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- Compay** **Outotec Oyj**
- Conference** **CEO Q&A teleconference with Outotec's CEO**
- Speakers** **CEO Markku Teräsvasara**
CFO Jari Ålgars
Vice President – Investor Relations Rita Uotila
- Operator** Hello and welcome to the Outotec CEO Q & A teleconference throughout the call all participants will be listen only mode and afterwards there will be a question and answer session. Today I'm pleased to present Rita Uotila, please go ahead with your meeting.
- Rita Uotila** Thank you, operator. Thank you and welcome to CEO's Q & A, so Markku Teräsvasara and also Jari Ålgars our CFO will be answering your questions today. As always, we have received some questions in advance from our shareholders and we will take those first. And then after that, we are taking questions from the telephone line. So first of all, we received a more sort of strategic and wider question about Outotec and how is Outotec prepared to meet the needs of both the recycling and virgin metals related needs of the industry going forward. And also, in a way, the using of the tailings. So Markku, can you elaborate on that?
- Markku Teräsvasara** Yes. Thank you Rita. I think Outotec is in that sense well positioned both when it comes to recycling of the metals but maybe more importantly and what I would like to talk about is resource efficiency because we know that the mining companies today, they struggle or at least they see development areas in energy efficiency. They see development in more efficient use of water resources which is competing with other society functions in many areas and are already becoming a critical or is a critical resource in many places. We also talk about ore grades getting lower and these deposits getting harder to extract and harder to process. We have a lot of refractory and oxidise-based ores that require another type of processing technology but we also have harmful particles that need to be removed. All that is, we view that most from the point of view as positive challenges because we have many years invested in research and development. Not least through our R&D centres that are developing that specific, are developing new products from that specific area, and maybe as an example of late development there has been a lot of discussion on the precious and battery metals and we have been working hard on lithium and how to improve lithium processing technology and launch a new product where you basically from the lithium ore directly can make lithium hydroxide that is used in precursor manufacturing. So I think from that point of view all these challenges can be viewed as positives.
- Rita Uotila** Ok, thank you. Thank you, Markku. And also maybe in more detail, there's obviously different types of ores, sulphite and oxide ores, out there so is Outotec's portfolio of technology capable of treating all of these different ore bodies?

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Markku Teräsvasara Yes. Absolutely. Not only that we can handle different type of metal ores, but also very two very strong processing technologies. On one hand, we have this fast kinetics route which is a smelting technology. But we also have a very strong competency in hydro metallurgy which has been under research and development for many, many years. So we can definitely find a suitable process for all kind of ores.

Rita Uotila Thank you. Thank you for that. Then maybe going back a little bit to battery metals. What is the situation in the lithium and cobalt market at the moment? And also obviously copper is part of that group as well.

Markku Teräsvasara Yes and not even, not to forget nickel, that is important. There are a number of projects as I already explained. We have these new hydroxide processes for lithium and we also see that there is a number of cobalt projects under the development or all already being billed. Where Outotec has also had a good position and of course, cobalt typically can be found from copper ores or nickel ores and sometimes these side flows are not very well taken care of and that is of course a good opportunity for Outotec.

Rita Uotila Thank you. Then maybe moving to even a bigger picture, the market and as such as a whole in the full year results, there was a comment about large investment decisions being delayed to 2019. Is this, there have been a few announcements in Q1 also one bigger one, but can you describe what are the customers thinking at the moment? What is the market sentiment? How has that been in 2019?

Markku Teräsvasara What has been the case for quite some time in Minerals Processing already, and to some degree, also metals refining is that customers have been actively investing in upgrades and modifications, de-bottlenecking incremental capacity increases so-called brown field investments and the real greenfield projects have been few and far apart. However, there is some project that have moved on and we see that there is an indication that few more projects would be, could be kicked off during 2019. I think we always need to have still a kind of a disclaimer here, it still requires a board approval from the customer to proceed with the project and also that Outotec will win those projects, but definitely looking it from our view, we are a bit optimistic about these bigger projects, some of them being kicked off during 2019.

Rita Uotila Ok. Thank you for the market comments and now operator, we're ready to take the questions from the telephone lines.

Operator Thank you. Ladies and gentlemen, if you have a question for the speakers, please press zero one on your telephone keypad. And if you wish to withdraw your question, you may do so by pressing zero two to cancel. There is going to be a brief pause while questions are being registered. Once again, ladies and gentlemen, if you wish to ask a question, please press zero one on your telephone keypad now. There will be a further pause while questions are being registered. And our first question comes from the line of Tom Skogman from Carnegie. Please go ahead, your line is now open.

Tom Skogman Yes. This is Tom from Carnegie. We know that when you provided the guidance for 2019 that basically, you didn't really have the order book for this year to support the sales guidance. And now we start to know what orders you have booked in Q1, of course we know what you have announced, but we don't know

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what you have not announced. Based on the situation now, I mean, is it, do you feel confident with the sales guidance provided? Have orders come in as you hoped for in the first quarter?

