

Corporation:	Outokumpu Oyj
Title:	Outokumpu Q3
Speakers:	Heikki Malinen, President & CEO Pia Aaltonen-Forsell, CFO
Date:	5.11.2020.
Duration:	02:43:43

PRESENTATION

Linda Häkkinen

Hello all and welcome to Outokumpu's Q3 2020 Results and Strategy Webcast. My name is Linda Häkkinen and I'm the Investor Relations Manager here at Outokumpu. With me today we have our CEO, Heikki Malinen, and our CFO, Pia Aaltonen-Forsell. Today, we will first start with our Q3 results and after that we will step into presenting and discussing our new strategy. We will take questions after both sessions. The strategy part will be hosted by our Group Controller, Steve Hudson.

But now, before we start with the Q3 results, I would like to remind you about the disclaimer as we might be making forward-looking statements. But now please, Heikki, the stage is yours.

Heikki Malinen

Thank you, Linda. Good afternoon and welcome to this session to discuss our Q3 results and also then a quite extensive conversation around the new strategy of Outokumpu. But let's start with the third quarter update and on the first slide, just some of the high points for the past three months.

As was the case in the second quarter. So, COVID, of course, has impacted our business quite clearly and we had lower demand in the third quarter. As you may remember also in Europe, the third quarter has typically a weaker seasonality, so those two combined impacted our volumes.

Safety, as you know, safety is extremely important at Outokumpu. We talk about it all the time. It's number one topic. I'm very happy that our safety performance remained very strong in spite of the fact that we were in the midst of such a massive pandemic globally.

Our performance in Americas was good, and this was now the fourth quarter in a row when we were clearly making consistent progress in developing the business there and then improving the financials. Import penetration spiked in Europe, and we will show you a couple of slides later, but clearly this seems to be a continuous theme now at the moment every quarter.

Then if we talk about just the environment around COVID and what actually has transpired, well as I said on the safety front, I'm really proud about the accomplishments of our employees. We had very few incidents and we have been able to protect our employees. We've been very conscious with social distancing. We have travel restrictions in place and if people travel or when people have to travel, they are extremely careful in how they do it. We have had 191 people infected but out of a group of 10,000 it is a small amount.

In terms of our operations, we have been able to have seamless operations. We have had no interruptions of any significance because of COVID. And on the financial side, we have been able to improve our liquidity. We made good progress in funding our business during the third quarter and what I'm specifically happy about is that we came into the quarter with an objective of reducing our net working capital and we were able to achieve over 100 million in net working capital reduction. We did what we intended to do and so obviously I'm pleased for that. In terms of government aid, we have received very little aid so far from the countries in which we operate.

Of course, today is a tough day in Outokumpu. Our fixed costs in this company are too high given the operating circumstances and we'll talk about the circumstances in much more detail today. But in a nutshell, we have to reduce our breakeven point. The market is very competitive. We've seen substantial decline in prices and therefore, after very, very careful consideration, we have taken the decision to announce that we need to start a process to have negotiations about a potential reduction of headcount of approximately 1,000 employees.

The planned employee reductions would include 270 in Finland, 250 in Germany, and 190 in Sweden, and then the remaining residual number will happen in other countries across Europe and also in the Americas. Pending the outcome of the negotiations, so we expect to have a charge of about 75 to 80 million because of the restructuring costs, but then that is obviously pending the outcome of the negotiations which will start here shortly.

A few words about the results for the quarter itself. Our Group adjusted EBITDA was 22 million euros. Clearly, we came down from the previous quarter. Not happy about it, but that is where we were. On the right-hand side, you can see that our volume declined about 7%. This was roughly about where we expected it to end up ultimately.

In terms of prices, you can see that the red bar is quite large. We have continued to have price decline and also in terms of our product mix, we also saw a decline of that in terms of less value-added grades which brought down the average price. We have worked very hard to try and compress our costs across the whole system but in spite of best efforts, we have not been able to compensate the loss coming from the revenue side fully through fixed cost compression. We worked very hard, but the decline on the revenue side was just too big a number.

And then in the quarter, we also had planned maintenance work. We mentioned already at the outset that in our Tornio ferrochrome plant we were going to take a very major maintenance shutdown and that has been completed and it has gone according to expectations. And I'm happy to say that we have had now a good start-up since we opened up the plant again for operations.

Then a few words about raw material pricing. During the quarter, nickel prices started to increase again; we saw an increase of approximately 16% and then on the ferrochrome side, benchmark prices were basically flat through that period. Then a couple of words about the imports. Imports into the European Union continue to rise. Their share amounted to about 31% during the quarter and then on the right-hand side you can see the corresponding statistics for the United States share of third country cold rolled imports was about 14%.

So, obviously here on the right-hand side one can see that Section 232 is having an impact in slowing down imports into the North American market. Here, on the European side, we are able to monitor the cold rolled quotas, how they sort of get filled up. This data is now up to date to last week, so the end of October. So, the first four weeks of the fourth quarter and you can see here the days – 32 days of statistics – and then the blue part of the bar tells you what amount of volume actually has been filled over the quota.

And interestingly, if you look at the middle bar, which is the Others, a big part of that is Indonesia, so you can see that even in the first days and weeks over the quarter they have used the quota fully. Obviously, we're talking a lot with the European Union. We expect and hope that they are very active in also creating a level playing field here.

In September, the European Union basically initiated anti-dumping investigations for cold rolled stainless steel for India and Indonesia and then a month later in October, anti-dumping duties were then definitively put in place for five years for Indonesia, China, and Taiwan. So, those are important measures that are indeed needed to try and somehow create a more level playing field.

So, this outset is a very brief update on the key figures and the market. And I will now hand it over to my colleague, Pia, who will then talk about the financials in detail and I'll come back then and talk about the outlook. Thank you very much. Pia, please.

Pia Aaltonen-Forsell

Thank you, Heikki. Let's see. Let's get organised here. So, good morning. Good afternoon. I hope you are all staying safe and staying healthy at this point in time. So, let me take you through some of the financials of the third quarter here. And now the clicker takes me to the key figures page.

Obviously starting at the top, you can see how stainless steel delivery is coming out at 488 kilotons. You can compare that with the second quarter, and this is still – the decline here very much according to what we had also foreseen. So, no surprise. I think still today talking a bit about the BAs, I will touch upon how we see the order intake now developing and what the market situation looks like.

Obviously, adjusted EBITDA, Heikki has already commented on, but given the low level of EBITDA, it obviously then results in a net result that is negative of 63 million. The operating cash flow of this quarter came in very strong. And I actually have a slide explaining that a bit later. I think that's an important combination of our own actions here really to mitigate the lower cash flow, obviously, from the lower results. So, we'll talk a little bit more about that still. Gearing still at 45%, and then looking at the CapEx of the quarter, we are down at 35 million euros.

But let's look a bit more at the BAs. So, here you have the figures from BA Europe. Looking at the decline in the EBITDA, we started at 30 in the second quarter, now down to nine in the third quarter. This is obviously a really low result. You have looked into the import statistics together with Heikki here, so we have definitely seen a spike in the imports again with the start of the new safeguard period, particularly in July. This is also seasonally, obviously a slower quarter out of Europe with the typical holiday seasons during July and August.

But if you look overall at the green bars here, you can see that we have put in place very significant temporary mitigation actions. So, actually, based on the more detailed reports that I

have in the background, we have been fighting back with up to 24 million euros of our own actions. Various types of actions to really compress for costs in this difficult time period. And as Heikki said as well, these are predominantly our own actions. For the Group total we received 3 million euros of government support in the third quarter, so obviously that's only a very small amount here.

Maybe it's good to talk a little bit about the market situation, because when you look at the decline here from the second quarter into the third quarter, you can see that deliveries obviously were a negative contributor; we were down on deliveries. But at the same time, you can see that the pricing and mix part actually here is kind of the biggest negative impact. And I think we have talked about that sort of through our meetings during the summer as well. That's how we have seen kind of the pattern, so to say, unveil during this pandemic period.

After the really slow order intake early on during the pandemic period, when we started to see the pick-up; we have seen it in specific segments: appliances and now also automotive. So, it's clear that the market picture is still somewhat scattered, and I think it's also visible here that the best margin products that we have that are more, the value-added grades that typically go into bigger projects, CapEx type of projects, here we have had clearly lower volumes.

And if we also look into how the pattern is developing right now, first of all, I want to say that from a very general market perspective, obviously looking at, for example, distributor inventories, we do see that they are somewhat lower during September and there is increased activity out of appliances or automotive. You can read this in any business newspaper as well. This is all over the news, but I think that one sector where we have typically had value-added sales, so the pro grades going for example into oil and gas sectors, here we still feel that, depending of course on the oil price, but with current low oil prices, the demand is clearly on the lower level.

So overall of course when you look at the picture, what happened in the third quarter, we can say that the lower prices were clearly deteriorating the results. Now, I have used quite a lot of time here on BA Europe. There is actually still one more detail that I would like to comment. It is on maintenance because maintenance is an area where at least I have received a lot of questions. What is really the compression of maintenance costs? What do you mean? How does it impact the company, et cetera? And I thought maybe just to shed a little bit more light on that.

However, now my comments are on Group level. Obviously, BA Europe being the biggest, this is where the biggest impact is as well, but we have been now working really a lot with how can we

optimise the maintenance costs. And I just want to say that an average typical quarter, maybe we would have around 50 million euros of external maintenance costs in our cost base and through this year we have been looking to various measures.

Can we cut 10 million euros? Can we cut 15 million euros through various measures? And when someone asked me that, 'does this mean that now there is like a big debt waiting for us somewhere in the future?' I would just really want to say as well we have been on clearly lower volumes this year, so my interpretation is not that we have sort of a debt that we will need to pay off going further, but this maintenance cost reduction has obviously been a part of the significant cost reductions that we saw as well in the third quarter.

Now, I will go through the other BAs slightly quicker, but still want to embrace a little bit the good news here as well out of BA Americas. You see that really COVID hit Q2 where we still had a positive EBITDA. We are now up to 14 million euros of EBITDA in the third quarter. You can also see that, yes, indeed there was a little bit more of the volume side, but we've had more boost here from mix. Also, a little bit of the pricing side, as well as then very, very significant cost compressions as well out of BA Americas.

And you see that this has supported us into an EBITDA level of 14 million euros. As well in Americas, the comment about appliances and automotive, that is as valid as well for the market in Americas. And I want to say that we have seen distributor inventories for a really long period at low levels, and I think that's what we still see in the statistics. But it seems that there is a little bit, so to say, more appetite now, maybe gradually then starting to build up the inventories as well.

On the next page, we have Long Products. Here, we go from a negative result to a negative result. I would like to say we are fighting back. There is cost compression as well in this BA. However, the market situation does remain very, very difficult and you see that deliveries are down 22% in the quarter. So, this remains very challenging. The new management of course working since July with the accelerated turnaround and now we just have to work through that programme and start seeing then the improvements gradually.

Finally, BA Ferrochrome. I think Heikki shared the most important piece of news. You do see here in the third quarter the significant cost increase based on the big maintenance break in the third furnace, but we know that this maintenance work was successful. We have been able to ramp up during October as we wanted to and as we predicted, and I think that really remains the main highlight here for BA Ferrochrome.

Let me talk a little bit about the cash flow. Here, I'm showing the cash flow both for the quarter as well as the cumulative figures, and obviously the third quarter for us has really been the quarter now to push cash from working capital. You see the quarterly figure is 188. This does include the opportunity of the deferred VAT payment from the Finnish State and I just want to say that this was 75 million euros. The benefit came in July, and this will mean then that we have 21 months where we will basically amortise this, pay this back in equal instalments. So, this was one of those sort of cash flow based opportunities in the COVID situation that was offered and that we have also used.

But you see that there's a lot of other positive movement as well in the working capital. You see the cumulative working capital now at 175 million positive this year. This means that we have now reached our internal target. So, it's the 75 million of the VAT, and we promised early in the year that we will bring at least 100 million out of working capital into cash flow this year.

And from my perspective, what comes next now is that we have reached really sort of a low point, or low level, in terms of inventories. So, we do not intend to squeeze inventories further down. This is now the level that we have achieved. We will look for efficiencies still in other areas of working capital, but generally if we talk about improvements in working capital going forward, we need to then work more profoundly on kind of the whole system that we have. In the current system and the setup that we have, it's clear that that we are now – our work will be on efficiency and on trying to remain on these levels.

