

Company	Outotec Oyj
Conference	Q4 2019 Interim Report
Speakers	CEO Markku Teräsvasara CFO Jari Älgars Vice President – Investor Relations Rita Uotila

Markku Teräsvasara Thank you and good afternoon, all. Let's start our results review and this year as we have even written in the title 2019 was a year of many notable achievements. There were events like agreeing on a merger, combining our company with Metso Minerals. We had decided some divestments. We decided at the end of the year that we also had a lot of improvements in our business performance. So, from that list, we can say that from an order intake point of view, it was a good year. Our service continued to develop. We said 2017 that our plan is to grow our service business by 10% per annum in average and 2019 we followed that plan and have been following that all the way from 2016. Our service growth last year was 60%. Our project performance has continued to improve in a good way. We also had people engagement increasing, customer satisfaction increasing, and one topic I'm very happy about and proud of it is that our safety record was the best in the company history. So, there were many, many dimensions that went ahead and improved. And, of course, also related to the financial performance in terms of adjusted EBIT, made a good leap forward. Main explanation for the financial improvement was of course, our must-win battles program that we contributed well to improve profitability. And if you lift three things towards the end of the year, other dimension project performance improving, we had service that continued to improve and then in quarter four, and this last topic is maybe a bit lumpy. We had a closing of a few projects, which contributed to quarter four Metals, Energy and Water result in a good way. But all in all, good improvement in many different areas. Just to remind you about the fact that the figures we present here for 2019 and 2018 and Q4 2019 have been restated due to this business divestment in Metals, Energy and Water segment. At the same time, just for the sake of clarity, we also decided to rename this segment to Metals Refining only. When it comes to figures 2017 or earlier, they have not been changed. So, a little bit about the business development. The market was still very much around brownfield investments and they continued 2018 level. We saw some larger greenfield investments moving ahead and I think you all remember these good orders that we received from Russia and from Saudi Arabia in copper and gold contributing nicely to order intake, particularly on Minerals Processing side, but also on hydrometallurgical technologies which enjoyed similar growth as the whole Minerals Processing area. We also saw activity improving towards the end of the year in smelting technologies, wireless as iron ore and pelletizing and sulphuric acid plants. There

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were projects, but of course in that area we could do more. However, this gives a good starting point for the company for this year.

Our order backlog went up by 29%, so, I think you all remember discussions we had ahead of 2019, where the order intake in the second half weighting was on the low side. Now we start the year in a completely different situation, thanks to these orders that we received.

When it comes to quarter four order intake specifically, not so many announced orders. Also, not so much significance in value. All in all, good development, both on Capex and service, in both areas order intake grew in quarter four.

When it comes to different businesses, we see, and thanks to these greenfield orders, we saw all-time-high order intake in minerals processing segments and very rapid growth, or strong growth of 46%. Service continued to grow in both segments actually and on Metals, Energy and Water side, as I mentioned earlier, the hydrometallurgical technology was enjoying similar growth to Minerals Processing, maybe even somewhat faster.

When it comes to Metals Refining portfolio that is a lumpy business and large orders, larger investments, do not come every quarter. We have had some lower activity in some of the segments I mentioned previously, however, in Metals, Energy and Water portfolio we have – or let's say projects in the pipeline. But that's as always exactly when the decisions will be made is not easy to foresee.

When it comes to services, as I said, we are on track with our 10% growth target all the way from 2016 and we expect service to continue to grow even going forward. When it comes to sales distribution, no dramatic changes on the sales by region, the regions – there was some shift in geographies. EMEA – Europe, Middle East and Africa – getting somewhat smaller; Americas and Asia and Pacific increasing. But if you turn that the other way and start looking at the order intake during the year, the development is exactly the opposite.

When it comes to metals exposure, coal and copper continue to be very strong part of our business. Basically, no change. Where we saw growth 2019 was in nickel, in ferroalloys and in zinc, while iron ore declined somewhat. Battery metals continued to be an important part of our portfolio, altogether around 12% of the sales was coming from battery metals.

Maybe just to mention a few things, our product development continued active, addressing the customer challenges that our customers face, but also seeing where the company, Outotec, had growth opportunities. This example shows development very much in water recycling and tailings area.

Many of our customers are focusing on improving their water recycling and taking better care of the tailings and that is reflected through our product development as well as maybe lifting these polymer bearings on grinding which is definitely improving the total cost of operations for our customers.

As you all learned in December, we were rearranging our portfolio on Metals, Energy and Water side. That has been something that we, again, it goes back to our strategy that we communicated in 2017, where we said that we will look each business segments separately and the expectation, of course, are that they are all profitable.