Markku Teräsvasara I think maybe that was your conclusions that we didn't have sufficient order backlog for 2018. I think there is two components. One is of the course what is the order backlog that we had starting this year because you know that the service orders and equipment orders turn around faster than the big plant orders so the mix we pay in, but of course, we already assumed that some of the projects will come in during the first half of the year which then will generate sales 2019 towards the end of the year. So I think it is two components that will pay in and yes we are still confident that we will achieve our guidance.

Tom Skogman OK, thank you. And then about this ilmenite smelter I understand it is a delicate topic but perhaps you could give us an update about you know what's happening right now and what are the kind of the next, you know, things in terms of just communication from your side that we should, you know, wait for. I assume they are now, you know, done this kind of the groundwork and start to know, you know, propose some kind of, you know, repairs etc but what is the decision chain? What is the next step in your communication about this?

Markku Teräsvasara I think what is happening at the moment we are finalizing the investigations and there are still a few reports from research centres that have not be received. But of course the work has been very active on all these three main streams. Looking at the operations, if something happened that was outside of normal operational window and how it was reacted and acted upon. We look at the technology. We look at the components that have been used and then the also the maintenance stream and on all these three streams are working actively to really finalise, and at the end of the day, to find and agree on the root courses. We are not yet there that we have sit down with, we have continued interaction with the customer, but we have not yet come to the phase where we start agreeing on root courses and consequently also agreeing on responsibilities. But if something should be said, or can be said, about the timeline, we do have kind of a target to have next commissioning done January 2020. And looking at that I think fairly soon the long lead-time items need to be put under order so there is a certain timeline and also looking at the ilmenite market as such, if the total ilmenite slag market is about 7 million tonnes per annum and when this plant is up and running with full of capital it produces 500,000 tonnes. So there is a hole in the market that needs to be filled one way or the other, so of course I think there is a common interest to get this plant up and running as soon as possible.

Tom Skogman So if I understand you right, if I just try to repeat what you said. You are now, kind of, the investigation starts to be ready, but you have not come to kind of clear proposals. You know what will be done and that is now under work and then you will sit down with the customer and decide to go ahead with the proposed changes. Is that, that's kind of where we are right now?

Markku Teräsvasara I think that is roughly where we are.

Tom Skogman And, what should we expect? I mean, should we expect the next communication from your side is to announce that now we have decided to go ahead, you know? That is kind of, you will announce when that has been decided or?

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- Markku Teräsvasara** Yes, we will of course announce immediately after there has been some relevant decisions or conclusions made so we will not wait, whatever they might be. I don't want to start speculating on what and when will be the next announcement.
- Tom Skogman** Then about these three other legacy projects. Do you have anything new to add there? I mean, this of course, makes the stock market very nervous that you also have three other projects that you have said you expected to finalize, you know, already last year, and then they are still, you know, under kind of process or proceeding.
- Markku Teräsvasara** Yeah, that's of course sometimes difficult to know exactly when something is finalized but they are also progressing well and I think what we should not make a comparison between this one particular project, because of the size they are completely different. So we don't talk about similar scope that we are having with Cristal but we are working with them as well and I think last year we said we will have them ready by the end of last year. Well, there is still some work to do in some projects, but of course they are every day closer to being finalized.
- Tom Skogman** Then finally about lithium. How many kind of projects are you working on now that, you know, how big can this become?
- Markku Teräsvasara** Maybe you would then need to split on exactly. We have a big number of lithium projects that are ongoing but some are at pre-feasibility stage, some are at feasibility stage, some we are actively in making proposals, and then we are building few of those so I think it depends on what kind of projects you referred to, but Outotec when it comes to lithium, Outotec is involved in most of the projects at the moment one way or the other.
- Tom Skogman** Ok, thank you.
- Operator** Thank you. Next question comes from the line of Jonathan Hanks from Goldman Sachs. Please, go ahead your line is now open.
- Jonathan Hanks** I just wanted to ask, have you revealed what the total size of the other problematic projects is? And could you share that with us?
- Markku Teräsvasara** We have not, named or given out of that information. But what we have said earlier and can repeat today is that there is in our material in the page number 20 when you're looking at the full year result report for 2018, there is this waterflow chart where we saw the ilmenite smelter project provision and then we saw another red column which is called margin and FX. And of course, effects portion is more or less so you could imagine the majority of that margin and FX volume is related to the cost that we had from these other high impact projects in 2018.
- Jonathan Hanks** And I suppose thinking about if we think about the similar impact from these projects for 2019, would it be fair to expect that to be positive or negative in the 2019 EBIT bridge?
- Markku Teräsvasara** So come again. What?
- Jonathan Hanks** I'm just wondering if we imagine what that bar, the equivalent bar, for those projects might be for 2019. Do you think that it could be a positive in that you don't have those costs repeat? Or do you think, actually, you're probably going to get further cost from these problematic projects this year as well?

