Operator: Good day and welcome to the Outokumpu Q1 Earnings conference call. Today’s conference is being recorded. At this time, I would like to turn the conference over to Johanna Henttonen. Please go ahead, madam.

Johanna Henttonen: Thank you so much. Good morning and good afternoon, everyone, and welcome to Outokumpu’s Q1 Earnings conference call. Today we have our CEO Roeland Baan and also our CFO Reinhard Florey to discuss the results, and Roeland will talk about the overall topics, Reinhard will go into financial details and then we will be doing the closing remarks. At the end, we’ll be taking the questions from the participants.

And before we start, I would like to remind you that certain information is forward-looking and therefore includes uncertainties that may cause our actual results to differ from our current expectation. And with this, Roeland, please go ahead.

Roeland Baan: Thank you, Johanna. Thank you for joining us on this call. As you have been able to see from the release, the Q1 results were in line with our expectations, an underlying EBIT of minus €20 million.

And if you then look into some of the drivers, on the positive side we had very healthy delivery volumes up, equally in Europe as well as in Americas, where I do want to single out Americas for a moment because we actually show that we are very successful in the continuing commercial ramp-up, leading to a record output for this quarter, the highest deliveries in the history of our mill. And before you say, but where is the results, the results are there but there is of course still a lag going on from the alloy surcharge, the average nickel price in Q1 was over $500 down to...
Q4, so that put a drag on pricing. Operationally, however, the mill is developing very well. We can see it in the operational KPIs that are improving quarter-on-quarter, and in fact, if you would look at the sequential results of Americas from Q2 of 2015 to this quarter, then you see a sequential improvement on the underlying EBIT in every single quarter. So we are very satisfied with what is happening in the Americas. On Europe, continuing momentum out of the restructuring programmes, still continuing in Q1 with a strong result in spite again of the greater trending down of nickel prices. So again, I think we can be very satisfied on performance there. On Long Products, we can be less satisfied. Long Products have been very much influenced by the turndown in oil and gas, and has resulted in lower volumes than expected, but we have taken measures to counteract this move.

Then if you look at the negative drivers, one is lower base prices, specifically in Europe. In Americas, it was basically stable but of course strongly affected as well by the lower transaction prices due to the alloy surcharges going down. Another clear issue happening in the markets is that with, generally speaking, lower economic activity and with the specifically lower activity in oil and gas, we see that the risings of scrap are coming down and leading to significantly higher pricing and higher costs for us as a company. This is a situation that we do not see that will alleviate in the short term, so it’s something that we will have to work with. The same goes for ferrochrome. Our results were impacted by lower ferrochrome prices Q1 over Q4 for the year before. That trend has continued and so going forward, we will see a less than favourable pricing environment for ferrochrome. And then one that I want to specifically highlight is that we took a €50 million write-down, basically one trade receivable in Europe that we re-evaluated and took a decision, to get better transparency, to take that write-down and then we had in the Americas, we had still some high-priced aged inventory that we took the decision to write down, and the impact of those two was very significant given our overall result, to the tune of minus €50 million.

If we then look shortly at the overall picture for stainless steel for the year 2016, not a lot to add to what we have said before. We do not see an environment that is significantly improving. It is pretty stable. If you look here at the data that are published by SMR, you’ll see that there is a 1%
demand growth expected for 2016, and then if you look at the underlying areas, Americas is expected to contract slightly at 1%, Europe to contract slightly at 2%, and then APAC to grow up with 2%. All these of course are changes in the margin, so the most certain position you can take on this is that this is a flat market.

Against the background, the backdrop of this market, just a quick look at the prices. If you look at Europe and then specifically the German, as a barometer of pricing, the German pricing for 304 as published by CRU. You will see that there is basically a stable pricing environment since the end of 2014, which by the way coincides as well with the becoming effective of the antidumping measures in Europe. If you look at Outokumpu’s base prices in Q1, it actually declined slightly, which is the result of pricing that still lingers on from Q4 into Q1 on existing contracts. Then on imports, the import penetration decreased slightly to 24.4%, but still down, in a downtrend from 2013 when it hits its peak with the Chinese imports.