However, when you look at the divestment logic, standalone profitability and profit generation is one thing, but also what we looked at clearly is whether there are synergies with our main business, main portfolio, what kind of position we have in value chain in those particular businesses and maybe also one important topic what service intensity we have meaning opportunities for recurring revenues.

So, these divestments that we decided, aluminium, waste-to-energy and sludge, they have good product portfolio, good technologies, good competence but

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maybe a common nominator for them are that they are niche and not having so much unity with the rest of our businesses.

When it comes to projects, ilmenite smelter project in Saudi Arabia – we are at the moment progressing with the projects, rebuilding the furnace. The market for ilmenite slag is still very much supporting this investment. There is a need for ilmenite slag on the market and we remain confident that our 110 million provision that we booked in 2018 is sufficient.

So now, with these words, I hand over to Jari and the financials.

Jari Älgars

Thank you, Markku and good afternoon from me, too. I will take you through the numbers. So, if you look at the order intake, we can clearly see that we moved up this cycle.

We were able to increase the order intake from the previous 1.2 billion level to a 1.5 billion level and this clearly came through the big orders. Greenfield orders started to move, and we were able to land a couple of significant orders here. As Markku also pointed out, none of this happened to hit quarter four but for the year overall, we are quite happy with the 1.5 billion number we were able to achieve which meant that we had a growth of 29% for the whole year.

Still, these big orders have not brought a lot of revenue. So, if we look at the sales, it only grew by 1%, so it was more or less flat what we indicated in December but good is that we saw strong growth in service sales 16%, up from 472 million to 550 million for the quarter, the year, and this obviously means that the share of service has increased from 39% to 45%.

This, but also the fact that we have improved our project execution and we also were able to finalise successfully a couple of larger orders, which meant that our gross margin improved from 17% the year before, which obviously was affected by the ilmenite smelter provision, to 30% this year. And this means that the adjusted EBIT on a continuous business basis is 122 million and 10%, while the year before was -32 million and -3%.

We also had some cost on the restructuring and acquisition related cost, roughly 30 million cost out of the merger with the expected merger with Metso, which affected our results for the period.

If we go into Minerals Processing it was, as Markku pointed out, all-time-high order intake, which is great knowing that we don't have a super cycle. We still were able to have a super cycle and the growth was a whopping 46% up from 790 million to 1.49 billion. Here also we can see that the sales impact was not that dramatic, yet we will see it in this year.

The change was from 758 to 799 and if you look at the service sales growth you can see that it virtually all came from service sales growth which was continuing quite well. The adjusted EBIT came down a bit compared to the previous year, but this was due to that we were taking 6 million of one-time costs, write-downs of some old equipment and then also the fact that we got over 1 billion sales also impacted our sales costs, which increased by roughly the same numbers. So, all in all, we are developing in the right direction and we are quite happy with the result of Minerals Processing.

If we go into Metals Refining, we had a significant improvement from better project execution and provision releases from successful project completion. All this impacted profitability. But before we go there, we should stop a little bit on the order intake, which was more or less flat, so still we need more orders in metals refining, something which we also pointed out that last year.

There are orders in the funnel in both segments – quite nice orders – but we have to be able to land them and especially in the Metals Refining area so that they

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would also impact the sales of the year. As you could see sales between 2018 and 2019 was going down by 6%. If you look at the service sales below that you can see service sales grew strongly from 128 to 162 million with 26%, which obviously meant that the capex sales came down quite a lot when you look at the overall sales came down.

Still, we were able to achieve a very strong result, and this was due to, as I said, project execution, provision releases and then obviously the growth in the service sales. So, this was a very, very good year result-wise for metals refining – 11% on the adjusted EBIT level.

Next page, we have the bridge; how we came to this result. The adjusted EBIT obviously before the restatement was 64 million with the net divestments it improved 50 million, 2018 result, ending up at 78 million as our restated results volume was more or less flat, only impact was 3 million, again then margin and sales mix, excluding the 110 million provision for the ilmenite smelter improved by 54 million and fixed cost and other were 30 million higher, which came from these sales cost and also some variable pay due to the high order intake we had. And the adjusted EBIT ending up at 122 million.

If you look at cash flow, it was solid due to positive development in both trade receivables and payables and slightly improving from the year before and our cash liquidity situation here at the bottom of the page – 267 million compared to 233 a year earlier is quite solid.

And maybe to the cash flow still when we look at this year, I would like to state that we now got the two orders, Udokan and Ma'aden, and now we come into a phase where we have gotten the progress payment to a large degree in 2019. Now we will start to build equipment to be shipped which will happen first half of 2020, so we are looking at that there will be some cash outflow while we are doing this. And then second half of 2020, we will ship this equipment and then again, we will be able to get the money from shipping. So, we will see a U-shaped curve of the cash flow this year, just as a note for you to be aware of.

