

Event: Outokumpu Q1 Quarterly Results

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JOHANNA HENTTONEN: Good afternoon, ladies and gentlemen, and welcome to Outokumpu's first quarter webcast. My name is Johanna Henttonen. I'm Head of Investor Relations. Today we will start with a short presentation by Mika Seitovirta, our CEO, and also Reinhard Florey, our CFO will be then continue with the numbers. After the presentation, we'll have a Q&A session. Mika, please, the floor is yours.

MIKA SEITOVIRTA: Thank you. Welcome, everybody, to this webcast and quarter one 2014 Outokumpu quarterly results. Quarter one this year was very important for Outokumpu in many ways. First of all, business-wise, our financial performance followed actually very much our guidance, and was very much in line with our expectations. We saw the market picking up from quarter four. We saw our deliveries increasing by 9% from quarter four to quarter one, and we saw an improvement also in our mix, and slight improvement in our prices. On top of that, we continued good performance in our efficiency programmes, meaning both cost reductions and the working capital-related actions, namely the good inventory management that continued also quarter one.

But quarter one included also many other things. Strengthening the balance sheet, we concluded the divestment of Terni and VDM. We also renegotiated our financing, and that was also valid as from the closing date of 28 February, and on top of that, we successfully completed the €640 million net rights issue. As a consequence, our net debt and gearing reduced. On top of that we finally concluded also our negotiations with IG Metall and the unions in Germany. That gives us now the freedom to start to execute the restructuring programmes accordingly. Also on the good development track was that we were able to reduce the losses in Calvert, which is to be seen in the business area Americas results.

What remains there still though is that, of course, a challenge is still that we have the base prices on a very low level. However, we think -- as you can see from the chart as well, we think that we have reached the bottom, and there is actually a slight increase. And despite of the fact we improved our underlying EBITDA to €37 million positive from quarter four last year, which was actually -€1 million, and if you still remember, there was this EEG energy surcharge, which was a one of a kind repayment of €20 million, so it's actually operatively even more improvement than what you can see between €37 million and -€1 million. But the EBIT, underlying EBIT, was still negative, -€45 million, and of course, as such, an unsatisfactory number.

Again, SMR is forecasting this end demand development for this year for stainless steel. We can see quite some impressive numbers. The global growth for stainless steel end demand is 7%. We believe that that growth number is very much the right one. There is clearly growth for this year all over the world. However, from our point of view, of course, the most important numbers are the numbers in North America, and of course then in Europe.

If we look at the European number, last year's end demand was negative. This year they are forecasting now the 3% growth here. We believe that there will be growth. Will it exactly be 3%, somewhat less, somewhat more? It still remains to be seen. However, we can see that the market continues in positive terms. In Americas, North America, where Calvert is located, clearly positive growth. It's forecasted to be 4% for this year, and we fully share the whole-year number for Americas as well. And then of course Asia, re China, very high growth in general still.

Concerning the balance sheet, so, we can tick all the boxes now here concerning the commission, concerning the refinancing, concerning the completion of the transaction with ThyssenKrupp, both when it comes to VDM and both when it comes to Terni, and through that we can also now forget the remedy. This is very

important for our organisation and for our company, because we can now put that energy fully this year on our customers and in the competition, and in executing our programmes and developing our business.

These are the priorities for us for this year. There is no change. You saw these priorities also last time. We are going to be very consequent on these one. Calvert and the ramp-up there is the biggest lever for Outokumpu this year. It's very much topping our agenda, and we are very sure, actually, that we can follow up this development what we have already seen between the quarters to be continued here. So the second one, which is the big restructures in EMEA, we are now free to execute all the actions, including Bochum closure, including the 1,000 reduction of the head count, and we go for that as soon as possible, the efficiency programmes, and then of course everything which is related to cash flow. That hasn't disappeared from our priorities.

Here you can just refresh your memory and see the Calvert numbers from last year. You remember the second quarter -€70 million, the third quarter -€50 million, -€35 million. Now we are on -€19 million. The good thing is that we are increasing heavily the volumes of Calvert at the same time. We can see improving yields. We can see improving right first time there, and when we see the demand as well, the market is really there, so the order intake has been encouraging, although the improvement of the quality of the production has been encouraging. The last shipments from Terni were actually from March, so we have still some material left, but that is mainly used in Mexinox directly, so when it comes to Calvert melt shop, so, no European material is used here any more, but we are now able to increase our utilisation rates fully in line with our ramp-up plan. Target of 530,000 tonnes in 2014 remains valid here, and the broadening of the product portfolio continues as planned as well.

Concerning EMEA restructuring, as I mentioned, we are now free to execute what we have planned, and we will. So it's the closure of Bochum, in practical terms,

which will now happen about 1½ years earlier than in the original plans, and it's the NIFO investment, which is now currently -- we have decided about it. We will go for it now. We will start already this year, and we are signing the first contracts to move forward, meaning also that when we get that ready we can also close the site of Benrath. Through that we get the fixed cost savings, and we will have a more efficient unit in Krefeld. On top of that, it's about 1,000 additional jobs. Most of it is identified, and some of it is still to be identified now, when we can intern and clearly analyse all the operations after the results and the deal with the unions.

If you look at the combined synergy and cost savings, you can see the good development here on the left-hand side. You can see that €251 million all in all, altogether, P150 under synergies, so we continue to overachieve on that side. We believe that that's going to be the case during the -- during year, and forward as well. As you can see, the overall savings, we have increased the number of 2017 from €450 million to €470 million, and it's not an ambition here, but here behind is the closure of Kloster, and the fixed cost savings that we are going to get from there, so that's now included there. Otherwise we have kept the split, and we commit to these numbers of €380 million for next year, and €440 million for 2016. Cash flow, indeed we overachieved last year, but we beat €300 million by doing already during the first year freeing cash up to €351 million. Now we managed still to improve in the beginning of the year, and during the first quarter we got €48 million freed cash more, and that's, of course, extremely good development. It's also needed. We know that the nickel price is also increasing, and the value through that is increasing, so we are going to have it as a very, very high priority. The good news is really that also the inventory days were lower than the target. CAPEX, you remember our target to be under €200 million. Last year was €183 million, and the first quarter was €15 million, so we are on that path. We are not going to take any risks on that, so we have done very careful analysis and detailed analysis where to invest, where not to invest, so that we are not taking risks and we

are never compromising the safety, but we can really have a new normal on the CAPEX levels here.