If you move to the Americas, you see there an inverse. When the antidumping measures were announced in Europe or became effective, a whole lot of raw material was looking for a new home and found a willing one in US, which led to a very steep drop throughout 2015 and actually into as well the first quarter of 2016. And the turn-up you see there is basically the turn-up for Q2 in April. Again, on the basis of data from CRU, the base price in the Americas came down by about 2%, in spite of the announced price increases – we announced price increases in December 2015. In spite of that, the prices came down still on the market. The pricing for Outokumpu was stable on the base pricing. The explanation on why are these prices not going up given the increase is simply that when you announce a price increase, it takes time for old contracts to roll off. So we do expect that gradually, we will see these price increases starting to impact us from April, from this month onwards.

Important to mention as well that the alloy surcharge of course was down significantly, whereas in Europe it was down by about 12%. In the Americas, it dropped by – or in the US – it dropped by 19%. So again, lingering effects of what you will see on the next page, which is the development of the nickel price over time. And we, although we thought that it couldn’t go
lower, we have seen that it did go lower in Q1 of 2016. Whereas the average in Q4 was still about 9400, it went down to 8500 in Q1 and hit a 13-year low. As a result, on the right hand side of the graph, you can see that this was followed by transaction prices across the globe continuing to drop.

So against this backdrop, I would like to hand over to Reinhard to dig into the key financials.

Reinhard Florey: Thank you very much, Roeland. This is Reinhard Florey, CFO of Outokumpu, speaking. Going to the details of the numbers for Quarter 1, we can see that in terms of the stainless steel deliveries – and you have heard from Roeland what the drivers are behind – we have made progress. Compared to Quarter 4 with a level of 574,000 tons, we came up to 600,000 tons in Q1. However, looking at the sales, we can see that the average transaction prices have come down and overall, the sales have come down by some 3.4%. Overall, this led to a situation where we ended up with an underlying EBIT of minus €20 million for Q2, respectively, a reported EBIT of minus €12 million. The operating cash flow, however, stayed positive and it stayed significantly positive with a number of €74 million, and this also led to a situation that our net financial debt was reduced by some €58 million to a level of €1,551 million at the end of Q1 2016. So deleveraging of Outokumpu is continuing. Capex has been lower than in Q4 and is around the run rate that we are foreseeing for 2016 to happen. And overall, we can see that the continuation also of cost savings through personnel reduction has continued from Q4 to Q1 and is bound to continue also in the next quarters.

I would like to come back a little bit to a couple of updates and a couple of adjustments that we have taken in the understanding of our financial numbers. First of all, talking about reporting practices, there have been some new regulations and due to these new regulations, we could have even gone from a quarterly reporting to a half-yearly reporting. However, we decided to stay with the quarterly reporting; however, being a little bit lighter on Q1 and Q3 reporting, instead still staying in the full scope of IAS 34 in Q2 and Q4 format.
Secondly, on the definition of our core parameter regarding profitability, we confirm underlying EBIT as main profitability measure. And we do that because we think that this is the adequate performance measure that shows the best content to our operational performance. The adjustments that we are seeing to our reported EBIT, to the IFRS EBIT, are twofold. The first, it is the material income and expense items, which earlier were labelled as non-recurring items. You probably have also seen that there have been some changes in the definition of non-recurring items by IFRS. So we are taking that of course into account in our definition here. And the second is that of course we are also taking out the net effect of timing and hedging effects, so the raw material-related inventory gains or losses and the metal derivative gains and losses.

Last but not least, we have introduced a new business area structure for the Group which you also have been provided the comparables for, so we have restated the quarterly data available for the past two years. And the reporting structure is now concentrating on three business areas, which is Europe, Americas, and the Long Products.

