Transcription

Outokumpu's Q4 2021 / Interim report

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PRESENTATION

Linda Häkkilä

Hello, all, and welcome to follow [ph 00:00:09] Outokumpu's Q4 and full year 2021 results webcast. My name is Linda Häkkilä and I'm the Head of Investor Relations here at Outokumpu.

The year 2021 was definitely a success for Outokumpu. Last year, we had our best annual safety performance ever and at the same time we really accelerated our de-risk.

Our main speakers today are our CEO, Heikki Malinen, and our CFO, Pia Aaltonen-Forsell. We will first start with our presentations, and after that we are happy to take your questions from the conference call lines.

But now before we start with the presentation, I would like to remind you about the disclaimer as we might be making forward-looking statements.

And now, without any further comments, I would like to hand over to our CEO, Heikki.

Heikki Malinen

Linda, thank you, and good morning, good afternoon to everybody. Welcome also from my behalf to Outokumpu's Q4 release and review also of the year 2021.

As Linda just said, 2021 was really a remarkable year for Outokumpu. It was a big rebound from the COVID bottom in summer of 2020, and overall I think we performed across all businesses really well.

If I look at the company, I think across many areas of the business, our performance was really excellent. Of course we had operational challenges throughout the year. There was COVID, of course. We had supply chain challenges, raw material questions, volatility in the markets, but overall the direction of the business was upward and in the right direction.

You will also hear today some data on our safety performance. I want to always mention that because I do feel that we are - in this industry we're definitely one of the best in the steel industry regarding safety, and you will see very soon data on how extraordinarily good our performance was.

But let me just stop here for a moment on this photo, which I found. This is a photo from our Calvert plant in Alabama, and I think the spirit of this photo in some ways resembles the spirit within Outokumpu; a spirit of working together, locally, globally, a spirit of trying to get things done, and a spirit of increasing confidence in the company where it is and where it is going. So, I'll leave you with that thought. We so often talk about numbers, and we talk less about people and ultimately in any business, Outokumpu of course, it's all about people and how passionate they are about the company.

We had an annual employee engagement survey in Q4, and the results of that employee engagement survey indicated or confirmed that the Outokumpu staff is committed to the direction of the company and are passionate about where we're going. So, that also is a good sort of basis for developing the company further.

But then let's go to the numbers, the traditional numbers. And maybe we just stop here for a second. Obviously adjusted EBITDA, reaching over €1 billion. Now that is a big number. If we look at the historical past, in 2017, our best year after the merger of INOXUM was €631 million. So we've almost made €400 million more EBITDA. It's obviously a huge, huge result compared to of course the performance of the past.

For me, what the €1 billion means is that it shows that in a good market condition Outokumpu has the potential to really perform. When our mills are running full we get good utilisation and everything is running really well, this company can really generate a lot of value for the company, for the shareholders, and for our stakeholders overall.

If we look at overall where we are today, the strategy execution is ahead of plan. I'm really happy about that and we'll come back to that with Pia to discuss the status of it, but overall strategy is going very well, and the company is moving in the right direction.

We've also launched our climate change strategy and we've committed to the 1.5 degrees climate target and in that respect we're also at the vanguard of trying to battle climate change.

Then on the strategy side, you'll recall this chart from previous presentations. Our strategy has three phases. We're currently in phase number one. The time period is year 2021 and 2022, and now we're in the second year. Basically what we can see already now is that we're making excellent progress towards reaching the goals set and in many areas we've actually already started to exceed those goals. Of course, net debt to EBITDA being one of them where we are already beyond what we aimed to achieve, and therefore we are now starting in a small team working together with Pia and some colleagues to think about what we're going to be doing in phase two. With this progress, of course, now that we're having, I think it's a good time to start thinking about what we do then when phase two happens. And of course it is good that we will be able to think about phase two from a much stronger position with the balance sheet of the company already being so much de-risked.

As part of the strategy execution of the company we of course are trying to achieve sustainable improvements, things that will last beyond the current time period. We have changed many things within the company, how we're working. Many of our processes have changed. We have brought in new competencies into the company. We've put much more discipline. You'll see, for example, see from capital allocation that we're very disciplined in terms of how we deploy capital and try and be very consistent and systematic in our approach.

Looking at sustainability and ESG, here are two important statistics. I've already talked about the safety piece. If you look at the upper right hand corner of the chart you can see that our total recordable injury frequency rate hit 2.0, which is really a strong, strong performance for the company, especially in a year when we had so many things going on. So with production being so high and all the plants being really struggling to get all the volume out, making sure that our safety was so good is something I'm extremely proud about as the CEO of Outokumpu.

On the lower right hand side, you have information on our recycled materials usage. We of course strived to also battle climate change by having our recycled rates being as high as possible, and last year we were able to achieve a level of 90% in the midst of many supply chain challenges that we faced during the COVID times.

In May of last year, we announced our ESG strategy for the coming years and as part of that we made a very bold commitment that we will be the – well, I guess we're the one and only company in the global steel industry that has committed to SBTi's 1.5 degrees climate reduction and climate change targets.

In December of last year, SBTi has formally now confirmed, approved of our targets, and as you can see from this chart, our intention is that by 2030 we will reduce our emissions, as measured in terms of CO2 per tonne of crude stainless steel, from about 1.78 where it is currently close to 1 and that is a 30% reduction. And I want to underline that when we talk about emissions and emission reduction we talk about Scope 1, Scope 2, and we also talk about Scope 3. So, it is important not only to look at - you have to look at the whole value chain and you have to also consider Scope 3. And we will be talking about also that topic in the future presentations as we go forward.

Then on sustainability, as part of being on the vanguard of ESG, we also want to strive or strive to be a responsible buyer of different types of raw materials. And as we've said, we are committed to the UN guiding principles on human rights and try to develop the way we operate in the company so that everything would be going very well. Last year, we were reminded, in the case of Brazil, that we need to do even deeper analysis of our suppliers. We have currently approximately 20 suppliers in what we call high risk countries and basically now that we have completed the work on Brazil, we are going to extend the work and analysis now into Guatemala which is the next country we're going to do a deep dive on. And after Guatemala we're going to continue gradually working through these areas of high risk to make sure that everything on the procurement side would go well.

