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Company	Outotec Oyj
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Speakers	CEO Markku Teräsvasara CFO Jari Ålgars Vice President – Investor Relations Rita Uotila

Markku Teräsvasara Thank you, and good afternoon everyone, and welcome to Outotec third quarter result release. As second quarter, this has also been a promising quarter, and actually also the first nine months, with an active market strong order intake, service growing and last but not least a clear improvement in our project margins. In the presentation, we will look at this more thoroughly, starting from business and market development and going through finances, market outlook and guidance, and last, a few words about the Metso Minerals and Outotec combination. Let us first look at the business and market development. Market continued strong for minerals processing equipment in all categories, and for hydrometeorological plans. In the reporting period, we had two large greenfield projects moving ahead, while still the majority of the customers were focussing on improving existing operations. Service is growing well, with improved supply chain and deliveries in all categories. Copper, gold and nickel continued to be to be most active demands for minerals processing equipment and related services in Metal, Energy and Water are strong.

This demand is coming predominantly from base and precious metals and that demand continues to be solid. Strong order intake, year to date, of course, builds a good platform for us going towards 2020. Looking at the different segments, Minerals Processing, you see on the left side a Minerals Processing segment view. The orange one is showing order intake six months rolling, and the grey one is showing base six months rolling. So, even though we are not experiencing the similar mega boom that we had in 2013 and 2012, we see that order intake in minerals processing segment is already at an all-time high level. And for the equipment, third quarter was the best quarter in order intake for Minerals Processing segment that we have had in the company. In Metals, Energy and Water side, orders were increased but only slightly, however we see that book-to-bill on Metals, Energy and Water side is clearly above one. And we have also service business growing in that segment. And service, as we have our three-year strategy on growing our service business, 10% per annum in average, we are well on track in that plan with a good growth in service, both for the first nine months but also in the third quarter. And what is positive, is that growth is coming from a variety of different areas, including spare parts, technical services, modernization and upgrades. And even here we are at an all-time high level. When it comes to ilmenite smelter project, there is basically nothing new to report.

We are negotiating with the customer and the underlying demand for ilmenite slag is there, there is interest to have this plant up and running but the negotiation

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takes a little bit longer than expected. However, we remain confident that the provision that was spoke about in 2018 is adequate. New product development is of course vital for us to be able to stay ahead in competition. During the third quarter, we released a number of new products and innovations that help our customers to improve their operations in terms of improving availability, improving product quality and also lowering the total cost for the operation. So, now Jari will come and tell a bit more about the numbers.

Jari Älgars

Thank you, Markku. Now I have the pleasure to take you through the numbers. We had a strong order intake improving 26% from last year and 69% for the quarter. Sales was flat for the quarter and we are still behind last year's numbers, but as regarded earlier, our sales will be tilted towards the end of the year. The book-to-bill is strong at 1.33, it supports a strong sales growth going forward. Service sales growth was strong at 47% share of sales, driving results, improvement, together with solid project execution. This has brought our gross margin up from 23% last year to 27% so far this year. Our adjusted EBIT is 52 million, when it was 33 million a year ago. Looking first at Minerals Processing which showed continuing improvement. Our order intake in Minerals Processing was very strong, improving 46% from last year and 76% in third quarter. Sales is picking up and we are now ahead of last year's sales. Service improved well as the market was active and our supply chain is working better. Improved sales mix and project execution improved profitability from 10% to 11%. With Metal, Energy and Water, order intake was also good due to Udokan. Our order intake is 423 million, which is a good number as such and slightly higher than last year. Book-to-bill is well over one, which predicts improving sales going forward. It is imperative that we continue to get good order intake going forward as bigger volumes are required to further improve the profitability. Despite our low sales, we were able to improve our result in Metal, Energy and Water, the result is still negative, -5 million so far this year, but it was break even for the quarter. This is clearly up from a year ago due to solid project execution, improved service sales and actions we did last year to improve our flexibility.

Overall, we have seen solid improvement in profitability. Despite the lower sales volume, which you can see on the chart here, the impact with average margins, 8 million down from a starting point of 33 million a year ago. Our result is up due to increased service sales and project margins by 27 million, ending up at 62 million for the year so far. Our business has developed well, which is supporting our cash flow. Collection of trade receivables as well as increased advance and progress payment from the orders we have received has had a positive impact on networking capital. Our free cash flow continued thus positive and is now 45 million for the year so far. Our balance sheet remains stable, our net interest-bearing debt has developed positively due to the many new orders and related advance and progress payments we have received. We have also recently secured re-financing for our loans that are due for repayment during next year. And now, Markku.

