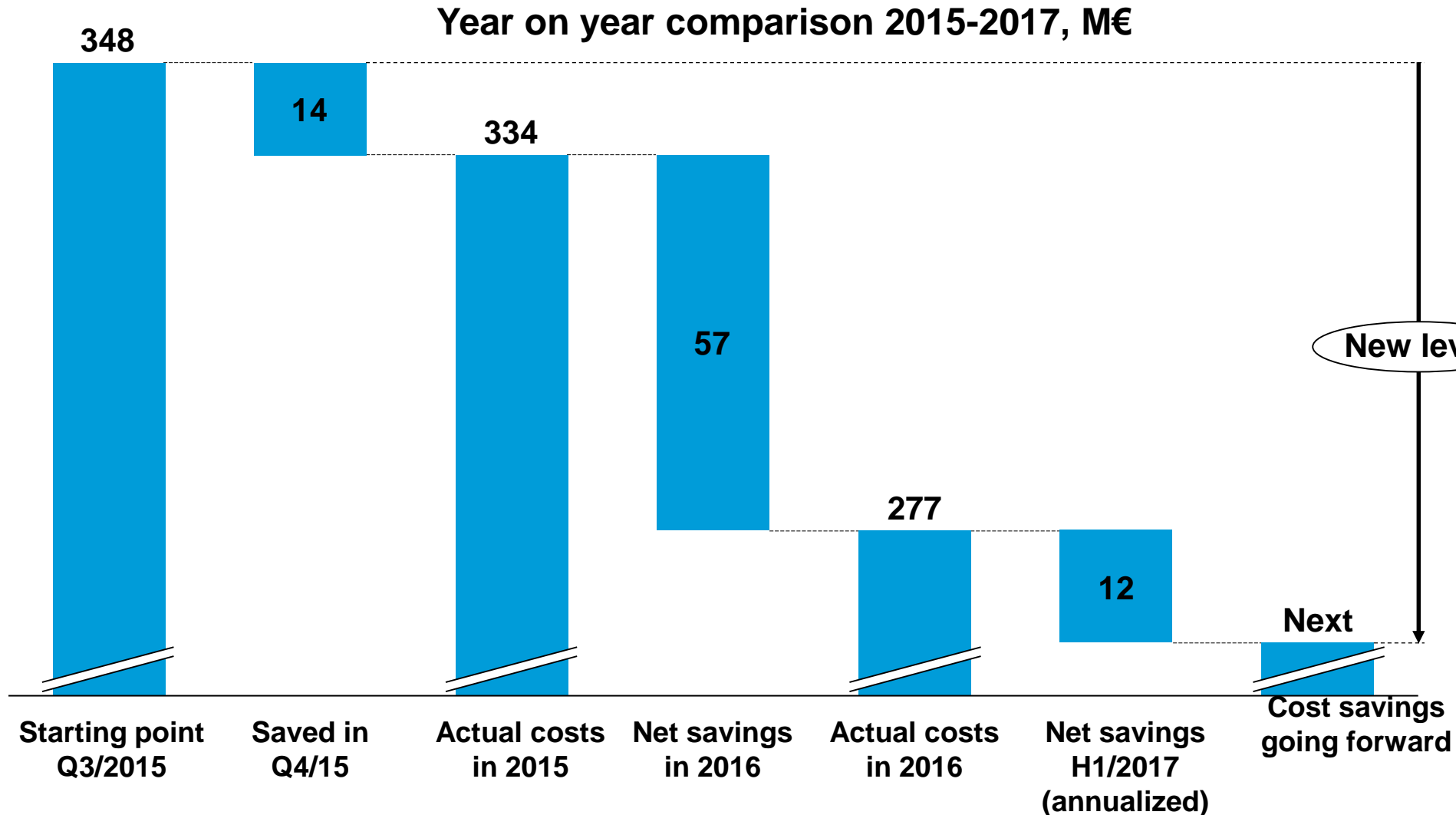
 Market already improving  Market pending

Key levers to raise profitability to 10%

- Grow volumes while containing fixed cost
- Improve margins through product competitiveness and project excellence
- Increase service sales over 10% on average per year



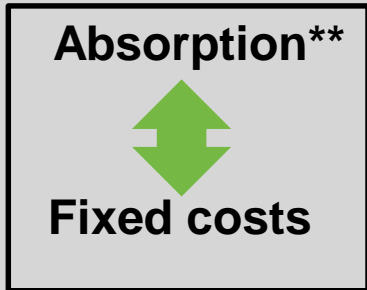
Gaining efficiency going into this cycle