Now then, moving from ESG, talking a bit about markets. So, as I mentioned already before, the summer of 2020 was really a period when we were really at the bottom of - we had the really the bottom price level, the lowest pretty much in in terms of the whole decade, and from there prices have gradually rebounded, as you can see from the chart on the left hand side at the bottom. Maybe one thing to point out, if you look at the fourth quarter of 2021, is that the green bar or the green line which shows China, you can see now that the line charts are starting to diverge from each other, Chinese prices starting to decline somewhat, and then the other prices somewhat rising. So, that divergence [? 00:10:14] at least started to grow towards the end of the fourth quarter.

On the upper right hand side you see nickel. We've now been in a rising trend for almost, I would say, eight quarters and if you look at last year, although the picture doesn't really show it, we had a very, very volatile nickel market and nickel prices then finally starting to hit the upper 2020 $23,000 band. And on the lower right hand side. Ferrochrome. Of course, if you look at ferrochrome prices, historically, the period we're now going through in 2021, we've now had three quarters where the price level has been elevated going back to, let's say, 2016/2017. We had one spike when ferrochrome prices went up and I think they were about one quarter at that level. Now we've had about three quarters where ferrochrome prices have been higher than trend.

Then really looking at the full year results. 2020, we did €250 million EBITDA, adjusted EBITDA. Last year, €1.21 billion and. Clearly we benefited from market. Our deliveries increased by 13%. As you can see from the third bar realised prices for stainless steel also increased. Obviously results of the very, very strong recovery. And then the last bar on the right hand side, you can see costs at the little box in red. Clearly we started to see inflation pressures, but we were able through all measures to push back and really contain the cost inflation.

At the end of the fourth quarter, we did start to see pressure from electricity prices um and also ferrosilicon and some other items. But overall on net-debt basis for the full year, I think we did quite well in terms of managing cost inflation.

And then the last chart I want to show really the third or the fourth quarter from 295 to 326. At 326, this is the best Q4 in the history of what I would call the new Outokumpu since the merger. It's a strong number. As you can see from the left hand side, we've now had five quarters consecutively where our results quarter by quarter have been rising and as said 326 the best figure so far as a quarter result in Q4.

So, with those I think very positive figures, I'd very much like to hand over to Pia to go even deeper. Please, Pia.

Pia Aaltonen-Forsell

Thank you, Heikki, and good afternoon and good morning, ladies and gentlemen. So I'm going to start with a few words about the accelerated de-risking and obviously from my perspective also really looking at the balance sheet here. I think we have been able to capture the full benefit and some more from the improved market situation. And why I'm saying that? Of course, first of all, we've also had a number of actions, and secondly, when we have had good results of those actions, we have really turned that into reduction of debt.

So, first we had the equity issuance that was quite early during the spring of 2021, and obviously that was the first really good step in taking the debt down. So, all of the proceeds from that equity issuance went to the reduction of the debt. And the same goes then for the improved cash flow later in the year. And it was possible because when we had improved cash flow from operations, we were then extremely diligent. We kept the discipline on the CapEx at €175 million, and also we only invested modestly in the working capital to support the business through the year. So, clearly we were really able to push a lot of the funds and proceeds then into the debt reductions.

There's one more point that is being mentioned on this page, and that was something that we reported on in December, and it's another type of de-risking item. So, obviously we have some [ph 00:14:25] defined benefit plans. The one in UK is the one we are talking about here now. We managed to get a 390 million insurance solution or a buy-in solution in good cooperation, obviously, with our trustee. And here the really good news is that I think this is both de-risking in terms of the company in terms of future obligations, but also it is the right thing to do, vis-à-vis our personnel, who have now received an insurance solution. So, all in all, I think we are well on our way to reposition the company as a less risky investment.

On the following page I have a few KPIs, and I think I really want to highlight and mention that on the back of the adjusted EBITDA being over €1 billion, you can see that we have also translated that into a very high net result figure of more than €500 million for the year, and you also see that the earnings per share for the year are €1.26. So, obviously that is a record figure and a very good performance per se.

I will talk about the debt levels later, so let me just finally home and from this page that also the return on capital employed has now reached 18.8%, which I also consider a good performance in this situation.

Okay, Heikki also talked a bit about the strategy execution, so let me talk through a few details on that.

So first of all, I want to say - I mean, this is truly a team effort and I think Heikki already alluded to that, but I think just about one week back we were on a call where more than 600 people contributing to these various projects were participating. We were celebrating some of the successes. So, I think it also shows how we are changing the way how we are working. We are integrating these new ways of working into the DNA of the company.

And what you see here is, first of all, the quarterly improvements, how these improvements have been built through the quarters. And when we talk here about the impact of €198 million, what we mean is that we have taken a number of projects to something that maybe a little bit of sort of internal lingo is called level four, but what it means is that these projects are in a phase where all actions have been executed. So, we are ready to harvest the benefits. And this €198 million is then the annual life benefits that we will see. We have seen already some in our P&L and then what we will see going forward.

You also remember that we were hiking up the target here because these actions - I mean this is clearly moving forward like a train and we have a really solid pipeline also for ensuring the €250 million of improvements that we have promised in the hike target that we announced after Q3.

Then a few words about the BAs, and I will focus particularly here on BA Europe and BA Americas. I think for good reasons as well. And on BA Europe I want to start with a few comments around how we see the market situation right now. I think first and foremost, we do see the markets, particularly when we talk to our end users - market situation and demand remains very solid across all of the segments. And I know we have been talking about our longer lead times for a time period right now, but I just want to keep on reiterating that. I mean, we still have long lead times. They are more than six months. We have booked Q1. We have booked Q2. We are clearly booking into Q3, even with some orders being booked even later or towards the end of the year. So, clearly this is all testament to still a very strong market situation.

Distributor inventories is something we keep a close eye on, and I know you do too. So maybe first just sort of looking at the stats that we still have available. We know that inventories are still below those historical average levels, but something that we have seen in the markets, particularly sort of late in Q4 and also now into Q1, is that the level of imports is somewhat increasing. So I think what we talked about in the reports is then also clearly the congestion that there has been in the harbours, and maybe also a little bit of a catch-up effect here, but somewhat higher imports and overall I think that also leads that the distributor segment is a little bit sort of watching and seeing and observing what is happening right in the markets right now, but overall still we have these distributor inventories below the historical average levels.

