



**Transcription**

# **Outokumpu's Q1 2022 / Interim report**

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05 May 2022



## Outokumpu's Q1 2022 / Interim report

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# PRESENTATION

## Linda Häkkinen

Hello and welcome to follow the Outokumpu's Q1 2022 results webcast. My name is Linda Häkkinen. I'm the Head of Investor Relations here at Outokumpu. With me today we have 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 questions from the line. And before we start with the presentations, I would like to remind you about the disclaimer as we might be making forward-looking statements. But now, without any further comments, I would like to hand over to our CEO, Heikki. Thank you.

## Heikki Malinen

Thank you, Linda. Good afternoon. Good morning. Good evening. Also, welcome to Outokumpu's Q1 release presentation on my behalf. As the title says, we had an excellent first quarter. The solid performance of the last six quarters continued in spite of the increased uncertainty. Overall, a very, very good start to 2022.

Financially, we did very well. Our adjusted EBITDA increased to 377 million, which is the highest we've had in any previous quarter. And this happened in spite of the dramatic escalation of the war in Ukraine and overall the great uncertainty in the markets.

The team at Outokumpu worked very diligently to manage costs and to mitigate the COVID impacts. Remember earlier on, we had said COVID was still around, and we indeed did have people – quite a number of people were sick. But in spite of that, the operations performed very well. Our capacity utilisation remained very high in all of our plants of course, then allowing us to produce the products that were expected by our customers.

Realised stainless steel prices continued to strengthen and energy costs were very competitive at Outokumpu. We saw a lot of energy cost pressure as we came into the quarter, and we'll talk about that today more. But overall, we felt that we did very well on that front.

And then finally, safety, which of course is the most important thing at Outokumpu. We did very well on safety as well and are on track with the targets we have set to further reduce our safety performance.

Now going one step further and looking at this slide. I just want to remind everybody, all of our listeners and watchers, about the strategy roadmap we have in place. We are still in phase one, which is intended to end in 2022. Remember that our objective for this phase one was very straightforward; improve margins and de-lever or de-risk the company. And as the end of the first phase is coming now and approaching us pretty quickly, I feel that we have actually achieved most of these targets already very well. And then in the not-too-distant future we will then start communicating about phase two, but more on that later then.

Then, if we look at the strategy implementation overall in terms of numbers. So we did set a target of 250 million run-rate improvements. And at the moment after Q1, we are at 237 million, so almost there in terms of achieving that target. And



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of the three major sort of major must-win battles we have had – cost, capital, commercial piece – we have made good progress. And as I said earlier, we are seeing significant inflation pressure across I would say the whole area of all of our factory inputs we have been able to reasonably well or even in some areas quite well make mitigate that inflationary pressure during the first quarter. And on the commercial side, we have continued to improve our sales margins, through effective selling and mix management.

Then a few words about sustainability. Now, this, of course – ESG is an important topic, and we will be communicating more and more about this as our strategy journey goes forward. As I said, safety is our number one thing at Outokumpu and at the right-hand side you can just see the figures. We are calculating our so-called total recordables, injury frequency rates, where we compare the number of injuries against one million working hours. And you can see from this statistic that we did very well – 1.7. Overall, the trend is very impressive. I would say that even at this level, I feel that the Outokumpu is approaching a world class performance.

On the lower right-hand side, recycling materials rates still hitting that 90% target. Our intention, of course, is to produce recycled stainless steel and the use of scrap is, of course, a very integral part of that journey. We have continued to improve our energy mix. We are gradually trying to find ways to bring in low carbon energy sources, wind power being one example. We did, in fact, sign two contracts to further increase the use of wind power in the company.

And then finally, it is always nice to get external recognition. EcoVadis is one of these well-known international organisations that evaluates many, many different companies globally. I'm very proud that Outokumpu was awarded the platinum rating for the work we've done in taking our ESG agenda forward. And I really feel good that Outokumpu, for who sustainability is such a big thing today, that we really did get this recognition. So very happy about that.

Now, we have not shown these sort of customer cases before, but we actually have one customer called Harvia, which is, I would say, a world leader in the sauna business. So, if any of you are interested into saunas, you probably may have heard of Harvia. Anyway, Harvia is an important customer and they have been kind enough to prepare for us a video that talks about their plans and how they think about sustainability stainless steel and what role Outokumpu plays for them in their business. So let's take a few minutes. Enjoy listening to the executives from Harvia.

### Video Speaker

From the early days, Harvia, Tapani Harvia, the founder of the company, he made a decision to make equipment for long lasting use. Our equipment is designed so that, if using it according to the instructions, it is absolutely safe, but also if you're making against the instructions, it's still going to be safe. All of the process waste in our manufacturing, we do recycle, and I think the specific Cilindro heater waste we recycle with Kuusankoski, and it will be ending up back at Outokumpu. In the material selection, we've been selecting materials which are long lasting and sustainable, and that's why we also chose Outokumpu steel to be our main partner in the stainless steel. And even though we all Finns consider saunas to be a Finnish invention, more than 90% of the market is elsewhere. So, for sure, our focus is expanding on the global market. Everyone should go to sauna because first of all it's enjoyable, and on top of that you get very good physical benefits and I think the utmost mission we have is to give people long and enjoyable lives.



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### Heikki Malinen

So, thank you, Harvia, for that message. Very happy to work with Harvia and, as I said, great company, great products.

Now, then, moving on back to our business and our industry, a few words about the market and prices. On the upper right-hand corner, you can see the nickel curve. As you've seen we've seen the trend in nickel being upward but what was, of course, very surprising was that we saw this dramatic volatility take place in the month of March. I recall from statistics previously read that in 2006, I think nickel went to \$54,000 per tonne and now we even touch \$100,000. So much volatility which of course is never good for a business when things are so, so volatile. And now we've seen some stability recently but in any case, events like that are, of course, but not positive for the business.

