

Outokumpu Q3/2022 results webcast

Outokumpu speakers:

Heikki Malinen, President and CEO

Pia Aaltonen-Forsell, CFO

Linda Häkkilä, Head of Investor Relations

Linda Häkkilä [00:04:05]: Hello, all, and welcome to Outokumpu's Q3 2022 results webcast. My name is Linda Häkkilä and I'm the head of investor relations here at Outokumpu. With me today, we have our CEO Heikki Malinen and our CFO Piia Aaltonen-Forsell. The third quarter, our financial performance remained very solid. And we also announced our first share buyback programme. Today, we will first start with the presentations. And after that, we're happy to take your questions. But now, before we'll 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.

Heikki Malinen [00:04:50]: Thank you, Linda. Good afternoon and good morning everybody. Welcome also to Outokumpu's webcast. Happy to present the results of the third quarter to you. So, we're obviously living in turbulent times. We have just finished a major pandemic with COVID. We've had the ongoing Ukrainian war now I guess almost for eight, nine months. And on top of that we now have at least in Europe an energy crisis which of course impacts this industry which uses a lot of electricity and gas. When you add on top of that the overall inflation we see in the economy, which is starting to look like it may be even sticky, you have central banks raising rates, reducing their balance sheets, tighter monitoring balance, maybe even eventually some type of fiscal policy in some countries. So, we see a market and a consumer who is going to be under a fair amount of pressure. So, against that backdrop, I'm extremely pleased to present the results of the third quarter. With 304 million euros of adjusted EBITDA Outokumpu has delivered its best Q3 in history. And particularly I'm pleased that we did it at a time when all of these challenges were starting to face us. I want to highlight a couple of things here, with respect to what actually was accomplished during the third quarter, how we got to the 304. Well, we've obviously delivered, we had very strong solid performance in our mills. They've been producing well. We've had maintenance. But within outside of that, mills have performed very well.

Heikki Malinen: We have continued to work systematically on cost mitigation. And have delivered, achieved the cost structure we needed to perform. On the ferrochrome side and you'll hear more from Pia today, ferrochrome has been very successful in the hourly optimization of electricity usage. And you know that the ferrochrome business is a large

user of electricity. So, the hourly changes in the electricity price can be used both to our advantage when we are agile in running our lines up and down. Now then, if we talk about energy, and that really is the topic of the day, we've prepared this slide for you to give you some context from the perspective of Outokumpu. So, in the left-hand side of the slide, you see our total energy consumption in Europe in 2021. It was 4.6 TWh. In the slide, you can see that roughly two thirds of the electricity was consumed in Finland. Part of that was ferrochrome and the other half was stainless. And then we of course have Avesta melt shop in Sweden and then of course other countries in Germany in particular. So, that's our energy usage. On the right hand side the chart you see the electricity price for Central Europe which is the black line. Then you have Finland, Sweden and Spain. And while all of these curves are trending upward, you obviously can see from the chart that if we compare the electricity price here at the moment in megawatt hours, euros per megawatt hour you can see that Central Europe compared to let's say the Finnish Swedish average, it's about -53 percent cheaper here in the Nordics. Spain is about at the Swedish level.

Heikki Malinen [00:08:44]: Now, typically Finnish and Swedish prices have been fairly close to each other. You can see that pick up in the Finnish price. The driver primarily is the result of two things. One is, Finland has used to import about 1300 megawatts from Russia. Due to the crisis, this importation has been discontinued. And at the same time, we are waiting the start of the Olkiluoto 3 nuclear power plant, which would bring, when it is in full production, 1600 megawatts to the market. So, we have now that deficiency or gap in terms of supply demand in place. However, it is our understanding that by the end of the year, at least based on Olkiluoto's information, they should be up and running. So, that would then bring some more balance to the Finnish market. So, that is sort of the overall picture here and obviously as we use a lot of energy, a lot of electricity in our melt shops and furnishes, so this number is of course very material. We're obviously not satisfied only looking at the cost of energy, but also very much about the consumption. And for that reason, in our release, we have announced the decision we've taken to accelerate investments around energy efficiency. We will deploy approximately 10 percent of our capex for 2023 and 2024, at least into this area. With objective of finding ways to reduce electricity usage, primarily now in Finland and Sweden, but also elsewhere where that's potentially possible. Pia will have a slide for you on that topic a bit later today to dive even deeper into the subject. But anyway, very important decision, eight percent improvement in efficiency. That is a very ambitious target for the next two years. But we think it's the right thing to do and we're gonna go after it.

Heikki Malinen [00:10:53]: Then a few words about markets, if we start from the lower left hand side, you can see the transaction prices. Again, these are spot prices. They are coming from outside source. On top of that of course we have our contract business. But I think this gives a bit of general indication of trends. Shouldn't be taken sort of as a point estimate, but more like a trend where things are gradually at the moment going towards. And you can see on this chart I think two key messages if you look at the period leading up to let's say the

second quarter of this year. You saw that there was a clear divergence in the prices in let's say the United States and Europe, vis a vis, China. China being the green line and then of course the U.S and Europe being the black and blue. And you remember the drivers of course that was Europe demand was extremely strong. We had of course super high freight trade from Asia. And also the demand in Asia was reasonably good. Now coming into the second and third quarter, that gap became very wide, and that basically triggered our distributor customers to start importing products from Asia. That started to flow into the market end of first quarter. Second quarter, we also saw a significant amount of imports also. Coming into the third quarter, also countries like China which had not been supplying stainless steel, because of the tariffs, for quite many years they were also entering the market in Europe for the first time in quite a while. So, now spot prices are adjusting, were adjusting in the third quarter, and that gap, as you can see from the chart particularly if you look at the light blue line. And the green line, you can see that that gap is clearly diminishing, making it less, let's say there's less of a business case for a European distributor then to import from Asia.