If we are looking into those new structures, starting with Europe, what we can see is that Europe’s performance has been continuously strengthening both in terms of the market presence, European deliveries, as well as the underlying EBIT. Deliveries have grown from 380,000 tons to more than 420,000 tons and the underlying EBIT has gone up from €33 million to €42 million in this current quarter. It is clearly a stronger performance due to stronger deliveries and also cost savings that have been applied over the past quarters getting effective right now, as well as also effects from the EMEA restructuring programme, which are effective with some €15 million now already. However, we still see that there are some adjustments in there. So we have some €8 million related to earlier site closures, and some €2 million net effects from the raw material-related inventory and metal derivative gains and losses. Included in the underlying EBIT is the effect of the write-down, as Roeland has mentioned, of a trade receivable here in the magnitude of €12 million.

Looking into Americas, again, here you can see that on the market side, we have made further progress, running into record production as well as a record delivery now with a level of 160,000
tons as deliveries. We are seeing that this is also certainly driven by a pickup in the market, apparent consumption was up by more than 4%, 4.8%, and we also attribute this to a certain degree to announced antidumping and countervailing duties that have been filed in February. Price increases are sticking gradually. Roeland has explained why this has not been fully effective in Q1. We are expecting more of that impact in Q2. And there have been an impact in the underlying EBIT of €3 million write-down for aged inventory at our mill in Calvert to make sure that we are on a level playing field going forward with our results.

Regarding the adjustments from the underlying EBIT, what we see is that we have received an agreement with the insurance companies, regarding our cold rolled mill failures due to the motor failures in the second half of 2014, after already having received some insurance payments in the past quarters. There has been an agreement that an additional insurance payment of €25 million will be paid to Outokumpu in our Americas area. So we have booked the €25 million in our profitability. However, we expect that to be then cash effective in Q2. So the cash of that has not yet been received in Q1. And on the other hand, we have here a €8 million negative effect from the net of timing and hedging effect.

Coming to Long Products, as already mentioned, sort of a disappointing performance regarding the underlying EBIT in spite of some increased deliveries due to the lower prices, high competition in the markets and a weak product mix in specifically in this first quarter. We have a seen a loss of €4 million as an underlying EBIT. Prices have been under pressure both in Europe and in the US. We are seeing this as a result from the low nickel prices and still the subdued demand from the oil and gas industry and related industries here. There is of course also some import pressure from Asia, and we are seeing now in Q1 a gradual pickup in older intake where we would expect some positive effects on that in Quarter 2 for our Long Products side as well. We are also applying cost saving measures according to the overall corporate programme in this area, so it is a clear target to bring this business area back to profitability in short time.

If we are looking at the cash flow side, we have come up with a performance of a free cash flow of some positive €57 million in Quarter 1, mainly coming from an operating cash flow of 74
reduced by capex cash of €17 million. And this also leads to a situation where we have a total of €166 million as cash and cash equivalents on our books. Overall liquidity reserves are €900 million, not counting liquidity that we have on top of this with €130 million of the facilities that will mature in February 2017. So for this year, it is still above €1 billion of liquidity.

The net debt has decreased by €59 million to a level of 1.55, and we see that on the next slide. The deleveraging has now continuously happened since 2013 where we had a record of €3.56 billion of net debt to now €1.55 billion. Gearing has stayed at the same level of Quarter 4 at around 70%. If we are looking at the debt maturities and our debt profile, what we are seeing is that with the extension of our maturities of the main part to 2019, we have now in 2016 a couple of maturities, among which effectively a €150 million bond to be repaid in June is the only real maturity. The other amounts are short-term facilities which we are revolving and which will not lead to a cash-out. In 2017, we have then around €400 million of bilateral loans maturing and many of the other maturities are, as you see undrawn, and this is specifically the part of the facility of the syndicated credit loan that has been extended to 2017. Then in 2018, you see that there are hardly any maturities. That gives us a very good ability to use 2017-2018 to refinance for our 2019 major maturities and prolong these further to the future.

In order to facilitate further refinancing measures, we have taken a rating by the end of Q1. It came out with a B3 rating with a positive outlook at the rating agency Moody’s, which has also rated our outstanding bond with a B2 rating with a positive outlook as well. And this is the starting point for what we feel will be a positive experience as a rated company going forward.

With that, I will give back to Roeland for the development in the industry as well as our outlook.

