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Compay **Outotec Oyj**

Conference **CEO Q&A teleconference with Outotec's CEO**

Speakers **Markku Teräsvasara, President and CEO**
Jari Älgars, CFO
Rita Uotila, Vice President – Investor Relations

Operator Hello and welcome to the Outotec CEO Q&A session. Throughout the call all participants will be in listen only mode and afterwards there will be a question and answer session. Today I am pleased to present CEO Markku Teräsvasara and CFO Jari Älgars. Please go ahead with your meeting.

Markku Teräsvasara Thank you and Markku Teräsvasara starting maybe before we go into Q&A, a little bit post Q1 and talking about the Q2 market activity. We can see that the market sentiment continues to be positive and there are some larger investments moving ahead, as you have seen from the announcement. So most of the highest activity we see in copper, gold and battery metals but also there are increasing requirements for efficient technologies in general.

When it comes to big projects, we announced two of them, I will give a bit more colour on those soon. Apart from that, there are a handful of larger orders or projects in the pipeline but across different technologies. Of course, what has been positive this year is a good continuation of service development both in terms of order intake and sales. From order intake points of view, good spread around the different areas, mainly spare parts but also service projects, long-term service agreements. When it comes to sales increase it has so far been predominantly coming from increased spares parts sales, of course, which is positive. On the ilmenite smelter project, ongoing negotiations and we still see, and maybe even more so, we see that this one has 110 million euros provision. It's adequate and at the right level, on the right conservative level.

Coming to these two orders they are both greenfield. The other one is gold and the other one is copper so both addressing the potential growth area. The Ma'aden order in Saudi Arabia, euro 140 million. It is a greenfield gold, a gold concentrator and processing plant that we have been preparing for quite some time based on proven track record in gold applications and also in this case customer that we have had several projects together both in terms of Mineral Processing and Metals, Energy and Water. This order is roughly 50/50 split between the Minerals Processing and Metals, Energy and Water.

The other project recently announced, Baikal Mining Company. This is the third largest undeveloped copper project which is known globally so we are talking about significant deposits. Again greenfield concentrator plant including a hydrometallurgical plant. Total order value 250 million of which approximately 35 million will be booked in the second quarter. It's two thirds MP and one third Metals, Energy and Water and also in this case, these are the typical -- both

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projects actually very typical examples of projects where Outotec can excel through our process competence and they have been both studied in length. Talking about Baikal Mining Company, I think we started to analyse ore and deposit more than 30 years ago in our R&D Centre in Pori and together with customer we have been developing their process and the plant layout already for a number of years.

And now of course that the market dynamic's turned and made it attractive for them to keep copper projects and Outotec was a natural choice. Just demonstrating the strength of the company when it comes to metals and minerals processing. So maybe after this, there's another area regarding services. Maybe also noticed that we will sell two fabrication and manufacturing businesses in South Africa and Mozambique. Again, this is in an area in service where we want to focus on our proprietary technologies and activities where Outotec can add value. These two units were purely focusing on fabrication and manufacturing having less synergies with the existing service that is here and hence there is reason to divest those. With this kind of an introduction, I think now we open up the line for Q&A.

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question please press 01 on your telephone keypad and if you wish to withdraw your question you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered.

And our first question comes from the line of Magnus Kruber from UBS. Please go ahead. Your line is now open.

Magnus Kruber

Hi Markku, Jari, Rita. A couple of questions from my end. First on project capacity, in regards to your recently announced order in Russia. So, how many orders of a similar size would you be able to manage simultaneously, also broaden the scope of delivery?

Jari Ålgars

Yeah, we have obviously gone through our resources here and we can look at it more geographically than anything else. Finland, we have the opportunity to do a couple of these at one time and both of these orders are mainly out of Finland so with these two we start to be pretty much at our limit but on top of that, we also have the opportunity to do two to four projects out of Germany and one out of our Chilean office and this is roughly the resources and opportunities we've seen we would be able to manage at the same time. So still there is room to do more work in Germany and also in Chile but in Finland at the moment with this we are pretty full.

Magnus Kruber

Okay. Secondly and I think it's fair to say that your view on customer activity following Q1 and also now seems pretty optimistic. What impact if any have you seen on customer activity since the beginning of May?

Markku Teräsvasara

I think what we still see is very much the same. There is healthy activity in brownfield upgrades and modifications and we see some of the greenfield

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projects moving ahead. I think from Outotec point of view of course, was very positive that the projects we have been working long time with, they came to the decision point and are now being kicked off. There are a few other projects in the pipeline as well across the Outotec offering but we talk about a handful of bigger projects, that is a long queue.