Heikki Malinen [00:12:57]: Looking then at the nickel chart on the upper right hand corner, of course nickel. It's been quite a wild year for nickel this year, particularly the second quarter. Looking at the last three months since the summer, I have to say the chart doesn't exactly show what I'm about to say, but if you just look at the average price here for the last three months, it's been surprisingly stable. And therefore, we've seen sort of nickel trail between let's say the 20 000 - 22 000 dollars per ton even as the market has been weakening. Now, what sort of could be the drivers of that nickel price, at least sort of I have three hypotheses. One is of course energy cost [?? 00:13:40] so in countries producing nickel, for example Asia, that's sort of giving a bit of a lift in their cost structure. We have also seen quite a lot of interest from electric vehicle producers for class one nickel. Maybe that's also contributing to that. And then there are certain large suppliers of nickel which reside in Russia and maybe there's a bit of a question about how the global crisis, the geopolitical crisis impact the availability of that nickel. So, maybe they're sort of contributing to where nickel is at the moment. And then on the lower right hand side you have ferrochrome price. As said, we had quite a long multi-quarter period when ferrochrome was rising. We even got to a bit over two dollars per pound. Now, since the summer, ferrochrome prices have been weakening. We've also seen the spot price in China be fairly weak, although in the last two weeks there's been a bit of a pickup. Obviously, very much waiting to see will China stimulate their own economy. And if that happens, of course then one could assume that demand for ferrochrome also locally could pick up. But let's see what the Chinese government then ultimately decides to do.

Heikki Malinen [00:15:07]: If we then look at our results, as said, quite an excellent quarter as far as we see it. 304 million. You see the bridge on the right hand side, but if we first start with deliveries, let me just say that overall Q3 deliveries compared to the second quarter -12 percent. Typically we have third quarter being seasonality wise the weakest, specifically

in Europe. And so, I would say that if seasonality let's say could be like -7, -8 percent, maybe even nine, then we have a bit more here than typical seasonality. We also took some maintenance in our plants during the third quarter. In the last year in 2021 we were running pretty much flat out so it was really necessary to maintain our lines. So, a bit more than seasonality. And if we then compare the third quarter to for example the third quarter 2020, when we were really at the bottom of COVID. So, we're still better in terms of volume than in that quarter. And with respect to the bridge on the right-hand side, so you can see the timing losses. They were quite significant. Pia will open that box or bar a little bit more for you. We saw lower prices in ferrochrome. I showed that in the previous chart. We also had lower iron. Iron cost went up and of course nickel stayed fairly high. And then, as said on the energy side, we saw that pressure from energy electricity costs. Specifically, I would say in the Nordics, following the midsummer in June when it became evident that Olkiluoto was not going to start as originally planned. Electricity prices in Finland and then of course Sweden started to move up. As we got into the third quarter. And that really did not start until around midsummer or let's say around July, when then trending upward when the situation with Olkiluoto became a bit clear or less clear.

Heikki Malinen [00:17:22]: Then if we move on and talk about sustainability. At Outokumpu safety is always a number one topic when we discuss sustainability. On the right hand side you can see the very positive curve in terms of our safety performance over the last years. However, I have to say that coming out of the summer we've had a very challenging third quarter. We spent a lot of time talking and working on safety, but in spite of all the efforts, the third quarter was not a good quarter for us on the safety front. On one hand, it is relating to the fact that we had a lot of maintenance. And in the last year we did have less maintenance and maybe that sort of explains it. When we have a lot of people on the sites, many activities, there is a risk that something happens. And so, we've had a few nasty accidents happen for which we're of course very sorry. And are doing our utmost to make sure they do not get repeated. As CEO of the company of course, it's my job to make sure everybody in the company stays safe. It's sort of an honor thing for me and my team. We have had last week in Outokumpu what we called a safety stand down. So every single plant in Outokumpu, including also white collar offices, have stood down, we have stopped activities, we stopped production, we've gathered together as teams to discuss safety, what are the issues we need to focus on, what are the priorities, how do we take care of each other. And so, with these efforts we're going to the fourth quarter and next year. I hope that we will be able to get back to the excellent curve we have been on over the last years. On recycling materials on the lower right-hand side, you can see that we are still using and will use a lot of recycled scrap. We are the largest user of recycled materials in our industry. And that is one of our key strengths here in our business. In the third point, I just want to mention, related to CO2 emissions, in June in our CMD we told you that we had started to kick off a feasibility study, looking at a potential investment in Tornio to produce biocoke. And of course in ferrochrome we use a lot of coke which creates CO2. So, the biocoke analysis is continuing. One thing I want to just mention here, our engineers have concluded that they would be also as a result of the process an opportunity to produce biomethane,

which would have a positive impact on our energy mix. So, the work continues and I hope that we can report back before the summer of next year on an investment decision. But let's see. Still, a number of things to do.

Heikki Malinen [00:20:26]: Then on strategy. So, as said, we completed phase number one in July. Six months ahead of schedule. Exceeding the targets. And so now we are in phase two. It's all about strengthening the core. It's very much about continued capital discipline and strong shareholder returns. Specifically given that the last decade was not a time when we excelled in shareholder returns. But now that's really a very strong focus. I just want to say that our teams have worked through the summer. We have had a good start in the different business line. You may recall that we have divided now BA Europe in to standard grades stainless Europe and to our advanced materials business lines. They have their own teams. They are focusing on their own customers. And I can just say that the beginning has been good.

