

September 16, 2019

1 (8)

Compay	Outotec Oyj
Conference	CEO Q&A teleconference with Outotec's CEO
Speakers	Markku Teräsvasara, President and CEO Jari Ålgars, CFO Rita Uotila, Vice President – Investor Relations
Operator	Hello everyone and welcome to the CEO Q&A session. Throughout this call, all participants will be in listen-only mode and afterwards there'll be a question and answer session. I will now hand the call over to your speakers, please begin your meeting.
Rita Uotila	Good afternoon, ladies and gentlemen, and welcome to Outotec CEO Q&A session. Today we have our CEO, Markku Teräsvasara, and CFO, Jari Ålgars, answering your questions. Now I'd like to turn the floor to our CEO, Markku Teräsvasara.
Markku Teräsvasara	Thank you, Rita, and good afternoon. Maybe I ought to start by having a quick recap on the market situation and basically a little bit of repeating on the first half of the outlook and then growing it from there. So, a little bit about integration and the merger project with Metso and then also a little bit of a mention of the specific date that has been communicated out. The market continues active. As we have said, there is very good demand on Minerals Processing as whole, for the whole business area, with all the product lines separately, and then particularly hydrometallurgical technologies from Metals, Energy and Water. We have seen also that projects on other areas in Metals, Energy and Water are moving forward. We have many things on a basic development phase at the moment, they're occupying a lot of hours but they're not growing into execution, and that is, of course, encouraging. Most active markets are related to copper and gold and battery metals and maybe from the battery metals, lithium is active and I think there has been a slight change from cobalt, which was very active last year and now a bit less activity, but that has been transferred over to nickel, which has become a hotter topic on the market at the moment. We have also, as you know, during the first half of the year received two large greenfield orders, and if you combine that with brownfield investment, that has already been on a good level, I think we are starting to be back on 2012 level in terms of order intake and project activity. However, now we are not facing the same mega-cycle as then. The difference is that, at that time, it was a lot about iron ore, now it's more about copper and gold and battery metals. Our service continues to grow according to what we have set and communicated earlier with the target of 10% per annum average growth, and I think our order intake supports that well and also service sales picking up.

September 16, 2019

2 (8)

When it comes to integration, we have the first steps taken where we have started working. In the areas where we can start working with integration, we have started working with a smaller group of people. The anti-trust filings have been started, some jurisdictions have moved ahead, and we are there filing as required in those different areas of the world. When it comes to merger projects, integration and other aspects are fully in our hands, but the speed of the anti-trust process is very much depending on authorities and how quickly they can process these things, so that cannot be fully controlled by ourselves. Two particular dates, Q3 result, as we communicated, that now will be published a bit earlier, 25th October, and that's because both Metso and Outotec will have an extra general meeting booked 29th October where this merger topic will be handled. So, maybe this is a quick introduction on where we are, and now we can start the Q&A.

Operator

If you wish to ask a question, please press 01 on your telephone keypad now. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There'll be a brief pause while questions are being registered. Just as a reminder, if you do wish to ask a question please press 01 on your telephone keypad now. We have a question from the line of Tomi Railo from DNB Markets, please go ahead, your line is now open.

Tomi Railo

Hello, this is Tomi from DNB. I hope you can hear me. Just generally on the market sentiment, if you could describe your customer behavior, is there any sort of hesitation regarding decision making? Maybe if you have seen any disappearance of projects in the pipeline, are there more projects coming in, that sort of general comment, please?

Markku Teräsvasara

Yes, what I mentioned, that I think we have discussed this earlier, as well, is that we have a good activity on brownfield and then we have some greenfield projects in the pipeline. I would say that there is discussion on uncertainty because of trade issues and metal prices going down. However, I must say that we have not yet seen an impact, or at least not a major impact, on that increasing customer hesitation, but as we are quite close in negotiating with them all the time, and they are reviewing their policies and their investment decisions, things can change, but up until today, we think activity is remaining at a similar level.