On the lower right-hand corner, ferrochrome price development. The market has been very, very tight. Demand has been very strong. And also in some countries, Asia in particular, supplies have been constrained. So therefore, we've seen ferrochrome prices move and at \$2.20 roughly per pound, I think we are approaching all time high prices not seen probably since about 2006/2007, before the financial crisis.

And then on the lower left-hand side, the price of stainless. And again, this is the spot price based on external data. You can see the trend still moving a bit upward as we've got into the first quarter and you can see the commentary I made in the previous quarter that the gap between the Chinese price and the European price has continued to widen, and that was also the case in the first quarter.

Then a summary on our performance. From a delivery standpoint, you recall that the first quarter is always seasonally strong. We had an increase about 10% in volume terms and you can see that in the first bar comparing 326 million EBITDA in Q4. So, an increase from 10% volume, an increase in overall profitability. Then we also, of course, enjoyed the higher realised prices for stainless steel. And as I said, they continue to strengthen in the first quarter. That is the second green bar on the right-hand side.

And then we come to metal hedging and the volatility. So obviously the events of March in particular did create a lot of volatility and we have booked hedging losses which are then shown in that negative red bar on the right-hand side.

And then finally, I talked about cost inflation. I do feel that we did, as a team, excellent work in trying to mitigate those pressures to a better efficiency. But in spite of that, the cost pressures are here and that brought the results further down, ending then at €377 million of adjustment EBITDA. And at the lower left-hand corner, you can see the performance since the bottom of COVID, summer of 2020, Q3, 22 million. We have now had six consecutive quarters where our results have improved. So, obviously a performance and a trend which is very helpful for Outokumpu. We had a very tough decade behind us and through this performance improvement, of course, the company's financial position overall, our balance sheet, the health of the company, are in much, much better shape. And of course, that positions us much better as we think about the future years ahead of us.

Now, the last slide I want to show you before I give the remote to Pia is a few words about the Russian war in Ukraine. And it goes without saying that Outokumpu strongly condemns the military actions Russia has taken in Ukraine. We have therefore decided to stop all of our operations related to Russia as soon as possible. I would underscore that we actually do not have any facilities in Russia. What we do do is, we have sold some products and we also buy procured raw materials. In terms of recycled raw materials, recycled steel or scrap, Outokumpu is currently not procuring any scrap from



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Russia and the limited amount of other raw materials we procure from Russia, we are actively trying to look for alternative sources globally.

We do acquire energy gases from Russia indirectly. Russia is an indirect supplier. We are looking also actively for alternative sources together with our energy suppliers. We have asked those companies, primarily who are providing us with gas, for example, to actively look for alternatives in case there might be disruption.

Earlier this week, on Monday, the Board of Fennovoima, and this is the Board of Fennovoima – Fennovoima being the nuclear power plant project in northwest Finland, so the board of Fennovoima made a decision to basically stop or terminate the EPC contract they have had with Rosatom subsidiary, RAO's project. We as a company feel that that was the right decision. It was an obvious decision, especially now that the war has started. Outokumpu has basically written off the whole value of the project already in Q4 of last year. Therefore, we've booked it down to zero. So therefore, the decision from Fennovoima now has no impact on us otherwise.

And finally, extending our sympathies to the Ukrainians, Ukrainian people, Outokumpu has donated €1 million to support the relief efforts in both Ukraine and the neighbouring countries where many of the refugees are now moving to.

So those would be my introductory remarks. And now, Pia, I hand over to you. Please.

## Pia Aaltonen-Forsell

Thank you, Heikki, and dear ladies and gentlemen, I do hope you are all keeping safe and doing well.

And I wanted to start a bit by talking about, as Heikki talked about, the health of the balance sheet of our, financial resilience, and let me make a few remarks of that to start my presentation.

We are a company that operates in a cyclical business. So the whole emphasis on the first phase of our strategy during 21 and 22 has been to increase the strength of the balance sheet and that way to de-risk the company. There have, of course, been circumstances, now the war in Ukraine. But let's not forget that we also had the COVID crisis. It's maybe a bit still among us, but hopefully soon to be something of the history. But to mitigate the risks relating to that, I think the importance of risk management has kind of really surfaced, and I do feel that in Outokumpu we have a good way of working together as a team and that has also helped us in the risk mitigation relating to the war in Ukraine.

Our financial resilience has increased, so our net debt has clearly reduced. It's now at 294 million and obviously supported by the good momentum also when it comes to the profit. Our gearing is very healthy, down to 9%. And also in this time period again of uncertainty, we felt having a lot of liquidity available is of utmost importance. So, we have increased a bit our liquidity reserves. They are now up to €1.3 billion.

We will pay a dividend, or we have paid a dividend in April, which we are of course very happy about. And then finally, net working capital, I think I will come back to that a bit later in my presentation, but it is of really high importance also giving now these high metal prices and prices generally that we are experiencing.



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So, I do want to show at least briefly a few important KPIs. Just looking at the net result of the quarter, at 251 million, delivering an earnings per share of €0.55. And I think those are good figures to start the year with. You can see our operating cash flow here, 147, our net debt below 300 million. So, I will come back to those facts still a little bit later in my presentation. And then finally return on capital employed now at almost 24%, whereas in the first quarter a year ago, we were sort of barely on the positive side there.

It's been a year of good development, as Heikki said, six consecutive quarters now of really good profit development and profit figures as well.