Heikki Malinen [00:21:26]: And then my final slide. I want to just mention that Outokumpu's board directors have made a decision today to launch a share buyback programme for maximum 20 million shares. This is our first share buyback programme as far as I know. It's really the first in our history. Our balance sheet with a net debt of 90 million, our balance sheet is strong. It also allows us to reduce the dilution of the convertible bond. And I hope it also sends a good message to our investors about the confidence we as management have with respect to Outokumpu. So, with those words, let me hand it over to Pia. I will then come back to talk about the outlook and then we will be happy and pleased to answer your questions. Thank you very much.

Pia Aaltonen-Forsell [00:22:16]: Thank you, Heikki. And good morning, good afternoon everyone. And on that great proof point also of the focus in our second phase of the strategy, it's a pleasure for me to continue here. So, clearly, on the back of the strength and balance sheet, we were able to get the approval here from our board to launch the first buyback programme ever. This is up to 20 million shares. But let me talk through a few more points as well when it comes to our balance sheet. I mean, it's been a few turbulent years with COVID behind us, with a lot of turbulence in the market, current energy crisis, a war in Europe. But through this period, we have continued in Outokumpu to work on our internal plan to strengthen the company and the balance sheet. And we have truly repositioned our balance sheet. So, so much stronger now. Our net debt is down to 90 million euros. We have a very strong liquidity. It actually increased to 1.4 billion. We did a re-financing during the spring, as you may recall. So, we now have committed credit facilities up to 800 million euros that we are not used at the moment. The share buyback programme. And maybe one thing I also want to mention is something we work on a lot inside the company right now to complete the closing relating to the divestment of long product. So, in July, we signed a contract for the divestment of most of the long product's business with the exception of the

Degerfors long products site. And now we are really working towards the closing. So, let's see if every sort of procedure can be done by the end of the year or if it will be really early in next year. But I think the progress that we are making there is according to plan.

Pia Aaltonen-Forsell [00:24:12]: But let me talk a few more words around energy. From the perspective of what we are doing, we are launching new extremely ambitious targets. And to support that, we are also earmarking 20 million of our capex both for year '23 and year '24. So, 20 million more for energy than what we had intended before. But very much aligned with what we've communicated in our CMD on the approximately 200 million per year. You recall this that we talked about capex of 600 000 000 over a three year period. So, this is very much in line with that. And on one hand of course you could say it's obvious, it's from a financial perspective of course with these energy prices it's easier to find the payback calculations being very attractive. But let me still say a few more words of background. Maybe first just starting with where we stand in the third quarter when it comes to energy price increases. So, in the stainless or in the BA Europe business area, we did have an increase in costs of almost 30 million euros. Because of higher energy prices, in Q3 compared with Q2. And that's of course a very significant increase. In ferrochrome in the end, I think the final figure was an increase of 13. So, one three million in the quarter. But that's on the back of the very solid optimization programme that we introduced. And I really want to thank our ferrochrome team along with our energy sourcing team for the ability to really start that in a period of an energy crisis. And have even this hourly optimization working. However, it leads to lower production. And that of course then has kind of other consequences, as you have seen, also in our production figures. So, it's clear that we want to look at other opportunities, opportunities really for reducing the consumption and making our production more effective.

Pia Aaltonen-Forsell [00:26:29]: So, I think I want to share the next page here as well, that is actually the 2021 figure here is from our sustainability report of last year. And this is describing our energy efficiency. And you can see that this is the measurement that we will take. We will actually compare the year today figure that we have this year, and then reduce here by eight percent by the end of 2024. And that's going to be an effort particularly in BA Europe, but also in BA Americas and as well in ferrochrome. And our ferrochrome production is energy intensive. And when you look at that energy that we use, so about 3.1 at this point in time, when you look at that, then one third of that is actually the energy that we have used to produce the ferrochrome ourselves that then goes into the stainless production. And I think given our position in ferrochrome, we should not forget that there is also clear benefits for us. We are able to use some of the liquid ferrochrome going into the stainless process in Tornio. That's a benefit for us. Our ferrochrome production is a very low CO2 source into our stainless production. So, there are clearly many benefits. But when we look at the energy intensity, of course this does increase our energy intensity. So, this is an area where we want to focus in the next two years. I've put a few examples here on what we are doing. But I think in the end it is really about all of the heat, all of the energy that we

have in the process, that we in every step try to either reduce the consumption or be even better at the steering and how we are using it. And of course, improving yield always help.

Pia Aaltonen-Forsell [00:28:25]: So, we already as we speak have laid out the plans., But there is of course now a high level of activity needed in the next year to carry this through. Maybe I have one final word on energy still in my presentation. And that is that in our communication throughout this period of energy crisis in Europe, we have also talked about our hedging, so how we are prepared. And I think that during this autumn we have also really worked a lot with that inside the company. And I think now if I look into the fourth quarter obviously, we have already said before, we are pretty happy with the hedging levels we have achieved. We are pretty well covered. And also, I can report that now when I look into 2023, we are at I would say fairly satisfactory hedging levels. So, as you may imagine, we have now been doing new hedges in an environment where forward prices have been more on a rising trend. However, I think all in all, it's a good balance, and it's a good insurance for us going into next year. With the current production forecast that we have for next year, we are just a little bit shy of 60 percent hedged in the main markets where we are using electricity. So, I think that has been a good achievement during the last few months here.

Pia Aaltonen-Forsell [00:29:51]: But now I change a bit gears. Energy is very important, but there are a few other key messages as well. From all of the key figures that we are looking at here, I will return to a few important ones. Both when it comes to the result, as well as when it comes to the cashflow. But I still want to point out here, the operating cashflow in the quarter was strong. We had 238 million euro cashflow and net debt did indeed decrease to 90 million euros. The EBITDA that we had on a group level, as Heikki already shared to you, sort of the main features there. But we did have a fairly significant negative impact from net of timing and hedging. And I think I received so many questions of this. So, I still want to repeat that timing in our case is really about the difference of pricing in and out when it comes to the metal values in what we do. So, nickel is a good example, usually having a big impact. And with nickel we are able to do some hedging to mitigate that. But there are also impacts on ferrochrome. There are impacts from iron for example or for example from moly. So, all of these kind of go into that bucket. And there is no way of kind of fully mitigating the impact, but of course a good working capital management along with some hedging can help to some extent here. We have some other metal impacts as well in our result, but maybe I'll come back to those later on.