So, we have delivered what we promised. Obviously, this, together with very strict CapEx control, has helped us to deliver, in my opinion, good cash flow figures in a low profitability quarter. The CapEx; there is nothing new here, but I do want to reconfirm the 180 million CapEx guidance that we have for this year. We are well on track for that. You can see that also from our cumulative figures of cash flow for this year.

And finally, then, the strong cash flow has obviously helped us to keep the debt figures really under control. I was looking back at the historicals and I would have liked to squeeze just a few million more. We would have actually been on a historically low level, but with the gearing at 45 and the net debt at 1.1 billion. I think this is a good achievement in the midst of a pandemic.

And finally, liquidity obviously remaining an important topic for us and a priority and Heikki already alluded to this but in this year of 2020, that I'm sure many of us will think about later as a really tough year, we have actually been out with new pension loans, convertible bonds, the VAT funding and now most recently, an ECA-backed funding out of Sweden. All in all, all of these

new fundings represent more than 400 million euros during this year. Our liquidity reserves remain really strong, actually improved during the third quarter and are now 0.9 billion.

So, with that said, Heikki, I complete my section here and would hand back to you.

Heikki Malinen

Thank you, Pia. I guess you can stay here so we can then do the Q&A. So, in terms of the outlook for the fourth quarter. So, as communicated previously, the COVID-19 pandemic is expected to have a significant impact on the stainless steel industry throughout 2020 and increases uncertainty. Outokumpu expects stainless steel deliveries for the whole Group to remain stable in the fourth quarter compared to the third quarter. The seasonal year-end maintenance work in Tornio, Finland is expected to have an approximately 10 million euro negative impact on the fourth quarter result compared to the third quarter.

Adjusted EBITDA is expected to remain at the same level during the fourth quarter compared to the third quarter, so that is the outlook for Q4 2020. And I guess now, we are we are moving onto the Q&A part.

Linda Häkkinen

Thank you Heikki, and thank you, Pia. Operators, we are ready to take questions from the line relating to our Q3 results and Q4 guidance.

Q&A

Operator

Thank you. If you wish to ask an audio question, you may do so by pressing 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Once again, it's 01 on your telephone keypad if you wish to ask an audio question. There will be a brief pause whilst we wait for any questions to be registered.

Our first question comes from Seth Rosenfeld from Exane. Please go ahead with your question.

Seth Rosenfeld

Good afternoon. Thanks for taking our questions today. If it would be great to get a little more detail on the strategy update and the cost saving initiatives given the importance for the Group. On layoffs, can you please give us some colour on the timeline for realisation? Should we expect any cost benefits in 2021 or only really going into 2022? And then also I think you talked a bit more about improving your product mix through the new strategy, how [inaudible] that's been a clear head wind for you over recent quarters. Can you give us a bit more colour on what internal efforts will be needed to drive that stronger mix and whether there would be a CapEx implication of that? Thank you.

Heikki Malinen

So, if I just generally – first of all in terms of the strategy, so we will comment on that in much more detail still later today. So, if it's okay, I'll just give you general comments here and then we'll do a deeper dive on the strategic piece, but in terms of headcount, as you know, the process is very clear. We start the negotiations now and then they will take whatever the time it takes, usually some months depending on the country and assuming that the negotiations get completed end of this year or early next year, then one moves into implementation and that of course will depend on the outcome of the negotiations.

So, as we are communicating – so during the course of 2021, assuming that the plans are agreed with the unions, then we will start seeing the impact in '21. But anything you would add to the actual expenses?

Pia Aaltonen-Forsell

Yeah, I think on the actual expenditures provided that the negotiations are proceeding before the year end, we could be in a position to already book the provisions during this year. Obviously then adjust for them, but this is still pending those final negotiation results. And then the cash impacts would come gradually during next year. So, typically, there is also then a link to how the savings can be realised.

Heikki Malinen

In terms of your question regarding the value added grades. So, we are the market leader in value added grades, pro grades, globally and as I will say in the strategy. So, it's basically sort of a two-pronged approach. On the one hand, we are putting more research and development funds to

augment the product mix. Obviously, we're working in very complex technical situations when we work with those grades. And then secondly, we will be investing more in our selling capability, technical sales, to be able to even more globally sell these grades. So, the market is not only Europe, but we're basically a global supplier when we talk about pro grades. But I'll comment on that also later today.

Seth Rosenfeld

Okay, thank you and the second question just with regards to the market outlook please, not the strategy, but can you talk a little more about what you're seeing in terms of European stainless pricing trends at present? Your peer earlier commented this week commented they've seen prices ticked higher since September. They're guiding to stronger ASPs in Q4. Is that something that you're recognising in your own business?

Pia Aaltonen-Forsell

Yeah, maybe if I can just start by saying that we all know that there are breakdowns on price available, and yes, indeed, maybe there's been sort of small upticks visible in those. When I look at overall, the pricing in Europe is still under pressure, and I think that's something that we will definitely talk more about also later today.

Seth Rosenfeld

Okay, thank you.

Operator

Our next question comes from Anssi Kiviniemi from SEB. Please go ahead with your question.

Anssi Kiviniemi

Yeah, hi, thanks. It's Anssi from SEB. Thanks for taking my questions. Most of my questions are related to the strategy so – well, I'll just shoot them and you can refer to the following presentation. First of all, can you indicate a little bit on cost savings, on what functions, what units are you targeting when you are talking about the lay-offs?

Pia Aaltonen-Forsell

Yeah Anssi, may I just actually kindly ask you would it be okay to ask the strategy question after our strategy presentation? I think we will still get to some more details in our presentation and

if that's possible, I think we would really appreciate it. So, we would like to focus on the questions really related to the Q3 and sort of the current situation in this part of the presentation.

Anssi Kiviniemi

Definitely, then I would have one question left. Cash flow was boosted by the deferred tax payments; 21 months payments. Is it kind of split evenly during the next, let's say, two years the paybacks? So how should we read the timing of those? And when we now enter into Q4, you indicate fairly flat volumes and indicate that inventory you cannot go further down with it. How should we kind of think about the working capital situation and development when we enter into Q4?

Pia Aaltonen-Forsell

Yeah, Anssi, thanks. Very good questions and I can start with sort of tackling the VAT question first because that's a predefined scheme and it's just equal amortisations through the period. So that's basically how it works. So, it's roughly two years just paying this 75 million off. That's how it works. And then vis-à-vis the Q4 cash flow, obviously per se we are not guiding for that, but if I just look at the main elements, you have actually mentioned an important one being the stable volumes.

On top of that, when I look at working capital, we had set ourselves the target of 100 million improvement this year. Now we have cumulatively 175 million, but it includes that VAT deferral. So, I think we are now in a position where we will more, make sure that we can keep stable on this level. So, this is as far as I can go in terms of the element then of the working capital in the cash flow.

Anssi Kiviniemi

Okay, that's helpful. I'll come back afterwards on the strategy.

Operator

Our next question comes from Alan Spence from Jefferies. Please go ahead with your question.

Alan Spence

Yes, thanks. I've got three quick questions. The first one is on the outlook. I was a little bit surprised by the comment for flat [inaudible] Group deliveries into fourth quarter. I would have

thought that we would be coming out of seasonal weakness in Europe and your European deliveries are about 2.5 times that of your Americas. So, unless Americas is falling off a cliff where we're not seeing that seasonal pick up, what am I missing?

Pia Aaltonen-Forsell

May I just start by saying that there is one important detail in our outlook that Heikki has mentioned which is that we will have a more significant maintenance out of Tornio and this is, to some extent, also putting a lid on the volume that we can push out of that system during the fourth quarter.

So, I think that's one element of it. Obviously, then you are right that in terms of the US business, we would expect with Thanksgiving and Christmas, et cetera, a bit of a seasonal impact into the Q4 but I think what I just shared about how the market looks in US right now. We're still very low distributor inventories, maybe with a little bit of appetite now building it up as well as good activity in many segments, including appliances and automotive.

So, I think your judgement of US falling off a cliff seems a little bit harsh.

Heikki Malinen

Maybe if I would add on the volume scenario. So obviously there's a very bifurcated market. There are certain segments, as Pia has already alluded to, which are more robust like appliances, white goods, some part of automotive. But then there are others which are actually quite weak. Some areas where there is actually very little demand at the moment. So, in this bifurcated market we don't get this the full benefit of the whole capacity we have.

Alan Spence

Okay, so you didn't [inaudible].

Pia Aaltonen-Forsell

Sorry, could you please repeat? I didn't hear you.

Alan Spence

Sorry, I can hear the feedback. You mentioned the planned maintenance in the fourth quarter impacting volumes. Why not produce a little bit extra throughout the summer when demand was seasonally weaker to fill those up those orders and improve activity?

Pia Aaltonen-Forsell

I guess that is one of those rhetoric questions, which is, in hindsight, some things are easier to answer than at the point. So, the approach that we have chosen is to be prudent during a pandemic period. We have been compressing cost and being very prudent on working capital as well.

Alan Spence

Okay fine. And my last one is a little bit 50% comment, 50% question. Around the balance sheet, I think obviously this has been a concern for the market for some time. You've routinely said that yes, there are covenants and you feel comfortable with the headroom to those limits. Why not just actually provide us with those covenant limits so the market can understand the sensitivities to where things really would need to fall or improve [inaudible] there? It just feels like there is not a lot of clarity in terms of how safe you might be around that.

Pia Aaltonen-Forsell

Thank you. I think it's a fair point and let's consider I can only repeat obviously now as well with the gearing on the 45% that I remain confident on that and there is plenty of headroom to the covenant level, but let us think about that. Thanks for the input.

Alan Spence

Okay, thank you.

Operator

Our next question comes from Ionnis Masvoulas from Morgan Stanley. Please go ahead.

Ionnis Masvoulas

Yes, good afternoon and thanks for taking my questions. Just two from left my side. The first regarding the Kemi expansion CapEx. Could you remind us how much is left to spend in 2021? And then secondly in terms of the guidance around shipments, is it fair to say that there was a bit more destocking from your side in H1 across Europe and the US? And now maybe there is a bit of a catch up that explains some of the outlook for Q4, both in terms of Europe and North America. Thank you.

Pia Aaltonen-Forsell

So maybe as you started with the CapEx question, if I start up with that one. So obviously when we are looking into the current year, we are somewhere around the level of 70 million for the Kemi mine expansion. The deep mine project. Obviously also looking into next year we are on about similar level. I don't have from the top of my head. Maybe it's 69, but kind of that level of around 70 as well for 2021 and then we will still continue in the year 2022.

Ionnis Masvoulas

So, how much is left to spend in Q1 2022 overall?

Pia Aaltonen-Forsell

From the top of my head, around 130 million.

Heikki Malinen

Approximately.

Pia Aaltonen-Forsell

Yeah, that's good. And then your second question was on destocking and maybe Heikki wants to elaborate further on that. But I can just say that based on the working capital figures that you have seen we had a cash inflow from working capital both in Q2 and particularly in Q3.

Heikki Malinen

So, that's it.

Ionnis Masvoulas

Thank you.

Operator

Our next question comes from Carsten Riek from Credit Suisse. Please go ahead.

Carsten Riek

Thank you very much. Just one question left from my side and it's on the Business Area Americas. I noticed there was a comparably big drop in sales per tonnes. Still, you managed to pull out quite

a good EBITDA of 14 million compared to 3 million you had in the second quarter. Are there any one-offs or any other reasons why you actually got such a good result despite the rather heavy drop in the realised prices? Thank you.

Pia Aaltonen-Forsell

Yes, thanks very much. So, when you look at the bridge that we presented for Americas, actually our pricing and mix impact was slightly positive. So, from that sense there was also a bit of support in that end and as well a little bit higher deliveries. However, overall looking at the cost compression actions, looking at the bridge there you can see it somewhere – 7/8 million euros in the quarter and by the nature of things we compressed a lot of costs already during Q2, but some of them actually were flowing through the cost of goods sold during the third quarter in the US.