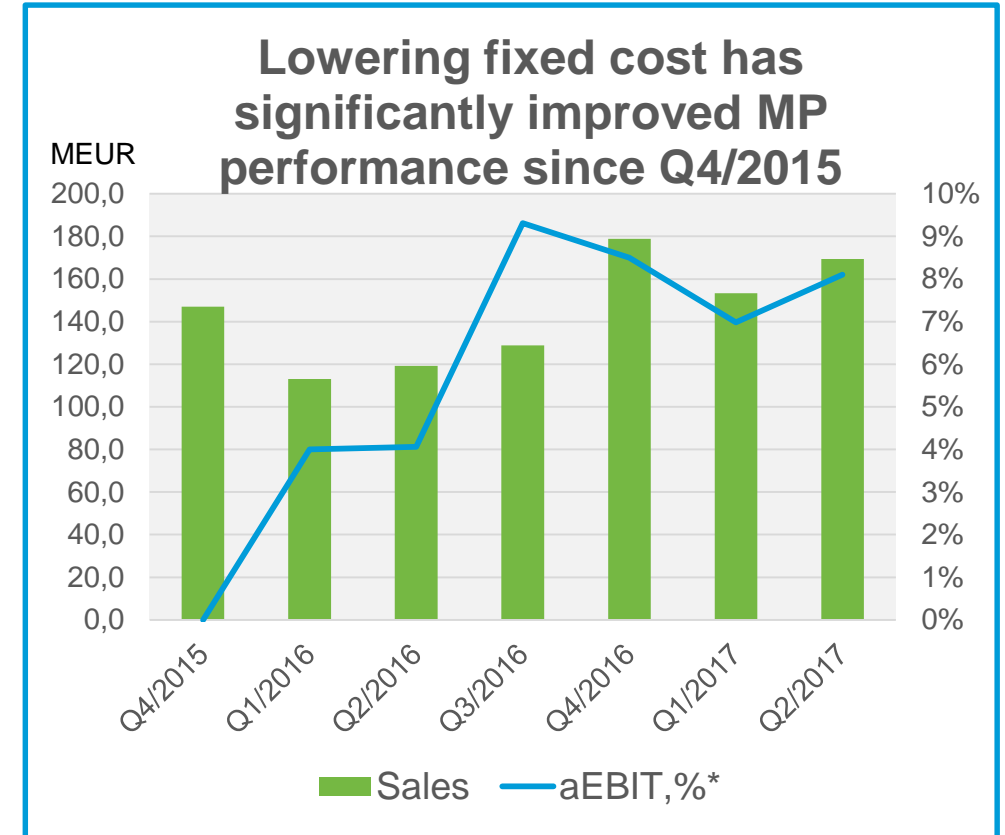
- Next**
- MEW savings done in H1 will take full effect
 - Build flexibility into cost base
 - Manage pockets of inefficiencies while investing in growth

Increasing efficiency during this cycle

	Market moving down	Market moving up
Gross margin	<i>Decreasing</i>	<i>Increasing</i>
Absorption**	<i>Decreasing</i>	<i>Increasing</i>
Fixed costs	<i>Increasing</i>	<i>Decreasing</i>



- Lowering and maintaining fixed cost support profitability throughout the cycle
- Outsourcing provides flexibility in a cyclical environment



* Excl. restructuring and acquisition-related costs and PPA amortizations

**Own work booked to Cost of Goods Sold

Product competitiveness improves margins

Sourcing Strategy is differentiation or quality over cost

Reduce number of suppliers and no single source supplies
Invest in best-cost-country (BCC) sourcing



Sourcing priority 1) Quality 2) Delivery time 3) Price

Lowers cost & risk
Significant improvement but large untapped opportunity remains

Design Modularize products, standardize layouts, solutions and parts

Use proven solutions



Better efficiency, shorter lead times and lower cost

Hassle-free start-ups

Faster freeze of layout

More time for sourcing or finding saving

We seek return, but not by escalating risk

Portfolio risk

- We drive larger service content which supports stability and profitability throughout the cycle

Project risk

- We have strengthened our risk analysis and must-have Terms & Conditions in our sales contract approval policy

Fixed cost risk

- We have significantly lowered our fixed costs which drive profitability and lowers risk