Pia Aaltonen-Forsell [00:31:29]: Let me move onto the European result. I mean, this is a good result despite a very challenging operating environment. With that I mean the energy crisis. But I also mean the market environment where we are clearly moving into more of a destocking sentiment among distributors. I think that we have been talking about already for many months. And I think our decision during the summer to have a more focused

approach within BA Europe on the two main customer segments. So looking separately at the commodity side, and then on the other hand having really a focus team working on the more value added, on the advanced material side has proven to be a very good decision also in this kind of changing market environment. So, we still have the different market sentiment and also the different needs in the different segments here. I think it's probably one where it's fair to say that the commodity market has been impacted by the high import shares, by clear destocking around distributors, but also by this uncertainty that is operating environment in Europe has caused. And I still have to say, I think that we have done fairly well in this very uncertain environment and we have been able to continue operating according to our plans. Realized prices indeed were somewhat lower during the quarter, and I think this reflects to the big share of commodity that we have here. But the mix was a bit better. And the demand on the advanced material side has continued to be on a very healthy basis, even strong in some sub-segments, oil and gas and maybe in some heavy industry, for example. Distributor inventories still remain on a fairly high level. So, I think it's fair to say that we are moving also into the fourth quarter in this sort of area of bigger uncertainty broadly in the market.

Pia Aaltonen-Forsell [00:33:34]: Let me move quickly here to BA Americas. This was a historic really good result. I actually think for the first time, within Outokumpu BA Americas was the business area to have the highest result. And I'm sure that you have observed here that we still have had prices that have kept on a good level throughout the third quarter. What is now also clearly happening in Americas, in US in particular, is that we see distributor inventories on a high level. And we see the destocking really happening amongst the distributor customers that of course are a really important part of our customers in this market. So, destocking is heavy. And on top of the destocking obviously there's inflation, higher interest rates, so this market is going through a lot of sort of hardship or tough times as we speak. And I'm sure that that's gonna be visible also going forward. I would also remind that the fourth quarter is typically seasonally weakest quarter in the Americas business. I think if you look back many years, that's always been the case. 2021 was maybe a bit of an exception where also the fourth quarter was really strong.

Pia Aaltonen-Forsell [00:34:51]: And then finally, coming here to the ferrochrome, I think indeed we have talked about the energy optimization that helped keep the costs on a better level, but at the same time it did reduce our production. We have seen here a market where obviously we have struggled with higher electricity prices. But if I look sort of broadly through this market, there has been some hardship and struggle also amongst other producers. And at the same time, the very harsh COVID policies and various sort of other maybe problems through have been also visible. Not only in the fact that the sort of spot prices were initially lower during the quarter, but also production has been reduced. So, finally I think we have now seen a bit of an optic in the spot prices. And I think the market is here certainly still sort of looking for that balance. Maybe you have noted also that we have the deep mine project finalization now time to be early in the first quarter of next year.

Pia Aaltonen-Forsell [00:36:05]: Well, cashflow. As I said before, I'm certainly happy with the strong cashflow. Taking our net debt to a really low level. What we have seen a bit apart from what we expected was a somewhat of a buildup still working capital in this quarter. And when I look into the different components, I think accounts receivable have kept on a high level, still supported by what you have also seen being realized in terms of the stronger revenues in the third quarter. But accounts payable have already clearly declined. And accounts payable are of course impacted on one hand by the fact that we are now going into a sort of more weak market environment. And looking into the third quarter, we have also had maintenance. So overall our raw material purchases have been somewhat lower. And I think that's definitely also impacting then the AP balance that has been clearly lower. I think inventories were generally reducing according to what we expected. I think our inventories were like 2.3, 2.4 billion in the second quarter. Now we were down to 1.8, about. So clearly reducing there, according to what we were foreseeing. The capex this year is still going to be 180 million euros.

Pia Aaltonen-Forsell [00:37:34]: And then for my final slide for today. Lowest net debt in the industry, clearly making our company more resilient. It's a turbulent time in the economy, but I think from inside Outokumpu, we are well prepared. I think when you look at the gearing, when you look at the components here, when you look at the net debt, clearly this is a stellar performance. So, maybe I actually need to think about changing this slide to something else in the future. I'll give that some thought and come back in the next report. But back to you, Heikki.

Heikki Malinen [00:38:07]: Thank you. That's a really nice slide to finish your financial section. So, before I just state the outlook for the fourth quarter, let me just make some general remarks still about the business from our standpoint. Obviously, we are in a situation here now in the global economy where we have supplier bottlenecks, we have the war in Europe, in Ukraine. That is creating inflation pressures. In the US, We have a strong economy still. There's also a lot inflation. We see central banks raising interest rates, starting from the US, pretty aggressively. It's going to be interesting to see will we have a hard or soft landing as we head into '23 or '24. But that just shows that we are living in the time of a lot of market uncertainty. What will China do here, will they stimulate the economy, and if, when and how much That impacts Asian demand. It impacts global supply demand balance for stainless steel. But against that uncertainty I still want to underscore the fact that the demand for stainless long term is growing. This is a growth market, and it just happens to have the seasonal and the cyclical seasonality built into it. So, with those words, let me just summarize our outlook for the fourth quarter. So, our group stainless steel deliveries in the fourth quarter are expected to decrease by about zero to -10 percent compared to the third quarter. The European ferrochrome benchmarked price decreased to 1.49 dollars per pound for the fourth quarter. Ferrochrome production continues at roughly

50 to 60 percent of its full capacity, due to the furnace shutdown and the optimization of the ferrochrome production. Which is caused by the exceptionally high electricity costs. And with current raw material prices, raw material related inventory and middle derivative losses, they are expected to be realized in the fourth quarter, leading to a guidance for Q4 which is that our adjusted EBITDA is expected to be lower in Q4 compared to Q3. So, that's the outlook. And we are now happy to take your questions.