Tomi Railo

Thank you, and then perhaps you touched the service activity, if you can still discuss a bit in detail? Have you seen spare parts remaining on a solid level, modernizations, after the first half?

Markku Teräsvasara

We have had growth in both areas, of course, spare parts and modernizations. Both have been growing this year, and I think this is the same, together with the long-term service agreements, where we see an improvement and expect an improvement even going forward.

September 16, 2019

3 (8)

Tomi Railo

Then perhaps on the ilmenite project, any commentary? Any update? Where are we in terms of negotiation and construction of the furnaces?

Markku Teräsvasara

We are still negotiating. Certain preliminary works are ongoing, and I think we have discussed that earlier, as well, from the technical scoping point of view, it's processing fast and quite easy. However, commercial discussions, they tend to take time and we are in the middle of that negotiation with them. Nothing indicates that whatever we have said before about our provision and that it's conservative and sufficient, there's no change in that view.

Tomi Railo

Thank you very much.

Operator

Next question is from Antti Kansanen from SEB. Please go ahead, your line is now open.

Antti Kansanen

Yes, hi, it's Antti from SEB, thanks for taking the questions. The first one on the services, could you remind a bit on the second half of last year, did you still have some constraints from the supply chain that affected the delivery levels and sales levels on the second half of last year?

Markku Teräsvasara

The situation improved the second half of last year, the major supply chain constraints we had in the first half of last year and then it was gradually improving towards the end of the year, but in the third quarter there was an improvement, and as you remember, the fourth quarter was particularly strong. However, we have seen in the past that the fourth quarter typically is a strong quarter also for services, not only for CAPEX, so that played in.

Antti Kansanen

Okay, but the third quarter last year was still a little bit affected by the issues, if I remember correctly.

Markku Teräsvasara

Yes. In the beginning, yes.

Antti Kansanen

Okay, then secondly, on these bigger projects that you maybe have in the pipeline or are quoting right now in cooperation with Metso, is this something that would be already visible on, let's say, orders that you book before the actual merger, regarding some technologies that you may not have in-house and previously have not maybe worked together with Metso? Has this changed already, how you look at the companies that you partner within these projects?

Markku Teräsvasara

I think maybe I've misunderstood your question, but we cannot have any common quoting processes with Metso at the moment, as we have not yet

September 16, 2019

4 (8)

passed through the anti-trust. So, when it comes to markets and approach to our customers, we are still two separate companies and quoting on our own. I don't know if that's what your question is or whether you wanted to know something else.

Antti Kansanen

No, I was just thinking if you have bigger projects that you don't have all of the technologies in-house and going forward you would probably use Metso's technologies in those, is this already something that we should think about on orders maybe in the next six months?

Markku Teräsvasara

As I said, as long, as we are under the anti-trust review and we have not got the go-ahead for the merger, from that perspective, we are acting as two independent companies.

Antti Kansanen

Okay, fair enough, yes. Then maybe the last one, still coming back to the demand outlook, brownfield versus greenfield, how far do you think we are on this kind of replacement-driven or small-expansion cycle? It has been active for some time now, is there still growth left in that or should we see the, let's say, bigger projects or greenfield cycle coming or starting to get a growth on the equipment business and on the project business on the mining side?

Markku Teräsvasara

Up until now, we have seen the brownfield remaining on a high level. At some point, if there would be more greenfield going on, those things normally should cannibalize some of the brownfield investment, I think it's normal. To which degree, it's difficult to know.

Antti Kansanen

Okay, then maybe a question on nickel, and specifically in Indonesia, what kind of prospects do you see in that country, especially for the Metals, Energy and Water offering going forward?

Markku Teräsvasara

Without talking Indonesia specifically, I think what we see is that nickel is active, and nickel can be found in other regions, as well. So when spot and consensus prices start to be attractive, then the expectation is that there will be more investment.

Antti Kansanen

Okay, alright, that's all from me, thanks.

Operator

Just as a final reminder, if you do wish to ask a question, please press 01 on your telephone keypad now. Next question is from Antti Suttelin from Danske Bank, please go ahead, your line is now open.