And now I would like to give over to my colleague Reinhard, who will go through a little bit in more detail the numbers.

REINHARD FLOREY: Thank you very much, Mika. A warm welcome from my side, ladies and gentlemen.

I would like to give you a brief overview about the financial numbers of Q1 2014.

We have seen that in Q1 some significant changes and improvements, both on the operative profitability as well as on the financial stability of the company. Overall, on the business side we have seen that deliveries could have been increased by some 9% against the performance that we have seen in the last quarter. We have deliveries of 676,000 tonnes in this first quarter, and this is clearly some 50,000 tonnes up from the last quarter. Compared to the first quarter 2013, however, this is still a little bit lower. This means that economy is still in recovery, and as we see, we are part of that and improving along with the industry.

We can also see that regarding the price development in the market, there's still some catch-up to be taken. We have seen that base prices could have been increased. There was increase, as Mika said, some €20, €30 per tonne, and we have of course also seen the effect from increasing metal prices, but still, compared with the first quarter 2013 -- there is still some room to catch up.

Even more so it is positive that, not only compared to last quarter but also compared to first quarter 2013, our operative results have clearly improved. We have improved from underlying EBITDA of -€1 million in the fourth quarter to an underlying EBITDA of €37 million in the first quarter. If we take into account that in the fourth quarter we still had some extraordinary effects positive in this underlying EBITDA of some €24 million, from renewable energy charges as well as gains from some divestments. You can see that the increase that we have managed in the first quarter is even higher than you can see here.

However, if we look at the EBIT number for first quarter, with -€188 million, this of course is a heavily negative figure. However, we have to take into account that this includes non-recurring items in the magnitude of €140 million that are taken for all the restructuring efforts going forward, having redundancy provisions of some €88 million, environmental provisions of some €25 million, as well as some impairments of €27 million, in this first quarter. This compares to some €54 million of provisions that we have taken in 2013 for the programmes that we have here, and you see here the numbers for the first and for the last quarter of that. And this now really resembles also the majority of the provisions and one-time effects that we have for all programmes, for the synergies, for the P150, and for the EMEA restructuring. Overall we can see that the operating cash flow has been clearly better than our expectations, a very small negative number of €14 million only. I'll come to that in more detail, but the reasons clearly are that of course there have been some effective savings on net working capital, but there also have been some effects from delays, both in CAPEX as well as in raw material payments, from Q1 to Q2, so this is maybe not entirely representative number. Still, very positive and contributing also to the financial stability that we will show. On the personnel side, you can see that we have further reduced by 125 the head count, our overall level of personnel, so also moving in the direction as anticipated.

Talking about the underlying EBITDA, I would like to introduce to you the modified way how we report our underlying EBITDA, and of course there's need for explanation if someone changes the definition of underlying EBITDA, but you will see that this is first of all following a very logical path of reporting, and secondly it has not a very strong impact on any comparison to 2013. That is also why we have not adjusted the numbers for 2013 in that way.

Now what is happening? We are reporting the underlying EBITDA now as a really purely operative result that is not contaminated by neither effects from the timing effects, nor from derivative effects from raw materials. So we are excluding

derivative effects from raw materials from the underlying, and showing the net of the timing effect as well as of the hedging effect in the EBITDA, before non-recurring items. So we have a reported EBIT and EBITDA. We have an EBIT and EBITDA before non-recurring items, which then includes the net of hedging effects and timing effects, and we have a pure underlying EBIT and EBITDA, that we are showing the operative performance of the Group as well as the business area. And this is new, we are also introducing now the underlying EBITDA as key figure for the business areas, as you have seen in our report.

What is now the reason? The reason is that clearly due to the risk management that we have for our Group, taken into account the higher volatility that we see in raw materials, we have introduced in the first quarter a hedging policy that takes into account a much more stringent way of hedging raw materials, and those will be displayed in higher or stronger effects from hedging, and also that is something that will be balanced by timing gains and losses over the time. So we think that it is more than understandable and fair to net these both effects, and say, "What is the underlying, the operative result? What is the result that we see from timing and hedging effects? And then what are non-recurring items?" And that brings us to the overall reported EBITDA. For Q1 2014 we can say that the net of hedging and timing effects has been -€3 million, so, a relatively a minor figure, and this is the way how the numbers have to be interpreted.

Then let's have a quick look to the individual business areas. Stainless EMEA, of course, the area where we have the large restructuring, where we have the big effects from our synergies, and where we have both the stainless business and the ferrochrome business included. What we can see is that in terms of sales of EMEA, we have been able to increase this by 10% in comparison to quarter four, and also our deliveries came up from 350,000 tonnes to more than 390,000 tonnes. If you look at the ferrochrome deliveries, I think it's necessary to explain that those are only deliveries outside the business area, which means outside the main areas of

consumption. And you can see that this has been relatively small in quarter one, because most of the material that we have produced has been consumed in Tornio or in Bochum.

What does that actually mean? Our production has been, of course, further increasing. We have more than 120,000 tonnes of production in ferrochrome, but this means outside of business area, EMEA, there are only 25,000 tonnes of deliveries. The results. There is, I think, one very important achievement. For the first time since the acquisition of Inoxum for Outokumpu, we see end results from EMEA on the EBIT level, excluding NRIs, that is positive. So we have a number of plus €2 million. This is clearly higher than what we have seen in the quarters before, and our EBITDA excluding NRIs has been increased now to €47 million. This is more than half of the result in one quarter that we did last year.

If we are looking to the area of Stainless Americas, the second big area where we have strong improvements, Mika has already shown the line of continuous improvements that we had over the quarters, as we had anticipated. We have, regarding our sales performance here, an increase of even more than in EMEA. We have some 14% higher sales in Americas. Our EBITDA excluding NRIs is at the level of -€19 million, and we can see that also our CAPEX has been very small in Americas, contributing to the good cash flow that we have overall.