Host: If you wish to ask a question, please dial star five on your telephone keypad to enter the cue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Anssi Raussi from SEB. Please, go ahead.

Anssi Raussi [00:41:03]: Thank you. Good afternoon everyone. I have a few questions and I go one by one as usual. The first one is about Europe. In which months your orders were booked? Which you delivered during Q3. Thinking about the mix in terms of timing of orders, receive them then of course how should we think about Q4 as your profits were at such a strong level in Q3.

Pia Aaltonen-Forsell [00:41:33]: Hi, Anssi. Thanks for the question. I think what we have seen now is sort of more the normalizing of the order stock that we have. So now, I would say we are more in the typical sort of three to four months scheme. So, for example right now in Europe we are booking early into next year. So, with that in mind, kind of counting backwards, I think there's approximately three to four months is correct for the commodity. And then of course with the advanced materials it is indeed slightly longer than that.

Anssi Raussi [00:42:08]: Great. And the next one is about business area Americas. So, what was the main reason for such an improvement from Q2 if you think about your EBITDA excluding timing and hedging items? And of course volumes will come down in Q4, but then the other elements to take into account when thinking about the next quarter.

Heikki Malinen [00:42:32]: I would just say if I start here that we have had a very strong order book coming to that period. And we were able to produce that order book and basically flush it out. And as I said earlier, in the American market, customers react very quickly. They have typically a very short visibility with respect to their own demand. So, when they make a decision to destock, it's almost like going over a cliff. And that's why I think the change can seem a bit abrupt. But that's just how the US market goes. When it goes down, but also when it goes up.

Pia Aaltonen-Forsell [00:43:15]: What I would add there is, obviously I understand there's a lot of focus on timing and hedging because those have been really big amounts. But on top of that, you have seen also that we have noted some positive benefits more broadly from the metal spectrum also into the quarter. And I think that's on the back of the raw material related situation. That what you see and observe in the market. And as Heikki just told, when you have these quick changes in the market, there is also a strong impact on the raw material market. And if demand is low, there can be situations where it's more favorable from a producer's perspective. And I think we have been going through such a period. I don't know if that can really sustain. That sort of benefit only occurs in that kind of momentum, when demand is low and you don't know where it's going. And I think right now typically what we would expect, the seasonality, kind of going later into the year is then that Q1 is seasonally stronger. That would be the normal pattern. So, that's why I wouldn't bet on that sort of situation just continuing into Q4. That's maybe one addition.

Anssi Raussi [00:44:34]: Okay. So, if we talk about the cheapest scrap prices in Q3, have you seen any changes in terms of pricing mechanism between alloy surcharges and so-called all in pricing?

Pia Aaltonen-Forsell [00:44:49]: I think this change very much also follows the magnitude of imports there are into Europe. So, that's maybe also always sort of a good indicator or hint to follow.

Heikki Malinen [00:45:02]: Indeed. Because the Asians have a tendency to use the fixed price model. And when you have a lot of imports, the share of that type of business does increase in the market.

Anssi Raussi [00:45:16]: That's clear. And the last one from me is about long products. Are there any uncertainties related to this divestment like competition authorities or any possibility that the buyer could actually withdraw from the deal at this point?

Pia Aaltonen-Forsell [00:45:33]: I have to say, there's a lot of work relating to closing a deal like this. And I think we have actually reached every milestone so far that we wanted to reach. So, from that perspective, I really couldn't report about any uncertainty. But certainly still some work remains. And when it comes to this EU clearance, we are still in that pre-filing phase. So, obviously, not foreseeing anything in particular or any particular difficulty. But that's kind of still the phase we are in.

Anssi Raussi [00:46:06]: Thank you. That's all from me.

Pia Aaltonen-Forsell [00:46:08]: Thank you, Anssi.

Host [00:46:15]: The next question comes from Rochus Brauneiser from Kepler Cheuvreux. Please, go ahead.

Rochus Brauneiser [00:46:24]: Yes, actually it's Rochus Brauneiser from Kepler Cheuvreux. A few questions from my side. The one is on the inventory losses you recorded. I think it was a much bigger number in Europe, 88 million versus 32 million in US. Can you give us a bit of a guidance why that differed so much between the two of us, is that more pricing related or the level of stocks you have? And based on the dynamics you were flagging to for the Americas, shall we expect more inventory losses from that region in Q4?

Pia Aaltonen-Forsell [00:47:08]: It's a good question to specify this further. And I think I really want to clarify that when I use sort of more our internal language, I talk about timing and hedging. And I think our official term is this raw material related inventory gains and losses there, along with the hedging obviously. But what we really mean by that is not just technically if we need to take provisions in our accounting. That is a small part of it, and I think there was like 17 million in the quarter. But a bigger part of that is to say we have some stuff in our inventory. We bought it at a certain metal value. We are selling it at another metal value. And there's a change in between. And I think we are still with where we see prices of nickel and ferrochrome and for example iron right now. We would still expect there to be some losses also in the fourth quarter. I think we wanted to try to be more specific about our view. We talked about them being significant in the third quarter, and we only want to talk about losses in the fourth quarter. So obviously, smaller of nature. But I cannot see that I would kind of see them suddenly moving more away from Europe and into Americas. I think it's more having to do with what actually we have at hand in inventory, where I think we are normally involved BAs. And then also what our order stock is. And one thing to mention then maybe is that US is seasonally weaker in the fourth quarter. So, would expect there for that reason obviously the volume to be a bit lower.