So, I think that's also a reason why you really see that impact flowing through the P&L in the third quarter and without making a too big of a jump right now to the strategy, then I just think that we will continue with a number of activities vis-a-vis really reducing our cost base and having a long term impact on that. I don't want to say that they were one of in the Americas result, but there was a very, very tight cost compression for sure.

Carsten Riek

So, you had a mix, clearly. Because I was puzzled with the positive price effect and then you couldn't see that in the numbers. So, there was a mixed effect clearly here. Is that to the more standard grades, I would guess, compared to the more complex ones?

Pia Aaltonen-Forsell

There was a bit of a mix effect. Yes, you are right.

Carsten Riek

That is correct. Okay. Thank you.

Operator

Our next question comes from Harri Taittonen from Nordea. Please go ahead.

Harri Taittonen

Hi, yes, good afternoon. One question about the EU investigation into the cold rolled. What's your feel? When could it start to have an impact on imports? At least when the hot rolled investigation started about a year ago. It started to have an impact already in the beginning of this year, but do you have any insight on that question please?

Heikki Malinen

Very hard to forecast. Obviously, I think in some ways it may also be a bit of a function on how robust the Asian market is. We've seen – there's public information that Asian demand has been pretty robust in this. Actually, if you look at the apparent demand for many of the stainless steel grades in Asia, it's been surprisingly strong, whereas Europe has been surprisingly weak.

So, I think I would assume it is more of an assumption that that volume flow will be somewhat dependent on what's going on in the Asian market.

Harri Taittonen

Another question on ferrochrome. Now, the decline in EBITDA was exactly the same amount that was the cost of maintenance stoppages and benchmark prices have been pretty flat. But do you see an underlying trend sort of unchanged? I pay attention to the fact that your average sales prices have come down a lot and they are way below the benchmark prices at the moment and that was collaborating Q2. It was a result from you selling to the spot market, but is there any kind of change there that could affect the underlying profitability of the ferrochrome division?

Pia Aaltonen-Forsell

Harri, it's a really good question and again, maybe there is a little bit a jump to our strategic journey, because when we are looking at the ferrochrome as a business obviously we need to look into the various aspects of how can we make sure that we are not dependant on spot market under any circumstances and are there other ways to improve the mix? Because I think the reality is that with the lower internal sales from the ferrochrome into the flat stainless, obviously that means that there have been more volumes for the spot market.

And the lower volumes during this year were not part of the original plan; this is caused by the pandemic. So, there are some elements here that clearly are kind of temporary and that we are looking into changing a bit the structure going forward just to ensure that we would not be

dependent on the spot market, but spot volumes have been higher. That was particularly in Q2 but that's something we need to fight through this pandemic period.

Harri Taittonen

Right. So, the last question from me on then hot rolled imports. Do you think it's probable that imports will remain clearly below the quota because of the Indonesian, Chinese and Taiwanese restrictions that are imposed or do you see that the quota could be filled by some other players?

Heikki Malinen

Well, yeah, that's a good question. Again, a hard question to answer. I'm not sure if there are many, many alternative suppliers per se who could fill that so my answer would be that let's wait and see and see what happens with Asian demand. I think that is ultimately the driver here.

Harri Taittonen

Right. Okay. Thank you very much.

Operator

Our next question comes from Bastian Synagowitz from Deutsche Bank. Please go ahead.

Bastian Synagowitz

Yes, good afternoon. So, I have one follow-up just on the point around the benchmark price in the ferrochrome business and I think as you said in the second quarter the problem is I think that you will have sold more to the spot market and my impression is that I think that has also still been the case in the third quarter now. Now as we move into the fourth quarter, do you see that changing, i.e. will you capture more of the higher benchmark price in the fourth quarter or has the benchmark price just in general actually stopped working as a leading indicator for ferrochrome as a business?

Pia Aaltonen-Forsell

I think it's a good question and then obviously you are following these markets and there are certainly overall a lot of changing dynamics here within, but if I still get back to your question, it has just through the years always been – there's been a certain portion of our ferrochrome business area that has been to external sales, but there has been a majority of the sales, internal,

and our internal volumes, as you can see from our stainless volumes, have been lower in the second quarter and in the third quarter.

And this has just resulted in a need for more spot sales in the short term. So, I still see this as more a pandemic driven situation rather than some long-term strategic shift.

Bastian Synagowitz

Thanks, Pia. And can you see that all changing in the fourth quarter, i.e. will the share of internal sales increase?

Pia Aaltonen-Forsell

Yeah, obviously overall what you can see is that we are guiding for stable volumes in the fourth quarter, so maybe I would be a little bit, so to say, not prudent if I would comment too much about that, but you have to also take into then account the kind of dynamic preparing for the first quarter and what our thinking is around that, so I think the market sentiment throughout the fourth quarter will also have an impact for that and then also a bit on how much we want to prepare, how active the first quarter will be, and obviously that's something that we would not be commenting on yet.

Bastian Synagowitz

Okay, got it, thank you. Then one more question on your debt target. If you're happy to answer that already right now or maybe rather take it later, but you obviously give a relative number, but clearly, we're in an industry with very high earnings volatility and I guess the recent years and this one in particular has shown that again. Now would you describe this 3x net debt to EBITDA target as a bottom of the of the cycle target or rather an over the cycle target? And is there also any absolute net debt number which you have in mind in which you're targeting here?

Pia Aaltonen-Forsell

Yeah, it is certainly something for the strategy part, but I just want to say that we have a time bound target here with the rather short timeline. It's nine quarters. So, I think we will probably come back to that, but it's clear that we will not be able to go through a full business cycle between now and end of '22.

Bastian Synagowitz

Okay. All right. Thanks, Pia.

Operator

Just as a quick reminder, if you wish to ask an audio question, it's 01 on your telephone keypad. Our next question comes from Luke Nelson from JPMorgan. Please go ahead.

Luke Nelson

Yes hi, thank you for taking my questions. Two from me. Firstly, on the Americans. Can you break out to what extent there was an FX benefit in the cost release that you reported, just given the US weakness over the period? And then secondly in Europe, just again looking at the waterfall around pricing and mix, and your comments around leverage to high value products in projects. Can you give a bit of a sense based on your order book on what you see around how we should be expecting mixed moves in Q4 relative to Q3? Thank you.

Pia Aaltonen-Forsell

Certainly. So, your first question Luke was around whether the cost relief in Americas was also based on FX movements and I would still like to confirm that the way how EBITDA is formed for us in the Americas business, it's very much dollars driven on all sides, income and expenses. And also, then in terms of our bridges there is no significant FX impact there. There might be something with the Mexican peso and there might be an odd million there but as I recall, the other bucket is almost empty, so that's where this FX would then typically end up if it would be from the Mexican peso perspective. So, I think those impacts in this period were not significant.

And then your second question obviously was more on Europe, and if I heard you right you were asking about kind of the mix going into the fourth quarter and obviously, I think we have talked about the elements here, so we have seen many segments – appliances, automotive – bounce back since the pandemic period. We've also seen that there are certain more value-added grades, particularly those related to oil and gas, where we still see slow activity. So, I think across the board there is still the situation that we are not at normal levels of order intake in this more value-added business.

I don't know, Heikki, if you want to add anymore colour on that?

Heikki Malinen

I guess, we have a certain internal, I guess, rule of thumb that if oil price is below 65 bucks, usually at that price level customers tend to invest less or at least they have a tendency to postpone their investments. So, I think given how extensive the chemical industries and oil and gas industry for the different types of pipes and tanks, whether it's deep sea drilling or just the normal refining plant or chemical refining plant, these prices for commodities, our customers are very hesitant to invest and one would expect that to have to see clear pickup in oil price for customers to then I think be more forward leading in risk mean.

History tells us that that's been the case in the past. Let's see what the future then entails.

Pia Aaltonen-Forsell

And Luke obviously as I understand from your question that you also really looking for the bridge impact from Q3 into Q4. Somehow I would still like to make the point that we have seen the appetite, the order intake, for these more value-added grades to be shrinking now through the pandemic period. So, I'm not saying that it's shrinking further, just saying that we don't see the pick up here like we can see in some other segments.

Luke Nelson

Okay. Thanks a lot.

Operator

Thank you. The next question comes from an unknown number. Please hold while I try to capture the person's name and company. The next question comes from Kusha Agruwall from Citibank. Please go ahead.

Kusha Agruwall

Hi. Most of my questions have been answered, but if I can push you on the pricing part for Europe, you said that pricing continues to be under pressure, but the way I look at it is that your volume was 7% down in the quarter while your peers have had a double digit growth in the volume, which implies that your market share has gone down in the third quarter. So, is it fair for us to believe or to assume that in order to gain market share, probably your pricing continues to stay under pressure for next one to two quarters? Or maybe you lose out on the volumes.

Pia Aaltonen-Forsell

I think that would maybe be too big of a jump. You are of course talking about the market dynamics where if – I don't want to go too much into our competitors' performance, but just looking at the curve of how production and deliveries have shifted during the pandemic period. Yes, there have been some shifts, and you saw that we had really high market shares, particularly during the second quarter, et cetera. So definitely there have been some balancing there visible in the figures, but I would say that your conclusion then on the pricing is probably a bit too harsh, I would say.

Kusha Agruwall

Okay. And then one follow-up question on the net debt. You mentioned that the 72 million credit you have received for the VAT deferrals. Have you included that 72 million in the net debt or should we include that in the net debt?

Pia Aaltonen-Forsell

Sorry if I heard you right you asked about the VAT deferral and I mentioned it under working capital because it's an operative item and it's included in working capital.

Kusha Agruwall

Yeah, but that's definitely not included in the net debt, right?

Pia Aaltonen-Forsell

Definitely not included in the net debt, yes.

Kusha Agruwall

Thank you.

Operator

Thank you. Our next question comes from Jason Faircough from Bank of America. Please go ahead.

Jason Faircough

Good afternoon, everybody and thanks, Pia, for taking the questions. Two quick ones here. You mentioned the 24 million euros in own actions to compress the costs and I just wanted to make sure that I understand whether those need to come back at some point. So, should we be thinking about Q3 underlying EBITDA really being at some lower level than what you've reported?

Second question, I'll just ask them both if that's okay. Just on the 72-million-euro VAT, is there any other cash flow measure that's been undertaken that we should be aware of where you've built up a future liability that needs to unwind?

Pia Aaltonen-Forsell

Thanks, maybe I just tackle the VAT one first. I think the reason for just being open with it is that it is one of those where we got the benefit now, but it's clear that we will pay it during the next two years. So, that was the only significant item. I cannot from the top of my head even remember any other small items that would be similar, but I can confirm that this is the one that we have disclosed that is relevant in that kind of context.

Then I think your first question is a really good one on cost compression; does it actually lead us to a situation where it's not a sustainable result level, and I think that's why I was a little bit maybe lengthy in my presentation also talking about maintenance and how we have been able to compress that, et cetera, because it's clear we have had, for example, maintenance plans going into the year and we've had to do a lot of risk assessment. We had to do a lot of optimisation and thinking about the right approach.

But when you then ask that when we have compressed those costs, has that increased the liability in the future? I don't think so because we have a lower production level out of this year. So, I do think that the level of actions that we have been able to take here now, we have been able to take costs down. We have not built up a liability going forward, but in order to make a part of these cost compressions long term, I think we have elements in the strategy to address that and I hope when we have presented the strategy that you can get a full picture of this.

Jason Faircough

Just if I can follow up, so, if we look at your guidance and in a way this relates to Alan's question as well. So, you're guiding for flat EBITDA quarter on quarter. It's quite a standout versus your steel peers. Most steel peers were looking for materially higher EBITDA as we flow through into

the fourth quarter, and you're sitting there with flat EBITDA and I'm just wondering if that's because there's a lot of costs that are coming back into the business that you took out for one quarter.

Pia Aaltonen-Forsell

I would say the main elements there leading to that guidance is obviously first of all that from a volume perspective, we are stable quarter on quarter, so that's an important contributing element. The second element, I would say, here, definitely is that yes, we don't have the big ferrochrome maintenance, but we do have this maintenance stop in Tornio instead, which is really the heart of our operations to a large extent, so we have this shifting the maintenance to another unit, which of course is then connected to the volumes as well.

I think we have also talked here enough about the pricing and mix that you realise that we are not yet at our optimal product mix and as well based on that we cannot expect an uplift in this quarter. So, those are at least some of the main elements. I wouldn't say that there is this debt that has piled up. Actually, I would not say that at all.