Magnus Kruber But you haven't seen a sort of step down in overall customer activity since the beginning of May?

Markku Teräsvasara Excuse me, now come again.

Jari Ålgars We have not seen any step down of activity since the beginning of May.

Magnus Kruber And then just a final one. Should we see the same level of savings coming through in Metals, Energy and Water in Q2 as in Q1, so similar run rate level, year over year?

Jari Ålgars The situation we have at the moment, as we said we have workload from these pre-engineering projects and also, we obviously have got the order in Morocco for the sulphuric acid plant so at the moment we don't expect to see any major changes in any direction. But still, as stated, we have orders in Finland or maybe in Germany, so we could well take a few more orders on top of this Moroccan sulphuric acid order.

Magnus Kruber Okay. And in terms of sort of the savings that you see coming through, I think in Q1 you surprised us a bit with relatively good operating margins in face of quite weak sales growth and I guess that comes from the back of the savings initiatives that you're running. Should we see a similar level of savings in Q2 as in Q1, do you think?

Jari Ålgars In principal you can look at three things. One is obviously that we did not have any costs out of our high, high impact cases. Secondly the orders that we had in the backlog where the revenue came through, were good margin orders and then thirdly, obviously, we had a good workload situation. So these were the three main things affecting the results. Provided this situation exists, obviously we'll continue the same way.

Magnus Kruber Okay, good. And on the high impact project, can you say anything more there?

Jari Ålgars No, we obviously continue to work on those and as Markku already pointed out on the crystal project we will tell more when there is more to tell.

Magnus Kruber Okay, thank you so much.

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- Operator** Thank you. And our next question comes from the line of Erkki Vesola from Inderes. Please go ahead. Your line is now open.
- Erkki Vesola** Thank you, it's Erkki from Inderes. Actually, my first question has already been answered. I mean the utilisation rate in MEW looks better now. So shouldn't there be every reason to expect a reasonable profitability also going forward especially towards the latter half of this year. How much impact will the work on Saudi Arabian projects already have this year?
- Jari Ålgars** We are not guiding for the profitability separately for the different segments. As could be seen from the first quarter, obviously the volume was on low level and we need more revenues going forward to improve the situation. The margins were already on very good levels so obviously assuming that the margins remain on good level and the volume improves, the results should improve.
- Erkki Vesola** Okay. Thank you. And second, just a kind of housekeeping question, how would you time the revenue recognition of the Baikal, of the DMC project, approximately?
- Jari Ålgars** Normally on this type of a project, let's say in the beginning obviously there is more engineering, so the impact-- it's a little bit different if you look at MP and MEW. So in the MP side we talk more about, we have more proprietary equipment and we have to buy material for those, so it starts to impact a bit earlier than in the MEW side but still the impact this year will not be that big, the majority will be next year and the year thereafter where we see that -- the revenue.
- Erkki Vesola** Okay. Thank you so much.
- Operator** Thank you and ladies and gentlemen, just a reminder that if you wish to ask a question, please press 01 on your telephone keypad now. There'll be a further pause while questions are being registered.
- And our next question comes from the line of Tomi Railo from DNB. Please go ahead. Your line is now open.
- Tomi Railo** Good afternoon, this is Tomi from DNB. Still on the ilmenite project, when should we expect any concrete news on the development or process on your negotiations?
- Markku Teräsvasara** Of course, it is a complex issue and we have a very thorough process with the customer where we negotiate to the next steps so giving an exact timeline when will happen and what I think is still a bit challenging. However, of course, the further we have studied it, more comfortable and confirmed we are from the

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provision that it's sufficient and on a conservative side so I think from that point of view, of course our clarity has been increased, negotiations continue with the customer but there is not much to say more than has already been communicated.

Tomi Railo

Thank you.

Operator

Thank you and our next question comes from the line of Manu Rimpelä from Nordea. Please go ahead. Your line is now open.

Manu Rimpelä

Good afternoon. Could you comment on how do you see this Baikal order going in. Is it 35 million you said in Q2, will the rest be booked in the third quarter or how will the rest be booked in terms of orders?

Jari Älgars

We obviously have, the first instalment is what we expect to book in Q2 and the rest when the rest of the project is ready but the expectancy obviously is that it will be during this year.

Manu Rimpelä

Okay, so you don't yet know if you book all of the rest order in Q3 or something will be pushed potentially into Q4?