One part of the success, on top of the market rebounding after COVID, is clearly our strategy execution. And we have talked about it before, we have an approach that really runs through the company in a very diligent but also transparent way. And we have a lot of people engaging in the projects to improve. And the pie chart to the right shows that we still have a very strong implementation pipeline. Even though we have implemented more than 1,200 initiatives, we still have many hundreds in progress.

And what you can see here is that all in all, we have already been able to reach 237 million of run-rate improvements through these own actions. And I think that's pretty significant because we also upped our target, so we increased our target late last year, and we increased it to €250 million EBITDA run-rate improvement. So, we are pretty close to reaching that target by now.

Let me next talk through the main points per each BA. And I will start with showing here the development in the Business Area Europe. There are, of course, some general remarks that do relate to all of the businesses and maybe I would just sort of briefly relate back to Heikki already talking about the nickel price development and how that really was quite disruptive in the month of March.

So, I'm sure we all remember this debacle in the LME nickel trading. Obviously still at this point we are waiting for the independent review of what really happened and what can be improved going forward and we have still seen fairly elevated LME nickel prices, although with very small trading volumes at this point in time. So, overall, there's been an impact of that and maybe it's enough to say first that you have seen some in the first quarter, you have seen actually a very big negative figure. Net of timing and hedging was a negative for the Group of €42 million. And that was actually more than 60 million negative of hedging and about 20 million then of positive from the other element. So, that 42 is the net figure.

I think it's also important to see that there are also clearly benefits for us when the nickel price goes higher. I think we do hold some inventory and these timing gains will be significant in the second quarter, even though presumably with these nickel prices, we would have some hedging losses overall in the second quarter as well. So, that, I think, is something that is not fully unprecedented. Maybe something has happened in some historic years at some point. At least in the recent years, this has been quite an extraordinary development for sure.

But then let me quickly say a few more things, really, particularly for BA Europe. I think the COVID mitigation was a really big topic for BA Europe. I think in the US, in Calvert, and in Mexico, we saw this sort of peak in absenteeism because of COVID already during Christmas time, like very early in the quarter, but in BA Europe, it really came sort of during the quarter. The wave was heavy. And I really want to say thanks to the team for extremely good mitigation. In the end, we



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really managed to grow our volume, which was good because the market demand was strong. It was a good quarter to perform operationally in a strong way and obviously this really also helped us boost our EBITDA.

I think Heikki has talked a little bit about where we are right now, also in terms of the market situation, but I still think a few typical remarks that I would like to make, we have seen in the order intake right now much more the waiting attitude from the distributors, obviously that's one important market channel. We have other important market channels, for example, end users where we still have a more positive sentiment overall. And what we can see from the statistics, obviously, apart from higher imports in the first quarter is also that distributor inventories are now a little bit above the historical averages. So, that is the environment where we are operating right now. Obviously still at really good capacity utilisation levels and overall a typically, of course, Q2 is still a seasonally also a strong quarter.

Then, let me move to BA Americas. It is a pleasure again to show these figures. We've had a very strong situation during the first quarter in the market and obviously this sort of positive sentiment overall from a macro perspective also continues in the Americas. So, it's a strong market environment, including distributors, including end users as well. I do think that if you look at distributor inventories, they are maybe a little bit up compared with end of Q4.

But we saw somewhat of a peak during Jan/Feb that has now a bit declined and that was probably caused by almost congestion in the ports and a little bit this sort of peak in imports over a short period of time. We are certainly running our operations very strong right now, and also then enjoying this good operational performance along with a lot of mitigation on the cost side because obviously inflationary pressure is there. So, you see here also in euro terms, a very strong result – 90 million in the quarter.

I would like to move over to Ferrochrome. You have seen the price, the European benchmark price being high in the quarter and continuing to rise throughout the second quarter. So, it has been really important to keep the operations running. You can see that we are a little bit up on volume here. So, we have been in a stable and robust performance mode during the quarter, enjoyed the tightness of the market has led to the price levels being very good.

And maybe I would still comment, even though I didn't do that for BA Europe in particular, but we have also been able to benefit from the Nordic electricity markets and obviously in the Ferrochrome case in particular from an electricity price level that is still, in comparison with any other European countries, clearly more favourable, our hedging efforts were also successful. So, in the end overall, we actually did not see an increase in electricity from Q4 to Q1, even though overall in energy, maybe there was a little bit of pressure.

And finally, let's look at a record result also from Long Products. You can see 24 million here in the quarter. So we've been really successful in pushing out more volume also from our downstream operations here and enjoying the efforts of the turnaround programme now really proving also in the results.

So, I think those were overall some positive news from a profitability perspective. If I now still use just a few more words on the balance sheet.

I would like to start with the cash flow. The operating cash flow impact of the first quarter. So you obviously see good results supporting it strongly and then you see working capital at -252. Obviously, it is very much the higher metal prices driving this. So, if I would like to simplify, I could of course say that yes, indeed, we did have in euro terms about €200 million increase of inventory in the quarter. Half of that was clearly only kind of price driven. But then in the end, it is still



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worth mentioning that there have been really big changes as well. AR increasing more than €300 million, but on the other hand, AP increasing almost 300 million. So, those more or less offset each other in the impact.

And then you can see here that there's really nothing significant going on on the provision front, etc. Those restructuring programmes are now a matter mainly of the past, so, the pay-outs of those have really been done and from a CapEx perspective, we remain at a CapEx of €180 million for this year.

And that would take me to the final slide of my presentation. Still showing here the development of our net debt and leverage. Obviously, our net debt now below €300 million bringing also the leverage to 0.2 times. So, clearly better than our set target of being below three. And we believe that this strong balance sheet is an asset especially in uncertain times and we are also comfortable at the moment with the thought to building here really the resilience and the strength under these circumstances.