Maybe then I'll move a little bit to the cost side. I do think Heikki already shared really sort of the key topics also for BA Europe when it comes to costs in the fourth quarter in particular. I mean, we did see this spike in electricity prices really towards the end of the year, particularly in December, and I think all in all now when we have all data available, we can see that from Q3 into Q4 on the stainless side all together, so there are a little bit of impacts also outside BA Europe, but of course predominantly BA Europe, we have about €15 million of increase from the electricity and energy side, but it's really predominantly electricity. And then ferrosilicon was also mentioned.

And then I think you may of course ask that how is this continuing, and you have seen that forward prices on electricity have perhaps somewhat calmed down by now, but it's still clear as we see the situation right now, there is still going to be a step-up in the costs up from Q4 to Q1. Maybe that can be around €20 million. I think that still remains to be seen. I mean, this market has been really volatile. And then really going forward further in the year maybe this is then sort of showing at least the forward curve at the moment, let's say some calming down, but of course remains to be seen.

And finally, a word on the COVID situation, and I think that's also relevant in terms of the guidance that was part of the report, and maybe I'll just start by giving an example from how we see these cases developing. Somewhere around Christmas time, I mean, when we were looking at the reports, there was really out of our 9,000 employees, I mean there were like a handful of persons who were on sick leave or being quarantined. But what we really saw during January was a spike, really an increase in the number of people who were infected or quarantined maybe because someone in their family had been exposed, or they had been exposed.

So, I mean, we definitely have sites where there is 10% of people being absent. In some cases, even spiking towards 20%. Those are quite high absenteeism figures. And this just means that to run the operations has been more challenging right now. Until today we have managed this without losing production, but hey, there's still seven weeks to go in the quarter, or even a little bit more, so this is something we really keep an eye on.

Perhaps we are now in a situation where COVID has spiked. Maybe these are the highest levels or maybe this is in February that we will experience them but clearly this is something we need to prudently look at. And the same then obviously also goes for our supply chain.

I move on to BA Americas. I think obviously – I mean, such a record result puts a smile on my face for sure. Such a solid execution also by the team. So, really a great pleasure to talk about this record result. I mean, EBITDA adjusted on BA Americas level, €297 million for the year.

So, first of all, maybe just reiterating a bit on the market situation here. I mean, demand still continues on a strong level. The same comment then here also about a somewhat higher level of imports. I mean, congestion in harbours, sort of easing it up, and then sort of all of the sudden somewhat higher inflows. Is this temporary? Is this not? I mean, time will tell. Time will tell for sure. But overall good demand situation. Distributor inventories in cold rolled, slightly increase towards really the end of the year, but still remained on lower levels than historical average.

And then maybe from the booking situation. As you remember, sort of typically for BA Americas we are looking like one quarter ahead, so at the moment, then looking into bookings in April.

Maybe there is still one bit technical comment around 2021. I still want to make it. Timing and hedging or I think as we officially say, raw material related inventory and metal derivative gains, was a quite significant positive for the full year. It was €55 million out of the around €70 million for the full Group. So quite a significant part here from BA Americas.

All in all, I mean volumes were up in the year by 26% so I want to say it was a super effort from the team also to execute on this and to enable this high result. Very pleased with that for sure.

I'll be a bit briefer here on BA Ferrochrome. I mean obviously still a very strong result. Also €246 million for the year, breaking new records here, a little bit higher production. And then obviously we could talk a lot about the price situation and the price level, but maybe I'll just shortly mention that obviously prices here are set very much by the sort of demand/supply balance. Demand has still been on a high level. On the supply side, there has really been variation in how much supply there has been. For example, from China, it was still quite restricted early in the fourth quarter, and then we started to see more towards the end. That led it to somewhat lower spot prices, but now also spot prices have been stable for some weeks.

All in all, I mean the big theme for 2022 for ferrochrome will be the finalisation of the deep mine investment. Also an important strategic project for us. That's expected to be finalised by really the end of the year. And then finally, I mean, we do have a very cost competitive operation and we also have a very low carbon emission footprint here. So, clearly we are also here looking forward to the year 2022.

Long Products. Great success on the turnaround, but if I may choose to highlight one more detail, we don't normally talk about safety performance per BA, but I still want to say it's been such an amazing turnaround also from safety performance perspective in BA Long Products. There were no LTIs during the year, so excellent performance. You also see the EBITDA here, adjusted EBITDA up to €47 million for the year.

We have the cash flow next. I'll briefly comment first on this page to say it's clear that a big part of the improved cash flow really comes from the improved profitability. We have remained diligent on the CapEx. You see it here - €175 million. And also had modest investments into working capital. In the fourth quarter, especially when we look at the overall working capital, we managed to turn it a little bit on the positive side, and I think there was a lot of work sort of late in the year to make sure we had all the inflows we were counting on. So, in the end, I would say this was a nice good positive figure for the quarter.

And then you see this stronger cash flow here in the next deck. You see us ending up at €408 million from a level of over €1 billion or €1.28 billion end of 2020. And you also see on the chart on the right hand side. I mean, we set the target to be below 3 times. We are now at 0.4 times. So, I mean clearly ahead of the target, accelerated de-risking, but we actually also now have reached that debt level that I think Heikki, and I talked about in some earlier webcasts saying that, “Yeah, we probably would be comfortable at this level of €400 million, €500 million of debt.” And maybe just to make it really clear we are still in phase one of the strategy execution, and in such a good market situation, I also think it's really good to build some buffers, keep some firepower for the future, so we are still ready to further reduce the debt with that in mind.

And then finally, a more technical comment on our debt portfolio. You can see there was quite a few actions. It was a very busy year in 2021 but now looking at the improved credit rating, looking at the balance - the debt portfolio that we have, I would say we are well positioned also to consider future steps whether it’s refinancing for the future. And we are clearly still focused on reducing our interest expenses.

My final slide is a short note still on sustainability related topics, and I wanted to answer a question that I really often get. Especially in Europe, of course, a big topic is the amount of emission allowances and what are our free allowances? What's the balance of those? And we have also been quite actively describing our sustainability targets and our agenda there also towards the year 2030.

So, with the plans that we have discussed, with the actions that that we have discussed, we really aim to ensure sufficient carbon allowances until the end of this decade. And for that plan to be realised, we need about €300 million of CapEx in total up until 2030. So, that is sort of the balance of things to work with.