Now, it is still a negative EBITDA, and we have anticipated that the overall EBITDA for 2014 would be break even or positive. Why is quarter one still impacted negatively? Two main effects. The first is that we still have deliveries from Terni, from AST, in this first quarter. We had anticipated that, and the shipments, the last shipment has been arriving in March, so for the next quarters, no further negative impact from that area is to be expected. The second is that we still had, in January and the beginning of February, the impact of very surprising negative weather conditions, where there were some outages in the production due to frostbite, which is very unlikely to happen in Alabama overall, but this is still included. However, it

was possible to increase the results still, increase the sales, and we can say that our order intake is more than encouraging. We are facing a very positive business environment, and a high appreciation of our abilities to produce now also a wider range of products in Calvert by our customers. Therefore we are looking also very optimistic into the second quarter in Americas.

Looking at Stainless APAC, Stainless APAC is the only business area where we have a reduction in deliveries and in sales, and this is due to a situation which is more or less looking at lower growth in China. We had the period of Chinese New Year beginning of February, and we had a situation where also the deliveries were impacted by a negative price development, very low cold rolled prices, in China, and some shortages also from the hot band deliveries in this quarter. So there were some negative effects. We are anticipating that also due to the situation that the nickel pig iron ore banned from Indonesia will clearly drive the production cost for the Chinese producers, we will see, or will anticipate a price increase also in China, which also make quarter two a more positive experience for us. But we clearly see that in quarter one there were some negative impacts with the Chinese New Year and the maintenance breaks as well.

But in Specialty Stainless, an area where we have invested, where we are seeing growth, where we are seeing really some encouraging development, you can see sales and deliveries are up some 9% to 10%. We have increased our EBITDA excluding NRIs, and looking at €18 million in the first quarter compared to €27 million for the whole year 2013, this is a good start. There are some areas where we have really encouraging developments, specifically Quarto Plate, the area where we have invested, and also in our long products we are making good progress. We are seeing that also the CAPEX figure in the Specialty Stainless, with €5 million, has been comparatively low, and it is important to notice that this is also the area where we'll have one additional closure, not only Bochum and Benrath in the EMEA side, but we'll also close the site of Kloster. Their production will be transferred both

to the second Swedish site of Nyby, and to the German operations of Dillenburg and Dahlebrück, so we do not anticipate a major loss of sales and revenues there. However, we will see annual savings of some €15 million per year, as of 2015, as we anticipate to close down the site until the end of 2014.

Looking at the situation of operating cash flow, we have talked about the cash flow from operating activities. Net cash from investing activities has been some -€42 million in the first quarter, so that we have overall a negative free cash flow of €56 million. This is clearly better than anticipated, and this has some reasons that we of course have some impact from raw material purchases that will only be payable in Q2, some CAPEX that will only happen in Q2, but very much also an impact from the way how the net working capital and the inventories have been treated. We have seen one of the lowest ever values in days of inventories. We have gone down to a value of 85 days of inventories, and this is a further improvement, clearly, of the value of end of 2013. And then in Q2, we will certainly anticipate that, due to the higher raw material prices, the strong hike of nickel prices, and some rolled over CAPEX, we will have a negative impact on the cash flow, and this is certainly to be anticipated in that.

Last but not least, net change in cash equivalents, some more than €280 million positive. This of course clearly strengthens our financial position. This strengthens our cash positions. We will have approx. €900 million of cash and cash equivalents, and we'll have available liquidity of more than €1.8 billion by the end of quarter one, which is of course a very good improvement compared to 2013. This also means that on the overall capital structure we have clearly improved. Our net debt has reduced from €3.55 billion to €1.73 billion. Main drivers, of course, have been, on the one hand side, the elimination of the €1.3 billion loan out of ThyssenKrupp in the transaction, and on the other hand, the €640 million of rights issue that was performed successfully at the end of quarter one. Then the result of that is a decrease in our gearing ratio from 188% to 76%, and our liquidity reserves, as

stated already, are above €1.8 billion by the end of first quarter.

The good progress in cost savings programmes makes us really confident that also the targets for the year 2014 and beyond can be pursued successfully. Mika has already shown the progress that we have made here. Here for the first time we can show also our anticipation of the savings from the EMEA restructuring, after the successful negotiation with the unions, so we are expecting some €20 million in 2015, and then already some €80 million out of the €100 million in 2016. Our anticipation of the total savings stay unchanged, so we anticipate €320 million for 2014, and €380 million for 2015. And in terms of the provisions, as I have started out on the first slide already, we have taken last year some €54 million, additional €113 million in the first quarter, and our total estimate of what it will be is approximately €200 million. So we are talking about a differential of some €30 million that will still be booked in the quarters to come. We have not yet fully identified time scale, as some preconditions still have to be fulfilled for that. So we are very much in line with what we had anticipated, the €170 million excluding Kloster. We have now €20 million for Kloster on top of that, and then some only minor effects, some €5 million, €6 million from the negotiations with the unions regarding the Bochum closure, so very much in line with what we have said, and this is also an important progress here.

On the head count we are proceeding as anticipated. Last year it was 766 head count that we have been successfully reducing. In the first quarter we have continued that with 125 jobs, and we are seeing that this will take us until 2013 to a level that is below 10,000 employees in the Group. Last but not least, a look to our P300 programme. P300 has shown extremely positive results. However, we see of course that the net working capital, in the days where raw material prices are on an extreme hike, has some risk of negative developments. However, we have been fighting this successfully in first quarter, and will continue to do that in the following quarters. What you can see is that the inventory tonnes, according to the business

pick-up in all the business areas, have increased. However, the days of inventories have been successfully decreased to a level of 85, one of the best levels that we have seen in a quarter so far.

This also means that if we are certainly under pressure from net working capital on the inventory side, we are very much concentrating our efforts also on the payables and receivables side, and this will be efforts that we will come up with on the next quarters, and this will participate and contribute also to our effects here. This was it in a nutshell for the financials. Mika, with the outlook and guidance.

MIKA SEITOVIRTA: Thanks, Reinhard. Dear participants, let's now have a quick look on the Q2. First of all, again, the market outlook, how the end demand is developing, and this time concentrating between the quarters, and concerning EMEA and then Americas, and this is, again, SMR as a source what we use here. As you can see, SMR is quite positive when it comes to EMEA, and of course it comes also very much from Europe. Whether this will be exactly +3%, or could it be plus +2%, between the quarters, remains to be seen, but we indeed we agreed that there is increase in the demand between the quarters. Concerning Americas, of course the most important is the NAFTA region, and especially, of course, the North American market, where the whole-year development is estimated to be 4%. We will see 1% growth between the quarters. We believe actually it could be even somewhat more based on the information what we have from our customers for the time being, and looking into our order book there. So anyhow, the 4% is very realistic for the whole year, and we think that there is a positive difference between Q2 and Q1 demand, and that is why we are guiding the following for the second quarter.