So, with those words, Heikki, back to you.

## Heikki Malinen

Thank you, Pia. So, let me then finish with the outlook before we take your questions. So the outlook for the second quarter is as follows. Group stainless steel deliveries in the second quarter are expected to remain at a similar level compared to the first quarter. The European benchmark for ferrochrome price will further increase to \$2.16 per pound for the second quarter.

With current raw material prices, significant raw material related inventory and metal derivative gains are expected to be realised in the second quarter. Supply chain uncertainties resulting from the war in Ukraine and associated Russian sanctions remain a risk in the second quarter. And adjusted EBITDA in the second quarter of 2022 is expected to be higher compared to the first quarter. So, that is the outlook for the second quarter of 2022.

And with those words, I would like to hand it to the operator for questions. Thank you.





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## Q&A

### Operator

Thank you. Just as a reminder, if you do have a question, please dial 01 on your telephone keypads now to enter the queue. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from the line of Tristan Gresser of BNP Paribas. Please go ahead. Your line is open.

### Tristan Gresser

Yes. Hi. Good afternoon and thank you for taking my questions. The first one – can you discuss a little bit the moving pieces for the Q2 outlook in Europe? Would you expect margins excluding the losses in Q1 and again in Q2 to be stable quarter on quarter? Will the price increase be able to offset the increase in cost?

### Pia Aaltonen-Forsell

Yes. Thank you for the question. Well, I'm sure you ask this on the back of us also really pointing to the significant impact of the net timing and hedging being positive in the quarter. However, when we look at the other elements, obviously volumes are pretty much stable, and I would say apart from that, we are really doing our best with the mitigation of the inflationary pressure that we can see on cost right now. So, maybe there is some opportunity still also on the operative side to sort of really continue on a good path. But overall, of course, the net of timing and hedging impacts should not be discounted. Those are important.

### Tristan Gresser

All right. Understood. And could you maybe give us some sense of the scale of the expected inventory gains for Q2? Are we talking about something similar to the Q1 losses, but in positive or something even larger?

### Pia Aaltonen-Forsell

Yeah. I mean, obviously, that will still depend on where we actually, towards the end of the quarter, will see the metal price developing. This is still somewhat of a moving target, but based on what we can see right now, it's early May, it's clear that the reason we say significant is that we've really had also a significant negative in the first quarter. And now we will also have a significant positive in the second quarter. So, indeed, it could be a similar size or even bigger than what we have seen negative in the first quarter.



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### Tristan Gresser

Okay. That's very helpful. And my second question is a bit more on demand. How has been the reception of the latest increase in the alloy surcharges from both distributors and end customers in Europe? Have you been able to pass on the raw material cost increase to your customer, or has there been some pushback? And also have you been able to use the alloy surcharge mechanism to all of your sales in Europe recently?

### Heikki Malinen

I think I will not go into the details of the alloy surcharge because, let's say, a response to the degree you are looking for. What I can say is that, as I said, the alloy surcharge was put in place at the end of April and it's in effect now for the month of May. And we're now in the process of considering what we are going to do with respect then to the alloy surcharge for the month of June. But the calculations and the thinking is still under way, and we have not made any decisions at this point in time.

### Tristan Gresser

All right. Thank you.

### Operator

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

### Carsten Riek

Thank you very much for taking my question. The first one is actually on the long division, which did extremely well, a result which we haven't seen for at least the last seven to eight years. You mentioned what changed already a little bit, but Pia you mentioned that actually you did more downstream or debottlenecking in downstream facilities. What exactly did you do, and how sustainable is the very good result? That's my first question.

### Pia Aaltonen-Forsell

Yeah. Thank you, Carsten. I think it's actually a pleasure to talk also about the success of the turnaround programme. And obviously, from a Group overall perspective, we already start to speak about smaller volumes. But I still want to mention, I mean, I think we have downstream operations in the Long Products divisions now, for example, our [? 00:31:41] operations, our [? 00:31:42] operations in the US. And I think we have just been really good at getting more volume out and really being able to fulfil the kind of promise or the capacity that we have seen also being there in those units. So, also kind of getting the logistics to work and also the full scope of that. So I do think that is important.



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And maybe I should mention one other topic, which is that already during 2021, when you can see from the price development, on the flat side, that prices started increasing, there was actually, I would say, somewhat of a delay before any price increases started to go through in the Long Products product categories. So maybe that's also contributing now that we start to see some of those positive developments.

### Carsten Riek

Okay. That helps. And the second question is more on the broader market, especially – I know that you usually done talk about second half, but I'll try in any event. Will the COVID related lockdowns in China pose a risk to the stainless-steel demand in the second half in your opinion? Could it actually disrupt the value chains, and could it impact the European/North American business as well, in your opinion?

### Heikki Malinen

So, maybe if I try and answer that. Obviously, as far as we can see, the lockdowns in China have been quite considerable and indeed they have caused logistical issues in the various ports and in the supply chain. We have actually, if you look at these publicly available, EU-FER statistics on imports into Europe, you actually can see that there was increased imports into Europe from Asia in the first quarter. And interestingly, what actually also happened was that we saw China import volume in the first quarter into Europe for the first time – try to look at statistics – we went actually many years back to a point when we actually saw China bringing in that amount of volume. So probably there is something going on in China that has then led them to move that volume into Europe.