And then of course, given the fact that we are really emphasising and working towards much lower carbon emissions, we do think that all of the questions, whether it's around the carbon border adjustment mechanism, or whether it's around other measures to ensure a level playing field for the low carbon production that we have here in Europe, and of course also with the same technology in the Americas, we will continue to emphasise that as an important factor of building a sustainable future.

But with that said, thanks, and back to you, Heikki.

Heikki Malinen

Pia, thank you very much for those remarks.

So, let's go to the final section. Again, really based on the information we just heard; I think this picture also gives a bit of the sentiment in the company. Outokumpu is really confidently heading towards 2022.

The Board of Directors have had their meeting and they are proposing a dividend of €0.15 per share for the year 2021 and that will be presented to the AGM for approval. Paying a dividend after a number of years when we were not able to pay a dividend is of course a very important thing. We value our shareholders and I personally feel that I'm very happy that the Board of Directors is able to make this decision or proposal and therefore we can then hopefully pay that. €0.15 amounts to €68 million in total dividend payments when it gets paid.

Then let's move to the final slide. The outlook for the first quarter of 2022. So, Group stainless steel deliveries in the first quarter are expected to increase compared to the fourth quarter. The European ferrochrome benchmark price remains stable at US $1.80 per pound for the first quarter. Higher stainless steel prices are reflected in the already received orders and more than offset the increased energy and consumable prices.

COVID-19 remains a risk and could potentially impact operations and logistics. Adjusted EBITDA in the first quarter of 2022 is expected to be on a similar or higher level compared to the fourth quarter.

So, ladies and gentlemen, these are the slides we wanted to show you, and now look forward to your questions. Thank you very much.

Linda Häkkilä

Please, Operator, we are ready to take questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do have a question for the speakers, please press 01 on your telephone keypad now. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

Our first question comes from the line of Luke Nelson from JPMorgan. Please go ahead. Your line is now open.

Luke Nelson

Thank you. Thanks for taking the questions. Two questions from me. Firstly, just on the guidance for EBITDA flat to higher. If I just think about the other comments you made of pricing offsetting cost inflation which means margin expansion and shipments higher quarter on quarter. So, surely that means absolute EBITDA increases for stainless. We know what the ferrochrome price is that's been rolled into Q1. So I'm just trying to square those individual building blocks with the comment - with the bottom end of the guidance range for flat. Can you maybe just outline what scenarios or other factors could get us to a situation where EBITDA is flat quarter on quarter? For example, anything such as maintenance, inventory, hedging, revaluations or anything that we should be factoring in. Thanks. That's my first question.

Pia Aaltonen-Forsell

Yes, Luke, thank you very much. And I think it's an excellent question. First of all, I think the risks that we have really highlighted relate to operational or logistic related challenges. And I mean what that really translates into is then some lost production, some lost deliveries and obviously with the margin levels, I mean those are relevant to consider and I think what I would maybe specifically say there is we have not lost production up to date but there still remains time in the quarter and especially if we get some sort of logistic chain challenges. I mean those could honestly still sort of the last week or the last week be impacting. It's then more of sort of a shift from quarter to quarter but it could of course impact a particular sort of quarter performance. So, maybe that's the sort of the key message from my side.

I could comment on the sort of timing and hedging side. I mean obviously yes indeed, I mean, metal prices have really been varying, particularly nickel. Again sort of huge daily movements, but I think our estimates were made at levels fairly close to those that we see today. And I wouldn't be seeing any significant timing or hedging kind of based on where we are right now. I mean, obviously that could change, but that’s not sort of a key topic at all here. That’s maybe more of a side comment.

Maintenance, pretty much the same level as in Q4. This is not a big maintenance quarter. There's maybe some smaller work done but not really significant there. So I mean it's really striking the balance between if we look at those key underlying business performance typical impact, whether it's higher volume, from our order intake we know the prices are higher, we know costs are increasing but the price increases are still more than offsetting that, so it is really the COVID related risks. And I hope I was just able to illustrate what that means. It's really the first time that we see these sort of through spikes a with really so high amounts of people being taken off duty, so to say, at the same time.

Luke Nelson

Okay. Great, thank you for clarifying that.

My second question is just circling back on your comments on cost inflation, power, natural gas, ferrosilicon. I think you mentioned a €20 million quarter on quarter impact Q1 versus Q4. Can you just clarify, firstly, is that at the Group level or is that just in BA Europe? And then secondly does that relate to power, natural gas and ferrosilicon or just power? And then I suppose any additional comments on ferrochrome, because the costs quarter on quarter were quite a step change higher as well in Q4.

Pia Aaltonen-Forsell

Indeed, thanks, thanks very much. That 20 million comment – I mean, this is very much a European question. I mean, we haven't seen the same spikes at all in energy prices in America. So I mean, this is really very much a sort of European question and when I talked about the 20 million increase from Q4 into Q1. I mean, obviously that's still, at this point, an estimate to the best of what we know today, but it's an estimate that is relevant for electricity. And it's not including ferrosilicon.

And then to add to your question, there might still be some inflationary pressure as well in ferrochrome, so both from electricity and energy consumption side. But as said, I wanted to mention that 20 million just still give an order of magnitude, that there could still be a step-up. I mean, obviously when you have seen the spikes in the electricity price, it's maybe not a surprise even though we are hedged by our policy. So, I mean, we only have sort of a top layer where we are exposed.

Luke Nelson

Okay, and just, I suppose, in the Q4 numbers that look like Europe, the cost increase was sort of around 30 million quarter on quarter, and I think prior guidance was 10 for power, 10 for natural gas. So, can I take from that that ferrosilicon was an additional 10 million costs along with some other sort of broader inflationary pressures? Is that roughly how we should be thinking of the split in Europe Q4?

Pia Aaltonen-Forsell

Yeah, I think it's fair to say that the ferrosilicon is about the same magnitude as the energy in total - about. I mean here we haven't - maybe it's kind of getting into too much data, but the ferrosilicon increase has been significant in Europe as well.

Luke Nelson

Okay, thank you.

Operator

Our next question comes from the line of Tristan Gressar from BNP Paribas. Please go ahead. Your line is now open.