Jason Faircough

Okay, thanks. Very clear. Very helpful.

Operator

Thank you. There appears to be no further questions. So, I'll hand back to the speakers.

PRESENTATION

Linda Häkkinen

Thank you all for your very good questions and thank you Heikki and Pia. Now, we will have a short 10-minute break and we will continue with our strategy update at approximately five past four in this same webcast. Please stay online. We will continue shortly. Thank you.

Steve Hudson

Good afternoon, all, and welcome back. My name is Steve Hudson and I'm the Group Business Controller here at Outokumpu. We've already reviewed our Q3 results and now it's time to step

into the second part of today's webcast, and that's the strategy. I'll be hosting this session together with Heikki and Pia.

Our agenda starts with the full strategy presentation and then after that I'll be starting a moderated Q&A session, where I'll be sitting down with Heikki and Pia to discuss the strategy a little bit more. Following that, we will take questions from the lines, but for now, without further explanation, I'll hand over to Heikki. Heikki?

Heikki Malinen

Thank you, Steve, and welcome again. We have an exciting – hopefully exciting – hour ahead of us to go through the strategy. In terms of the agenda for the next hour; I thought that we will first start with my own reflections and observations of Outokumpu since I've worked here for some months. After I've gone through the reflections, I will then introduce the strategy talk about the way forward. And then we will take a deeper dive into the financial sphere. Pia will join here and she will go through the detailed financial part and then I will come back in the end and summarise. I'll also talk a bit about the team that will be leading us through this journey.

Maybe at the outset just a couple of words still. In terms of this document and the tragedy, we've had a large number of Outokumpu experts and people, leaders, even new talent contributing to this work. So, this is a project that's been done by ourselves in order to develop a comprehensive view of this company. I have visited all of our plants, both here in Europe. I've also visited the United States here recently. I've spoken to over 100 employees, on a one-to-one basis, with some quite extensively to really understand what they're thinking and where they think we have strengths and issues. I've personally spoken with dozens of customers here in Europe and in the United States, and also with a number of suppliers. So, collectively I personally feel that I have a good take on the state of affairs at Outokumpu today.

So, let me then start with the first slide here, just very briefly to summarise the key reflections. Obviously, we are in, I guess, what we want to call here 'new market normal', and particularly when you look at Europe with the Asian imports, Outokumpu has a very strong foundation, but our performance has lagged and the way forward for us is really that in the short term, it is very much about setting targets that de-risk the company for the benefit of all stakeholders.

We are also aiming to clearly strengthen the accountability for performance across the whole group. This will involve a new operating model, active performance management and much more discipline and throughout the conversation today, we will talk about these in much more detail

and granularity. We are also going to bring in more speed and through speed, we're trying to accelerate performance improvement measures as we go into this journey.

A few words about Outokumpu's foundations. As we were compiling this list, we had many things and we tried to choose, let's say, the top six to talk about. I decided I would just take our focus on a couple of these here today. Now, let me first start with sustainability. We are the leader in sustainability in stainless steel. I'll give you an example. In Tornio in Northern Finland we are the EU's largest metal recycling centre. So, when you for example buy a new washing machine or tumbler and you recycle the old one, most likely that will end up in Northern Finland in Tornio.

Our scrap rate today up in Northern Finland is already in the 90s. We've come a long way in raising that, and the team is working diligently to find ways on how to further increase scrap ratio, which of course is good for sustainability and also in terms of a circular economy. It's the right thing to do.

In terms of the Americas. Obviously, US, Mexico, USMCA; it's a big market. It is a growing market and I'm extremely happy and pleased about the fact that we have been able to really take a step change in our North American business and we've made good progress in the turnaround and I will talk about the Americas more today.

And then obviously any business is about people. Our OHI, Organisational Health Index, numbers, were good, were high second quarter and we're pushing to get to the first quarter. We have the strong bench strength both seasoned work forces, but also a lot of emerging talent that is growing through the ranks and files of Outokumpu.

This year, of course, has been extraordinary in the sense that we've gone through COVID and in all of our presentations, of course, we cover this as well. It is a backdrop to the situation at hand. I guess my main message here really is that I feel that we have managed our way through the pandemic well. We've had very few infections considering the size and globality of the business. We've been able to maintain our operations, serving customers, and at the same time making sure that we're sufficiently funded and we have good liquidity. So, a big thanks to our finance team in working on the financial side and, of course, customer operations, sales, service on the others.

We may have in the audience some people who are not that familiar with Outokumpu, so I thought I'd take the liberty and just spend a moment on this page which talks about the different

businesses we have. For some of you who've been following Outokumpu this, of course, is very familiar, but please allow me anyway to say a few words about the businesses per se.

Here on the bottom, we have four boxes: BA Europe, BA Americas, BA Ferrochrome and BA Long Products. From my standpoint really the core businesses of Outokumpu are the stainless business here in Europe and in the Americas and then the Ferrochrome business. I've really labelled Long Products more as a turnaround case that we're now working on.

And if you look at these businesses one by one, in Europe, of course we are number one. We are the largest in terms of volume. We have these large plants in Finland, Sweden, and Germany and we are, of course, a very large producer of commodity grades. But also, what's unique about us is that we are the global market leader in value-added grades. When it comes to duplex grades, ultra grades, decorative grades; many of the greatest landmarks, if you go to the United States, for example, you look at the new landmarks that are being built, you would find Outokumpu stainless steel, shining in the glaring sun to the pleasure eyes of everybody. So, we're very proud about the product range we have here.

In the Americas and in the US particularly, we are number two in terms of volume. We have the plant down in Alabama, near Mobile. We have the facility in Mexico and what's very important is that as we now have been able to stabilise our operations, we took the decision to invest in the asset and now with the ferritics investment we're basically opening ourselves to a whole new market, a sizable market in the US where we have not been participating before and as we discussed in the Q3, really pleased that we are on schedule, we're on budget and now in Q4, we're good to go and the customers are waiting for us to introduce the products.

Then we have BA Ferrochrome. It is quite unique in the sense that this is the only chromium ore mine in the European Union. It's largest mine in Finland, but it's the only mine of its kind in Europe. What's interesting about the operation is that you have the mine, which is now going down to 1,000 metres. Then you have the ferrochrome smelting operations with the three smelters. And then you have this stainless steel operations. So, they are all on location, they are all integrated. No one else really has a set-up like this where you have all three pieces side by side with geographic proximity and then you have the harbour and access to sea next to it.

And then finally we have Long Products where we're now going through a full-fledged turnaround. So, that was a bit about the businesses, per se. When I go to the strategy section, I'll discuss each of these in more detail.

While the purpose of this strategy discussion is really to look at the future, where this company will be going, I think it's fair to just spend a moment and look at the past. This slide, of course, has a number of stories. If you look at the longer-term horizon, our performance has lagged.

Unfortunately, we have not delivered value to our shareholders. We've had a couple of years like 2017 where the market was good. We were on track but then for various reasons, had there been outside headwinds, maybe sometime also internal matters, but anyway, we have not met the expectations that we had set for ourselves and, of course, that the outside world had expected from us. So, of course, as management here I can assure you that we are highly committed to doing our utmost that we would find the medicine and the treatment so that we are able to gradually turn the corner and get to a different type of trajectory so that the 2020s would look different than the past eight years.

Now, this, of course, is a challenging industry and the operating circumstances do bring some headwinds here. So, as we've discussed, we have seen COVID really hurt demand at least in some of the segments where we operate. When you add on top of that, the declining oil price, which does impact the investment, especially in process industry, in oil and gas, chemicals, we have seen stainless flat consumption come down and of course it has also impacted then the demand for these so-called 'value added grades'.

We have low priced imports. They've taken share. If you look at historically where the market share for imports were mainly coming out of Asia. They were set fairly low and then the last five/six years we've now come to a point where the market share for these imports is roughly around 30%. So, Outokumpu is about the same size as the imports. And of course, this is very different from what it was when initially the Inoxum merger was put in place in 2012.

And then, very unfortunately, we see a negative multiyear decline in the prices here in Europe and, of course, as you know, as this is a fixed cost business, you of course have a substantial amount of operating and leverage so when prices move down in this way, you know that you have your work cut out for yourself.

So, what do we need in this this moment in time? Well, we need even stronger cost and capital discipline. If you look at the European business, I have to say that over the last four years we've really made significant step changes almost in operational improvement; the way we run our plans, just the way we daily and weekly and monthly grind through the operation. So, it's really clear a lot of good stuff has happened.

But unfortunately, given where we are in terms of pricing, in terms of the whole market set-up, our fixed costs are too high and that is just a numeric fact and it's something that, of course, management has to address. I do feel that we can do even more on the customer engagements side. I guess, one can never do enough, but I still feel that we have opportunities to be more engaged with customers in Europe and with ferrochrome. It basically means us being much more forward leaning in engagement with customers on a day to day basis, trying to be even more sensitive to their needs and trying to be more responsive. And of course, being very, very active day in and day out.

On the Americas side, the good thing is the operations have stabilised. That does not mean that we've stopped developing operations, but at least we've developed the stage where the volatility we had – in the past years we had issues with on time delivery – most of that is now of the past. So, the operations are stable. And now it's really, with that level of performance, which of course gives customers more confidence about our delivery ability and reliability, now is then the moment to really accelerate the commercial turnaround. And then on BA Long Products, of course it's the whole menu. In LP, we're doing basically everything. The whole menu from A to Z.

So, those are really my reflections from my four/five months here at Outokumpu. I hope I've been able to share you with sufficient clarity how I'm thinking about it, but as said, this is a great company, it's a strong company, it's a good company, but obviously we have a lot of work to do and I feel that as I now go through the strategy, I hope I'll be able to show you that we've thought about – we've put together a good plan that will then be the basis for the next steps.

So, moving then to the way forward. So, before I start to explain the essence of this chart, let me still one more time talk about the process, how we actually got here. So, when I joined Outokumpu, Pia and I and the colleagues sat down and thought about through what type of a process do we need to put in place so that we can develop a strategy that is really grounded.

It was very important for me that when the strategy is done and ready for presentation that I personally feel that it is sufficient, it is ambitious, but it is also realistic and it's grounded. And therefore, we decided to start a very classical full potential analysis. We could have used outside consultants, but we decided we're going to do this on our own. It's also a very good way for me to test the people in the company and see how good are they really.

And I can tell you with all honesty, and I'm trying to be objective here, that I was really impressed with the work that the team – the teams, because we had a lot of people here – what the teams

were able to pull together. And so really the whole work that I'm showing here is a result of the analysis that came out of the full potential work.

I guess the main headline here, of course, is that we have too much debt on our balance sheet given the current circumstances, and that is really almost like matter number one that has to be solved before you can even move forward and basically what we then decided was, okay, so let's put together a plan that sort of eats the elephant in pieces.

So, a plan that has phases which are time bound then ultimately aspiring to take the company to the next level. So, what you see now in front of yourself is a slide which shows three phases. Phase number one which is time bound for '21 and '22 basically tries to address the de-risking deleveraging question and therefore we're putting substantial emphasis on margin improvement and deleveraging the balance sheet.

When we have accomplished this phase, then we move on to phase number two and tentatively we put in the years '23/'25. Of course, that may change, but at least that is indicatively how we're thinking about it in terms of time and sequence. In terms of the second phase, it's going to be about targeted investments to improve margins, so we're not talking about big, massive projects, but more very, I would say, targeted investments that hopefully will have managed risk – because investing always has risk – managed risk, and also where the returns should be coming sooner rather than later.

And then assuming we succeed with that, which of course we intend to do, we will have earned the right to grow, and then we can move into the third phase, where we will hopefully, and depending on opportunities, then lean more forward and look at investing more in growth.

And then ultimately on the right-hand side, and this is also something more for our customers and all employees, our aspiration long term is that we are, and we remain, customers' first choice in sustainable stainless steel. On the bottom of the page you see a blue arrow going through from left to right. We've written, 'continue to deleverage the balance sheet'. We do not see deleveraging to be just a phenomenon for the next two years, but it is going to be with us because this industry, of course, is highly volatile and we see that we're now taking the first step, but we will then continue to deleverage going forward.