Financial position remains stable if we take into consideration the IFRS 16, the numbers improved slightly on net interest-bearing debt and gearing and then equity asset ratio came down also partly impacted by this IFRS 16 increasing the balance sheet.

On top of that, networking capital developed quite nicely. We got advances received but we've also delivered projects, which meant that the advances received is actually quite fresh money now compared to their previous advances we had in 2018.

If we go to the outlook, I'll hand over to Markku to take you through the outlook and obviously I'm available for questions then later, on the numbers.

Markku Teräsvasara

Thank you, Jari. Moving on first then, some of the events that we had after year-end closing before the reporting, there are quite many things on the list but maybe to lift up on the eighth year in a row, we were included in global 100 list of most sustainable companies in the world.

That is something that has started to be a habit for Outotec, and we are very proud of that and Outotec was awarded a Gold level recognition for our corporate responsibility practices, third year in a row, so I think both are demonstrating good work that has been done. And I think maybe on this one even though it doesn't show on the record and on the file but there are six technologies where you have a standardised way of measuring the carbon dioxide emissions that our customers avoid by using Outotec technology.

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And there we were actually able to – or our customers were able to – improve the CO2 emissions, meaning that the reduction only from those six technologies was 6.6 million tonnes of CO2 during 2019. And if you compare that to, for example, the total CO2 emissions from Finland which is 56 million tonnes, that is a significant amount of CO2 that our customers avoid by using Outotec technologies and we believe that that more and more that will be a business benefit going forward.

When it comes to outlook, we expect the market activity in Minerals Processing and Metals Refining, current expectation is that it will remain at present level. Of course, you know all matter of uncertainties that there are at the moment. But overall, we expect the market to be at present level roughly and gold and copper and nickel continue to be the most active.

However, the timing of the last investment is difficult to foresee. This year for 2020 because of the merger of combining Outotec with Metso Minerals, we will not issue a group financial guidance in numbers.

Our board of directors proposes at the 2020 annual general meeting that the dividend of €0.10 per share will be paid.

And then a few words about the combination of Metso Minerals and Outotec. What was new in the announcement we were a little bit more specific with the timing of the combination.

Combination – the planning, merger planning, or planning of two companies coming together is progressing as planned, but what is difficult to foresee exactly is the timing. What is difficult to foresee exact timing is the regulatory approval processes. We have received approval from certain countries, and we are progressing well in line with the planning and therefore we actually now announced that our current expectation is that the closing will take place at the end of June but that is, of course, subject to all approvals and competition clearances.

And just to refresh, we see that this combination or merger is highly complementary in many different dimensions. I think our strengths are slightly different than in different areas, and by combining our forces, we will definitely build a stronger platform when it comes to innovation and technology, but also when it comes to our presence in different geographical areas and also our application offering.

So, we will be a complete full line supplier for many of our customers by combining our product portfolios. And as I said, we have different strengths in the company. What is common and unique there, there seems to be a very strong cultural fit. So, the way companies operate, and our culture seems to be very similar and that has been a positive finding in the integration process when we have started planning the integration together.

So, maybe before we open the Q&A session, just a quick wrap-up from 2019. There was, as I said many events, so it was really a year of many notable achievements and of course, not the least, the resulting improvement. When it comes to quarter four results, specifically, what Jari already mentioned on Metals, Energy and Water side, a good positive development and strong result, a little bit helped by the closing of some of the bigger projects at the end of the year which is of course, something that doesn't happen equally every quarter but then again on the other side, we have Minerals Processing where we actually decided to write down some old inventory from the company and take that cost together with increased sales activities and related costs.

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But I think that money was well-invested when it comes to the order backlog because now, we will enjoy that when the project starts progressing. So, all in all, I think a good year for Outotec and now it's time for Q&A.