Tristan Gressar

Yes, hi, thank you for taking my questions. The first one. Can you talk a little bit about the import situation in Europe? I mean you mentioned it. We've seen volumes surging of late. The [? 00:39:36] between European and Asian prices are at a record high. So, how has this upward trend impacted your business, if at all, for now? And do you view this price differential by region as sustainable?

Heikki Malinen

So maybe I take on that question so. So, clearly, I mean, we've seen the Asian market being very strong in 2021 and we've seen very high freight rates from Asia to Europe, which of course has put sort of a bit of a damper in terms of imports into the European market. I think we've probably seen sort of two phenomena. One is that there have been supply chain or port bottlenecks and some of that volume just started to compress and sort of pile up into the fourth quarter. And I recall that in November, for example, we did see a clear sort of - October, November, a clear pickup in imports.

I think part of that might have been just sort of clogging in the supply chain. As we saw from the chart, the price difference between Europe and Asia has started to increase. We do have quotas in place which to some degree set a certain type of threshold on the volume that can come into this market. But I think more recently we have also seen volumes from certain countries where they have actually now exceeded also the quota and therefore the customers, of course, then will pay also the duty, which could be in excess of 20%.

I think that in some ways also shows that the market demand in Europe is still fairly strong and there is a need for those imports, but at the moment I would say that imports are rising, but we haven't sort of seen any I think material shift yet in the dynamics. Let's see what the rest of the year then entails.

Tristan Gressar

All right, that's helpful. Thank you.

My second question is still on the European stainless [ph 00:41:35] market. You mentioned the distributors might be bit taking a step back. When you look at your end markets and end customer, is there also a bit of resistance regarding the level of stainless [ph 00:41:48] prices where they are? Are you also seeing maybe end customers taking a step back given market conditions?

Heikki Malinen

I think one could divide the market simply into three areas. This is a very simplistic approach. But anyway, if we look at end users you have, I would say, more end users targeting consumers and then you have end users which are targeting industrial investments, heavy investments in the oil and gas, etc. And then we have the distributor market.

As far as the end users are concerned what they are reporting to us across, I would say, the whole sector to a large degree is fairly good demand, fairly good confidence about demand for the market this year.

Overall, I think things are fairly stable. I think where we've seen variations, as I pointed out earlier, is distributors. We have to remember that distributors are also traders, and they are also of course very cautious in terms of what type of risk they take when they when they pile on inventory. So, hard to say whether there might be some reticence at the moment from distributors. They want to take a bit of a wait and see what's happens. What will happen next? I really cannot project. But as said, end user demand looks good, and it looks stable at the moment.

Tristan Gressar

All right, thank you very much.

Operator

Thank you. Our next question comes from the line of Antti Koskivuori from Danske Bank. Please go ahead, your line is now open.

Antti Koskivuori

Yes, thank you. So, two questions from my side. First, on divisional profitability. I mean if we look EBITDA per tonne in Americas grew by almost €200 per tonne now in Q4 versus Q3, while in Europe it was only up €10 per tonne. You talk a little bit about the energy side and the cost side in general in Europe, but could you talk us a little bit through between the – or the deviation between the two divisions now in Q4? It would be very interesting to hear if you see some structural reasons why we should not anticipate Europe to catch up in coming quarters.

And the second question, maybe a little bit related to this, but as you describe many times, the orderbooks are now quite long in Europe. How should we think about the increases in your average sales price now in Q1 and Q2, which are fully booked more or less? Should we anticipate kind of a linear increase or is the contract structure with a fairly high degree of annual contracts, will that kind of tilt it more towards Q1 rather than being linear? If you could talk us through that as well. Thank you.

Pia Aaltonen-Forsell

Yes. Antti, thanks very much and maybe actually the sales price is the one that I could just give sort of more of a mathematical answer to. I mean, I'm happy to sort of look backwards into already received orders and sort of consider how they would realise then according to the invoicing date and I think you are right that there is a certain sort of step-up in Q1 because there's a lot of annual - or six months - but I mean typically annual contracts that would come into force then. So I mean, normally that pattern should be there every year, but there is really sort of a certain step-up happening this year. So, therefore I would not sort of make the linear kind of continuing into Q2. But obviously if we just look backward, we know that we have still been pricing in a price environment where prices have kept increasing. So I think that's still what we know based on history.

But then maybe on to your question about the divisional comparison [ph 00:46:10]. I think that's a really interesting question to answer to. So, let me first frame it through the more sort of inflationary pressure and I think even though when you read macro level news it it's clear that inflation is really being debated a lot, particularly in Americas right now. But if I look at our figures, what I see is that yes indeed we were hit by some cost pressures, for example, freight, logistics and similar items, actually already in Q2. So some part of this, we kind of absorbed a little bit earlier in the year. And then, particularly when we look into the later part of the year, the pressure started to come more into the European sides, and not through some sort of broad absolutely everything increasing because we were still pretty well protected by either longer term contracts or our own actions. But really, in these particular categories of ferrosilicon and of energy where really electricity and natural gas were the two categories. And these were really sort of a very prominent in Europe. So, I think that sort of explains the cost increase bucket in Europe that was clearly more than in BA Americas. And I will still mention that there were also some fixed cost items. I mean, can I just give one example? I mean we have for example a personnel [ph 00:47:44] fund in Finland that is paying to employees a in a situation where we reach certain profitability thresholds. Luckily and obviously we have reached those so we have had some more accruals into this so there are some fixed cost items that we also kind of kept piling up towards the end of the year. So, I think that there are particular cost elements that were really more sort of towards the European operation. You can obviously sort of look at prices, realised prices increasing in both of the BAs.

And I'll still mention one more topic that is relevant in the context to consider for margins, and that is that we have seen this incremental increase back to more normal levels of the pro grades, so the value added grades in the European operations, but we are not yet back to some sort of levels that we achieved, for example, in 2019. So I mean, we are still sort of creeping back up. We do see a lot of order intake right now. So I mean this is clearly something where this investment cycle is sort of kicking, but we are not quite there yet.

So, when you then ask sort of about the margin development going forward, I want to be a little bit cautious because who knows the price for electricity next summer or the price for ferrosilicon. But obviously at least on electricity we can look at the forward curves. They seem to be sort of normalising a little bit. So, maybe that's all I dare to say sort of about the future development.