Antti Suttelin

Thank you. You have previously said that you have a handful of large greenfield projects under negotiation. Now, I think we have received two projects already

September 16, 2019

5 (8)

announced, would you say that you still have a handful of projects in hand after these two?

Markku Teräsvasara

I think what we have, I think from that point of view, the situation has not changed since the end of the second half of the year. There are projects, we received two projects, but for the remaining, they are still in the pipeline and still under negotiation.

Antti Suttelin

My point was just to make sure that you still think that after these two projects, there is a pipeline for potentially another set of larger projects.

Markku Teräsvasara

There are opportunities, but as always, the exact timing of those things, when the boards are ready to give a final green light and when the project will be kicked off, it is difficult to estimate, but yes, there is still a pipeline.

Antti Suttelin

Okay, and then I have a detailed question on Iran, which was a potential big driver for Outotec before the sanctions. How much was Iran of 2018 sales and backlog for Outotec?

Jari Ålgars

I don't know if we have disclosed that, and obviously we cannot in this call give such detailed figures, but we said at that time that there were a number of quite significant orders we were about to close and those went away. We were just building up the business after it started to take off again in Iran. It was starting to turn to be a very interesting business for us and then it went totally away, even more than before.

Antti Suttelin

Okay, I guess that's all, thank you.

Operator

Next question is from Robert Davies from Morgan Stanley, please go ahead, your line is open.

Robert Davies

Yes, thanks for taking my question. My question was just around metal prices. Is it true that if the metal prices are at this level for a longer period of time, you think that would have a negative impact on activity, or is the current level okay and would need to take a step down because you think it would have any impact on either the original equipment or the after-market environment? Thanks.

Markku Teräsvasara

I think that is something that customers would be better to give an answer. Metal price is an important factor in all investment calculations, however, in different markets you have different dynamics. You also look at the products and cost compared to other companies and other peers. While some companies might decide not to invest in the lowering-price situation, there are other companies that actually see that's still very financially viable and attractive

September 16, 2019

6 (8)

and also for strategic reasons might go ahead. Investment in particularly a greenfield project is always a long-term investment, it's not based on any spot prices, it's more based on long-term expectation, on how the market is expected to be in the future.

Robert Davies

That's great, and then maybe just one follow-up was just around within minerals processing and the after-market business, what are customers specifically focusing on in terms of priority? Is it productivity? Is it environmental spend? Safety spend? What parts of your after-market business are seeing the strongest growth?

Markku Teräsvasara

I think from a service point of view, they are active throughout the whole install phase, but when talking about customer issues specifically, they have specifically been related to energy consumption, availability of energy, talking about efficiency improvements. They talk about water and availability of it, and as you yourself also said, productivity is one of the big three themes that are there. These are all drivers for customers' decision making and deciding where they invest, and they partially impact service, but service is also more day-to-day maintenance and keeping assets up and running.

Robert Davies

Is there a typical payback period that the miners are looking for? Is it within six months? Within one to two years? Just if you could give us a little bit of color in terms of the investment horizons that the miners themselves are taking when making those decisions?

Markku Teräsvasara

I think that is very much depending on what kind of investments we talk about and also customers. If it's greenfield investments you talk about, the ones that have been announced, there is a very long-term view or market outlook, and then there are a number of decisions that are based on shorter payback periods.

Robert Davies

That's great, thank you.

Operator

Next question is from Erkki Vesola from Inderes, please go ahead, your line is now open.

Erkki Vesola

Hi, good afternoon from me as well. Talking about mix, is there any major rebalancing between equipment and services happening, this would be the situation in the second quarter when the share of services was high? How should we be looking forward to the mix in the third quarter or even the entire second half?

Jari Älgars

Could you please re-ask the question again, I'm not 100% sure I got it, so I answer the right question?

September 16, 2019

7 (8)

Erkki Vesola

I was talking about mix. Is the mix changing from the situation in the second quarter when the share of services was somewhat high? How should we be looking at the mix in the third quarter?