So we have a cautiously optimistic view of the markets. We expect a continuing recovery in the underlying market demand. We also say that recent rally in nickel price is going to have a positive impact on market dynamics. We expect to see similar or somewhat higher delivery volumes, and also some improvement in base

prices for Q2, and we continue to deliver and have a steady progress in the cost efficiency initiatives and synergies. So we estimate that the underlying EBIT will improve against Q1, but be still at a loss, and also at current metal prices, net impact of raw material-related inventory, and metal derivative gains, losses on profitability to be marginal. And then going forward, operating result is likely to be impacted by non-recurring items, as I said, that with the ongoing restructuring programmes, but significantly less than in the first quarter, and this outlook of course reflects the current scope of continuing operations of Outokumpu.

Couple of observations to summarise when it comes to our key targets. Here are some of them updated here. There are no changes when it comes to our CAPEX outlook here. In ferrochrome we are currently analysing the impact of the transformer breakage. We will let you know. We believe it's minor impact, and that is ongoing. Concerning the costs and the savings overall, the big thing is obviously that we increased from €450 million to €470 million, and now having the negotiation result with the unions, so we could also confirm the split between the years here. We continue with the P300, and as you have seen, good results. However, we haven't put any new target on that. And then when it comes to Calvert, so, we just confirm that EBITDA in Stainless Americas to be break even for the full year 2014 as a guidance, and then the delivery volumes of about 530,000 tonnes.

Once more, our priorities. We stick to these priorities. We try to be extremely consequent, and now we are fully energised and free from many other activities, and we can really concentrate on the business development and our customers, and following, to deliver our plans. Thank you.

JOHANNA HENTTONEN: Excellent. Thank you, Mika. Thank you, Reinhard. I believe we are now ready for the Q&A session, and as usual we start with the Helsinki audience here, and then continue with the conference call participants, and I would kindly ask you to raise your hand when you do have a question, and state your own name and

company name before the question. So who would like to start? So, awfully quiet here in Helsinki today. Maybe we then start with the conference call participants and the questions in there. Operator, we are ready.

OPERATOR: Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from Mr Michael Shillaker from Credit Suisse. Please go ahead, Sir.

MICHAEL SHILLAKER: Yeah, thank you very much for taking my questions. I've got three questions, if I may. First of all, on the US market, you're talking about demand recovery, but the numbers, 1% quarter on quarter, still looks relatively benign. I know you say it could be a little bit more than that, but you also say that your order books at Calvert are very strong, and I think the question really is are you taking market share? How are you putting volume into the market without disrupting the market when it feels like your actual specific demand is better than the demand of the market as a whole, is question number one.

Question number two. When you look at the general market as a whole, and certainly when you compare this to, I think, slightly more bullish commentary from Acerinox, clearly Q2 seasonally is the best quarter of the lot in general. We've got base prices going up. I think -- you know, in principle I think even you alluded to the fact there's room to put those up further in the second quarter. You're obviously not taking slab from Terni. You've got the Calvert ramp-up. You've got ongoing cost reductions, and yet look at your guidance and you're looking at a weaker EBITDA improvement, quarter on quarter, versus Q4, when in principle there's a hell of a lot going for you in Q2 versus Q1. So what's, kind of, missing in terms of the negative side of the numbers, and do you actually think there's a chance that the underlying market, and certainly in line with what Acerinox were saying, could actually be a little bit stronger than you are expecting?

And the third question on Indonesia. You've clearly shown Chinese demand still looking relatively robust. There are some sense in the market that the Chinese are already struggling to maintain output of stainless steel given the Indonesian ban. Are you hearing anything similar, and do you have any view in terms of what this does for the supply-demand dynamic globally, (a) in the short-term, but clearly, (b) in the longer term, in terms of your underlying ability to produce more steel at effective higher prices? Thank you very much.

MIKA SEITOVIRTA: Thank you very much for the questions. To start with, question number one, which was about the market shares in US, actually we are having -- if we look at the last year's situations, we are having a market share in the NAFTA region which is about 20%. We had in US a market share which was roughly 16%, and obviously in this situation, where we can now ramp up Calvert, we can enlarge our product portfolio, it means that we are coming into new segments. We were just not part of those segments before, because we couldn't deliver from Europe, partly because of delivery time reasons, partly because of cost reasons. Now we are entering and we are made in US, so indeed, yes, we are gaining market share. So I would estimate that we have been able to gain some 1% units in both North America and in the overall region, and we expect that to continue.

However, that is really because our competitiveness to enter to a larger business portfolio, together with our customers. It's not that we are taking any market share with pricing. This is not our target. What we have been doing in pricing, we have done the price increases last autumn, and now, as from 1 April, there is a second price increase, which is following the trends in the market in general, so we stick to those plans what we have. I'm not quite sure whether I really understood your second question, so could you just once more repeat that second question?

MICHAEL SHILLAKER: Yeah, of course. So, if you look at Q2 generally, it's seasonally the strongest quarter of the lot, especially, I think, given what happened with the weather in the US. On the US side that should be even more pronounced, but generally across the board it's a very strong quarter. I guess there's some lag in base prices feeding through, but I think your peers, and even you alluded to the fact that there's room to put up base prices further in Q2. You're obviously benefiting from the ramp-up of Calvert, including not taking slack from Terni, and with ongoing cost reductions, there's a lot going for you in Q2 relative to Q1 that's positive. And yet when I look at your guidance you're looking -- you did a nearly 40 million EBITDA improvement Q1 versus Q4, and yet you're not -- you're not expecting that kind of improvement Q2 versus Q1. So is there anything we're missing on the negative side that is negating some of these -- some of these underlying positives? And I think a follow-up to that, do you feel in Europe that you're still losing market share, and do you feel that your sales force across the unified Inoxum are as cohesive and doing, I guess, as good a job as your competitors, which haven't been through the disruption of a merger?