Rochus Brauneiser [00:48:59]: The second question is, referring to your America's performance, I guess as you said before, that was quite terrific and your underlying margin doubled quarter on quarter, which is quite exceptional. So, maybe can you help a little bit on your bridge? I think you were flagging some other gains in that bridge until the last column in the bridge. Which could be something like 40 million. Can you talk about the nature of that effect? Maybe I got you wrong on your comments on pricing mix. I know what the market has been doing. I know you had booked inventory losses. So, why could the

price mix be so exceptional on a quarter to quarter basis? Maybe I missed that point and your remarks.

Pia Aaltonen-Forsell [00:49:52]: To be fair, I think that has part of to do with how we group certain items here. So, some of those metal related benefits go into that pricing impact bucket there, in our report. So, you shouldn't read it just as sort of change in base prices. And I think that's the reason for the potential confusion here. And then as to that other, I think our IR actually did an update on that graph a few hours ago. And I think that's the reason why you have been sort of early adaptor looking at the slide. And we have made a short update there. So, it positions a part of this change more into the cost bucket. But the nature of that was that there were some sort of more once again in the big picture relating to how we value inventory. Some items that were very negative in the second quarter, and then they were positive in the third. And then the bridge happened to be then 40 positive, but it was on the back of having these opposite numbers almost in the quarters. But there is an updated inversion on that, and I hope that makes it a bit easier to understand if you look at that update in bridge. Sorry about that. Apologies.

Rochus Brauneiser [00:51:24]: No worries. Sorry, I'm asking again. So, I understand that this is not obviously purely related to the base prices. Shall I expect that some of the effects or cost pressures here on the energy prices is also going as a positive into your price mix figure? Because there is some kind past rule in one way or another. Is that also an effect or contributing here?

Heikki Malinen [00:51:56]: Basically, we don't comment on the details and guidance on our pricing. So, obviously there are different elements and energy may or may not be a part of that, depending on the business. But we will not open that in detail.

Rochus Brauneiser [00:52:16]: Got it. And then, maybe on your long products division, I think in the [?? 00:52:25] you were recording a loss? And when I looked at your cash flow statement, it appears there might have been an impairment in this business. Can you comment on that?

Pia Aaltonen-Forsell [00:52:36]: The reason for that is that we have now classified the long products business as available for sale. And then based on accounting rules. When it's not more sort of normal part of the continuing operations, but it's rather something that is held for sale, then we had to go through this whole exercise line by line of trying to estimate the final impacts of the deal. And that led to an estimated impairment of about 30 million euros. And I think that's what you see there. The operation result was strong of long products in the third quarter as well.

Rochus Brauneiser [00:53:14]: That clarifies. Many thanks.

Host [00:53:25]: The next question comes from Krishan Agarwal from Citi Please, go ahead.

Krishan Agarwal [00:53:33]: Hi, Pia and Heikki, and thanks a lot for the presentation. My question on Americas has broadly been answered, so I'll probably ask a question on net debt, which has gone significantly lower. And then you come up with the share buyback as well. Would you be able to give us an update as in are there any kind of a cash hold you have for the net debt or net debt to EBITDA in the current context to the stronger balance sheet and how long can you continue this no shareholder returns in the next 6 to 12 months point of view?

Pia Aaltonen-Forsell [00:54:08]: It's an important question. I think as far as our financial targets go, what we published during last summer was a really important statement with the combination of a continued strong balance sheet. So, leverage clearly, we want to keep it below one, under all sort of normal market circumstances. And then we also want to be steady and have a steady and growing dividend. So, the focus on the shareholder returns needs to equally be there. And that's what we have commented in the summer and clearly that is still valid. Those are our financial targets. So, we stick to both.

Krishan Agarwal [00:54:51]: I get that. Does it mean that still the time you reach to 1 time net debt to EBITDA you probably can let the balance sheet get up a little bit to maintain these buy backs?

Pia Aaltonen-Forsell [00:55:03]: I think this gives us some flexibility. But I just want to show you it's our clear intention to really keep a very strong balance sheet. And in a period of uncertainty like we have right now, I think it's really good also to have some buffers. So, we clearly have high liquidity, lot of unused committed credit lines, and still expectations of course also towards the end of the year to be able to continue to deliver a good cashflow.

Heikki Malinen [00:55:34]: As I said, we don't know whether we're gonna have a soft landing and then sort of COVID type of rebound or whether this is going to be a hard landing which takes longer time. And I said we want to be prudent here and make sure that we will remain competitive, but also balance sheet wise strong throughout the period of weakness in the markets, however long it takes.

Krishan Agarwal [00:55:58]: Understand. And then quickly final question on ferrochrome. I remember last time we had a discussion that the electricity cost in ferrochrome net of the production adjustment is not going up that significantly. So, how should we think about electricity cost in ferrochrome in Q4? Given that you're saying ferrochrome is operating on yet like half the capacity, apparently.

Pia Aaltonen-Forsell [00:56:23]: The reason for operating at half the capacity is really that balance of what we know what we can sell at, and then on the balance of that the higher electricity costs. So, with this optimization we are able to keep the electricity cost under control. So, we had an increase indeed, Q3 compared with Q2. It was 13 million. So, it was much smaller than that we feared sort of at the peak of the electricity spike there. But with the optimization really the target is then that we don't have this escalating electricity cost, but it comes at the expense of lower production.

Krishan Agarwal [00:57:09]: Understood that.

Host [00:57:16]: The next question comes from Patrick Mann from Bank of America. Please, go ahead.