A few words about the first phase and again we will go into much more detail here, but the key numeric financial targets are shown on the right-hand side. Ultimately, for this time period we're targeting a net debt to EBITDA which is less than three. And a key driver of how we get there is

that we achieve a run rate EBITDA improvement by the end of 2022 in the amount of 200 million. So, by getting that, by being very strict on capital, we will achieve that net debt to EBITDA.

And on the left-hand side of this chart, a couple of observations just in terms of the way we work. It's going to be very much about strengthening accountability. A lean and agile organisation, very active performance management, and very strict financial discipline. And in terms of performance and profitability improvement. So, as I said a moment ago, there's an operational part, there's a commercial part, and also there's a very much organisational fixed cost part to it.

I still want to say a few words about accountability because there are so many strategies, companies develop strategies and ultimately it comes down to can you really execute. So, that's why we talk today a lot about not only what we intend to do, but how we're actually doing that and Pia in her presentation will even more still talk about the 'how' part rather than the 'what' part.

So, on the left-hand side, we need and will create a leaner and more agile organisation. As I said before in the previous presentation, this is a tough day, a hard day for Outokumpu. We're starting immediately now negotiations with the employee representatives basically to then aim for planned reductions in the amount of 1,000 headcount.

We have a simpler structure. Myself, in addition to being the Chief Executive Officer, I will be running also working as BA President for Europe. It obviously accounts for 70% of the company, so it's such a big lever in terms of performance, so I will be in that dual role as well. And we will also take a very active role in performance management. So, we put together a structure that will very much focus on looking at deviations to these targets we have set internally, and Pia will then go through the mechanics of that in a short while.

And then, of course, with respect to financial discipline. So, on multiple areas we're going to bring more discipline and we actually also changed in the company – we have now changed the way we even manage CapEx, so we have a dedicated team reporting to one of my team members who basically is very carefully monitoring both maintenance CapEx and other CapEx. So that will also bring a big step change into the way we work here at Outokumpu.

In terms of headcount. So, our headcount currently at the end of the third quarter is approximately 10,000. Given the planned negotiations and the planned reductions, so pending the outcome of those negotiations, so the figure will roughly be, at the end of '22, less than 9,000. So, that is assuming then the positive outcome of those negotiations with the employees.

Okay, so I've talked more on the Group level. Let me now go through the businesses. So, we have four businesses. So, there's one slide for each, and so I'll walk you through one by one. We will start with Europe. The way this page is structured is you have some key points on commercial areas, you have on cost and capital, and then on lean [inaudible]. I won't go through every item but let me just highlight a couple of things.

So, in terms of commercial excellence, so obviously the specialty grades are very important for us. Most of them are manufactured in our Swedish facilities here in Europe, and basically these are products which we can sell globally. So, while it's a European business area, this is very much about actively commercialising our service offering not only in Europe but also in North America, Latin America and Asia.

So, this is very much a sales-driven initiative, and there's a very big technical selling piece because the applications are complex and usually there might be an engineering company involved, there might be designers, architects, what have you, so it isn't simply quoting prices and volumes and delivery time.

Then on the commodity grades, we need to be much more engaged with customers across all of the channels. We sell, of course, directly. We sell through our distributors. We sell through our service centres. So, in all channels we need to be much, much more active and at the same time we have to reduce our cost level. We have to improve our cost competitiveness. The commodity area is so competitive that in order to compete, our costs have to come down.

On the centre part you have a box here on cost and capital. I guess I just want to say that on the raw material side, we, of course, are working constantly with scrap. How do we use that more effectively? But we also have the ferrochrome operation and how we integrate that into the Tornio facility, or how we supply ferrochrome into the other melting operations of Outokumpu. How that is all set up is also very critical and it can drive to reduce costs. And then on the personnel measures in Europe, it is quite significant, and I've already discussed that in more detail.

Then we come to the Americas. From turnaround to continuous improvement and growth. So, on the commercial excellence side of course we've been now in the market for ten years. I guess probably the first five years, we were very much in ramp-up mode and I was almost saying now we're really fully ready to really embrace the market. We want to strengthen our commercial footprint in the US and in Mexico. I was specifically excited about segments such as automotive, appliances, and pipe and tube.

And now that the ferritics investment is basically ready, so we're excited to introduce this product to our customers. And as said I had a chance to speak with many of our US customers last month and it seems to me that they're excited about Calvert, about having a ferritics product which is manufactured in the USA, and we all understand that in today's world, of course, manufacturing in the US is, of course, an asset.

On the cost and capital aside, we've done a lot of good work. I just want to mention that I'm actually very pleased with the work Calvert has done on reducing slab cost. We will continue to do that, and here we are also leveraging the overall knowledge within Outokumpu across the plants. This knowledge transfer is very important because there's no sense in inventing the wheel somewhere if one of the other plants has come up with an innovation on how we can take out costs. And we have already started with personal measures in our Mexican facility.

Then we come to ferrochrome, our third business. So, as you know, and we discussed the moment ago, so we have the big investments in the chromite ore mine. This investment will give us access to this very valuable ore into the 2040s. So at least for 20 years, maybe longer. We will have access to this very valuable raw material. An important part of the initiative here for the strategy is that now with the incremental ore, we will also look at expanding and augmenting the types of ferrochrome products we actually manufacture and sell. So, this isn't just one size fits all ferrochrome. There are actually many subgrades underneath that and we are working to expand the different types of products within the ferrochrome family. And there are some interesting opportunities ahead of us.

We are looking for ways to reduce the sales into the spot markets. Usually the logistics costs are higher and of course spot customers are – it's a bit of a come and go business. So, for the sales organisation it means being much more active, forward leaning in developing longer strategic relationships with customers so that we have businesses as the volatility, of course, is quite considerable in demand.

And finally, in terms of the actual mining activities. So, we're looking for ways to further develop the way we actually mine. And we are also developing our fine concentrating plant and the yield we get out of there. And so, all of this should help to further improve the performance of this very valuable part and unique part about Outokumpu.

So, these were the three core businesses and then Long Products. So, as you know, we had the strategic review. When I came, we decided to accelerate it. On the 15th of July I appointed a new person to run the business. We have now changed the whole management team in Long

Products. We have a very tight-knit group, with support personnel, and this team is on a mission. They have a very clear plan which basically, as I said, it is a 360.

So, we have multiple revenue pieces there from product line development, finding new customers. There are pieces around costs. There are pieces around improving the supply chain. And we are also looking to expand into some new grades such as mid-range bar. So, this is really the whole package and I feel that by implementing this – there's enough stuff on the menu that by implementing this, we should be able to succeed with the turnaround. And of course, we have given the team – there's only nine quarters time to do this so of course we had to start very quickly already in July.

Then, a few words about markets. When one does a project like this, of course, one has to make some assumptions on what the world was going to look like. Various analysts are predicting a recovery. Some are bold, some see this more as a very tepid recovery that will take even maybe two or three years. Of course, it depends on the markets.

We decided that for planning purposes we are going to be prudent and not assume that there's going to be any major market growth or recovery, for planning purposes. Obviously, we're hoping that the markets will recover quickly, and we will get more back to a normal pace of life. But for planning purposes, we have been conservative. And so, the strategy that we are discussing today, the actions we are taking, these are based on self-help improvement measures.

Then a few words about trade defence. So, obviously this is something that we can try to influence, but it's not, of course, in our control. The things I just discussed, those things we can influence, and we can control, and we can do something about them. Here, it's more around trying to bring a logical argument to the discussion, and then hope that that decision-makers take the right steps in Europe.

The share of imports has grown as you've seen from the preceding charts, and there's also a box here at the bottom. The share of imports has grown. It is too high. We do not feel that the playing field is level, and, in our view, the European Union should use all the trade defence measures it has available and they have a lot of tools and really use them.

Just looking at CO₂, we see a huge difference between Outokumpu and the importers, such as the Asians. If you look at this chart and you look at that CO footprint per ton, we are talking about 5X difference, 4/5X difference between us here in Europe and the importers. And when we talk about the Green Deal and the importance of changing the economy into a more environmentally-

friendly economy, the officials have to take some steps to stop carbon leakage. And so again, I'm sharing this just to bring clarity that there are many important decisions that the officials have to take and hopefully that will happen in the not too distant future.

Then a word about sustainability. As said, we feel, and we are, the leader in sustainability in our industry in stainless steel. We have the highest recycled content and as I mentioned earlier, we have a very unique set up in the sense that we're the only stainless steel supplier that is upstream integrated into ferrochrome – all the way into ferrochrome and even into the mine. So, if you look at the total footprint, what we call scope three, we have the lowest CO footprint and that is really, really unique.

Now we have an ambitious agenda to further strengthen our sustainability record. The things that excites me, especially, is how can we, through R&D, utilise other types of production inputs that will be less CO2 intensive. And by changing for example, materials then into other materials, we can then bring CO2 down. And these are really more R&D related things that we are working with different suppliers on.

So, the audience, this was the second part of the presentation where I have now gone through the key essence of the strategy. What will happen next is Pia will come on stage and she will talk about the value creation plan and then after she has completed her part, I will come back, talk a bit about the team, and then make some final conclusions and observations. So, Pia, welcome. And here's some water for you.

Pia Aaltonen-Forsell

I have my tea. Thank you very much. Hello again and Heikki, I just want to say thanks very much for also sharing some of the background to how we have worked with this strategy. I'm very honoured and I think there's a big group of people within Outokumpu who have really felt that there is now a good way to contribute in building this very fact-based strategy but also something that is very much grounded in facts but also with the team at this point in time. So, a good start for all of us.

Let me take you through some of the details of our value creation plan and I'm going to start with the main instrument here that we have in order to reach our financial target of leverage of less than three times by the end of 2022. And obviously, given the short time frame here, the main impacts we can get through EBITDA improvement. And the three areas into EBITDA improvement

that I want to discuss here are around customers, customer excellence, cost and capital discipline, as well as a lean and agile organisation.

So, from a Group perspective, each of these three areas will contribute with about equal weights into this 200 million run rate EBITDA improvement programme and all of these areas come in as important and they all need attention. Starting with the customer excellence, I think Heikki has already shared some of those great stories and achievements that we already have in this area. We talked about duplexes, the long-term success we have there. The high-rise buildings, the real architectural landmarks where Outokumpu stainless steel is used and shining and super relevantly as well the pro grades and how we have been able to develop – use these for those through the years.

And all in all, you know that by now we have reached the level where the value share of our portfolio is around 30% of the volume, so it's of course super significant but we're still working with enhancing the product mix in all areas and there are certainly segments where we still want to grow.

There is one angle into all of the customer relationships as well. That is sustainability and just on the back of what Heikki just described in terms of our sustainability leadership, I think that this is one more area where certainly we have more opportunities going forward.

But then I would really like to take a big look into also the commodity part of our revenues. So, in terms of our volumes, we are still 70% commodity, and this is a really important base for us that we really need to protect, and we have to do that by staying extremely competitive on the cost side. And that is why our programme obviously addresses costs from a variety of angles and they are all important.

So, starting with the cost and capital discipline, I would maybe like by combining a bit as well here the sustainability aspect with the raw material aspect. So, one of the big wins that we've made in raw material efficiency through, actually, many years and continuing to do so now and into the strategy is the increased scrap ratio. So, we have started from somewhere – 60%/70%, building it up certainly being on the 85% level for a while now, but targeting and approaching the 90% and beyond as we speak. So, this does remain a really important part.

In the US, we talked about the slab cost initiative that Heikki also praised, but overall within the area of raw material efficiency, this really remains one of the main levers that we have here, so

it's scrap ratio, it's obviously as well yield and other efficiencies and it can as well be the way how we are able to procure the raw material.

Another key area of the cost and capital discipline, obviously, is maintenance. So, I think we have already talked a little bit about this in the Q3, but I still want to kind of reiterate on the key message there. Around maintenance we have really looked deeply into the optimisation and we have to understand really profoundly our asset base. As a basis, our asset platform is very strong, and it has been really well maintained and we certainly want to keep that strong asset base going forward as well.

But we have to base our maintenance planning on very thorough risk assessments on optimisation. We have to work smarter on this; smarter, not harder, and this is a big cost area for us, so it's clear that it's combined with the strict asset management, but it's also a unique effort in itself to be able to work even better and more optimised in this area going forward. And I shared with you in the previous call; on average quarterly level on external maintenance costs, we have spent some around 50 million euros, so obviously every work that we can do in this area is significant.