MIKA SEITOVIRTA: Thank you. Now I got you. Indeed there are many things going on between quarter two and quarter one, and not only in US, of course, but also in Europe, EMEA, and actually for the specialties as well, so, in many operations, plenty of things going on. Are you missing some negatives, was your question, because you think that it could be even more positive than what we are guiding. We see that this guidance is very much following the progress of our plan, and we also need to remember that concerning the market changes, so, there are pretty long lead times, there are, of course, customers who are having yearly contracts, there are customers who are distributors, there are customers who are following, you know, the nickel prices more, and there are customers who are following it less. So before we see all the impacts of our, on the other hand, restructuring, which we now, for instance, in

Europe, only can start with the full scope because of the IG Metall deal, it will take some time, and actually the same goes for pricing.

The only thing is, of course, that we have some impact of the transformer for the second quarter. That is true, that we haven't disclosed separately, but there is some impact because we needed to fix the broken transformer so we lost some production in ferrochrome.

Now, concerning the EMEA market share and losing market share, I'm happy that you brought the question into the table. What we are doing in Europe is actually our ultimate goal and we are really determined to go back to profitability. And, if we look at the market share, so the first thing, yes, we have lost some market share, but the first thing that needs to be remembered is that, as part of the remedy, we lost some service centres. And, of course, at that moment when you lose those service centres, you lose the volume. We have detailed plans how to get back those volumes that we want to have because we only want to have back, of course, the profitable volumes. But that is the biggest, actually, change against earlier. That's why we are now more or less roughly 30% market share where we used to be, roughly one year ago, still closer to 40% market share, so that's the biggest difference.

The second difference is what we referred already earlier, is to merger dip where some of the volume has actually gone to imports. And then, thirdly, there is a portion of market share that we have simply left out because it's not profitable, and I think this is important to understand because we don't want to do deals to cover our fixed costs, because that's why we are now cutting our capacity to get less fixed costs. And we can get higher utilisation rates with a better mix, and this is the target, what we want to do, in Europe.

Then concerning the sales force, I think we have a very good sales force, both in Europe, in Asia, for the specialities overall, in North America. Last year we have been integrating our organisations. We have had the luxury of picking up the best

people to do the work for us, and they are fully now concentrating and customer oriented this year. So I -- there, I absolutely have no doubts.

Then, going to China, your third point here. We all know there are two schools concerning the Indonesian ban and how that will actually, at the end of the day, impact the market, one of them saying that it's permanent because it's legislation and the other one saying that, no, it could be also speculation because there are so many elections coming in Indonesia this year. We are not speculating on that, but what we can confirm, of course, that we see that it's impacting the market and, especially of course, the nickel value for the time being. There are many other things also that are ongoing in China, like state-owned enterprises, reform, like the demands on the environmental things. You know, they are cutting their emissions. That means investments. And they are also putting pressure very much on the industry there, to be profitable. I think all that will keep the focus very much in China and, therefore, we don't believe that that would increase the current level of imports, for instance, very much.

MICHAEL SHILLAKER: I would that, all things equal, assuming all things are equal, actually see a fall in -- of exports out of China, right?

MIKA SEITOVIRTA: Fall in what?

MICHAEL SHILLAKER: A fall in exports out of China, all things equal, as a consequence.

MIKA SEITOVIRTA: Sorry, I still don't get you.

MICHAEL SHILLAKER: Well, all things equal with the Indonesian ban, the focus on state-owned enterprises, pollution and similar, you would expect to see a drop in exports of stainless steel out of China, all things equal (overspeaking)

MIKA SEITOVIRTA: Oh, okay, yes. That is possible, of course, but it's -- however, it has been earlier also difficult to read how they work and act, and it could be this time also, but that would be logical, your reading.

MICHAEL SHILLAKER: Okay, very clear. Many thanks.

MIKA SEITOVIRTA: Thank you.

MALE SPEAKER: Next question comes from Mr James Hanford from Credit Suisse. Please go ahead, sir.

JAMES HANFORD: Hi there. Yes, thanks. Just to follow up Mike's questions, more as regards the short term and the timing. Clearly, firstly on the CAPEX, you're still guiding to sub-200. It's obvious you're going to have that 100 million from the re-routing of Krefeld to Tornio. Just some guidance in terms of what quarters we could expect this to be booked in? Then, also on the non-recurring items, a similar question. Obviously, you've upped the guidance on how much those are going to amount to, to 200 million from 170 previously. Obviously a lot of that was booked in this quarter, but just thinking in terms of how we could look at reported EBIT now for the next three quarters, so it's -- so when those recurring items are going to be booked? And, the final question was going to be on ferrochrome, but you've obviously clearly said that you'll be providing an update with that in due course. Correct me if I'm wrong.

MALE SPEAKER: Thanks very much.

REINHARD FLOREY: Okay, maybe first coming to your question of CAPEX. You were referring to our anticipation of CAPEX being lower than 200. This is exactly what we are committed

to. We are seeing, of course, this 108 million of additional CAPEX from the negotiations that we had with the unions, much lower level than was originally proposed for this concept. Actually, this less the concept from -- going from Bochum to Tornio. It is very much on the cold-rolling side, the closure of the Benrath site in Germany, and moving the capacity from there into Krefeld and, as these will take quite some time because there is some new equipment to be ordered, there is some additional place to be provided. There will be only a very marginal effect of that still in 2014. The major part of that will be in 2015 and 2016. So, this does not impact our prognosis for 2014, and we are still committed to because clearly below 200 million.

Your second question regarding the non-recurring items, the provisions here. I had explained that more or less what we have said before is unchanged. The 170 million is now going up in the range of 200 because we have 20 million for Kloster closing which is now newly incorporated into that. Your question was, when is the booking for the differential to be anticipated? Again, as said, this will be a differential of only some 30 million, and this will probably be equally distributed above the quarters, two, three and four, in 2014. Maybe a part of it even only in 2015. Again, as I said, some specifications to be able to book that under IFRS, still outstanding, so no exact timing can be given on top of what I have said now.

JAMES HANFORD: Okay, thanks a lot. So, on the CAPEX, given its maintenance is only about 70 or 80 million, it should be materially below 200 instead of just slightly. That's very clear. Thanks a lot.

MALE SPEAKER: Thank you. Next question comes from Luc Pez from Exane. Please go ahead, sir.