Roeland Baan: Yes, so if you look through our expectations for Q2, again, no magic there, as I said already for 2016, looking at a pretty flat year and you see that as well in the expectations for Q2 or Q1. A slight uptick expected in the Europe and a slight downtick in Americas, so basically a flat environment.
So if you then look at more specifically Outokumpu, we in general if you look at the market in Europe, we still see that the underlying demand in most of the key sectors outside of oil and gas is very healthy and this is where we have our main focus. Our exposure to oil and gas is limited in our European business. And stock levels amongst distributors are slightly above historical average, but not desperately soft. So no, we do not expect any downward pressure from that. If you look at the Americas, there you have clearly seen that the stock levels among distributors were already low and have been pushed even lower. We see that we are significantly below historical average and we do see as well that the delivery times are moving out slightly.

You know that we have announced the two price increases already in December of last year and Q1. Another price increase was announced in April, bringing the total of increases now to close to $240 a ton. Again, a word of caution: that doesn't translate immediately into oodles of cash coming in. We do have contracts that are quarterly, half-yearly and yearly. So the way it impacts depends from contract to contract and from customer to customer. But we do see the greater impact starting from this month and this quarter.

And then important to note is that the Chinese imports are being addressed with antidumping investigation. In March, already injury was confirmed by the Department of Trade. We are now in the process where over summer, we expect that preliminary duties will be announced and that then with further consultation will then be effective as per the first quarter in 2017 as per our expectations.

Against these, all these moving parts, we expect delivery volumes to be sequentially flat and as a result, for underlying EBIT to remain at a similar level as in Q1. Again, there are moving parts in there. We have positives clearly, as I said. We have the pricing, we have still relatively good volumes but it will be burdened by a weaker performance of ferrochrome because of continuing downward pressure on pricing of ferrochrome, and a weaker dollar. With the current prices and the development that we see going forward, the net impact of raw material-related inventory and metal derivative gains and losses will be expected, are expected to be marginal, if any at all.
I would like to go back a few weeks and just put back into memory the improvement programme that we have announced, starting with our vision, which is to be the best value creator in stainless steel by 2020 through customer orientation and efficiency. We will bore you by saying this every single time that we meet, because this is really what we believe in and what we are going for.

To get there we have defined six must-win battles. And again I have explained them in our last call, won't go through them, will only say that they are all underway. There is tremendous activity going on in the company to define, design and implement all different parts of all these must-win battles, leading to the financial targets in 2020 of an EBIT of €500 million, a return on capital employed of 12%, and gearing below 35%.

However, as we have said as well, a number of these issues, specifically we talk about culture in the high-performing organisation or manufacturing excellence, these are initiatives that take time to really start giving a full run rate result. And in the meantime, we have to get some step changes in place.

We have announced the new organisational setup. This is progressing as planned. We are still on track to flip the switch on 1 June and operate in the new format as from 1 June. This is necessary because the new organisation is the enabler for the second big point on the agenda, which is our SG&A cost reduction of €100 million run rate by the end of 2017. And of course the other one is we are still very actively pushing on the network and capital reduction of at least €200 million this year, and you have seen already the results in Q1 where we made a pretty big step forward in achieving that goal, all to get, in the end, at the intermediate step by the end of 2017 of a net debt of €1.2 billion. As far as we can see, we are well on track at this stage, and we are very satisfied with the underlying performance of our businesses.

With that, I hand over to the questions.
Johanna Henttonen: Very good. Thank you, Roeland, and thank you, Reinhard. Operator, we will be ready to take the questions.

Operator: Thank you. If you would like to ask a question at this time, please press the star or the asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

We will take our first question from Michael Shillaker from Credit Suisse. Please go ahead, your line is open.