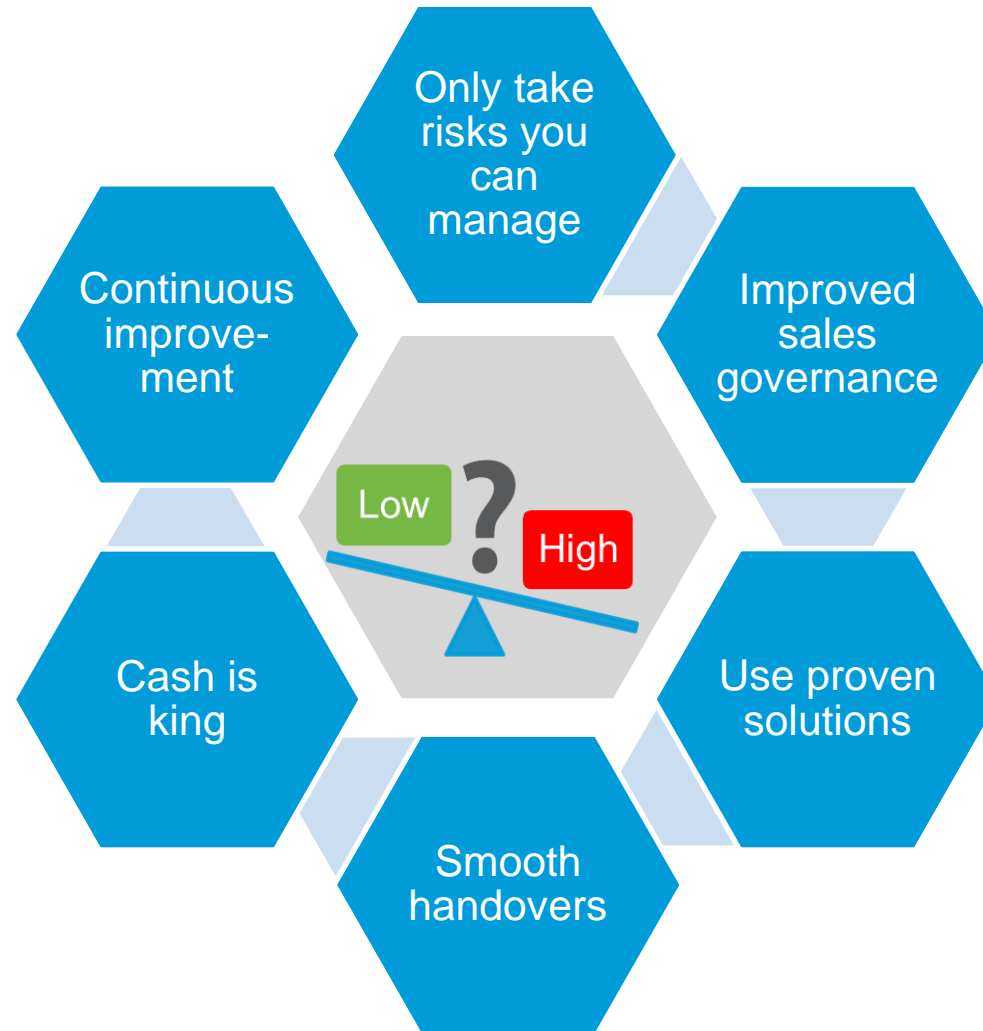
Financial risk

- We have strengthened our equity with a hybrid as a strong balance sheet supports sales and provide stability throughout the cycle