Patrick Mann [00:57:25]: Good day, Heikki and Pia. Thank you very much for the opportunity. I really liked the chart of the electricity prices in Finland and Sweden relative to the rest of Europe. And it's kind of giving me two follow up questions. One is, how do you think about Outokumpu's relative cost position now in Europe? Given these changes in energy prices in the different markets. And then the second question is, it seems like high energy prices are spurring you to invest in energy efficiency and trying to manage that. But at what power price would it just become impossible to produce ferrochrome? At what point would you say there's only so much we can optimize and at this point we don't have the power to do this?

Heikki Malinen [00:58:18]: Of course, if I could start, I guess obviously we're not privy to the detailed figures of our competitors' cost structures. But looking at the shape of the curve, you saw the -53 percent on that chart, energy being a big component. So, there has to be some level of gain or advantage we have at least momentarily based on that curve. But again, this is sort of outside in analysis that we can only perform. So, we do assume there is something there. In terms of ferrochrome, I don't think we can really give you a number per se regarding what is the cut off price. I have to say though that I've been really pleased with the success of the energy optimization we've been able to do on an hourly basis seven days a week 24 hours a day. And that basically has allowed us to really run the facilities in a way where we actually have to bring down the production very rapidly, and then ramp it up. And

that actually allows us to bring the average price down. So, I don't know if there's really one set of a number per se. Because if the price goes high and we're able to benefit from that, you still can bring down the average. Anything you want to add?

Pia Aaltonen-Forsell [00:59:39]: I would add that the optimisation capability is really important going forward. Because what we will observe is much more volatility in the spot pricing in the electricity market also in Finland going forward. And the higher and higher share of wind power and renewables lead to a situation where on a windy day we really see extremely low electricity prices. And then again, that situation can change rather quickly. So it seems that this capability to optimize in this type of production like ferrochrome is where electricity is really a very big share of the costs is just really vital. And that is why now with keeping this at between 50 and 60 percent of the production, we are able to both sort of use any hedging position that we may have to our benefit, and then also to use all of the opportunities with normal or low energy price, and then cut the production at those peaks. So, I think it's more about that than... I don't expect a stable electricity price going forward. This volatility will continue based on the type how the production structure or the supply structure has changed.

Heikki Malinen [01:00:55]: As we head into the winter, Finland's energy or electricity demand is about 15 000 megawatts, and about 4 500 of that will come from wind. We will have about 1 000 megawatts of new wind capacity coming per year. So obviously within a couple of years' time, with Olkiluoto we will be more than well satisfied as far as electricity supply. But I think with wind being, one day you have a lot of wind and then you have nothing, part of the success is to be a really good weather forecaster. The better we are at forecasting what hour of the week of a day there's no wind, then we can optimize. I guess we're really reading those weather charts now everyday.

Patrick Mann. [01:01:43]: Sounds like you need a big batchy. Thank you.

Host [01:01:52]: The next question comes from Moses Ola from J.P Morgan. Please, go ahead.

Moses Ola [01:02:02]: Hi, Heikki. Hi, Pia. I just wanted to ask a question on the sequential price mix effect. So, specifically what would you say is the contribution from pricing the mix itself and then the positive metal impact, and there where you could break that detail down segmentally? So, different between Europe and America. [?? 01:02:26] for my next question.

Pia Aaltonen-Forsell [01:02:28]: I do think that these positive metal impacts have been a very significant part of the positive change that you see there. Because if we look into the pricing structures, they have held fairly well in Americas through the third quarter. But if we look into Europe, we have already seen this pressure down on the commodity side. So, more there sort of positive from the metals. And then I would also say that the mix has had a positive impact in Europe, but it has not been that big.

Moses Ola [01:03:02]: What are your expectations then for that metal impact, metal impact in the Q4? If that's something that's sustainable.

Pia Aaltonen-Forsell [01:03:12]: I think just sort of more thinking about the market sentiment. I think those are more like things that occur in certain market sentiments. And it wouldn't be typical to see that continuing the way the world is right now. But this is not something, it's still early November. It's maybe a bit early to say for the full quarter.

Moses Ola [01:03:37]: I also wanted to ask just following with Patrick's question on the energy savings. Could you quantify perhaps the cost savings after the efficiency curve [?? 01:03:49] done [?? 01:03:49] in a quick back of the envelope calculations on 2 300 kilotonnes of [?? 01:03:57]

Pia Aaltonen-Forsell [01:03:58]: It is such a good question, but it really depends on what assumption you make vis a vis, the electricity price or the gas price. So, that amount could really vary. But it's clear that we are looking at benefits of several tens of millions regardless of if we would take a fairly modest assumption on further electricity and gas price increases. But I think that's why we just need to start from... We are fairly transparent on for example how much electricity we use. We are fairly transparent on our energy efficiency. And we will report very transparently on how our energy efficiency is improving. But then the exact cost impact will naturally depend on the price development.

Moses Ola [01:04:51]: Then just finally from me, some of your peers has guided to a working capital release in Q4. What are your expectations on working capital, are you expecting a release and if so what are the building blocks? Do you expect undergoing some maintenance to limit production inventory Q4?

Pia Aaltonen-Forsell [01:05:12]: Just sort of looking at the patterns and where we are right now, I would expect the modest working capital release into the fourth quarter. I mean, it still depends on our final view on the first quarter. And I think there's a bit of observation time left here right now. As said, we are selling sort of the early part of Q1 right now, and at

the point where we see the full pattern, then we will also decide on where we finally leave the inventory level at the end of the year. But typically, we would not anymore reduce inventory in a significant way from Q3 to Q4. Rather there could even be a slight uptake on the inventory side. But given how the market development has been, how the volume development has been, I would look at account receivables coming somewhat down, and maybe we'll get a bit of a rebound in accounts payable that were really very low at the end of the third quarter. So, those are the elements. But at this point I wouldn't expect any sort of significant downtick here. But a bit of a release.