The strict asset management, the CapEx capped at 180 million, I will still come back to separately. Finally, then the lean and agile organisation, and I realise that this is one of the toughest parts of the message that we are sharing today. The planned reductions are a significant portion obviously of the planned EBITDA improvement here as well. I think we have arrived at the conclusion looking into the current performance, particularly in Europe, looking at the low price level, the import pressure. So, there was a lot of consideration going into this before the conclusions on what plans we need to put into place. On top of those planned reductions, we are obviously as well talking about the delayed organisation and the strong performance management. I will still take a chance to come back to that in my next slide, actually.

So, with that said, if I should describe the new steering model, I would like to say that we have been looking into finding a really hands-on approach within a big, large global corporate, and I think this is what we really need to address here. We have set ourselves a really ambitious plan.

The first phase of the strategy is only nine quarters from now. There is a lot that we need to put in place in a very short period of time and we need to have those concrete initiatives, and I think this is one of the strengths of Outokumpu. We have built up manufacturing excellence capabilities. We have tools for that. We have detailed project planning. We have people who are used to working as well with projects, stage gates, timelines, et cetera, et cetera. So, we have all

of that. We can kind of leverage from that. We can build that and expand that into all of the areas here of the development programme.

But we felt we needed even something more. We kind of needed the belts and suspenders. Obviously, I don't mean that with my dress, but you know what I'm trying to say here. We really needed to make sure that we won't slip, that we can keep the drum beat up, that we can keep delivering and get also very quick delivery of results through this improvement programme.

And that's why we also wanted to have a global Group level transformation office, really overseeing and supporting the whole change, and that's now part of my team and we also wanted to build a lot of practises into our performance management that are really focused on ensuring that we can deliver on this programme. And we need to do this quickly. It's only nine quarters so we also need to find those quick areas of cost reductions and other improvements here.

So, with that said, that's our hands-on approach. I also wanted to mention something about the delayed organisation and the fact that being very transparent in terms of our management style. Heikki as well; being hands on in charge of the European part of the operation. It just helps us to have that very quick feedback loop. Can I call it top to bottom, bottom to top? Just having that constant dialogue, having those constant feedback loops. And we will have a feedback loop also with the markets. So, starting from the first quarter of next year we will be able to share with you the progress on this EBITDA improvement programme every quarter.

Okay, maybe then still a bit of a typical CFO slide looking at capital allocation and certainly with our emphasis and focus now on deleveraging, I think this is relevant. So, you see that our net debt over EBITDA currently is 4.5x. And our target by the end of 2022 is to be at below 3x. What has then happened in recent history? So, we looked at our cumulative operating cash flows from 2015 until 2019. There has actually been 1.3 billion worth of cash flows. There's been some return to shareholders, 200 million about, and really where we have put a lot of emphasis as well historically has been debt reduction. So, 800 million of the cash went into debt reduction. That still has us at a net debt of 1.1 billion at the end of Q3.

Well, what about CapEx? So today we have spoken a lot about the need to be very restrictive, very disciplined about CapEx going forward. Well, you may say that our net investments have not been huge in five years. They stand at 200 million, but please do note the smaller print here. We've had pretty significant divestitures of non-core assets, primarily real estate, so the gross CapEx for the last five years has been 0.9 billion.

And that has taken us to the stage where we are today. And given the pandemic, and given the overall situation, obviously we have concluded that our main target will be to de-risk, to deleverage, to make sure that our leverage will be at below 3x at the end of 2022.

So, then the key drivers and how we are doing this. Here, I also wanted to share a bit of a longer time perspective, so focusing on phase one but giving a few comments as well about the second phase of the strategic journey. So, just starting with the obvious and most important one that we have spoken about; improved margins is really the way to improve the cash flow.

And that comes in the first phase on the back of also very restrictive CapEx. In the second phase obviously with also the deep mine investment being completed, there will be a little bit more room, but we have said that we will really focus on the kind of CapEx that can support higher and improving margins, so there's a clear priority there.

Maybe I touch upon the CapEx just first just to be really clear on that. The 360 million there; it is exactly 180 per year during '21 and '22 and then the deep mine, there was actually a question about that in the in the previous section. So, 122 million still remains for the years of '21 and '22.

Then finally, a point on dividends. So, the Board has as well now decided that there will be no dividend payments from the year 2019 and then the Board also confirmed that in the challenging market environment, improving the company's financial position will continue to be of highest priority. And now just to take the drama out of it, you see that this return to shareholders text here. There was also a lot of text, so it kind of goes over the two phases. The Board has not expressed an end date to this statement. I think we need to clearly interpret this as an indication that when we are in a challenging market environment, the Board will prioritise improving the company's financial position.

And then to my final slide. This is really a little bit of more detail on the CapEx side. This is also giving you some of the background, so you see that starting from 2018 we were somewhere between the 220/230 million level, so we have been gradually stepping down from this. Now, obviously 180 million this year, 180 million in the next year. The maintenance CapEx part of this here typically we are between 80 and 100 million per year. During this period, we will try to keep to that lower end of the spectrum. We are committed to finalising the deep mine investment that will happen in the year 2022 and then obviously – what you don't see in this chart – but when the dark blue area of the deep mine investment in the presentation, once that is complete it will obviously then give us some room to contemplate other investments with potential to improve margins further.

So, with that said, Heikki, over to you.

Heikki Malinen

Thank you, Pia. Okay, I'll take this table here. So, thanks Pia for reviewing the value creation plan. Let me just now wrap up with some closing remarks. And let me first show – I have two slides left – so, let me show you the first slide. So, we've done the analysis and we have the strategy now put together, and of course it comes down to delivery and delivery is all about people.

This is the core leadership team of the company. Obviously below this group there are tens of very smart and dedicated leaders doing various things. I'm really pleased that I was able to build this team from inside the company. I said I've interviewed in over 100 individuals. I feel I have a good sense on what type of talent we have and here, this is the team. So, I'm really happy I didn't have to go to the outside and look for change agents or experts in their respective fields.

What we have done here by appointing this group, we've appointed people. Some of them have appointed two levels, so we have some new talent and we've given them even more room to grow by going up two levels. We put together a very sizeable rotation where, for example, among the mills, mill leadership is moving around. We're trying to make sure – what I'm trying to achieve with this is on the one hand, make sure that we move knowledge from one plant to another, because this is one of the key ways how you can extract more value by knowledge sharing and if you rotate, you get knowledge sharing.

You also get a more uniform culture. People start doing things the same way you get a more uniform terminology, nomenclature, KPIs. This is very important. The rotation of course also injects energy into the company which is needed in order to accelerate speed. So underneath the hood, so to speak, a lot of this is happening now as we speak.

The team here and a big group below is super committed to working on the strategy. We want to get this done. This is important to me personally. It's important for every individual on this list here and for the people working for them. We are ready to go and as you see from the decisions we've taken, we started the work today.

So, as said, the new strategy will take effect immediately; it started today. To summarise, so obviously this is a tough industry. COVID has brought its own challenges. We have Asian imports; I guess, the new normal, but there is clear value in Outokumpu. We did the full potential analysis top down, bottom up. The analysis showed to me and my colleagues that there is value, and we intend to unlock it. It's all about unleashing the full potential of this company.

And as I showed in that three-phased chart, you could see that each phase will have its own targets and objectives, but now in phase number one, which is the nine quarters, it's all about de-risking, delivering, and the key levers we're pulling are around customer excellence, cost and capital, and then the lean and agile organisation. And by executing that we will achieve a 200 million euro adjusted EBITDA run rate improvement. We will also be very strict on capital. So, Pia just talked about 180 million lid on CapEx. We discussed the dividend question and deleveraging will be our priority.

So, ladies and gentlemen, dear audience, that is now – I complete the presentation on the strategy and let me hand it over back to my colleague, Steve Hudson, who will move us then on with the agenda. So, thank you very much for your interest today.

Steve Hudson

Okay, thank you, Heikki and Pia for your presentations. Now we will take a short five-minute break, during which we will watch a video on the stainless cycle, and after that then we'll go a little bit back to the strategy with Heikki and Pia. But for now, please enjoy the video.

Welcome back. And now, we will move to the moderated fireside session. So, Heikki, first of all, what has impressed you the most about Outokumpu?

Heikki Malinen

Well, I've had a chance to talk with a lot of people and travel through all the plants. At Outokumpu, we always start everything with safety. Every month we have a CEO-led safety call. We review all the accidents. We're very meticulous in our approach to safety. I think that is very much a cultural thing. That's something very unique. Even though I've been in the industry for a long time, I haven't seen this level of rigour and safety in any other company, so that's something we're very proud of.

When I walk through the plants, I've been to all our plants, they're very clean. They're very well organised. Little things like safety locks. We have this special system on how we protect from accidents. Every small detail is taken good care of. The signs are on the table. The KPIs are very visible. Small things, but they show you that the plants are well run.

I've had a chance to talk with customers. I've gotten good feedback. Customers value our quality and I already talked in the strategy presentation about people in general. We have many people who really inspire me. I get a lot of good energy when I work with these folks. So that's also

something that makes me feel good. And I already talked about the fact I was lucky in the sense that I didn't have to go and have headhunters find the leadership team, but we were able to find them inside. So, I think those are some of the things that have impressed me.

Steve Hudson

Okay, so then what will really be changed with the new strategy?

Heikki Malinen

Well, I come back to the fact-based approach. So, strategies. Well what is a strategy, ultimately? It's a roadmap. You have the targets, but it's ultimately the road map on how do I get from here to there? And the thing you have to get right is you have to get your base case, your facts right on what is the state of affairs in the company. And we were actually pretty brutal in the sense that we really went into the nth detail to get the facts out. Some of them came easily, some of them required actually a lot of work.

Our IT systems didn't give us all the data, so we had to do unfortunately a fair amount of data mining during the summer to get everything out, but that's normal, but it's fact based. And then I think what's critical here is it's time bound, so obviously you can say, well the first phase; two years. Should it have been three years or whatever. I think it's a bit of a judgement call. For me, two years, it's long enough to have time to implement, but it's not far enough that it allows you to think that well, I can do this tomorrow because I've still got time.

Because you need to have a certain level of time-based, scarcity of time, that the organisation has to mobilise itself quickly to get to action, and I think the time boundness is something that I personally found was, at least for me, something that was important. And then you've got to get the right leverage. So, there are a thousand things you can do in a company like this, but prioritisation, being able to find those things that really can have impact now on the things you need to change today, I think that that's probably – I hope it's different, at least I do believe.

Steve Hudson

And then Pia, as CFO you have been closely involved in building the new strategy. So, is there anything you'd like to add perhaps from the balance sheet perspective?

Pia Aaltonen-Forsell

Yeah, still, just thinking back about this journey and the profound conclusion that the initial phase of the strategy is clearly about de-risking. This is where we are. We are now working on the topic especially of having the right balance between the debt that we have and then the EBITDA that we are generating. So, working on the leverage, finding that stability and also building these strengths to withstand these kind of difficult times. A pandemic is a difficult time, for sure.

Steve Hudson

So then, as said, de-risking will really be the key objective of the new strategy, but our earnings have also been rather volatile in the past. Can we do anything about that?

Pia Aaltonen-Forsell

Yeah, thanks, Steve. That is indeed a fair question. And deleveraging per se, obviously, if we have lower debt, we can also reach lower interest costs, et cetera. So, that alone can bring some earnings there, but maybe I could rather take that from a portfolio perspective.

So, if I think about Outokumpu, even in rather recent history, we have lacked that profit engine outside of our core European operations, and with that said, we haven't had that stabilising factor. So, now obviously you're seeing good progress that we made out of the Americas and I think I'm confident that we are now building that, can I call it, stabilising factor or profit engine also on the other side of the Atlantic.

But then I would like to talk a bit about ferrochrome as well. I think we have already today been able to share the point that we have a unique asset there. We are the only ones with a chromite ore mine out of Europe. We are really well positioned when it comes to our production costs there. So, we've been making, at the low point, EBITDA levels of 80; at the high point, EBITDA levels of 250 for the year. That's a big variation, so I think this volatility based on the ferrochrome pricing we will have as part of our structure. However, it's always good, and sometimes it's really good. So, I think that's a variation that we will see.