Jari Älgars

We have said we are reasonably confident all of this can be booked during this year and hopefully already all in Q3, but this obviously still needs to be finalised.

Manu Rimpelä

Okay and then another question on the greenfields overall and maybe brownfield projects as well, now we've seen pick-up in the activity so can you comment on the pricing picture of this, is the pricing situation, is that starting to improve?

Markku Teräsvasara

Basically the pricing situation is still unchanged. If I would put it this way, there is a competition of course, the project-- particularly the big projects they are few and quite far apart so there is competition on projects but I wouldn't say that that's become tighter. I think there is the same competition that we have had for the last six to twelve months so in that sense no change.

Manu Rimpelä

And would you be able to comment a bit more on what you see as the key arguments for you winning this and the last couple of other bigger orders?

Markku Teräsvasara

I think what I already said in the beginning is that these-- both projects are projects where we have been involved quite some time and they both require in-depth process expertise, when we are combining a concentrator plant together with a hydrometeorological plant and the companies that actually can deliver the whole package are not that many so I think the reason is the customer had a lot of

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confidence in Outotec being able to deliver a process that will work and will deliver the result.

Manu Rimpelä Okay and final question, can you comment anything on the prepayments of these last couple of big orders. What type of prepayments do you typically have in this size project?

Jari Älgars Let's say, on bigger projects we usually talk about 10 to 20%, on then, let's say orders which maybe are more equipment-related it can be up to 30% so that's usually the level we are between.

Manu Rimpelä Thank you, no further questions.

Operator Thank you and our next question comes from the line of Antti Kansanen from SEB. Please go ahead. Your line is now open.

Antti Kansanen Yeah, hi it's Antti from SEB. Thanks for taking my questions. Coming back to the cash flows and the advance payments from the Baikal project, do you book them as you book the order intake as well in small instalments or is the cash flow impact similar as the order impact will be per quarter, can you comment on that?

Jari Älgars We book when the order is secured complete, so for us that is something which happens. So, at this moment we have the first instalment and when the rest of it gets finalised then we can book the rest.

Antti Kansanen Okay very clear. And the second question is on the Saudi, the ilmenite project. What about the timing? Are you also more confident on the timing of the restart of the furnace or the overall project now after the negotiations have proceeded?

Markku Teräsvasara I think there is a same kind of sense of urgency to get the plant up and running as soon as possible because there is a deficit of the ilmenite slag. Similar type of plants are not that many. In my records, we talk about seven ilmenite smelters globally of similar size and capacity, or even lower capacity, so these represent a little bit less than 10% of the demand and if it's not available then of course there is higher constraints and higher competition on other suppliers. So, definitely there is an interest to get it up and running as quick as possible.

Antti Kansanen But the guidance that you have provided us of the expected start up of the furnace, is that still valid and now reasonable estimate for us?

Markku Teräsvasara It is still valid in a sense that we see it happening during the first half of 2020.

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- Antti Kansanen** Okay, thank you very much.
- Operator** Thank you and there are no more questions registered at this time, so I'll hand the call back to you, speakers, for your closing comments.
- Rita Uotila** Thank you, operator. We have one more question which has come through email and it's related to Outotec's capability to offer a solution for rare earth metals processing, so is that possible?
- Markku Teräsvasara** Yes, yes it is. Outotec can provide and is providing solutions for the whole periodic table so that also includes rare earth. So the answer is yes.
- Rita Uotila** Thank you.
- Markku Teräsvasara** So, if there are no more questions, then maybe a quick wrap up on the outlook. As we discussed, still predominantly brownfield upgrades and modifications. However, we have seen, and are still, as we have said before, expect to see some larger investments moving ahead. Activity very much focusing on gold, copper and battery metals but there are also other areas-- other type of projects in the pipeline. Service continues to develop well on a quite large platform including spares, upgrades and modifications and long-term service agreements. And basically, no news from ilmenite smelter projects other than that we are in a good negotiation with the customer yet aiming at start-up commissioning first half of 2020 and 110 million provision we see it's adequate and sufficient.
- Rita Uotila** Okay, that concludes our CEO Q&A sessions for June for now, and we wish you all happy summer holidays if you are going on one, so we will see you at Q2 reporting which is going to be on July 26th. Let me just check that. Friday, July 26th. So, we will see you then. Bye bye.
- Markku Teräsvasara** Great, thank you. Bye.
- Jari Älgars** Thank you, bye.
- Operator** And this now concludes our conference call. Thank you all for attending. You may now disconnect your lines.