The volume that arrives now or arrived in Q1 probably was ordered like five months earlier. So there is, as far as we understand, a five month lead time lag between the point of production and then when it actually arrives here. So trying to think of what the events were in China at the end of Q4, it was before the Olympics. I don't know if the lockdowns were that severe at that stage, but anyway, China volumes now arrived here. And let's see whether that was temporary or whether that is more of a permanent phenomenon. China of course does have the tariffs in place, as we know.

On the North American side, I would say that what we saw earlier in the beginning of this year, we saw quite a big bump in imports into North America. But our understanding was that that was more a result of just simply bottlenecks in the supply chains, which then ultimately opened, and you saw this big push of volume coming in. At the moment we have not seen the same amount of activity volume coming to the United States as we see here in Europe. So, that would be a bit of a difference.

And in terms of the second half, very difficult to predict what exactly we're going to see from Asia into these markets. So, just have to wait and see here some months.



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### Carsten Riek

That helps. All right. And the last one is more broadly, after fixing the balance sheet, what's pretty much next? I assume that the appetite for bolt-on acquisitions is rather low after the last experiences. But what are the areas where you would like to strengthen your position?

### Heikki Malinen

Carsten, that is a good question. And that is a very important question. It is the proverbial \$6 million or \$60 million question. We are obviously thinking about this deeply. I just ask you for your patience. During the course of this year, we will come to you with a good plan, but today, unfortunately is not the moment when I want to share what we're going to do next. But trust me, we will be back in the not-too-distant future.

### Carsten Riek

Perfect. Thank you very much. Then I keep my patience. And thank you.

### Operator

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

### Patrick Mann

Thanks very much for the presentation. I wanted to ask, and Pia you alluded to your relative cost position in energy and electricity. Can you give us an idea of how much has your relative cost position improved to your European peers? And does that impact your strategy going forward? I mean, is there the opportunity here to – if this is a structural cost advantage now being in the Nordics – to aim to take market share? Or possibly does it just encourage more imports from Asia, as Heikki was just saying? Thank you.

### Pia Aaltonen-Forsell

Patrick, thanks very much. And I think I base my answer more on sort of general information about electricity price development, ect. Obviously, I don't have sort of any specific contractual data for anyone else than ourselves. And when I just look first at that sort of difference between the price levels that we have seen in Finland or in Sweden compared with other European countries, obviously in the peaks we have talked about hundreds of euros per megawatt hours. So, I mean, these have been very significant differences.

And I think we do see that in our cost development now as well that our long-term hedging strategy has been good, it has protected us in this kind of extremely volatile environment. That is not to say, I think, we can discuss the details of our



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hedging programme. That's of course, something that is rolling. And if market prices go up at some point, we will be impacted as well.

There have really been some, I would say, if not anomalies then at least really moments of very low prices, for example, in Finland during the month of March. So obviously there were also some really beneficial momentary events here.

So, I would say overall that I do think we have a very electrified production. So, this is important for us. And I do believe it's a very positive advantage for us at this point in time.

### Heikki Malinen

Pia, can I just add a few comments on electricity because obviously this is a very important part of our cost structure. Three points. Obviously, the Nordics, of course, benefit from a substantial amount of hydropower originating from northern Scandinavia at low cost, sustainable, and of course that will be around. We in Finland have now Olkiluoto III. The nuclear power plant is about to start or has already started and is gearing up. So, we understand that overall, the Finnish market should be in fairly good balance with Olkiluoto going forward.

And I think furthermore, it is quite interesting that if you look at the Finnish growth, for example, there is still a sizable amount of wind power capacity or potential. And our understanding is that wind power investment cost per megawatt is reasonably competitive nowadays, probably more competitive than ever, and therefore, we believe that there will be investors, energy companies, who will be investing in that type of energy source in the future as well. So, I think it does maybe give us some relevant advantage.

### Patrick Mann

Are you factoring it into your strategy though? Are you saying, "Well, look, if we compare even a year ago and our outlook and our relative cost position to European peers, it's structurally different and we should be more ambitious about maybe European market share." I agree with everything you're saying, right? So shouldn't we see the Nordic countries in terms of energy intensive production and manufacturing – including stainless steel – shouldn't you become a much bigger proportion of Europe output?

### Heikki Malinen

Patrick, important question. I think short term, of course, we have been running full. With the capacity utilisation we have, we just don't have more capacity. So it would obviously require from us investments or other ways to further generate more volume in the coming years. And, that, of course, would not happen overnight.

### Patrick Mann

Got you. Okay. Let's watch this space. Thank you.



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### Operator

Thank you. Our next question from the line of Luke Nelson at JP Morgan. Please go ahead. Your line is open.

### Luke Nelson

Hi. Thanks for taking my questions. Firstly, just a couple of follow-ups on the cost side, which you've given some detail to, and obviously strong performance, particularly in ferrochrome. But at the pre-close call, you gave some numbers around the quarter-on-quarter impact from natural gas power and ferrosilicon. Can you maybe just talk through what the sequential impact is going to be for those elements within your Q2 outlook guidance? That's my first question.

### Pia Aaltonen-Forsell

Indeed. And I think, ferrosilicon, especially was one of those cost elements where we definitely saw an increase quarter on quarter from Q4 to Q1, could have been north of €20 million impact on the Group level and then obviously that really kind of a jump or peak seems to have been from our perspective happening quite a lot there, Q4/Q1. So I think there is still inflationary pressure there, but I don't see it quite as significant as it was from the Q4 to the Q1.

Then I want to say that for electricity, if I just take that part, I did initially expect that we would still have maybe some tens of millions of increase from Q4 to Q1 and in the end, we did not because the end of March was then so beneficial from an electricity cost perspective for us, so we were more or less stable and I would say maybe there is a bit of pressure up for the second quarter, but it's not that significant.