But obviously then still coming back to our core European flat stainless operations, we have discussed today a lot about the need really to reduce the fixed cost and I think this is just the new reality that we had have seen now. There is a lot of import. The import pressure is high. It puts a lot of pressure on us also because then of the impact on pricing. And this is just now something we need to prepare for.

Steve Hudson

Yes, indeed. But really if we consider that the European stainless steel market environment really has changed; we had continued high import pressure, historically low prices. So, really, how do we see the future for the European stainless steel industry?

Heikki Malinen

Well the European stainless industry is challenged, for sure, but it's not drowning. So, it is tough, but we have a future. The Asian imports are here to stay, so I think that what was important. For me it was to get the facts right. And this is the state of affairs, now, how do we how to adjust? I think the industry and Outokumpu have been adjusting to this reality for quite some time, but it is a process. It doesn't happen in one day, and as you can see from the decision's we've taken today, or planning to do, the adjustment continues. It's necessary. It's tough, but unfortunately, it's just necessary.

I believe we can create value for our stakeholders, for our shareholders in this industry. It requires a lot of work. Smart planning, good decisions, good execution, but there is value and we can unlock it. In my strategy presentation, I talked a bit about the importance of research and development. I do feel, obviously, you have to differentiate. Cost competitiveness is one thing, but you also have to have other things. Sustainability is one thing, and I know there's a lot of work that our R&D guys and women have to do to get us to an even more competitive advantage, and I think it will come through sustainability. It will come through our ability to be smarter at how we use different raw materials. We're going to be better with the yields and better with energy efficiency and things like that. And this is how we make sure that we keep our position. We're number one in volume in Europe. Our plan is to say there.

Steve Hudson

And then building on those thoughts about raw materials usage and energy usage. Really, how important is sustainability then?

Pia Aaltonen-Forsell

Maybe, Steve, I can just provide a few comments because I think looking at the audience we have on the line as well today, this is very much a financial community and we know that in this community, sustainability is already very much – it's the topic, from an investment perspective.

Also, from access to capital. We might be going into a future where you have to be strong in sustainability, even a sustainability leader, to have access to capital at those decent terms.

So, here it really seems like the financial community is at the forefront of this. And maybe then the other really important perspective is our customer perspective and maybe here it's important to consider what does the customer think is important when they're talking to us. So, sustainability could be one thing, but quality, delivery, certainty, delivery time, why not even price, at some point. So, obviously there will be a range of topics and I think it's fair to say with our sustainability leadership, we could also provide some support to our customers, really help them on this journey.

So, this is developing but certainly the financial markets are here a step ahead or ahead of the curve even.

Heikki Malinen

But there's a big customer education piece that we have to do in addition to how – as you said, I think financial markets are bit ahead of the curve. We have to educate the customers.

Steve Hudson

Okay, but then with a slight change in direction thinking about how Outokumpu has previously commented about catching up with its European competitors, then why are these measures that we have announced today still required?

Heikki Malinen

I don't want to say we want to catch up with the Asian competitors, but as said, it's a competitive market and we cannot have any gaps. So, we have to be equally competitive. The market sets the price. It's a function of demand and supply and within those constraints and parameters, we have to make money and without making money we cannot develop the business. So, this is very simple in that respect. So, I think the math is very clear in terms of what we need to do, and we have started the work.

Of course, looking at the big scheme of things, as we already said, the EU has to take some from further responsibility. The world is not – I think the world has changed a lot in the last four years, as we all know. Different countries apply different approaches on how they see their own markets and obviously it's a decision the European Union has to take. If they don't create a level

playing field, then it's going to be very difficult also to expect that there's going to be a very successful green agenda.

Steve Hudson

And there I guess we've talked a lot about Europe then. But what about the situation in the US now? Heikki, you recently travelled to our operations in Calvert, Alabama. Quite an effort during the pandemic.

Heikki Malinen

Yeah, I have to say I was probably the first Outokumpu employee to cross the Atlantic since March. Obviously under COVID restrictions, I don't want to get sick and none of us want to get ill, but it was very important for me to go there. Obviously, it's so important. It's a big market. Customers have to see the new CEO. I wanted to get the pulse of the business locally and also show the troops there that, hey, we're all in this together.

It was a bit of a journey. I don't recommend having the mask for 18 hours, that I can tell you. But it was a good trip in the sense that when you're on location and you see how people feel, you get a better sense for the state of affairs. And I think given the history of Calvert, there have been tough years. The team we have in place – most of them have been there from the beginning and so all the hard work they have put in, now the numbers are starting to flow through.

The feeling of confidence – in America, of course, you know how it is. You have to – you lean a bit forward, right? So, when the number starts to go in the right direction, you get pumped up and I think good things are going to happen. Customers are positive. The ferritics is coming now.

The US is a large market and it's a growing market and I feel good about the future and I worked – in my career, I spent over nearly 20 years from my study time, business school, as working as a management consultant, then running a business of Calvert's size. I've spent a long time in the US, so I see the potential even from my own experience.

Steve Hudson

So then maybe talking a little bit about the ferritics which you've touched on earlier. But, how, Pia, would you say our investment in the ferritics [ph 02:37:12] is going in the US.

Pia Aaltonen-Forsell

Yeah, this is now – it's the final touches only less than we are clearly below the original budget. So, we are now at the 30-million-dollar mark, which I think is a really, really good achievement. And we will start to have an impact here already starting from Q1. So, I think next year is really going to be a game changer from this perspective. And we've let our customers know, we let all the big distributors know. Everyone's excited, and I think so are we.

Steve Hudson

And then I guess with the customer in mind, we've really placed the customer engagement and our commercial capabilities at the very core of the new strategy. We say we will strengthen our commodity sales, but at the same time also growing value-added products. So, really what does this mean in practise because why don't we just focus on the value-added products?

Heikki Malinen

Well, commodities for us are the cake. Value added grades, the icing. As we already talked about the cake, the cake needs to be providing a value for the company and I think at the moment, where we are today, it is all about cost and it's all about how we run the plants and how well we deliver to customers.

On the value-added side, and I think this is a question that came on the conference call, I think there's three things. On the one hand, these applications are very complex. Take like a high-rise building, just the colour, how the surface of the grade transmits light. So, very little things. If the light doesn't come from the right angle, the architect will not approve that particular sheet.

It's actually a really big deal, so you don't want to make bad quality; it has to be perfect. So, these grades are complex and we're pushing science to the higher end. That's one element. Another is just the selling approach, being very, very sophisticated in how we go to market, not only addressing the customers directly, but also discussing with other stakeholders because it's usually a complex decision-making process before you decide.

And thirdly just the actual manufacturing operations themselves. Quality has to be very, very consistent. And as I said, many of our Swedish mills are mainly where we make these high value-added grades.

Steve Hudson

Okay, thank you. Then maybe with the new strategy, what's going to be done differently this time to achieve the targets and what makes you feel so confident about this?

Pia Aaltonen-Forsell

Steve, thanks and I talked a little bit about the 'how' already and the really hands-on approach to that, but I still think that really at the heart of it, the essence of it for me, is that this plan now is independent of market recovery. So, this is a plan. These are actions that are in our own hands and that's really at the key of what I feel is important here. Then obviously this is super time bound. We're talking about nine quarters. So, we've had to look for actions with fairly quick impact. We've launched along product initiatives already a little bit earlier. And we really have to now, we're getting going now and we will be very, very transparent about this. We will report every quarter about the progress. So, those are some of the important factors

Steve Hudson

Okay, thank you. And then maybe by way of wrapping up, Heikki, again, how would you then summarise the new strategy for us?

Heikki Malinen

Well, as said, it's a three-phase programme. We're focusing now on phase number one. Phase number two will then come and then once we succeed with that, then we are in the right to grow on phase three. So, I think very logical steps of sequencing of things addressing those matters which are critical today and only then moving to the next step.

200 million EBITDA is the first target. It will de-risk the company. We get net debt to EBITDA down. We stick with the 180 on CapEx. Of course, Kemi mine is the main bulk. So, the money is committed so whatever residual money we have left that we spend but not more and then Pia already talked about the implementation plan and I guess that's about it.

And then the team. I've discussed, we have a good team. Everybody wants to do this and are committed and so we're ready and today it's already started.

Steve Hudson

Okay, great. Thank you, both. So, thank you for the insightful discussion. Now it's time to start the last part of the Outokumpu strategy webcast and open the Q&A session with the audience. So, please, operator, we are now ready to take questions from the audience.

Q&A

Operator

Thank you. Just as a quick reminder, if you wish to ask an audio question, you may do so by pressing 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Once again, it's 01 on your telephone keypad if you wish to ask an audio question.

Our first question comes from Anssi Kiviniemi. Please go ahead with your question.

Anssi Kiviniemi

Thank you, guys, and thank you for the very informative presentation. I will continue with the questions that I had in the previous presentation. But firstly, kicking off, Outokumpu has done a lot of efficiency measures in the past five to six years. Now, you're coming with a new programme. How do the new measures differ from the already made measures during the previous years?

Heikki Malinen

The process industry, of course, the levers of course do not change, so it's around the cost structure, it's around variable costs. It's around how you run the plants. An industry like this; it's very much about continuous improvement. The only question is, okay so what is the next part of that journey that you need to get on? And how do you execute? Of course, it becomes harder and harder. I'm sure that my predecessors have captured a lot of low hanging fruit. I didn't see a lot of low hanging fruit here, so this is going to be about grinding, but in process industry there is always something; sometimes it's evident, sometimes it requires research, but there's always something and that's how we move forward. But that's really symptomatic of the industry in which we operate.

Anssi Kiviniemi

Okay, thanks. The second question is just on the urgency. Nine quarters. I understand that, but how should we expect the actions to take place on a timeline? It's 200 million efficiency improvement. Is it steady state improvement, i.e. 100 million in 2021 and 100 million 2022? Or what's the plan on that side?

Pia Aaltonen-Forsell

Thanks, and I think that it's also in the nature of these improvements. Heikki described earlier in a fairly detailed way, for example, the process and it's a fairly lengthy process when we enter into negotiations with personnel, those need to be concluded in a proper way and then starting from there you can start to get – provided that the result is – there is an agreed result, then you can really start to execute on that.

So, every action will have its own course and obviously we have a focus on actions where we could get results fairly quickly. But I think it is by purpose as well that we have extended the timeline here to nine quarters. I could say to someone in my team that if you want to see results by the end of '22, you really need to push actions through early on in this sequence, but that is not to say – I think it would be too bold a statement to say that it's 100 and then it's 100 more.

There will be individual time plans for all of these more than thousand actions. And then as we start to report about the progress, I think it will be a transparent way to also just provide you some visibility into how the curve is improving, how we are improving here.

Heikki Malinen

Can I just add on this, Anssi, that during the course of the summer, so, as we did the bottom up, of course there's action or let's say opportunity that was associated with every euro that was put into the model. So, we are now at the point where we know what needs to be done. We're directly in implementation mode. So, it isn't so that we now only start figuring out what needs to be done.

We know what needs to be done. We are now in implementation mode. The transformation office has been put together. Everything is in the system and today the team is up and running and everybody has their marching orders, so I think this is how we also try and get speed. Some things will go faster, some things slower, but it's important to get enough – a broad enough wave of energy and actions going into the organisation as this super tanker starts moving forward.

Anssi Kiviniemi

Okay, thanks. Then the last question: does the strategy include option or opportunity to make larger structural changes to the business setup i.e. filling or ending one business or size or even the division? How should we think about that?

Heikki Malinen

So, the line was a little bit breaking there. So, if I don't answer your question completely right, just tell me here, but if I understood you correctly, you asked about the businesses. First of all, you should read the slide where it says core business. So, you should read it as this is core, this will be the Outokumpu for the coming years. So, read that slide the way it's been intended.

In terms of LP, of course, Long Products, we see the numbers. We need a clear, clear step change in performance. That will be done and when once it's been done of course any company will look at its options at that stage, but no need to talk about that now. Let the team deliver first. Anything you want to add to that?

Pia Aaltonen-Forsell

No, I think we have a clear definition now of our core areas and we also have clear plans for improvement for all of them.