Antti Koskivuori

All right, thank you.

Operator

Our next question comes from the line of Carsten Riek from Credit Suisse. Please go ahead. Your line is now open.

Carsten Riek

Thank you very much. Two questions from my side. The first one is on the dividend. Looking at your balance sheet, you could have been able to pay a higher dividend than the €0.15 you suggested now. What caused you to go more cautious here? If you could just give us the thinking behind the €0.15. And if the year shapes up reasonably well, is there upside risk to the dividend offering going forward? That's the first one.

Heikki Malinen

Let me address that question. You may need to rephrase the second part again, but in terms of the dividend consideration, the €0.15. So obviously we haven't paid dividend for quite a number of years. It's great that we can restart that. Pia mentioned to the fact that we are still looking to further solidify the balance sheet, build more solidity, more, maybe firepower, I think is the word you used. I think from the board's standpoint it was more about, let's get the dividend payment going. €68 million, but at the same time still reserve funds to further strengthen the balance sheet. So, there was this de--risking philosophy still I think as a backdrop in the minds of the board. Could you please rephrase the second part of your question? I didn't quite get that.

Carsten Riek

Yeah, I believe, looking at the earnings level, even what you guide for the first quarter, it looks like it's shaping at least up quite nicely. So, would there be upside risk to that dividend offering for next year for the shareholders? Or is it way too early to say?

Heikki Malinen

I think it's way too early to say.

Carsten Riek

Okay. I guessed so.

The second question is on the net working capital, we have seen a quite a bit of a relief [ph 00:51:26] in the fourth quarter, not because of the inventories, but rather because of the payables and receivables. Do you expect that effect to reverse in the first quarter? And on a different one, what do you expect for the inventory build or not? Could inventory help here or not in the first quarter?

Pia Aaltonen-Forsell

Carsten, thanks very much. And first, I would say it is really sort of a typical seasonality to have a little bit higher inventories end of Q4 to be just ready for - we simply don't even have enough capacity to deliver everything that is typically required in the first quarter. So, with that said, what we would then start to see is a gradual decrease in the tonnes [ph 00:52:11] of inventories the towards the end of Q3 that typically is the lowest point and then we build up a little bit again under Q4.

So, with that said, I think I don't expect it to significantly decrease in terms of inventory tonnes [ph 00:52:26] by the end of Q1, but will then really start to decrease during the second quarter.

Then as to your question, whether that will reverse, the sort of better flows that we had from the AR/AP [ph 00:52:39] balance. I don't think it will reverse, but I would still remind that you we go into higher volumes, higher prices, I mean we are in a quarter where we typically build up some working capital really just on the balance of sort of how kind of things are shaping up during the quarter. So, with that said, not reverse but still Q1 is typically a quarter where we are building up working capital.

Carsten Riek

Perfect. That helps. Thank you very much, Pia.

Operator

Our next question comes from the line of Patrick Mann from Bank of America. Please go ahead. Your line is now open.

Patrick Mann

Good day and thank you very much for taking my question. Two, please. Your phase one of your strategy and de-risking the business. I mean, it looks like you are obviously making very good progress on that front, and I think you mentioned that you've started some early work groups just on looking at phase two and what that could look like. Could you just give us some idea of what are the priority areas you're looking at into phase two? And when we can hear some more around what actions you are going to take?

And then the second question is, just on decarbonisation, you're obviously already pretty low compared to industry and we've seen a lot of plans being announced by Carbon Steel [ph 00:54:10] around what they're doing. Can you give us a bit more detail around this specific projects you can implement to lower your CO_2 emissions even further? Thank you very much.

Heikki Malinen

Right, so maybe if I comment on that. So, indeed on stage number one of the strategy, we are making good progress of which, of course we're very pleased about. This is a large organisation that's trying to change. In terms of the priorities for phase number two, I go back what we said when we launched the strategy in November of 2020. What we did say at that stage is that once we have de-risked the balance sheet, we're going to start investing in our business, in the core of the business, looking at the bottleneck, looking to sort of open up - free - reduce costs in sharp focus and further simplify the process. We still have IT investments we have to do. Our supply chain needs even more capital to get it even more digitalised. So, these are some of the areas.

Of course, sustainability and emission reduction is another area which we will use. We need money for that. The journey to minus 30% in CO2 will of course require capital, like Pia said. Of course that would be then spread out over the decade.

In terms of the details of phase two, I really don't want and cannot really open that up more, but you should not sort of expect any massive, big investments or things like that. That is not the intention of phase number two, per se.

And now in terms of decarbonisation, what we have said here in the past is that one of the areas - of course, if you look at where the emissions stem from, so of course our ferrochrome operations, the operations in Finland are an important part or an important source of emissions. One area we're looking at specifically looking at biomaterials, [? 00:56:03] as an alternative to find ways to further reduce emissions, but as said, we will come back to these ideas when they are mature and as far as when in 2021 we will announce the phase one - I cannot really commit to that either. So, give us some time here to prepare our plan and when we feel we have a good plan that really holds water, we will then rush out and present it to you without any delay.

Pia Aaltonen-Forsell

Heikki, may I still add then? On the decarbonisation, just to say that obviously out of our Scope 1 emissions, Heikki already talked about the [? 00:56:44] and the opportunities there. However, if we look at our overall emissions, obviously Scope 2 and particularly Scope 3 are really significant. So, we have already talked about sustainable sourcing and knowing our supply chain. But obviously it is also a big question on how we can work with our partners to ensure it also really sort of low carbon partnerships.

Maybe some examples there we have recently published when it comes to electricity. So, we have several long term contracts on wind power, but of course that could also then be more broadly into, for example, raw material sourcing.

Patrick Mann

Thank you very much.

Operator

Our next question comes from the line of Alan Spence from Jefferies. Please go ahead, your line is now open.

Alan Spence

Good afternoon, Heikki and Pia. Just two left from me. The first one on ferrochrome. You've highlighted the big divergence between the European benchmark and Chinese spot prices. Heikki, interested in your view on how sustainable or not sustainable you believe that premium may be?

Heikki Malinen

Well, I think the Chinese market, of course, as far as we understand, we obviously don't operate there actively ourselves. But two things come into play. One, of course is what is the demand inherently in China? There have been some views that maybe the Olympics and preparations for the Olympics did cause sort of a slowdown in overall industrial production. We've seen cutbacks in electricity, power in China, in Mongolia, and of course that has maybe softened the market, at least for some time.