LUC PEZ: Hi, gentlemen. A few questions further, if I may? First of all, with regards to working capital requirement, it's not entirely clear to me whether you're still targeting

the 91-day guidance you provided earlier this year, so just to quantify, and, therefore, trying to understand whether, if Q2 should see the largest build-up in working capital requirement there. Second question, with regards to Kemi, I understand you're not willing to quantify the impact of the breakage. Just, however, willing to understand what should be the normal rate of external fails at Kemi you would target for this year, and the optimum you would target as part of the ongoing restructuring action. Thank you.

MIKA SEITOVIRTA: Your first question concerning the inventory-based target, the 91, yes, that's valid for this year, and after Q1, yes, we are under that, and, of course, if we can still over-achieve during the year, we will, but it's a valid target. We also see, and we need to keep in mind that that's the Group overall target and especially when it comes to you US-covered ramp-ups, so that's a challenging one. So, we have kept that target, but you can be sure that our ambition is always to over-achieve the targets we have. Concerning the ferrochrome, I understand your question was that -- what is the part of the external deliveries against what we use internally, and it varies obviously between the different quarters and different market situations. And we have said earlier that our target is somewhere above 80%, to be used internally. At the same time, it's important to understand that, yes, we have some long term delivery contracts there, but we also want to have some because we want to be part of the market as well. But, especially now, when we are increasing still the production, year by year, up to 2015, where we have the maximum capacity and production of 530,000 tonnes, so it varies very much between the situation where we are in the market and where we are in the production.

LUC PEZ:

Thank you.



JOHANNA HENTTONEN: I believe there was also a question that -- what's the impact of the ferrochrome breakage of the transformer?

MIKA SEITOVIRTA: Yes, and we haven't disclosed anything yet because it has just recently happened, and we need to reuse some, of course, of the transformers and some parts, and fix it, and that's done now. So, when we have the full analysis, and when we have the full awareness of the root causes, then we can also give a statement. We believe it's a minor impact anyhow, but before we have exact detailed information and know how it is going, it wouldn't take more than a couple of weeks.

LUC PEZ: Thank you, gentlemen.

MALE SPEAKER: Next question comes from Stephen Benson from Goldman Sachs. Please go ahead, sir.

STEPHEN BENSON: Hi. Thanks for taking my questions. I've got three here. I'll run through them one by one. The first was just on whether you could comment on where lead times were in Europe, in particular, given the rise in prices that we've seen and in the report today you commented you haven't really seen much of an increase, even a slight decrease in imports, which is quite encouraging. I would assume that lead times haven't really gone out that much for the European industry at the moment.

MIKA SEITOVIRTA: Concerning the lead times, so the Q2 is for the time being pretty well covered, and we have started to sell Q3 now, so that's more or less what we can say about the lead times, yes.

STEPHEN BENSON: Okay. Is six weeks kind of typical?

MIKA SEITOVIRTA: Well, of course, it depends what we sell. We need to remember that we are selling standards and we are selling specialities and the lead times can be very different so average is not telling that much. But I would say that, on average, it's slightly longer than that.

STEPHEN BENSON: Okay. Secondly, I wondered if you could comment on the Eurofer anti-dumping case and there was some comment in the first quarter that that might be raised during 2014 with the European Commission, and I just wondered if there was any update on where we are on that process?

MIKA SEITOVIRTA: Well, actually, there is nothing new to say about that. Eurofer is working on that case as they announced and we are passively following it up, and when there is something to tell about it, so we will let you know.

STEPHEN BENSON: Okay. And, thirdly, just on Terni, now that the volumes will no longer be heading over to Calvert and to Mexinox, any view on what -- you know, what you think the impact of those volumes on either the European market or where they could find a home?

MIKA SEITOVIRTA: Concerning the Terni volumes, so, firstly, we need to remember that already, if you go four years back and when ThyssenKrupp at that time made the decision about Calvert investment, so it has always been included in the business plans that those volumes have to and need to find another address. So that's nothing new. Secondly, during the time which was rather long, actually, 1½ years that the commission was running Terni, so the volumes were, I can tell you, already all over the place. We don't know what the current business plan includes from ThyssenKrupp. All we know is that they want -- they have publicly said that they

want to restructure that operation and, of course, we lost 1½ years because of the commission here now, so they definitely need to do that.

STEPHEN BENSON: Okay, thank you very much.

MIKA SEITOVIRTA: Thanks.

MALE SPEAKER: Next question comes from Sampsa Karhunen from DNB, London. Please go ahead.

SAMPSA KARHUNEN: Yes, good afternoon. Just a couple of questions, if I may? First of all, for Reinhard, I was wondering, can you provide us with the financial cost guidance for the full year of 2014, taking into account that the balance sheet structure has changed quite a bit, going forward?

REINHARD FLOREY: Well, we are not providing guidance for a full year 2014. We are not providing numbers for the profitability. Regarding our general financing position, I think that you can read from the numbers that I have given to you 1.7 billion of net debt and all liquidity availability of 1.8 billion, that we are not in any kind of financial restraints and this will not change throughout the year 2014. This will also not be in any way coming close to any of our covenants so no area of concern for ourselves.

SAMPSA KARHUNEN: Yes, I understand that there is no concern, but I was just wondering, does this balance sheet structure basically change the level of the financial goal cost going forward, if that clarifies my question? In the sense that (overspeaking)

REINHARD FLOREY: Maybe I did not entirely get your point here. Is it about our cost of financing or ...

SAMPSA KARHUNEN: No, basically -- well, basically, what I'm thinking about is the kind of net financial income and expenses, so are we going to see some sort of decline in the interest expenses, for example, going forward?

REINHARD FLOREY: Oh, yes. More or less nothing has changed from the announcement that we did in the course of the rights issue to that. We are saying that our cost of interest will clearly go down and will be about 130 million only in the year 2014, with the expectation that this should further decline in the years to come.

SAMPSA KARHUNEN: Fantastic, and then second question was basically, could you maybe quantify a little bit the Q1 Terni effect in the America part as well as the weather related effect in the profitability of that part of the company?

REINHARD FLOREY: Unfortunately, we are not disclosing any kind of details from that. You can see that, of course, part of the improvements, quarter by quarter, are coming from decreasing of volumes that we are taking from Terni, and the other part is coming from the improvements and from the additional volumes that we are going to the market. So, this is something maybe to extrapolate for you. If you would like to know it's about some 30,000 tonnes that we have taken from Terni in the first quarter.