Jari Ålgars

I think if you look at sales-wise, obviously these big orders that we've got now, they will gradually start to increase the CAPEX share of the volume. So, I would say in the second quarter probably the CAPEX share was a bit depressed due to the low order intake we had second half last year, and now they're gradually increasing, with this new order intake, what we have got in will start to improve CAPEX, we will see the percentage come down. It's still a positive thing, we see that we get more sales overall.

Erkki Vesola

Are we talking about significant decline in the share of services or very tiny?

Jari Ålgars

I think I would not like to go into such detail, but obviously it will start to. We have stated earlier that it's somewhat of an indication if you look at a twelve-month order intake, what is the sales for the next twelve months, and I think looking back on how the order intake has been CAPEX service should give you some indication on what to expect. I think that would be the best I can give.

Erkki Vesola

Okay, thank you so much.

Operator

Next question is from Antti Suttelin from Danske Bank, please go ahead, your line is open.

Antti Suttelin

Hi, this is me again. You made a comparison to 2012, and you said something like gold and copper being on the same levels. Now that I go back and look at your copper sales, for example, compared with 2012, it's only at 50%. Could you just repeat what you said, and what did you mean by the comment you made?

Markku Teräsvasara

No, I think what I meant, and maybe it's good that you asked that corrective question, let me try to find the page, if you have the H1 IR presentation at hand, we talk about the page number seven where my point was that in the last mining mega-cycle it was a lot about iron ore. Now, this next increase in investment is not so much related to iron ore, I think iron ore investment will be on a relatively moderate rate. The major growth from 2016, '17, '18 and onwards will happen in gold and copper, that was the main message, together with the battery metals.

Antti Suttelin

Okay, and it's correct that I can see that the copper bar is on the comparable level compared to 2012, but still I wonder why is Outotec copper sales only at 50% of what it was back then?

September 16, 2019

8 (8)

Jari Ålgars

I think if you look at sales 2012, obviously it's orders that have been achieved earlier. So, it's impacted by a few things. One is obviously what is the scope we were willing to take at that time, if we were willing to take significant EPCs, and the volumes coming from that and the type of scope we are taking now, and in addition to that, the order intake we see now will only be sales next year, so we are a little bit comparing order intake to sales.

Markku Teräsvasara

Also, Antti, if you compare the bar, the green bar in this Woodmac source, of course we are not yet, 2019, expected to be, on a copper perspective, expansion investment on the same level as 2015. It's still far away from '12 and '13 and '11, and to some degree also, '14, but our point is that the next boom, the expansion will be on these areas, so it's something that we very much expect to happen in the coming years.

Antti Suttelin

Alright, thank you for the explanation.

Operator

There are currently no further questions registered, so I'll hand the call back to the speakers, please go ahead. Speakers, it's back to you for any closing comments.

Rita Uotila

Thank you, operator.

Markku Teräsvasara

Yes, I think what we should conclude maybe, just to repeat the market outlook, I think, as we said, the picture looks a bit the same as we had in H1, solid demand in minerals processing and hydrometallurgical technologies, and in some other Metals, Energy and Water areas, we see an activity picking up and basic engineering projects being awarded. These are not yet major spending for our customers but indicating that there might be and probably will be bigger projects in other Metals, Energy and Water technologies as well. On the markets, I think we had a lengthy discussion on where the growth is expected to be and continue, and then that there are some greenfield projects, where in the last couple of years, we received none, now we have two orders in our books for this year. As a last point maybe that the service is growing according to our strategy and what we have been communicating. This integration and the merger are bringing in some additional work to our streams, but so far, we have a limited group of people working on it and the remaining parts of the organization focusing on business as usual.

Rita Uotila

With that, we'd like to conclude today's Q&A session. The next date is the Q3 reporting, which is October 25th. See you then, bye-bye.

Operator

That now concludes the conference call, thank you all for attending, you may now disconnect your lines.