Now, remains to be seen what happens when the Olympics are over, when industrial activity really restarts in China, will that sort of change the dynamics? As far as we can entail, that is probably the driver that may explain the movement in China in Q4.

Alan Spence

Thank you. And the second one. In Finland, the paper and packaging industry has recently been faced by some strikes with the unions. Can you just remind us of your contracts with unions, last time they were negotiated, and when they go until?

Heikki Malinen

Yeah, so basically, the thing is Outokumpu and our peer companies in the steel industry a belong to the Technology Federation of Industries in Finland. And we have actually completed our negotiations with the, let's say, blue collar workers and that contract is now in place. The salary increases have been agreed upon and we have a contract valid for in 2023. So as far as that is concerned, that risk, if we want to call it a risk, is gone away.

The one sort of thing in Finland which may pop up, of course, relates to logistics and specifically harbour employees, the freight side. The longshore [ph 00:59:57] men from time to time have had strikes in Finland. Will that sort of materialise this year remains to be seen, but that might be one thing to follow.

Alan Spence

Okay, that's really helpful.

Heikki Malinen

And that is not – Outokumpu is not a party in that contract. So that would be a separate - we are kind of the - we're not a direct party in those negotiations.

Alan Spence

Thank you.

Operator

Our next question comes from the line of Dryshan Agarwal from Citi Group. Please go ahead, your line is now open.

Dryshan Agarwal

Hi, thanks a lot for taking my question. Most of them have been asked by the fellow analysts. A couple of them remaining. On the ferrochrome, I was wondering if Pia can discuss those sensitivities, if there is any update to that given the context that the increase in ferrochrome EBITDA in Q4 has been slightly lower than most people expected despite the sharp increase in the benchmark contract prices.

Pia Aaltonen-Forsell

Yes, thank you very much. And indeed, I think our sort of typical sensitivity has seen the 10 cents [ph 01:01:13] delta and the 10 million EBITDA impact for the quarter. However, before the fourth quarter, I tried to give a little bit of a word of warning there that with some of the sort of cost pressures, it would mean that even with that type of cost difference, probably the EBITDA impact would be smaller on the positive side. So, that was a bit sort of the setting in a fairly cost pressurised environment, particularly on the electricity costs that we saw in the fourth quarter.

So, obviously a bit sort of pending on that kind of how pressurised the situation will be on inflation going forward. I'm sure we will have reason to come back and clarify. Obviously right now, with the sort of stable a stable outlook on the benchmark price, not so much to add exactly right now, but we will probably reiterate this for our next report just to check the inflationary pressure and then the overall situation with the sensitivity.

Dryshan Agarwal

Okay, understood. Very clear. And then I think there has been a lot of mention about the exposure to freight rates and being a key reason for cautious guidance and also the cost inflation. Is there any way you can help us quantify the overall freight bills [ph 01:02:35] maybe for the quarter or the annual just to give us a better sense as in how sensitive the earnings can be from the freight rate point of view.

Pia Aaltonen-Forsell

Right, thank you very much for that question, and now unfortunately I don't have top of mind that figure to give to you, but I want to say it's really around freight availability, so it's really then around deliveries that we – possibly. The risk is that there are deliveries that we are not able really to deliver all the way to customers because maybe the truck drivers also have COVID or are not available, et cetera. So, it's not so much the cost. It's really not the cost. It’s the availability. So, therefore it's really relevant to what sort of margins we do with our products, and whether we lose 1 0 kilotons, 15 kilotons because of some disruption in the logistic chain.

Dryshan Agarwal

Yeah, pretty clear. And then finally, how much of the CapEx are you guys planning to spend this year?

Pia Aaltonen-Forsell

Our plan is still at 180 million.

Dryshan Agarwal

Okay. Thanks a lot. That’s it from my side.

Operator

Our next question comes from the line of Bastian Synagowitz from Deutsche Bank. Please go ahead, your line is now open.

Bastian Synagowitz

Yeah, thanks. Good afternoon and thanks for taking my question as well. I just wanted to follow up briefly on capital allocation. I think you said earlier that you aim to update on shareholder returns and capital allocation around the second quarter. And I guess now you obviously announced a dividend already, but by the second quarter you could be easily debt free. So I'm wondering, are you still planning to give an update around mid-2022? And then maybe in that context, I saw that you're seeking approval for a buyback of up to 10% and I’m wondering whether that is completely new approval or basically a revolver or renewal of an approval which you already had last year.

Pia Aaltonen-Forsell

Thank you, Bastian. Yeah, really good question. So the buyback in there, that's sort of renewal over typical text that we have had relating to the AGM. So as such, it's nothing new. And then now that we have the board’s proposal out there with the dividend proposal, then I don't know if we will really have a new update by Q2, but let's see when we keep working with the strategy. So, as Heikki said, once we are sort of complete with the package, of course we will really try to give a comprehensive view at that point in time.

Bastian Synagowitz

Okay, thanks for the update. And then just, Pia, following up briefly on the maintenance cost side. I guess if I reconcile it correctly and I really try to keep track of it as good as I can, but I think you guided for an increase of 10 million of maintenance cost I think in Q2 last year. And then you basically guided for another 10 million increase in Q3. And you said I think Q4 was roughly flat, which basically means maintenance spend and costs have been at a run rate of about 20 million I think Q3 and Q4, which is basically above your normal level, which is normal. I think the second half always used to be a little bit more maintenance heavy traditionally. And now you say Q1 is going to be the same level, which basically means you direct that maintenance spend into the first quarter. That's actually untypical. I guess, usually your maintenance costs would be coming down. You are usually maintenance lighter in the first half. Is there any reason why we're not seeing that release? Or are you just being very conservative here?

Pia Aaltonen-Forsell

Maybe to answer it this way; we have typically tried to express ourselves in some good chunks, like 10 million, 20 million, something reasonable, and now when just looking at the figures, we didn't sort of quite reach those threshold of reducing that much. So, you are right. Of course, seasonally, Q1 is the quarter to get goods out of the door. It's not the big quarter for maintenance at all. So, typically we would reduce a little bit the maintenance. But we simply didn't get to that sort of threshold of enough of a reduction compared with the previous quarter to talk about it. So yeah, maybe it's a little bit downward, but it's not significant enough to give a clear downward statement on.