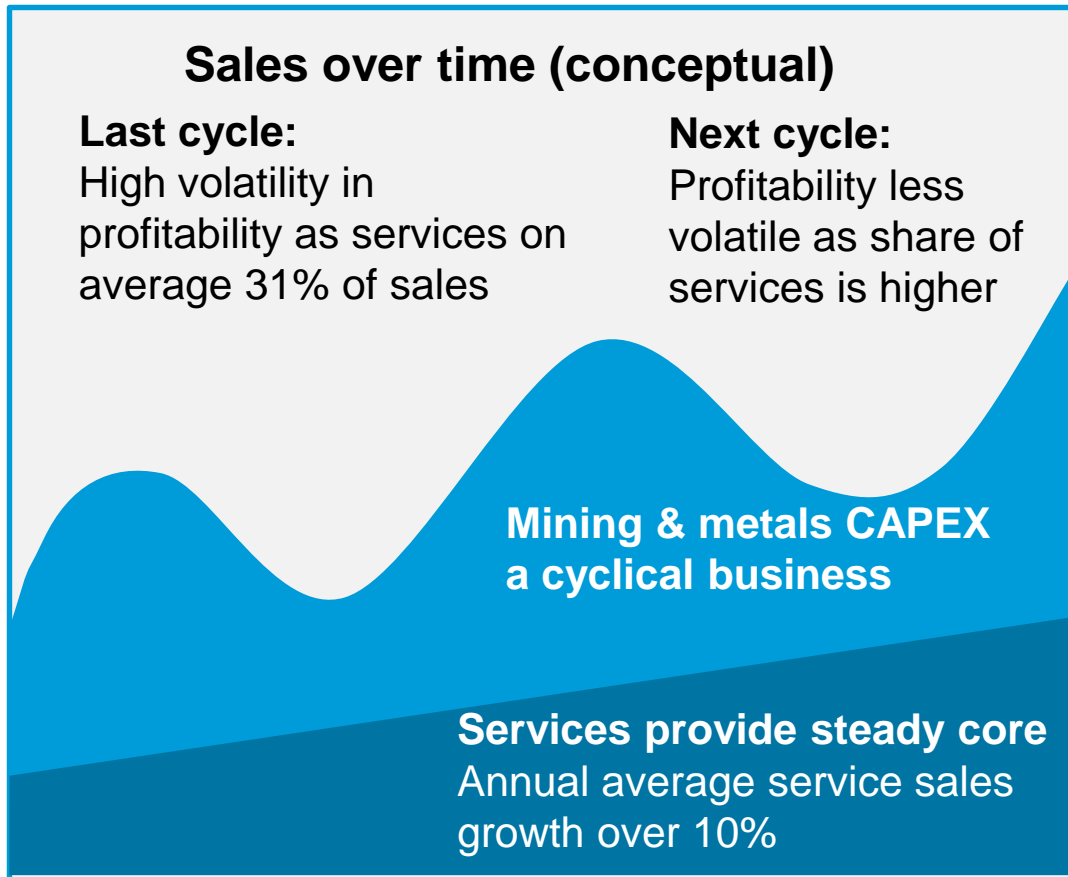
Technology risk

- We continue to invest in technologies that differentiate us

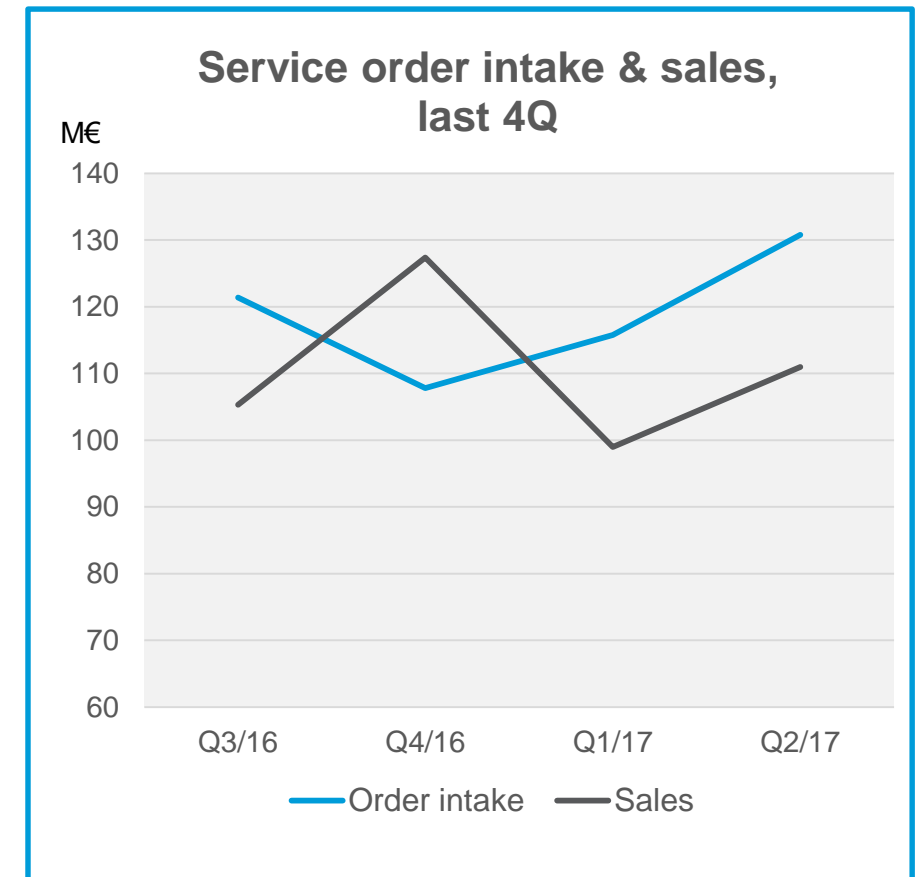
Reducing project risk increases overall margin