Markku Teräsvasara

Okay. Thank you, Jari. Before we look at the outlook, let me just summarise our third quarter. So, it was a good quarter with strong growth in service, sorry, strong growth in orders and also service. Service sales continued to grow as well, and now must-win battles have progressed as planned and clearly contributed to our improved performance and competitiveness. When it comes to market outlook, we remain optimistic on long term drivers. Of course, our customers face a

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number of challenges with lowering ore grades and challenges with water resources, energy availability with that and cost for it, and of course tighter regulations and demands for licenses to operate. So, all this calls for efficient production and growth of technologies and that is something that fits Outotec very well. Also, as a new thing with us being there for some time, we see that the tailings dams have been very high on the agenda for our customers and we expect quite much investment in processed water recycling going forward. New energy alternatives, especially if we're talking about electric vehicles, there is a good long-term demand and car manufacturers are increasing their forecast. We expect to have good continued activity in copper, gold, nickel and zinc. However, still in the near future, predominantly we talked about brownfield projects and service continuing to grow. There are a handful of creative greenfield investments in the pipeline, and of course let's see how they then turn into projects going forward. A few events after the third quarter closing, they are mostly related to the merger of the two companies. However, of course, roughly one week after the closing of the quarter, we got another significant order from Australia for a grinding application.

When it comes to the new company, it may be interesting that new company, future Metso Outotec received credit rating from Moody's and Standard & Poor's and also company Outotec has secured its long-term financing going forward. We see the market is stable and on a good level with our service increasing, Minerals Processing improving and smaller order intake turning around faster. And of course, the expectation that Jari already mentioned, is that these bigger projects, they start to generate sales and we will have a stronger finish of the year. So, we reiterate our market finance for 2019 numbers. And a few words about the merger, just looking at the timeline, we had the prospectus published October 7th, credit rating already mentioned. Already, for some time, we have been working with filing in anti-trust documentation in different jurisdictions and that is on its way. And of course, the integration planning continues with representatives from both companies. Extra general meetings will be held in both companies, next week October 29th and our target date for closing is second quarter 2020. So, I think now we open the line for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from the line of Magnus Kruber from UBS, please go ahead.

Magnus Kruber

Hi, I'm Magnus Kruber with UBS. Just on the anti-trust filings, will you publish the results as they come back from the authorities or will you do that, sort of, early next year, so when you've got everything together?

Jari Älgars

We are in the early phases of the process, so we have not commented that yet, or we are not prepared to comment that yet.

Magnus Kruber

Absolutely, no. On minerals processing margins, I think they remained largely flat, I think, despite 10% organic growth, I think the mix also improved. Could you give me some colour on, sort of, the moving parts within the margins year over year?

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- Jari Ålgars** Yes, I think we have stated earlier that the competition remains pretty tough, so the margins at such pricing is difficult to drive up. But, obviously, as you said, the service share is improving the numbers, and then obviously the other part also is we have volume coming from CAPEX. This is just fuel to the mix, so the margin as such has not changed a lot in any direction or any part.
- Magnus Kruber** Yes. Okay, so pricing was, sort of, the key headwind in that sense.
- Jari Ålgars** Sorry, could you please repeat so I...
- Magnus Kruber** Yes, sorry. So, was pricing a headwind in the quarter on delivered projects, given that you had tailwind from both volumes?
- Jari Ålgars** It was a headwind, but it has not changed, so it remains. There is not so much business out there, the market is good, but all of the projects that are out there, also the service business, we have to fight for the business. So, it's not gone worse, but it's not improved either. I think the overall market has grown and we have been quite successful in getting our share as you can see from the orders. But as such, margins are improving slowly but surely, and that's mainly due to the better mix and then also the other part is that we have a better project execution, so we have better margins from the CAPEX side as well.
- Magnus Kruber** Great. Now, just finally, I think I saw your fixed cost increase from 8% organically for the period and if I did the numbers right, that would be 17% for Q3, if that's right. I think you're talking about selling and marketing costs driving this, but it sounds like a lot, could you give a little bit more colour around, sort of, the detail there?
- Jari Ålgars** Yes, I think the interest comes from mainly three sources. They are selling and marketing and I think the reason for that you can find in our order intake because our order intake has grown strongly and, obviously, it requires both tendering work as well as lots of visits and negotiations with the clients. So, this is driving costs and obviously as long as we don't get the revenue, we just get the orders, it has a negative impact. The positive impact will then come in the next, let's say, months and years, when we will get the revenue and then the cost is already taken now. So, this is, kind of, something which you cannot really go around. Service, obviously, growing, you cannot really expect the cost to stay completely flat because it's very much a people business. And then the third one is also what we have mentioned, that we also see some variable cost components increasing due to the improved results. But I would say the main reason is really that our CAPEX sales are down at the moment and we are still doing a lot of work on sales, so I would say that is probably the number one reason. So, therefore when you compare our cost to our sales, they don't look good. Going forward, they will look better, and needless to say, we still continue to work on finding ways to lower our costs, that work is going nowhere.
- Magnus Kruber** Perfect. Sorry, if I can just have one final one. In terms of the end of the year, you alluded to some pretty backend loaded revenue and recognition there. I mean, should we expect a similar sort of seasonality on the revenue side on equipment and service that may have done in the past, or is that even more pronounced now given your comment on it?