And then the gas situation that remains really a big open topic, I mean, obviously my natural answer should have been, we are contractually protected, and I could give you more clarity on maybe it is around €10 million increase or something like that. Now, of course, we all know that gas is under pressure and there are really significant movements in the price from day to day. So, I think that brings potentially a little bit more pressure into that area. But without any major disruption, I would say also here we are still talking about a pressure upwards, but we are not talking many tens of millions on Group level. Maybe it is more like 10, 15, but there is more uncertainty around the gas as we speak.

### Luke Nelson

Okay. That's very clear. And then I suppose just more broadly again with Group guidance, EBITDA high relative to Q1, can you maybe just give a sense of how that guidance would fair if we adjust for ferrochrome, which obviously we've got roughly a 30 million improvement in EBITDA with the new ferrochrome settlement and then adjust for the gains in the inventory and hedging, which sounds like it's potentially 30 million positive. So I'm assuming that's a potentially 60 million or 70 million sequentially tailwind coming through. Can you just – adjusting for those, how would the stainless steel business's margin proceed? Would they still see EBITDA improvement on a standalone basis?



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### Pia Aaltonen-Forsell

Yes, indeed. I think it's a good question. It already starts to be really specific, but I do try to at least give some information on some of the elements that are most important here. So, you touched on ferrochrome. You also touched on the net of timing and hedging. And I just want to say, with the metal prices, with the nickel price that we see right now, it would be a hedging loss and a timing gain. Just to be clear on that, that there is a net effect then that will be clearly positive. That is what it looks like right now.

And then you talked about what are the elements on the flat stainless side. Obviously, again there, not really a big change. Volumes more or less remaining the same. And then I would say repeat that, I mean, indeed there is inflationary pressure but our, of course, mitigation efforts have been really successful and as I just described, some of those details that we typically talk about, I mean, there are not that significant step changes in those, even though we clearly see a pressure. So, I would still say that there is a fair and good performance also from the stainless side. So, we are, for sure, observing still a good development here possible.

### Luke Nelson

Okay. That's very clear. Thank you.

### Operator

Thank you. Our next question comes from the line of Anssi Raussi of SEB. Please go ahead. Your line is open.

### Anssi Raussi

Thank you, and hello, everyone, and thank you Heikki and Pia for the presentation. First one is a simple one. So for which months or quarters you are currently booking your orders?

### Heikki Malinen

Okay, so if I answer that question. Thank you, Anssi. Nice to hear your voice. So we are currently booking orders for the end of Q3. So, that would be August/September.

### Pia Aaltonen-Forsell

Yes, and Anssi, I mean, it's usually Europe that we are talking about. You know that the US is operating a little on a different cycle. There, we are, I think, booking July/August, which is really typical for how we would operate.



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### Anssi Raussi

Yes, of course, talking about Europe here.

And you also mentioned that you see improving demand in Pro grades [ph 00:47:21]. Is this due to energy investments or what's behind this? Do you see it that this would have a significant impact on Q2 results already or later this year?

### Heikki Malinen

I'll let Pia comment on the implication, but I would just say that in terms of demand, demand for Pro grades is looking good. As said, there are some major bigger trends. You talked about energy. I think the reality is that now with this Russia/Ukraine crisis and the risk associated with supply disruptions from that market could ultimately lead to quite substantial investments in energy in Europe. And I think that will be an interesting area for us to focus on in terms of our sales. Of course, as commodity energy prices go up, oil included, globally that will also further increase the demand for the types of metals we produce. So, I think there's a lot of positive in those tailwinds in that sector as well.

### Pia Aaltonen-Forsell

And Anssi, maybe just to add that, typically the order book is here for a bit of a longer period of time. So indeed, there could be some positives in Q2, but it could also come a bit later in the year. So, this is not uniquely for Q2.

### Anssi Raussi

Okay. That's clear. And maybe the last one from me is just to clarify and to continue on the ferrochrome division. So basically, should we still use the old goal of roughly €10 million of EBITDA per €0.10 price or when thinking about the price delta quarter over quarter is there something specific to take into account in Q2?

### Pia Aaltonen-Forsell

Well, Anssi, we had this challenge with all this other inflationary pressure and other things happening around that, but as we speak and as per right now, that's kind of the best advice I can give for these circumstances. And we'll certainly come back if that changes.

### Anssi Raussi

Okay. That's clear. Of course, I understand the uncertainties. Thank you. That's all from me.





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### Operator

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

### Rochus Brauneiser

Yes, hi there, and thanks for taking my questions. Most have been answered already. Maybe on your 250 million programme, you were mentioning early on that this was also quite helpful in mitigating the cost inflation you are observing. How do you think about stepping this programme up again as we might be prepared that inflation is not moving your way too quickly, so are there any thoughts already at this stage for the phase two that you keep going and keep pushing on this side? That's the first question.

### Pia Aaltonen-Forsell

Yes. Thanks very much. And indeed, I think we have more than 700 initiatives that are still extremely early phase, so under evaluation. So, it is absolutely possible that a part of this could be a source also for our second phase improvements. And overall, it's just important as well that this way of looking at improvements, really driving them as projects, is also the security that we need in our type of industry, in just constantly fighting this battle on costs and on inflation. So I think both as a long-term way of working, it's valuable, but certainly we probably have other ideas in the pipeline that we can use also going forward.