SAMPSA KARHUNEN: Okay, that helps, thank you. Then, lastly for Mika maybe, I was wondering when we are looking at the Calvert guidance that you are giving, is there any kind of point in time where there is more risks on the ramp-up? What are the next data points that we should be following?

MIKA SEITOVIRTA: Thank you for that question. I actually think that, when we see the market development in the near term and for this year, so that is actually for the time being, not a major risk. It's really an opportunity for the time being. If we look at the

production, a lot of the product we are now increasing the volumes for are -- already started last year. We can see really the yields improving. We can see the utilisation improving. We are going to take now the forward shift so we are increasing the capacity there as well towards the final capacities. All that is positive. A couple of challenges we have had in the year, in the beginning of the year, we have seen some limitations in the availability of scrap. That has been clearly one thing. And then, of course, we need to take into account that always when you double your volumes, so it's a different game than before, but I would say that so far so good, so there are no special time points related to these that could trigger any special risk. I would say, all in all, we have much less risk than what we had last year.

SAMPSA KARHUNEN: Fantastic. Just a very quick question on the scrap availability, what's that?

Weather related as well or something else?

MIKA SEITOVIRTA: Well, it was partly weather related. You are quite right, and we are back on track on that one because as, all in all, when it comes to Outokumpu, we want the recycled content of our products to be as high as possible. And part of that efficiency, of course, that in our charge is what we use in melt shops, so the scrap content and the secondary metal content is as high as possible, so ...

SAMPSA KARHUNEN: Fantastic. That was all for me. Thank you so much.

MIKA SEITOVIRTA: Thank you.

MALE SPEAKER: Next question comes from Bastian Synagowitz from Deutsche Bank. Please go ahead, sir.



BASTIAN SYNAGOWITZ: Yes, good afternoon, gentlemen. I've got three questions left so maybe I'll just take them one by one. My first one is on -- following up on Calvert and the ramp-up. Could you, please, identify what you think is basically the largest lever to go to get to break even? I guess it won't be volumes as you already had off your implied quarterly run rates. Is it the enforcing of this lead production or is it rather the product mix which is still continuing to improve? And, yes, I assume that if you have big(?) Calvert with a negative number into your Q2 guidance, isn't there actually a big risk to the upset? i.e. without the weather impact, but base prices and nickel up, and volumes actually better than guided, you will actually be positive in the second quarter. Thank you.

MIKA SEITOVIRTA: Well, first of all, the guidance that we have given for Calvert, we stick to that, and that's for the whole year EBITDA 2014, so we haven't --

JOHANNA HENTTONEN: That's for Stainless Americas, not for --

MIKA SEITOVIRTA: Stainless Americas, yes. And we haven't given anything specific for the second quarter. It's a combination of both volume and mix because obviously we need the volume because we need the higher utilisation rates and there we are in plan. And then we need to mix so that we have the variety of the different margins and the reach to what's the market and, there also, we are currently following the plan. So there is actually nothing more to say about Calvert's second quarter. We don't go into that in specifics. Sorry for that.

BASTIAN SYNAGOWITZ: Okay, no problem. Well, at least in terms of volumes, you actually seem -- it seems like you do run ahead of your guidance, given that, I think, you had 35 in Q1 and you said Q2 is probably going to be even a little bit better, and then, well,

second quarter, of course, could always see a second -- a second to half quarter always sees a fall back, but so far you're basically trending ahead of your guidance.

MIKA SEITOVIRTA: No further comment on those volumes, sorry.

BASTIAN SYNAGOWITZ: Okay, fair enough. Then, to my second question, if I look at the market conditions in Q1 in April, things looked almost like a perfect world scenario for stainless in Europe. For volumes, up double digit, nickel is up more than \$4,000. Just base prices have not really moved at all as they would have or have actually in the past, comparable cycles. How do you explain that? And then, thirdly, following up on your earlier comments on China, it seems that Chinese exports in total were up more than 60% in March, compared to February, even though base prices didn't really move. So what do you think has been driving this in the context of your answer to Michael's question and does your commerciality make you feel any incremental pressure on the market? And is this the reason why base prices haven't been stronger?

REINHARD FLOREY: Maybe I can answer on the outlook for the Chinese situation. First of all, we are seeing that the whole Indonesian nickel and ore ban has an impact that is overall moving the Chinese market at the moment. So, the way how we see the pressure on the imports in the first quarter, clearly also was a consequence of the situation that there was some over-capacity in China that still tried to find some ways out of the domestic market which had deplorably low prices. Whether that is right or wrong, this is something that has more to do with the anti-dumping situation than with anything else, but it's a fact. We are expecting that in Q2, of course, due to the clear decrease of the availability of this nickel pig iron, there will be some pressure both on the cost side as well as on the availability side of hot band. Does that mean that there's increase pressure of imports in Q2? I wouldn't see that because it also

clearly means that the room to manoeuvre for Chinese companies is maybe less than before, but let's not forget we are talking only a certain percentage of imports from China. If we are talking about imports, it's also Taiwan. It's also South Korea. It's also Japan. It's also India. So, we cannot focus entirely on the situation of China in that respect.

BASTIAN SYNAGOWITZ: And then regarding base prices in Europe?

REINHARD FLOREY: The situation of base prices, normally we see a certain correlation between metal prices going up and base price going up, but this, of course, has something to do with the correlation of, is that triggered entirely by demand or are there external triggers as well? We are clearly seeing that currently the nickel price hike -- I would even say it's a rally, is very much triggered by this situation that there is a certain scarcity of nickel anticipated maybe in half a year or in six to eight months, and, therefore, the prices are driven by that, and only to a lesser degree by the increase in demand. That is also a part of the explanation why base prices have not moved in the same correlation as maybe in the past if we are comparing raw material prices and base prices. However, as Mika has said before, there is some anticipation also on some increase on the base prices going forward.

MIKA SEITOVIRTA: There is also a way to go and this is important to realise that. If we compare the base price Q1 2013 against base price Q1 2014, there is €100 put on the difference.

BASTIAN SYNAGOWITZ: Yes. No, exactly. I think that's the point. So, have you, to some extent, actually changed your marketing strategy, basically keeping a closer eye on imports and, basically, maybe going for smaller steps rather than these, say, €50 base price hikes which we had quite often in the past?