Bastian Synagowitz

Okay, very clear. Thanks so much, Pia.

Operator

Our next question comes from the line of Harri Taittonen from Nordea. Please go ahead, your line is now open.

Harri Taittonen

Hey, good afternoon, I'll sort of leave it for one question which may be pushing a bit. I don't know if you want to kind of - you talked about the ESG, and the CO2 balance ambitions. But if you say that you need 300 million CapEx total up until 2030 to achieve the targets, I'm just wondering, I mean, to what extent would you be able to pay for the CapEx with selling emission rights? Because if you are kind of taking the sort of emissions down during the decade. So, if you assume currency or the emission right prices and how much would you be able to cover of that 300 million?

Pia Aaltonen-Forsell

Oh my, that would be an interesting business opportunity. I still think – I mean on the balance of things - I mean today we have a surplus, but based on our best understanding of the future free allowances - I mean obviously as you know there are still no sort of really straight decisions, especially from 25 onwards. These are clear estimates from our side, but still, based on our understanding of how the free allowances are decreasing, it's just the matter of fact that companies need to do a lot of efforts and actually investments to be able to keep up with those requirements.

So, when I say that when we do these projects that we are now aiming to do we come to a situation where we have enough allowances until the end of the decade, but for me that also indicates I don't have sort of a huge bank here to sort of take it from. I do agree, I mean, the price level is very intriguing to consider that opportunity, but at the moment I think we are more sort of looking at balancing the situation.

Harri Taittonen

Sure, thank you very much.

Operator

Our next question comes from the line of Rochus Brauneiser from Kepler Cheuvreux. Please go ahead. Your line is now open.

Rochus Brauneiser

Yes, hi, it's Rochus Brauneiser from Kepler. A few follow-up questions in detail. I think you talked a bit about Europe and Americas, and I think the missing element for me in getting it right or wrong in terms of margin evolution in Europe and Americas was the item on the bridge called 'other'. So I'm not sure whether you reference to that. So, I didn't fully understand what was the, kind of, add-on in the Americas and the, kind of, downside covered under 'others' which has not been in your discussion about costs. That would be the first question.

Pia Aaltonen-Forsell

Indeed, those are really - the thing is that it's also always a bridge impact. Maybe there was sort of a one-time positive impact of something in the previous quarter, and then once you got into this quarter and there wasn't the positive impact, then you get this negative bridge impact. And I think that's a little bit what we are suffering from there.

I have to say there was nothing of the sort of order of magnitude as an individual item that I would just - it would just pop up to my brain now and I would be able to share it with you but there's sort of a number of - maybe it's in Q4, you have some more sort of closing type of topics, maybe some provisions that need to be increased or decreased, etc. So, nothing kind of maybe worth a special mention but if there's something that really comes to our mind, then maybe we'll try to be clearer in our next communication.

Rochus Brauneiser

Okay, right, because if I compare that with your discussions around costs, these items seem to be even bigger than that. It looks like it was over 20 million in the US and probably over 10 million in Europe, so it's a bit of a deviation for understanding the margin evolution in detail. So, if there is any colour, it would be really appreciated.

Then other more kind of housekeeping things. Can you come give us a bit of a flavour on the volume evolution on the Long Products side. I think typically there is, in your business, is that you have to weakest point in the year in the third quarter and then kind of at a lower level in Q4 and then the Q1 is the strong quarter. This year it looks a bit different as you had a big snapback in Q4 volumes after a weak Q3. What shall we read for the first quarter? Is this then more of kind of a flat trend or is there anything incremental in the business which is boosting it beyond the usual seasonality?

Pia Aaltonen-Forsell

I think what we have seen overall in the year was of course you know a really good improvement in volumes in Long Products as well, I mean really significant, and we did indeed get sort of a pretty good figure in the fourth quarter. So therefore I would say - I mean the normal seasonality is there, but with a good sort of background in Q4. Maybe that's sort of all I dare to say. I wouldn't expect sort of a huge jump then into the next quarter.

Rochus Brauneiser

Okay, I think that makes sense, yeah. I think the other question. Maybe I got it wrong. In your outlook statement you were referencing to higher fixed costs, and you were referencing to higher fixed costs is an element in your earnings evolution in the fourth quarter against the backdrop of higher shipments. Maybe you can clarify what this is referring to. Is there any kind of cost inflation baked into that statement? Or how shall I read that?

Pia Aaltonen-Forsell

Yeah, well I think on a temp – when you look first of all at the evolution of the number of personnel you see that we are approaching the targets that we set also to be below 9,000. So, clearly, I mean overall we have been still realising the savings that we were talking about earlier. But in some instances we have added shift when the market has - when there really has been high demand for some specific products for example. So, there could have been this spike.

But I think what is really visible in the figures more on the fixed cost side is first of all that indeed we are also remembering our personnel now when we have had a good result. So, I talked about the personal fund in Finland, but we are also paying some extra bonuses, some extra rewards based on the good performance. So, we are sharing this also with our employees and some of those accruals, we also really had a coming into the fourth quarter.

So, that's one reason. That's, of course, sort of a temporary spike, but obviously still relevant in the quarter. And then the maintenance costs also goes into that [? 01:14:05] bucket.

Rochus Brauneiser

Okay, that makes a lot of sense. And then finally on your EBITDA breakdown and under other operations, you had, Pia, this unusual jump in the others line from 8 million to 10 million in Q3, to the 18 million in Q4. Is there anything we shall keep in mind about this increase and what's the run rate gain going forward for Q1 or Q2?

Pia Aaltonen-Forsell

Yeah, we can have a bit of variation in the other operations depending then on the end also of some kind of internal margin eliminations on the Group level, so I'm not aware of any cost element that should really sort of long term be seen as kind of adding there to the profit levels but rather just some variation in terms of internal inventory margin elimination. So there's nothing sort of trend-worthy that I would mention there.

Rochus Brauneiser

Okay, that's it for my side. Thank you so much.

Linda Häkkilä

Thank you all for following our event today and thank you all for your very good question.

Before we close the call, I would like to remind you that we will be publishing our Q1 2022 results on May 5th. Now, thank you once again and have a good evening.