### Rochus Brauneiser

Okay. That's interesting. Then secondly, sorry that I come back to the guidance and to the previous question. I'm not sure whether I got you wrong when you talked about this inventory metal derivative effects, which were negative 42 million last quarter. And you were just saying it could be positive, the same amount or even higher than that. So we're talking about 100 million or, let's say, it could be up to a three-digit million figure in terms of swing impact in the EBITDA. And if we adjust for that, how shall I think about the realised prices? I'm not sure whether you commented on that previously. I think volumes are flattish, your energy price is to mitigate. I'm not just sure whether your comments mean that your underlying earnings are flat or eventually downward.

### Pia Aaltonen-Forsell

Yeah. I don't see any reason to interpret it like that, the underlying earnings would be down, but I want to emphasise that exactly as you said, the swing to the positive in this net of timing and hedging will be a big number.



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### Rochus Brauneiser

Okay. That's helpful. And then maybe a more like general question. You're saying over the last couple of quarters, you're running at very high-capacity utilisation. What kind of quarterly numbers shall we think about what you would consider as an effective [? 00:52:54] capacity across the whole planned [ph 00:52:55] network.

### Pia Aaltonen-Forsell

Well, I would say, I don't think we have published as kind of a nameplate capacity figure. It's kind of a constant subject for also further work at our end, just looking at also the right number of shifts, how we are running the various operations, but it is true and seasonally also I mean I would expect the first quarter and the second quarter to be kind of in a normal sort of annual cycle, those where we would see really high-capacity utilisation. So maybe that's the best answer I can give right now.

I mean, I was just looking at some historical stats, looking at the development of our delivery volumes, from 2017, 2018, 2019, 2020, 2021, and obviously there's been the COVID lows, 2020 was a low figure. 2019 wasn't that high of a figure but overall if you look, of course, we've had a good rebound back to those times before all of these crises started to hit generally the industry as well.

So, I would say we have taken very many steps on that journey, on that rebound. And now of course the question going forward is, what can we do more? And certainly, we are working with those questions every day now.

### Heikki Malinen

Maybe I can just add to that that obviously, with the level of capacity utilisation we have and even though our melt is based on batch processing, we do see that with the high utilisation we are getting also efficiencies because we can run longer, we can use – we have bigger melts, we can use the same recipe multiple times consecutively and that basically gives us efficiencies. So, I think that is also for the generating not only high utilisation, but also then generating more volume. Vis-à-vis, when times were tough, we were kind of selling what was demanded. So, it was more difficult to run. So there's a big, big positive delta for us also from there.

### Rochus Brauneiser

Okay. No, this makes absolutely sense. Thank you very much.

### Operator

Thank you. Our next question comes from the line of Vishan Agarwal at Citigroup. Please go ahead. Your line is open.



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### Vishan Agarwal

Hi. Thanks for taking my question. Most of them have already been taken. If I can ask a question on the hedging policy. I mean, you mentioned a couple of times that the hedging policy has been successful. It has protected you in the high pricing environment. My question is how adaptive the policy has been in the current pricing environment, as in have you reduced hedging so that the current hedges in the high pricing environment doesn't get a burden later when the prices come down? How that evolution has been.

### Pia Aaltonen-Forsell

Indeed. Thank you very much. May I still ask that, do you mean particularly nickel hedging here or do you refer to something else?

### Vishan Agarwal

No, I mean electricity price. Sorry, my mistake.

### Pia Aaltonen-Forsell

Okay. So on the electricity price. So what our hedging policy is, that we are gradually building up our position typically actually with really delivery contracts. So, we don't want to be exposed to pricing only in a moment of time, so kind of when the moment is right, we actually build a rolling position over a period of two to three years. So, we have some really long-term contracts like you have seen us recently launch, for example, wind power contracts for ten years, etc. But then we also build a more sort of tactical position with contracts running over this rolling few years period.

And that means that we take positions gradually so that when we in the end reach the quarter, we have reached a very high percentage. We never hedge 100% of electricity simply because there could be variation in production volumes, etc. So we do need to leave a top layer there for spot market. But under the circumstances, for example, in the first quarter, we wanted to leave an extremely thin top layer and that is what our policy allows us.

So, we have, let's say, some ability to adjust, whether we really take the hedging up to let me say 90%-95% of the expected consumption, or if it's just slightly lower than that. But that variation is not huge. But that's kind of where we can, according to our policy, take the decisions then based on our best understanding of the overall situation.

### Vishan Agarwal

So, if I understood correctly, you had no decent flexibility not to take high pricing hedging so that your cost base is permanently increased for the next end of this year or for next year?



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### Pia Aaltonen-Forsell

Yeah, so there is some impact, but we have like funnels – I guess is the right term to use there – so we have some funnels inside which we can move. So, we have some flexibility, but we don't want to totally step out and not doing any contracting at all, but obviously we would always assess the situation and choosing which funnel we are. So, if prices are high, we would go for the lowest funnel. Let me maybe try to explain it that way.

### Vishan Agarwal

Sure. My second question is more on the Capital Markets Day, or the site visit you are holding in June. I mean, what should be the expectation in terms of key messaging? I mean, if I were to use an example of Kemi Mine, I mean, you've been doing this mine life extension programme for long. CapEx has gone into that. Should we expect some kind of a messaging that, "Okay, CapEx has peaked, and CapEx will come down there." Or any other potential key messaging?

### Pia Aaltonen-Forsell

On that specific question, I think it's fair to expect that we can show that the project is about to come to an end. It has been successfully managed and also from a CapEx perspective, obviously that means that it's kind of tailing off. We still have like 60/70 million this year and we will have some tens of millions next year. But physically speaking, we are sort of moving really towards the completion of the project. So I think that's one good example.

I mean, we certainly want to show both the mine, now stainless operations. We want to show what benefits we have from the integration, but as for the really detailed messaging and agenda, we will come back to that shortly. That's still at the moment under preparation.