Michael Shillaker: Yes, thanks very much. So three questions if I may, Roeland. The first question just on ferrochrome, given I think a €0.10 move down in the contract in the second quarter, is it reasonable to assume that's a headwind of about €25 million into the second quarter? And given that the ferrochrome price has largely followed the rand down, but the rand has basically been strengthening in the first part of this year, is it reasonable to assume that we're going to get a stabilisation in ferrochrome or maybe even something better than that into Q3? The second question on ferrochrome, clearly given the move down in the rand over the last few years and the tenge, I guess your position on the cost curve in ferrochrome has relatively weakened quite considerably. What are you doing to combat this? Is there any real focus on targeting the ferrochrome cost? And at what costs are you actually or at what price ferrochrome are you actually breakeven at the moment? And I guess if the price did continue to fall and you fell below that, what is the plan B on ferrochrome? Because integration is great in a rising market but it can be a real negative in the falling commodity market. So that's ferrochrome. And the third question really on demand, I think it was figure – on page 5, the SMR outlook is pretty grim if you look at it, negative Europe, negative the US. But I guess the question then is how does that actually square with the price hikes that have gone through in stainless steel on one hand and how does that square with what's going on in carbon steel, where I guess four or five
months ago everyone would have said something similar on demand and that market has
turned around very quickly and it looks like demand is going absolutely gangbusters out there?
And how ready are your commercial guys to accept that the market forecast may be completely
wrong and given here we talked about inventories, we talked about imports lower, price is going
up, that actually demand accelerates? And you’ve got to be ready to take, especially you guys I
think have got to be ready to take advantage of that, so how prepared are your commercial
people that those forecasts just must be – that they may be actually just plain wrong and too
pessimistic? Thanks a lot.

Roeland Baan: All right. Thanks, Michael. If I can start with the last one, what if the markets forecast is
wrong. Look, we have given you the markets forecast as given by third party outside
independent agencies, and that’s what for the communication with the outside world, we will
stick to. By definition, our commercial people are very prepared for anything. We have an
extremely competent and capable commercial outfit. These are people who are in the market all
the time, who have their finger on the pulse and know exactly what to do where and how to
react to what issues. At the same time, our assets are flexible enough to react in tandem with
that. So I hope you’re right and that the gangbusters come our way as well, and we are ready to
react.

If I move to ferrochrome, you are a little bit out of the ballpark but I can give you a ballpark. The
movements in both the pricing of ferrochrome from Q4 to Q1 and the movement in the dollar
will have an impact of about between €15 million and €20 million. More important to know is
that – and this comes a little bit to your question about how cost-competitive are you – we have
always said that we are profitable, I can tell you we are still. So more than that I do not want to
share.

What do we do to increase our cost-competitiveness? Look, we are still at the same place in
spite of rand, the same place on the cost-competitive curve. That doesn’t mean that we sit back
on our laurels. We are actually investing in expanding the lifetime of the mine and increasing
continuously our operations to greater cost-competitiveness.
Michael Shillaker: Okay and sorry, can I just ask one final question? Now you’ve done your deep dive and come up with a strategic plan, are you still more or less every day looking at strategy, looking at strategic planning within, or is this now you've done it, and this is now purely about execution? What are we going to expect going forward?

Roeland Baan: You can expect a total focus on execution. The strategy is the simple bit; the execution is where the rubber hits the road.

Michael Shillaker: Okay. Awesome. All right, thanks a lot.

Roeland Baan: Thanks, Michael.

Operator: We will take our next question from Seth Rosenfeld from Jefferies. Please go ahead, your line is open.

Seth Rosenfeld: Good afternoon, Seth Rosenfeld from Jefferies. A couple follow-up questions. First on the outlook for European base prices, given the Q1 dip in the reported base prices, how are you looking at that going into spring as the market leader? Do you think that there is room to regain some of that drop or push prices higher into H2 if nickel remains stable, or are we looking at kind of spot stainless base prices at that for the remainder of this year? And from an ASP perspective hitting your P&L, did your Q1 ASPs already reflect that drop in benchmark prices or should we see incremental pressure into Q2? I’m trying to get an understanding of your contract structure in the European region. And then lastly just one specific question on your guidance to be roughly flat underlying EBIT Q-over-Q. Are you stripping out the €15 million of inventory and receivables write-downs, so we’re looking at kind of a €5 million Q-on-Q comp, or should we looking at that the negative 20 as a starting point? Thank you.
Roeland Baan: Okay. Starting with the last point, we're stripping out the €15 million. And then on the first point, outlook base prices, we don't give any outlook. So it's something that I cannot comment on.