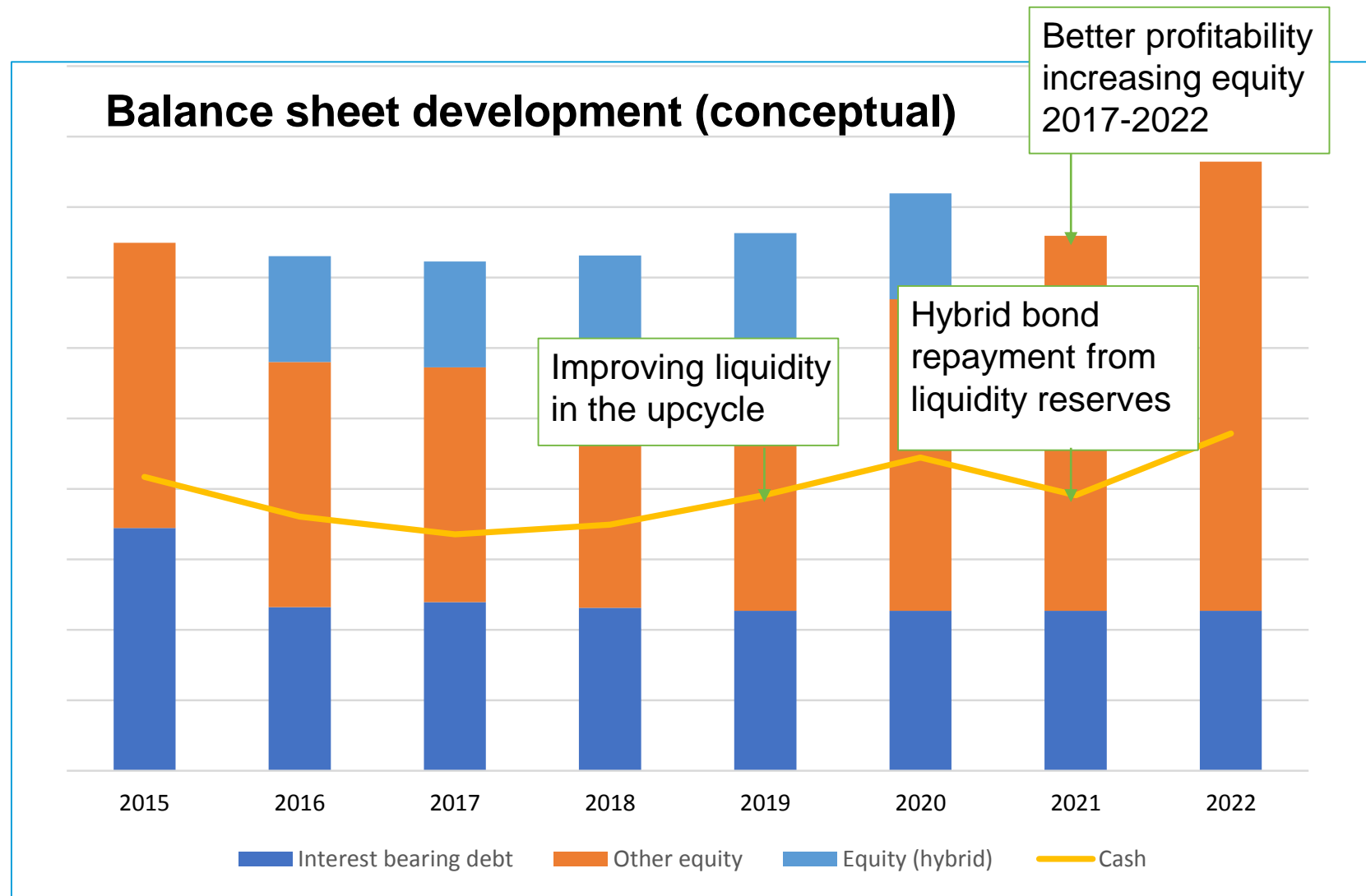
Higher share of service reduces profit volatility



- CAPEX and service business complement each other
- All businesses profitable throughout the cycle