- Q&A Operator Thank you, speakers. So, ladies and gentlemen, if you do wish to ask a question, please press zero and then one on your telephone keypad now. And the first question is from the line of Magnus Kruber from UBS. Please go ahead. Your line is open.
- Magnus Kruber Hi Markku and Jari. Magnus here from UBS. A couple of questions from me. So first, could you possibly quantify the impact in the Metals, Energy and Water from the project execution or the provision reversal there? My first question.
- Jari Ålgars Yes, we are talking about the number that is between 10 and 20 million.
- Magnus Kruber Perfect. OK. And how does it split between the two? Do you have anything you could offer there?
- Jari Ålgars Sorry, I did not get your question.
- Magnus Kruber So, how is it split down between the execution and the provision releases or do you consider it one?
- Jari Ålgars The provision really is. On top that came the execution improvements.
- Magnus Kruber Perfect. Thanks a lot. So, comparable to the 10 to 20?
- Jari Ålgars Yes, slightly above that previous number.
- Magnus Kruber OK, perfect. Thank you so much. And then similar on the Minerals Processing then. The increase in selling and marketing expenses in the quarter – I think you alluded to the size, but shall we expect that to revert then in 2020 to a lower level?
- Jari Ålgars Sorry, could you repeat the question so I can answer you the right way?
- Magnus Kruber Yes, apologies. The selling and marketing expenses, the step up you saw there in Minerals Processing, could you quantify that as well and would you expect it to revert?
- Jari Ålgars As stated, we had in Minerals Processing 6 million costs of this write-down of equipment and on top of that about the same amount coming from extra sales cost, which then will lead to revenues this year. So, these were the two numbers.
- Magnus Kruber Perfect. Thanks a lot. And then finally, on the service sales, of course, very solid year this year and could you give us a sense of the dynamics underlying that and if they would support continued growth in 2020 or is there anything that you would say has changed between the years?
- Markku Teräsvasara No, I think what we see is development in line with what the ambition has been. Of course, the overall demand when it comes to recurring service revenue is related to spare parts and wear parts and service labour and as we improve our operations, we have that going and you can expect as long as the customers are

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producing, they need spare parts and they need wear parts and they need services.

What is a bit lumpier in service also is these small service projects and shutdown services where the timing is not that easy to see. But overall, we see that we have an opportunity to continue to grow in line with our plan and that will be what we try to achieve.

- Magnus Kruber Excellent, thank you so much. And just the final one, how do you see the quotation activity progress through Q4? Has it been weaker at the end or better at the end than what you have seen in Q1 so far?
- Markku Teräsvasara I think when it comes to number of new opportunities, we have not seen that decreasing. If anything, there was a slight increase in number of new opportunities.
- Magnus Kruber Excellent, thank you so much.
- Operator And just as a reminder if you do wish to ask a question, please press zero and then one on your telephone keypad now.
We have a question from the line of Artem Tokarenko from Credit Suisse. Please go ahead. Your line is open.
- Artem Tokarenko Good afternoon. Thank you for taking my questions. The first one on the ilmenite smelter, could you maybe give us a bit more colour on the timeline when you expect that project to be finalised and maybe on the progress which you are doing there with the first and second furnaces?
- Markku Teräsvasara What we said is that what happens at the moment is that we are rebuilding the furnace number one together with the customer and the ambition currently or the plan currently it to have it started up during the autumn. That is what we are looking at, at the moment.
- Artem Tokarenko Okay, thank you very much and in terms of the divestment of those operations in Metals, Energy and Water which you announced, how advanced are you in that process and what is the interest from potential buyers there?
- Jari Älgars We have seen quite a lot of interest from potential buyers and we are expecting that some of them can move quite fast and then for some of them it can take a little bit longer. We are a little bit taking them in order here, so we are not running all three simultaneously. But yes, there is interest and we are still quite confident we will be able to buy them or sell them successfully.
- Artem Tokarenko Right, thank you, and my last question is around your comments on slow decision making by customers at least in metals business, how that decision making has evolved maybe compared to end of '19 and do you see any slowness in minerals as well?
- Markku Teräsvasara No. No, we don't see so much slowness in minerals. I think the metals what we saw last year, and I think was also discussed in early meetings, is that the accurate activity is increasing, take the smelting as an example, but also in some other areas. What customers have done and maybe a little bit changing the behaviour is that they typically release a design order first.

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So, before they go into production, they want to prepare all the documentation and sometimes even complete the design and those are mainly engineering work and not the size of projects that we would go out and announce but that activity and the resource utilisation has definitely increased.

What is of course not easy for us to predict is that when the customers are exactly going for the construction investment decision, which then triggers bigger project opportunities. But of course, that will also happen, it's about the timing when exactly.

- Artem Tokarenko OK, thank you very much.
- Operator And there are currently no further questions registered so I'll hand the call back to the speakers. Please go ahead.
- Rita Uotila All right, thank you, operator. Thank you for everyone for participating and just as a reminder, this is recorded. Teleconferences will be available later this afternoon on our website for on-demand use and from us here, I'd like to say thank you and have a good evening.
- Markku Teräsvasara Thank you.
- Jari Ålgars Thank you.
- Operator This now concludes the conference call. Thank you all for attending. You may now disconnect your lines.