Seth Rosenfeld: I guess it's more specifically then if you look at something like the inventory levels within the EU, where you've commented for a couple of quarters now that they've been slightly elevated and serving as a bit of pressure on your pricing power in the region, how do you see your distributor or customer inventories moving within Europe today versus maybe what you had guided to three months ago?

Roeland Baan: I think the same thing goes. Although it's slightly over historical averages, we do not see at this stage any move to destocking, nor do we see a reduction. A significant reduction on demand from the distributor segment. And if you then look at the underlying end user demand, that we see are still very healthy. I think that that sums up more or less where we're coming from.

Seth Rosenfeld: That's great. Thank you very much.

Operator: We will take our next question from Johannes Grasberger from Nordea Markets. Please go ahead.

Johannes Grasberger: Hi gentlemen, it's Johannes from Nordea. Can you hear me?

Roeland Baan: Yes.

Johannes Grasberger: Yes, cool, okay. I've got a couple questions. Well, I have to check on the second quarter guidance as well, so what sets that, so are we talking about €5 million underlying EBIT guidance, then plus any potential write-downs that you could have in the second quarter similar to Q1?
Reinhard Florey: We are guiding that underlying EBIT will be at about the same level than in Q1. And I think this can be taken literally, because of course that can be always one-time effects but if you have operative one-time effects, they will not be eliminated from underlying EBIT any more. This is the new rules that we are seeing in IFRS and that is exactly the reason why we are putting that in our underlying and also the guidance has been quite clear that it will be similar to underlying.

Johannes Grasberger: Okay and maybe just to follow up on that one, do you expect any write-downs of these trade receivables or hedged inventory values in the second quarter?

Reinhard Florey: No, we are actually not having any indication that that would be necessary. We have been on a situation that we have continued doing risk-averse assessments of this. Of course if you have major movements in the market, you can never exclude such a topic. But from that point of view, we are rather conservative in taking an approach to this.

Johannes Grasberger: I still have to ask about this guidance because if I heard right, Roeland was saying that the Q2 guidance is stripping out write-downs, was this incorrectly heard or not?

Roeland Baan: Well, it’s me being clumsy in expressing. Stripping out means that they are in there.

Johannes Grasberger: Okay, okay very good. Then a couple of other detail questions. So can you say how much of the cash non-recurring items were paid out in Q1 and what does the cash-out plan looks like including the new savings programme for this and next year?

Reinhard Florey: What we have guided for is that the new programme of SG&A reduction will result actually in some provisions of €40 million that we will take in, where we are expecting that €5 million will be cash-effective in Q2.

Johannes Grasberger: And were there any non-recurring cash items in the first quarter?
Reinhard Florey: There were non-recurring cash items which means payout from provisions in first quarter, yes.

Johannes Grasberger: Can you say how much those were?

Reinhard Florey: They were in a small double-digit magnitude, some €15 million.

Johannes Grasberger: Okay, thank you and then the third question regarding the Tornio steel mill strike, any verbal cost estimate what the impact would be on the second quarter of that?

Reinhard Florey: No, we have refrained from giving direct impact of that directly, but it is a fact that this was an annoying incident and such a thing doesn’t go immediately without an impact. However, we are trying, in the context of the total EMEA structure, to have remedies against that.

Johannes Grasberger: Okay, okay thanks for that and then three sort of larger questions, first of all on the US market, and I’m just thinking here that what is the main reason for a higher output at the US operations? Have you seen new costumers choosing to place orders at Calvert instead of competitors or is there a volume ramp-up kind of a result of less imports into market and kind of a consequence of more demand being channelled to the domestic mills in the US market?

Roeland Baan: There has been a drop in imports slightly so that of course helps the local producers. We also are clearly regaining the trust from the market after the problem of 2014 where we unfortunately did not fulfil our contracts and our deliveries with our customers. And these customers were a little bit – becoming a little bit shy. We have now enough history behind us of significant improvement and very reliable both quality and delivery performance. So we do see an increasing penetration into the market.