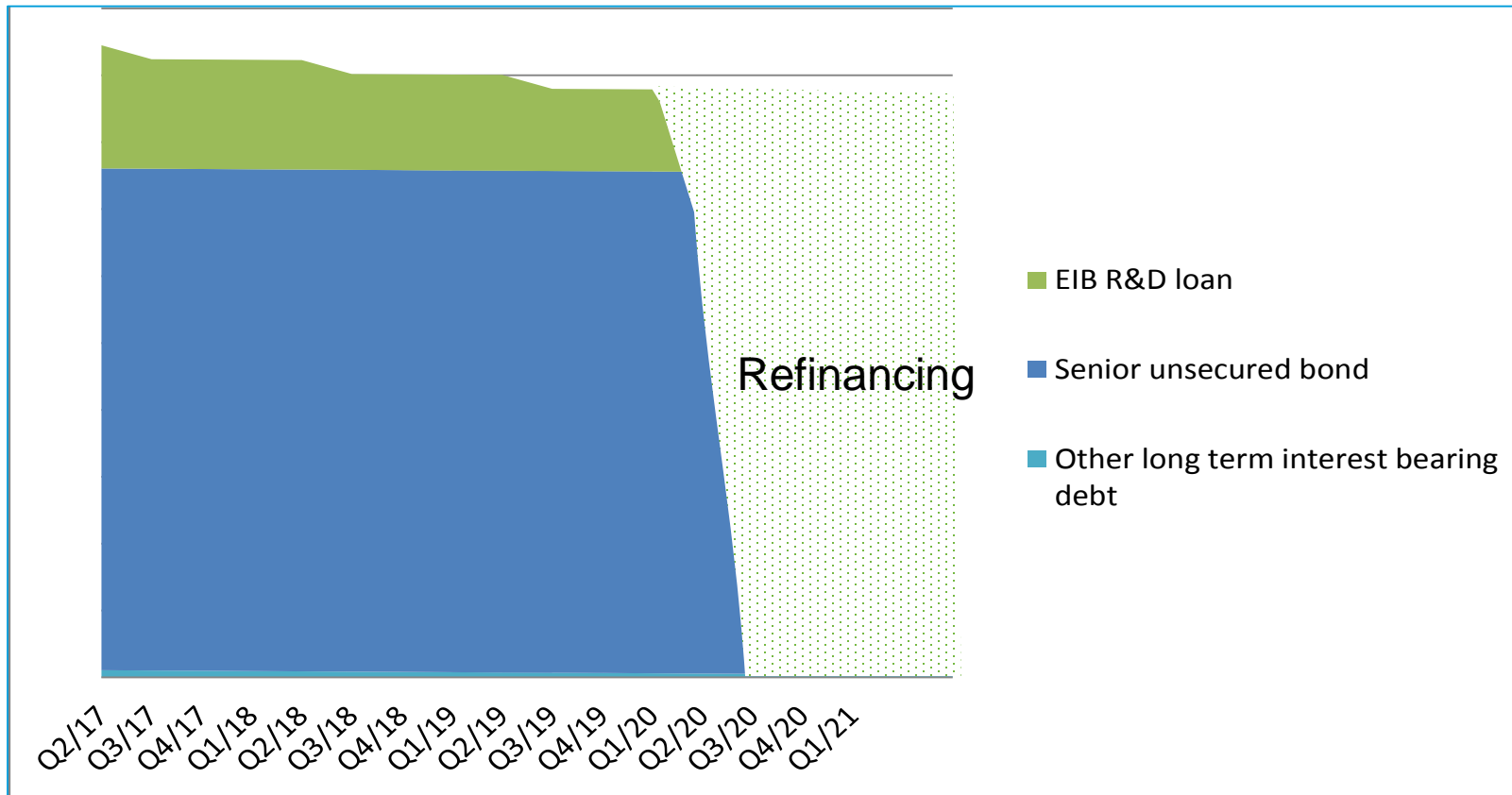
Improving profitability and liquidity



- Investments in fixed assets to stay below depreciation level
- Net working capital affected by:
 - Growing service business ↑
 - Advances received ↓
- Effect of net working capital to liquidity not as prominent as in previous cycle due to higher share of service business

Our long-term financing is secured for the next three years

Long-term debt repayment profile (conceptual)



Summary: Improving profitability and cash flow

- **Clear actions to reach the targeted profitability**
- **Liquidity outlook improving**
- **Ability to pay back the hybrid bond**
- **Continue building cost flexibility**



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Outotec



Sustainable use of
Earth's natural resources