Questions from shareholders and Outokumpu's answers

Shareholder's question:

Limited Liability Companies Act, section 9, paragraph 4, on "directed share issue" sets a requirement of a weighty financial reason for a directed share issue.

In the Annual Report, the Company states:

"In May, Outokumpu completed a private placement of 40,500,000 new shares to institutional investors and raised EUR 209 million, for the purposes of deleveraging and strengthening the balance sheet"

Deleveraging and strengthening the balance sheet are not weighty reasons in the meaning of the law but normal actions to improve the standing of a highly indebted company. What was the weighty reason that was considered a justification for a directed share issue below market price? Was there a threat of insolvency or even bankruptcy? If not, the company has clearly acted against the law.

Answer:

Outokumpu Board of Directors resolved on May 10, 2021, to carry out a directed share issue. The resolution was based on a decision by the Annual General Meeting on March 31, 2021, to authorize the Board to decide on share issues, including directed share issues, with certain restrictions.

The shareholder presenting the question is absolutely correct when stating that the Board of Directors' ability to decide on a directed share issue is limited by the requirement, in the Limited Liability companies Act's (LLCA 9:4.1), of a "weighty financial reason for the company".

At the time of the share issue, Outokumpu's balance sheet was clearly weaker than those of its European competitors. The company had more debt and higher interest expenses than the competitors. As a result, the company's credit rating was modest and its position in the financial markets was weak. At the end of 2020, Outokumpu's interest-bearing net debt exceeded one billion euro and the interest expense amounted to 78 million euro.

The company's Board and management concluded that a reduction of the company's indebtedness by new capital of some 200 million euro would be appropriate. With the share price of that time, that amounted to a relatively small, less than 10% addition to the overall number of shares. The subscription price arrived at 5.15 euro per share, only some 5.7 % below the closing price of the previous day's trading. This discount can be considered modest, and therefore good from the perspective of the company and all its shareholders. It was possible to arrange the accelerated book-building at a beneficial time on the markets and, due to its speed, it was also a cost-effective arrangement. Respectively, arranging a wide rights issue takes some months, during which market developments remain uncertain.

Need for capital as well as the need to minimize the costs of the arrangement and market risk, are indeed the kind of weighty financial reasons that in legal practice have been considered appropriate when considering the legal requirements of a directed share issue. Contrary to the view of the shareholder presenting the question, the legal requirement of "a weighty financial reason" does in fact not presume concrete liquidity problems by the company at the time of decision-making.

Shareholder's question:

Is there any additional public reasoning for deviating from the Remuneration Policy? What have been the reasons to make this deviation for safeguarding the long-term benefit of the company?

Answer:

Following the Remuneration Policy section 5, Outokumpu may temporarily deviate from the Remuneration Policy in order to safeguard its long-term interests. In the assessment of its long-term interest Outokumpu may among other aspects take into account its long-term financial success and performance, its competitiveness, safeguarding the undisturbed continuation of its business and the undisturbed implementation of its business strategy and financial targets and the development of the shareholder value.

Among the grounds for a temporary deviation from the Remuneration Policy may be (provided that the ground occurs after this Policy was presented to the AGM) a structural change (change in Outokumpu's corporate, group or business structure or a material change in Outokumpu's ownership structure), a personnel change (such as personnel changes in the Board of Directors or in the top management of Outokumpu or the need to recruit a new director), other exceptional or unexpected event or materially changed circumstances in Outokumpu or in its business or operating environment or a material change in Outokumpu's strategy or business plan, material change in Outokumpu's financial position or outlook, regulatory or judicial changes, changes in governmental or administrative orders or in taxation or taxation practice or other change or circumstances not specified above if it is after careful consideration deemed that a deviation is necessary or advisable in order to safeguard Outokumpu's long-term interests or sustainability such as, without limitation, in order to ensure the continuity of the company's management.

The rapid change in business environment during early 2021 versus the initial operating plan for 2021 lead to an opportunity to significantly speed up the implementation of the strategic targets set. In March 2021, the Board of Directors decided to provide an additional short-term incentive opportunity to Management and the CEO to ensure full focus on the business opportunities and the arising opportunities for value creation during 2021. Against these increased business targets, the achievement of the adjusted EBITDA target was above maximum, and achievement of the strategic project target was on the target level, resulting to a short-term incentive payment of EUR 1,064,700.

Shareholder's question:

Our second question concerns the long-term incentive and its performance criteria. Has the "Return on capital employed" been the criteria in all programs (2018-2020, 2019-2021 and 2020-2022)?

Answer:

The performance criteria for the Performance Share Plan (PSP) programs (2018-2020, 2019-2021 and 2020-2022) has been "Return on operating capital compared to a peer group". This was changed to "Return on capital employed" for PSP 2021-2023 to put even more focus on the strategy execution. For the PSP 2022-2024 the earning criteria are "Return on capital employed" and "Emission reduction target" according to the Science-Based Targets initiative.