Anssi Kiviniemi

For example, sites in Europe, you're going to keep all of them. You're just going to improve the performance in each one of them, right?

Heikki Malinen

The historical footprint of sites, of course, it originates from Outokumpu, of course, and from Thyssen and Avesta Polarit from the old days, so obviously Tornio with the ferrochrome, with the mine, of course, that is a super core asset. Then we have our German downstream facilities; Krefeld has been at the heart of it in the rural area and then we have the three, I would say, two/three main plants in Sweden that produce the premium pro grades. So, each of these plants has a strategic role whether its upstream melting, downstream cold rolling or then developing these special products. So, no announcements forthcoming on that thing. All the plants have a role as it is.

Anssi Kiviniemi

Great. That's all from me. Thank you very much.

Operator

Thank you. Our next question comes from Harri Taittonen from Nordea. Please go ahead.

Harri Taittonen

Yes, good afternoon once more. And maybe starting with the deep mine project and as it starts to show in the forecast when we are rolling our estimates to 2023 and all that. Is there something you can say about the return target or remind of the return target top line impact, EBITDA impact us as the start-up is getting not near but nearer?

Pia Aaltonen-Forsell

Harri, I think really that at the core of the deep mine obviously is the ore availability and we've talked about that today. With this investment, it is really strategic in nature. So, we ensure that we have access to the ore for a very long period of time, kind of into early 2040s at this point based on our estimations, so I think that's really the core message that we've had all along. It's about ore availability.

Obviously, we have a lot of other actions as well in place to be super-efficient when it comes to both mining as well as then the ferrochrome production, but we haven't given EBITDA improvement or any such figures vis-à-vis the mine investments.

We have today – we had in the presentation here that over the years '21 and '22, there is still 122 million left on the investment and overall, this will bring the investment to about 283 million. So, that leaves a small tail into the year '23 that was not visible in the slide that I showed.

Harri Taittonen

Okay, thank you for clarifying that. Just one more question on the targets. I think you decided not to give any separate absolute target for net debt or possible net debt reduction because if we assume that the 200 million is added to today's run rate, or this year's estimated EBITDA, then the current net debt will easily [inaudible] that net debt to EBITDA of three or so. Can you say anything about what your ambition level is on the absolute net debt?

Pia Aaltonen-Forsell

Well, I think over time and with the clear message that over the whole strategic journey, we are in the mode of deleveraging. It's clear that also the level of absolute debt will come down. But if we look into the next two years, we have really emphasised the EBITDA improvement, the margin improvement as the main tool, and we have also been open about some of the elements there. So, on one hand, really strict financial discipline, really strict CapEx control. But on the other hand, a clear message around working capital at least vis-à-vis inventories. We have now been here working on this for several years and we have reached the levels in which we will not further squeeze down our inventories at this point.

And then, maybe one more data point, but still pretty significant in the short term. We talked about the provisions needed when concluding the negotiations on the planned headcount reductions. We could talk about provisions in the magnitude of 75 million to 80 million and obviously, just looking at net debt development, this also is something we need to take into account for the next two years.

So then, when looking at all of that, it seems that it's really most relevant to talk about the ambition of deleveraging rather than at this period giving absolute net debt targets.

Heikki Malinen

Yeah, I just want to add one thing and that is that we have on purpose put this horizontal blue line in one of the charts that says 'deleveraging continues'. Obviously, this is a volatile industry. We have many dynamic effects and geopolitical shocks and what have you. So, of course, one can then have maybe a bit of a philosophical discussion. In an industry like this what should leverage be in principle when you compare that to trough earnings. But at least I, as CEO, I want to get the company into a phase where even when times are tough – and there will be tough times again – we don't need to have the conversation about leverage.

So, I think both Pia and I, if I can speak on your behalf here, we want to run the company in a way and get the balance sheet into a position that when the next down cycle comes that we won't have to be talking about the themes have been talking so much about, i.e. de-risking, et cetera, but of course that will not happen in one year or two, but at least you need to take the message here that that's where the arrow is pointing and that will drive also influence, the types of decisions we make when we look at capital allocation.

Harri Taittonen

Yes, that's helpful. Thank you very much.

Operator

Next question comes from Ionnis Masvoulas from Morgan Stanley. Please go ahead.

Ionnis Masvoulas

Yes, thanks very much for the strategy presentation. A few questions left from my side. The first one going back to CapEx. If I look at historical maintenance CapEx in the range of 70 million to 80 million euros and on top of that 60 million to 70 million euros for Kemi in the next couple of years, plus this utilisation and other initiatives you've guided for in the past, I don't get a lot of leeway for you to invest towards the EBITDA improvement plan, so can you provide some clarity on this point?

And secondly, if we look at the building blocks to that 200 million euros EBITDA uplift, 70 million, let's say, comes from the headcount reduction. Could you provide some rough indication on how the remaining 130 million is spread across the different initiatives? Thank you.

Pia Aaltonen-Forsell

So, maybe – your second question was maybe straightforward to answer. It is really about equal weight on all of these three main areas. So, about a third from the customer excellence, about the third from the cost and capital discipline, and about the third – well, it's maybe a little bit more because it's around the 70 million mark there for the lean and agile organisations. So, that's roughly the split.

And then I think that your conclusion on CapEx is obviously correct. So, just summarising the efforts that we do still on the deep mine, combining that with the necessary maintenance CapEx, and then with some efforts in digitalisation, et cetera, I think it is clear and it's the right conclusion that in the next couple of years, in this first phase, we are restricting CapEx and it is then in the second phase where the deep mine investment is done, where we will clearly have more room and more opportunities to then consider investments with quick payback, margin improvements, et cetera.

Ionnis Masvoulas

That's clear. Thanks for that. And then just a couple of additional questions if that's okay. The first is around the specialty grades, where you expect to grow that out of your business. Is it fair to assume that those speciality grades tend to be more bespoke and customer-specific in nature and that could lead to additional inventory requirements? on a regional basis [inaudible]. And then another one just on the US. Do you see an opportunity to take market share over the next couple of years? Just one of the smaller players there may be a bit more focused on other parts of its portfolio given the recent M&A we've seen. Thank you.

Pia Aaltonen-Forsell

Maybe I can quickly answer on your question on working capital related to specialty grades. I think that is an element to it. So, obviously then with better margins in this business, there might also be some stretch required on the working capital side, so I cannot rule that out but I think you need to see it in the bigger scheme of how we will still continue to work with the efficiency in working capital. So, we have also as we speak still actually quite a lot of efforts ongoing in addressing on a systematic way the efficiency and the approach that we have there.

So, maybe I stop there. So, your idea is absolutely going in the right direction. Just see it from a bigger perspective.

Heikki Malinen

A lot of the specialty grades business is really customised for custom applications which are always unique, whether it's a fuel tank or a pipe in a pulp mill or like a facade in a high rise. So, you do them case by case. You don't really – you can't also build inventory because you don't know what the customer will ultimately want to have.

In terms of the US market of course, well, it's a growth market first of all, which is positive. There are many, many positive growth drivers in the US which hopefully will lead to more growth and let's see now when we have the US presidential election, whether that would lead into any kind of infrastructure investment, which I think the US market would need but let's see whether that comes.

But obviously we have – we're proud about what we do in Calvert. The customers have told us they are excited to work with us. And let's see. We are here to serve our customers. I think it's interesting in the US; you're starting to see also some level of movement in terms of production

more to the South. There's now car manufacturing also in Texas. Some car companies are moving into the South, Alabama, so I wouldn't rule out that in the coming years also we might have a bit of proximity advantage. Our mills are in the South, traditionally customers were in the North, maybe that will also play to our advantage, hopefully.

Ionnis Masvoulas

That's clear. Thanks very much.

Operator

Our next question comes from Evan Kaerbouvi from Bank of America. Please go ahead.

Evan Kaerbouvi

Good afternoon. Thank you for taking my question. So, I'd like to follow up on a question that has already been asked. So, I understand that each plant has a strategic role in your strategy. But do you think that the incremental efforts that you have explained today through the restructuring for example are enough to create value for shareholders or do you think that you might need more dramatic reconsideration of your footprint, including the number of operational facilities for example, or maybe re-allocating some capital from a region to another? Thank you.

Heikki Malinen

The line isn't super good, I'm sorry about that. Maybe Pia got it better, but let me try and answer then Pia you fill in. If I understood you correctly you were talking on the one hand about the sufficiency of the measures and secondly, you were discussing, again, some of the footprint of the assets. So, if I just address the first question.

So, we don't have any plans now to close assets and move to Asia. So, we don't see that as necessary. Given the presence in the markets we serve, I think that the assets are sufficiently well placed. Commodities mainly for the domestic market in Europe, from the European assets. The Americas will be supplied out of Calvert and Mexico for the regions there in commodities and then we have the specialty grades which are sourced primarily from Sweden globally.

So, as long as the Swedish plants are competitive in the specialty grades, they can go to Latin America, Asia, what have you, and we believe we are competitive as long as customers are buying. And now this isn't competitive in this question on pro grades, on valuated grades, it's purely a lack of demand type of a problem.

Then in terms of whether these measures are sufficient, if I understood correctly, so we have calculated, done a very robust analysis and we believe with the actions we have now in place, we will get where we need to. But anyway, Pia, do you want to add anything?

Pia Aaltonen-Forsell

Thanks, Heikki. I think you covered all of the key areas of the question. You did have a specific sub question there whether we should be re-allocating capital, vis-à-vis different regions, et cetera. I think given the emphasis and the importance on the mine right now. We have this deep mine investment, and it is actually taking a fairly significant portion of the overall CapEx right now, when that is completed, we will have the opportunity to really consider and we are already now putting in place those plans and the team and having then the pipeline of the projects. But I think it's premature to talk about that now. We have to focus on finalising the deep mine investment first.

Evan Kaerbouvi

Okay, thank you very much, thank you.

Operator

Our next question comes from Carsten Riek from Credit Suisse. Please go ahead.

Carsten Riek

Thank you very much. My question is just on the run rate of 200 million euros higher EBITDA. How realistic is that given the fact that most of your peers have similar programmes. [? Aperam just announced a new leadership journey with a similar number which just makes me believe that a major part of those kind of programmes might actually be given to the market instead of actually realising them into the EBITDA. Do you actually also thought about this or do you really think that the 200 million euros which might be realised come on top of the EBITDA or could you give it away? Thank you very much.

Pia Aaltonen-Forsell

I think it's a really fair question and maybe I can start by addressing it maybe a bit from the 'how' perspective; how we work with this. So, we already spoke about the granularity of the projects and the initiatives, but I can even take it to the level where we've said that each initiative needs to be signed off by a financial controller, a business controller, who goes through all the details

and really signs off that the impact of this is visible in the P&L, that it's not what I would call 'funny money'.

So, it's clear that our own diligence is all geared towards making sure that what we have as action is then also really visible through the P&L. So, that's the starting point for sure. And you may also now have seen that two thirds of what's part of this 200 million run rate EBITDA improvement programme are costs, organisational costs, maintenance costs, raw material efficiency, et cetera. So, I would still say that they are largely from areas that we can control. I don't know, Heikki, if you want to add more flavour to that?

Heikki Malinen

No, that's it.

Carsten Riek

And just to clarify, because I had to join a little later, the 200 million higher run rate is not on the 200 million EBITDA for 2020, but that's on top of what you expect as an EBITDA contribution from the underlying business?

Pia Aaltonen-Forsell

I think that's a really fair comment. This is really about improvements. We are now at a pandemic level EBITDA performance and now we have been looking for things that can improve from here onwards our run rate by 200 million annually. And we want to achieve that run rate improvement by the end of the year '22.

Carsten Riek

Okay, got it. Thank you very much.

Operator

Just a quick reminder, if you wish to ask an audio question, you may do so by pressing 01 on your telephone keypad. Once again, it's 01 on your telephone keypad if you wish to ask an audio question.

Okay, there appears to be no further questions, so I will hand back to the speakers.

Steve Hudson

Okay, thank you, operator. Thank you, Heikki and Pia. Thank you for all the good questions from the participants. Now it's time to conclude our webcast and I wish you all a good weekend. Thank you.

Heikki Malinen

Thank you very much.

Pia Aaltonen-Forsell

Thank you.