MIKA SEITOVIRTA: Concerning the price increases, so I think it's a combination of many things. First of all, everything is, of course, related how we see the market all in all. Then we also need to remember that the current -- let's say the new Outokumpu is a different product mix than the old Outokumpu, because the old Outokumpu was very much driven by austenitics and driven by distributors. That's one world. And the new Outokumpu is including all the Inoxum and customers which is a different world, and it's a different world also when it comes to pricing dynamics, when it comes to the length of the contracts, when it comes to the partnerships and everything. So, it's a difference -- so they are not fully comparable. I wouldn't say that we have changed anyway our tactics there. Oh, there is one big principle which we have changed and we don't want to do lost deals any more so that's really something that we have changed. But otherwise, in the pricing as such, we are moving upwards. We are improving our mix. At the same time, we are cutting to capacity.

BASTIAN SYNAGOWITZ: Okay, and thanks for taking my questions.

MIKA SEITOVIRTA: Thank you.

MALE SPEAKER: Our final question from telephone comes from Mr Mikael Doepel from Handelsbanken. Please go ahead, sir.

MIKAEL DOEPEL: Thank you. Two questions on my part. Firstly, in terms of the European stainless steel markets, how would you assess the current inventory levels when you look at producers, when you look at distributors and customers, right now? And, secondly, I have a question on working capital. There was something on this previously, but I didn't really get it, but just to clarify, how big of an impact of a working capital tie-up

would you expect in the second quarter due to higher raw material prices? Thank you.

MIKA SEITOVIRTA: Concerning the inventory levels in general, so we need to keep in mind that there was really a destocking going on last year, and part of that destocking was also that I think all the players in the industry have learned that we need to work and operate with less tied capital. But on top of that, last year, with the nickel decline, and with the very difficult economy in Europe, so that really made some destocking to happen. So, this year, definitely restocking is going to happen and it's very difficult to say how much has happened already, and therefore I would rather talk in full-year terms, but I think it's still going to continue for a while, and to say exactly where the inventory levels are now, so it's really almost impossible. But I think there is still some potential for the restocking knowing that the demand is, at the same time, picking up. Concerning your second question, Reinhard, would you like to comment something on that?

REINHARD FLOREY: Concerning the question regarding working capital, we have clearly indicated that we expect negative cash flow impact from the inventory side in Q2 due to the higher metal prices. We have not given specific quantification of that and this is for good reason because we do not have a very clear anticipation whether the nickel price is going to climb up even more. We have seen the pace of fluctuation in the Q1 that was maybe not foreseen by everybody and the same could be there in Q2. Therefore, specification from the pure side of the inventory, in terms of the values, is difficult, but what we have said, it will have a negative impact regarding our net working capital. We have also said that part of that negative impact that will not only be in the -- only be from the inventory side, but certainly also on the payable side, we will make up for by measures in the payable and receivable side. So,

therefore, there certainly are some ways of mitigation, but in total, we expect a negative effect.

MIKAEL DOEPEL: Okay, thank you very much.

MIKA SEITOVIRTA: You're welcome.

REINHARD FLOREY: Thank you.

MALE SPEAKER: There are no further questions on the telephone.

JOHANNA HENTTONEN: Thank you. I would like to ask here in Helsinki if there are any further questions from this audience?

JOHANNES GRASBERGER: Yes, it's Johannes Grasberger from Nordea Markets. I've got a few questions. So on American steel, basically on Calvert, the first one is on Alabama's electricity price, if you could comment on that one year ramping-up of a pretty big plant which uses a lot of electricity. The second question is on the scrap price, again which was discussed before and kind of the US scrap net balance. If I understand right, at least before, US has been kind of a net producer of scrap. Will that still remain after the ramp-up of Calvert? And the third question is basically on the 72-inch wide market. How is that product ramp-up going to proceed? When will it sell that product in the market and how does the demand look like for that product? And then the last question is really on the capacity utilisation rate for Calvert plant, if you can say at what level you are at the moment? Thank you.

MIKA SEITOVIRTA: Maybe if I start, and if I start from the capacity and from the 72-inch wide and Reinhard then continues on the energy price, and the scrap. First of all, again

unfortunately, we are not disclosing these by mill these capacity utilisations, but first of all, I think we commented last time that clearly last year was a very low utilisation rate for Calvert. And that was because of still having the Terni volumes. It improved slightly through the new products, through the reduced Terni volumes towards the end of the year, but, against our standards, it was deviating from the plans and it was far away from target. Now if you look at it against manned capacity, it looks much better, and as we said, we are now going to increase further so we're going to have a fourth shift there which is currently under training. So that means that we are moving towards the final capacities there, so that's very much on the plan and good numbers there.

Now, concerning the 72-inch wide, unfortunately again, not going to give you any numbers, but we are selling it. And, of course, we are selling all the variants out of it. It's 70-inch. It's 68. It's 69, whatever the customer wants to have. Meaning that we have overcome the challenges we had with that product, and we can always improve. Our yield is not on target yet, but it has been improved and we are selling it and all the different variants. Reinhard, please?

REINHARD FLOREY: Then maybe on your question regarding the scrap situation in the US. It is true that there is a very ample scrap market in the US. We do not see any indications that the net surplus on scrap in the US would change with us taking the scrap volumes, also for the ramp-up of Calvert. Let's keep in mind that we are in the ramp-up of Calvert, not only ramping up of ferritics, but also on ferritics, which we produce to a large degree in Mexico and now are feeding directly from Calvert. This enables us to also get some ferrochrome from our own sources and also use some carbon scrap which we have, of course, a very good availability from the neighbouring works from Sumitomo Metal.

Then the second question on energy, looking at the specific energy situation in Alabama, of course, I cannot give you any specific price, but you can get a good

feel that energy -- electric energy in Alabama is very much in competition with gas which is very cheaply produced from the Gulf of Mexico. And, on the other hand, the electricity is in sort of a monopolistic structure with Alabama power, which means that the biggest consumer gets the best prices. So, from that you can assume that the position we are in is not at all difficult.

JOHANNA HENTTONEN: Additional questions from Helsinki? I think, no, and then also from the conference call lines, I think we have taken all the questions today. So with this, I thank you all for participating. We'll see each other again on 24 July when our second quarter results come out. Thank you.

MIKA SEITOVIRTA: Thank you all.

REINHARD FLOREY: Thank you.