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- Jari Ålgars** Obviously we will see only when we have finalized them, but at the moment we think we have proper provisions for them and therefore they should be neutral for 2019.
- Jonathan Hanks** OK, great. And then just going back to your comments about you do see some larger projects that could come through in 2019. Are they, would they be most likely for the minerals processing division? Or most likely for the metals, energy and water division?
- Markku Teräsvasara** I think it's a kind of a combination if you look at that going in the details. In if you look at the ores where you have a hydro metallurgical process for metals refining quite typically those kind of projects would include both MP and MEW and then there is some project where it's only one or the other. So I think all in all it's a combination of both sides.
- Jonathan Hanks** Ok, great. And then sorry. Just lastly, I suppose. Obviously you know you're not happy with the profitability of metals, energy and water. My question is, how long would you be prepared to wait before you get the orders for that division before taking kind of further action? If you like to improve the profitability.
- Markku Teräsvasara** There have seen actions taken earlier already and we have been streamlining that team. Picture is still not equal though there is efficiencies within MEW that are already on very high utilisation and profitability-wise they are like MP. And we have some businesses, where we still have work to do and would need more orders. So I think from that point of view, when it comes to restructuring and reshaping MEW, that is something that we are continuously working on.
- Jonathan Hanks** Great. Thank you so much.
- Operator** Thank you. Our next question comes from the line of Antti Kansanen SEB Markets. Please go ahead, your line is now open.
- Antti Kansanen** Hi. It's Antti from SEB. Thanks for taking my questions. The first one on the larger projects and the hesitations that you see from the customer side. Is this due to, do the customers want to see if the stability in commodity prices? Is this due to permitting issues or general macro environment right now, what's your take on that?
- Markku Teräsvasara** I think it's a combination of various things. But of course what you need to see is a certain consensus pricing level on important commodities longer term that the investments would be triggered. And then, of course, a board decision that those projects would go ahead. And there has been a trend to strengthen the balance sheet, improve the profitability, work a lot on cost base and productivity. And before that, that kind of a mindset is changed then it might require some encouragement from the pricing, but there is project pipeline and I think at some point the investments will have to kick off.
- Antti Kansanen** Do you feel that these projects that you were quoting for and maybe expecting in the first half of the year, given commodity prices are high enough level to incentivize those projects or do we still need to see a step up in that regards?

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- Markku Teräsvasara** I think there are projects that will most definitely go ahead and move on. With even the existing price picture.
- Antti Kansanen** Ok. And that pipeline has been alive for a quite a bit now, so have the customers, how much extra work kind of on the quotation you have had to make to, you know, bring down the cash cost lower or has the technology being set for a while and you're just waiting for the green light from the customer perspective?
- Markku Teräsvasara** I think you are continually trying to improve the process and improve the return on investment that are done. But I think we are quoting conventional technology that we have done before, but of course, small improvements here and there.
- Antti Kansanen** OK. And secondly, then, on the outlook in Services, I think that's a big component on your sales growth estimate or guidance for this year. Where in Services, you see the biggest growth potential for, let's say, this year and 2020?
- Markku Teräsvasara** It comes throughout all support. We have a slightly different portfolio in terms when it comes to MP and MEW. When it comes to Minerals Processing where there is more wear and tear it is in a way it is coming from wear parts, spare parts, technical services, long term services agreements, and upgrades and modifications. While on MEW side let's say shut down services and long-term service agreements and then modifications and upgrades are more important. There is less wear and tear parts as there is less wear and tear.
- Antti Kansanen** What's the visibility on the potential shutdowns in MEW for let's say 2019? How long before you know?
- Markku Teräsvasara** I think the visibility in shut down services are, in one way they are, it is good, because all the plants know already at least six month in advance when they are going to have a shutdown. So I think there's a fairly good visibility on when they will happen, the question then is that shut down services are quite often done by the customers themselves and the question is how, where, if Outotec comes into the picture more often where there is also modification work to be done at the same time.
- Antti Kansanen** OK, thanks.
- Operator** Thank you. Our next question comes from Manu Rimpelä from Nordea Markets. Please go ahead your line is now open.
- Manu Rimpelä** Good afternoon. I would have one question on the 110 million euro provision you take in relating to the Saudi Arabian project. So did I interpret it correctly when you said that you're discussing now with the customer about the sharing of liabilities or cost related this project? So does it mean that this 110 million you have booked is basically assuming that you will bear all the cost and then potentially, if the customer agrees that they are liable, then we could see a reduction in this provision?
- Jari Älgars** Taking can into consideration everything we know, obviously regarding the situation, technological and operational situation, and we think it's a fair number. Taking all of this into account we have not opened up how much is coming from where and said at the moment, this number is a good number. As was said in the previous call, we assume this to be neutral for the time being on the result.

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Manu Rimpelä Ok. Thank you.

Operator Thank you. There are no more questions registered at this time so I'll hand the call back to you speakers for your closing comments, please go ahead.

Rita Uotila Thank you. Thank you, Operator. Thank you all of the participants for active discussion. I would like to remind you that the first quarter results will be out on the 8th of May. We will speak then. Thank you.

Markku Teräsvasara Thank you.

Rita Uotila Have a great weekend.

Operator This now concludes the conference call. Thank you for attending. Disconnect your lines.