Host [01:06:24]: Please, state your name and company. Please, go ahead.

Ioannis Masvoulas [01:06:33]: Hello. This is Ioannis Masvoulas from Morgan Stanley, Can you hear me?

Pia Aaltonen-Forsell [01:06:36]: Hello. Yes. Please, go ahead.

Ioannis Masvoulas [01:06:40]: Hi. Thanks very much for the presentation. Just a few questions left from our side. The first on ferrochrome. So, utilisation rates remain low in Q4. Price [?? 01:06:52] pricing is coming down. And you have some energy hedges in place. Do you still expect to be positive EBITDA in Q4 and I guess Q1, based on what we know today in terms of the inputs?

Pia Aaltonen-Forsell [01:07:07]: Yeah, I would say the sort of driving force for us also to put in place this programme with the energy optimization has been to ensure that we can run in black figures. And that has then led us to decisions at point to stop production. And that is really the philosophy that we have here. So, based on that philosophy I would say yes. But without judging now every individual element, especially going into Q1, there's a lot of things we don't know. But we know the price for Q4. We know how we are able to optimize energy. So, I think we have a very fair or decent chance indeed. Even in these very difficult market conditions to end up with some sort of reasonable EBITDA figure.

Ioannis Masvoulas [01:07:56]: Second question on Americas. You talked about clear signs of weakening in Q3 which I guess that extents to the rest of the year and into next year. Is it more driven by distributors or are you seeing some of the key end customers coming under some pressure? Is there any specific industry that you would highlight here?

Heikki Malinen [01:08:18]: As you know, the bulk of our sales in the United States goes to distributors. And if you look at our customer's business, typically we can compare the average order size. It's in the thousands of dollars when our orders could be in the hundreds of thousands or even millions. So, it's a very fragmented business, very short visibility. Like hours or days. So, therefore, the products just get straight over so many end uses. I would say it's almost impossible to say this sector is weaker than that. But as I said, our customers are having fairly limited visibility at the moment in the US. What they're telling us is that they intend to basically destock here before the end of the year, before the financial year is over. And I think that is kind of the American way and that's kind of explaining how we also see the fourth quarter would probably go through.

Ioannis Masvoulas [01:09:17]: Understood. Last question. If we can go back to slide seven around the EBITDA bridge, Q3 versus Q2, I think you mentioned that large part of the positive you've seen pricing and mix relates to metal effect [?? 01:09:36] raw material pricing effects. Which was a positive. And then there's a negative [?? 01:09:41] again on raw materials given by timing in the other bucket, the net of timing and hedging. Is that right? And then what would be the net effect across raw materials [?? 01:09:52] for the quarter?

Pia Aaltonen-Forsell [01:09:56]: It still seems that the negative timing impacts are bigger.

Ioannis Masvoulas [01:10:06]: Sure, but in terms of what you're classifying under the two different buckets. If you could just maybe elaborate a bit on that on what you include in one bucket and what you include in the other bucket in terms of raw material price changes. That would be useful.

Pia Aaltonen-Forsell [01:10:28]: In terms of what we include in the net of timing and hedging, then what we include there about change in the value of nickel, ferrochrome, iron, moly, I think those are the most important components there. So, really the difference between the price in and the price out. So, that's sort of the margin change that we see there in that bucket. And we try to mitigate that by hedging a part of the nickel that we have. But we are not able to hedge the others. And then in terms of the pricing and mix, I think that from the kind of big green bucket that you see here, in other quarters, the sort of construction could be different because there could be other impacts from base price or from mix, bigger impacts, etcetera. But this time in this quarter I think it's really predominantly the positive metal impacts that are coming through there. So, that's more maybe driven by the sort of actual situation in the raw material market that is at hand in the period.

Ioannis Masvoulas [01:11:36]: More scrap or...?

Pia Aaltonen-Forsell [01:11:38]: It could be scrap for example, yes.

Host [01:11:50]: There are no more questions at this time. So, I hand the conference back to the speakers for any closing comments.

Heikki Malinen [01:11:57]: Thank you to all of our listeners, analysts, for joining us on this call. A couple of summary remarks. First of all, as I said, 304 million euros of EBITDA in Q3, the best Q3 in our history. A big thanks to the whole Outokumpu team for delivering that great performance. Looking forward phase number two. We have had a good start. Our teams are really working diligently to start executing on our targets on the commercial side in particular. We're making good progress. Talking with our customers. Trying to solve their problems. And delivering value to them. Energy, as we said, is very important for us. The chart on energy costs Finland -Sweden vis a vis other markets. There seems to be an interesting story developing there. We are not just sitting here waiting to see what happens with electricity prices. We've announced an ambitious target to raise our efficiency by eight percent by the end of 2024. And we're putting capital at play to deliver also that performance. And finally, I want to say, the balance sheet at 90 million, this is the strongest balance sheet in the industry. It puts us in a good position, gives a good resilience as we potentially move into a soft or hard landing, whatever there is to be coming down the road. And then of course the share buyback today, the first in Outokumpu's history as a company, very happy to see that take place. And then finally, one more very important thing. Sustainability. In our capital markets day in July we launched our new product, Circle green. This is the carbon with the lowest carbon footprint in the industry. I'm happy to tell you that we have spoken with a lot of our customers here in Europe and the United States. Not only end users, but also some distributors have shown real interest in this product. So, it's early days with Circle green, but it's a good start. It gives me a lot of confidence that we're doing the right thing for our customers here. And I look forward to telling you more about that in the future quarters. Take care, and look forward to seeing you then at the end of Q1. Thank you.