### Heikki Malinen

What I would say from my side is I would expect it to be a great event and I would definitely recommend you arrive and book for those airline tickets.

### Vishan Agarwal

Sure, thanks.

### Operator

Thank you. Our next question comes from the line of Bastian Synagowitz of Deutsche Bank. Please go ahead. Your line is open.



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### Bastian Synagowitz

Yeah, thanks, and good afternoon, all. Heikki, can I just follow up briefly on Carsten's earlier question on balance sheet and strategy? And sorry to come back to that, but that is obviously still a key point for investors. The magnitude of your cash generation obviously does allow you to look at capital allocation in a very different way versus what it would have been the case even a year ago. And then without going into detail, I'm just wondering whether you plan to update on strategy or capital allocation from a holistic point of view? And maybe also whether you could give us a broad timing which you are envisaging here? That is my first question.

### Heikki Malinen

Right. So, I'm trying to answer that in a way to be informative but not say what we ultimately are going to say. But I think that first of all, what I would look carefully at is the journey we outlined when I joined. The first step was that we would de-risk the company and the second step was investing in core. So what I can say is investing in the core is still what's on my mind and I think you should read into that – well, I think the words in itself tell already something.

I think otherwise, indeed, I'm very happy where we are as a company. We are six months ahead in terms of, let's say, the targets we set. We've made extremely good progress. Of course, we have had a lot of tailwind from demand and that basically does put Outokumpu in a unique position. I don't know if Outokumpu has been this strong financially balance sheet-wise ever, we'd have to go very, very far into the past. So, it does give us optionality and what we of course – many things we can do and what we're now trying to figure out is how do we how do we prioritise the different things and how do we make sure that – I think what's really important for me at this juncture is that we have been able to institutionalise a way of working here over the last two years and I want to make sure that this way of working continues and we start creating a very, let's say, predictive track record in terms of our performance.

I think that is what I would say at this stage. And we will come back, as said, with Pia during the course of this year with much more detail, and a very holistic and comprehensive strategy then for you to react to.

### Bastian Synagowitz

Thanks for the colour. And in terms of the timing, is this something you planned to do for the third quarter or fourth quarter or are you still keeping all options open here in terms of the timing?

### Heikki Malinen

We are working very hard. I don't want to commit to a date, but I can tell you we're working very hard on this.

### Bastian Synagowitz

Understood. Then just maybe to get back then on the points you've made, and I think you've made a couple of very valid points. If we look at Outokumpu, obviously, as an equity story, it's probably fair to say it has not worked over the past



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decade. So I think it did very well in the recent past. But if you look back, it did create quite a bit of pain for investors which have been there for long. I think in fact, the current market capitalisation is not far from the amount of equity which has been raised over the past ten years or so. Is this something which is on your mind and which you aim to repay? In other words, do you see share buyback as generally something which is part of your toolbox as well?

### Heikki Malinen

I'm not going to comment on individual actions the company may or may not do in the future. But I would say that I understand the concerns from the past. The last decade was very tough for the company. And as CEO of this company now for two years, of course, my objective is to try and create a sustainable, consistent, predictable track record so that investors and stakeholders could see that this is where they are going and the plans make sense, and that when they say something, they will deliver.

And for Pia and I and my colleagues in Executive Committee of the company, that is the mantra we are repeating among ourselves. So far the last two years have gone better than we predicted. And that is the mindset that we have. Is that not the case, Pia?

### Pia Aaltonen-Forsell

Absolutely. And making sure that we have a very consistent delivery also of what we have promised to do. And I think the financial resilience, the strong balance sheet, will also help us with that also going forward.

### Bastian Synagowitz

Okay. Perfect. Very clear. Thanks to both of you.

### Operator

Thank you. And we have one further question. That's from the line of Patrick Mann at Bank of America. Please go ahead. Your line is open.

### Patrick Mann

Thank you for the follow-up opportunity. Just in terms of switching raw materials away from Russia, is that expected to have any impact on cost or is it just about sourcing supply? Thanks very much.



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### Pia Aaltonen-Forsell

Patrick, in the short term, what I would highlight is that there could be working capital impacts because obviously there are some supply chains that need to change, there are payment terms, there are delivery times, and all related items are certainly going to impact. So, I do see this as a pressure on the working capital in the short term. And then obviously for the longer-term perspective, it is more sort of the holistic development of, for example, the nickel pricing and what happens there that will really have an impact. So obviously there could be different scenarios into that. So, I don't think that is kind of Outokumpu specific, but definitely something we are watching.

But if I think about Q2, for example, I really also think about still some pressure on the working capital. Maybe it leads to for, example, AP development being somewhat worse.

### Heikki Malinen

I would just add one thing, if I may. We haven't really touched on ESG at all. I just want to briefly say regarding raw materials that we as a company are putting a lot of effort and resources into what we call responsible sourcing. Obviously, as you know, many of the metals we procure come from what we call, I guess, high-risk countries, and so we have a team of professionals which are doing really deep dives on location in these countries to understand and make sure that the way they mine, the way they conduct, that they don't break any human rights guidelines and so forth. This is an important part of our ESG roadmap, and I just want to make sure that you are aware of that, that we take this seriously and we're putting more resources behind it. Thank you very much.

### Patrick Mann

Understood. Thank you.

### Operator

Thank you. And as there are currently no further questions in the queue, I'll hand the floor back to the speakers for the closing comments.

### Linda Häkkinen

Thank you very much for following our webcast today and thank you very much for the very good questions. Before we close the call, I would like to remind you that we will publish our half year report on August 4th. But now, thank you once again, and have a good day.

### Heikki Malinen

Thank you.