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- Jari Ålgars** I would say, obviously, now, when we got the big orders and they start to take, we should see even more pronounced. Obviously, that requires that the orders progress as we are planning at the moment, but yes, we have a lot of big orders now and they should start to take revenue from now on.
- Magnus Kruber** Perfect, brilliant, thank you so much.
- Jari Ålgars** Yes, service is always strong going towards the end of the year, you could say it's even seasonal in that respect, quarter four is always the best quarter.
- Magnus Kruber** Brilliant, excellent, thank you so much.
- Operator** And the next question comes from the line of Antti Suttelin from Danske Bank, please go ahead.
- Antti Suttelin** Thank you. Just one question from me. We have heard from your peers and competitors that especially the larger mining orders have been under postponement or being deferred, is this something you confirm as well? We know that you have been successful in the nine-month period in large contracts, but what's the outlook now going forward?
- Jari Ålgars** I think in general they are slow, but we have been successful in getting the ones at least that has been moving ahead. Of course, it would be good if they would move even slower, but I would not say that we've seen specifically any postponement as such, they have just been slow.
- Markku Teräsvasara** I think you meant that we would like them to move faster.
- Jari Ålgars** Yes. I don't know what I said there, that was the meaning, yes.
- Markku Teräsvasara** But, I think what we said already to do with representation is there are some greenfield projects and eventually we expected to get some of it. But of course, as always, the timing is very difficult to foresee. But yes, I think your conclusion is right, it's not yet mega boom in that sense, mostly brownfield.
- Antti Suttelin** Yes, but the point for asking was that you don't think there is an overall new, kind of, wave of postponement to the potential orders because there is more uncertainty and this and that then that everybody else keeps talking about?
- Jari Ålgars** No, not really, they are moving slow. Yes, we see some postponements here and there, but they have, kind of, specific reasons, maybe financing is not ready yet or something else. So, they are taking longer as expected but there is nothing that you could say that they would be slowing significantly down, or customers making postponement just for the sake of making postponement. There are fair reasons behind it for some of the projects postponing.
- Markku Teräsvasara** I think we also that it varies from reason to reason from commodity to commodity and customer to customer, so I think it will then materialise for different companies likely in a different way. So, I think that also is to take it into the picture and account, but I think comparing with last year, which is quite easy to make, there we saw a clear step change in May when suddenly we get less order intake

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and activity, at least for Metal, Energy and Water part, went down. Now, so far up until today, we have not seen that.

Antti Suttelin I see, thank you.

Operator And the next question comes from the line of Tom Skogman from Carnegie, please go ahead. Tom, if your line is on mute, could you please unmute yourself?

Tom Skogman Hello, can you hear me now?

Markku Teräsvasara Yes.

Jari Ålgars Yes.

Tom Skogman Right, yes. So, I wonder about this ilmenite smelter project, how large is the cash flow impact in the third quarter and how much is it since you took the provision?

Jari Ålgars We have not disclosed that separately, but as we have stated, we are still in negotiation mode. As Markku stated, there has to be some preparatory work made but it's very insignificant, not a lot still.

Tom Skogman I think you said that in Q2 that it was, like, around €5 million, so it's still below €10 million that you have used out of the provision.

Jari Ålgars I don't remember if we have ever disclosed any numbers, but we are talking about small, kind of, third quarter, we are talking low single numbers.

Tom Skogman And what is really going on at the moment?

Markku Teräsvasara What is going on, of course, the negotiations are ongoing, maybe I would be surprised if they are taking a bit longer. There is a customer who wants to have plant up and running and there is customer for that ilmenite slag, it is integrated part of the vertical value chain that they have. As Jari said, they are already ongoing some preparatory work, so it's not that the project is in complete stand still, the work is proceeding. But of course, at the same time, we will continue our negotiations.

Tom Skogman Okay, thank you.

Operator And just as a reminder, if you do wish to ask a question, please press 01 on your telephone keypad now. As there are no further questions, I'll hand it back to the speakers.

Rita Uotila Okay, thank you operator and thank you everyone for participating in this Q3 teleconference. I wish all of you a very good weekend, thank you.

Operator This now concludes our conference call, thank you all for attending, you may now disconnect your lines.