Johannes Grasberger: And I must say I’m a little bit puzzled about the weak Q for Americas given the big upticks in the base price and high steel output. And as you mentioned, I guess it’s then
correct to assume that the profits are still weighed down by certain fixed price contracts which are kind of underneath and that are diluting the spot price effects for you, and those will presumably fade out in the coming months given the expectation of increasing prices or is this the case?

Reinhard Florey: No, that’s correct. Again, if you look at the portfolio, you have a mix of spot contracts, quarterly contracts, half-yearly contracts, yearly contracts. And so the way the price increases affect the average price at which we actually ship out is highly dependent on the profile of our customers. So that’s one on the base price. And as I said, of course on top of that you had in Q1 a 19% drop in the alloy surcharge.

Johannes Grasberger: And my final question as a follow-up on that one is that, correct me if I’m wrong, but I’ve kind of understood that the US steel market is closer to the spot market than the European steel market, and at least last year you had around 25% of direct mill delivery contracts. And is the share of those contracts going up or after the kind of the correction in the prices that you are seeing, are we still at say closer to the spot market gain in the US business than in the European business?

Reinhard Florey: Direct mill is not the same as spot. We have – or the non-direct mill is not the same as spot. You have non-direct mill, i.e. distributors, where you deliver on contract. So spot is – it could be direct mill, it could be distributed, it can be any segment. However, our share of bill of material and direct mill is improving compared to what it was in the past.

Johannes Grasberger: Okay, thanks. Those were my questions.

Operator: We will take our next question from Bastian Synagowitz from Deutsche Bank. Please go ahead, your line is open.

Bastian Synagowitz: Yes, good afternoon gentlemen, I’ve got three questions. My first one is following-up on ferrochrome. If the European benchmark price would be stable around the
current €0.82 level, would we then still see a negative impact spilling over into the third quarter, given how your pricing works and maybe also the lack from the alloy surcharge? And if so, how much of that will possibly impact having in mind the €15-20 million negative you mentioned previously? And secondly, could you give us a bit of clarity on your capex? I understand that your normalised maintenance capex will be closer to 170-180 – at least that’s what you mentioned in the last call. Now you also mentioned some extra for your ferrochrome mine. Could you please give us any colour as to how much this may be and will there be any other, say, capex extra in the next two to three years? And then lastly, could you please explain why weaker dollar in the US is a negative? I would have thought that as long as you are in a loss-making scenario in Americas, any weakening in the domestic currency should actually be good for your group accounts. Thank you.

Roeland Baan: So Reinhard, if you take the Q3 thing.

Reinhard Florey: Yes. On the ferrochrome side, the €0.82 is referring to a contract price and the contract price is applied for a quarter. This means the spill-over effect is minimal. There might be some smaller but in comparison to the total impact, clearly a very small impact from that. It is more or less applied for a full quarter. If it stays at the same, then spill-over is minimal.

Regarding the capex question, just to clarify that, we said that our mandatory maintenance capex is actually at that level between €70 million and €80 million. And all on top there is relating either to development capex, for cost improvements or specific projects, or specific investment projects, for instance the NIFO project in Nirosta in order to close the Benrath facility. But then on top we have investments into our strategic part, which is on the one hand side, the ferrochrome side where we are extending the mine in order to keep also, for the coming years and decades, the same level of accessibility; and as well as some investments into our energy projects, which are also there to provide longer-term supply security from the energy side. We have anticipated that the capex cash-out for 2016 will be only slightly north of €140 million in this year.
And going to the US dollar question, the impact of the US dollar is definitely a negative one when we have a weaker US dollar on the ferrochrome because we are producing in the Eurozone. And that means that of course in the competitive comparison, there is a difference then that comes directly to our profitability. And other than that, we of course also have some translation effects but they are more on the balance sheet than in the profitability.

Bastian Synagowitz: Thank you. Now briefly following up on the capex part, now considering the strategic components which you mentioned, is this what brings us closer to the previously mentioned $170 million or $180 million capex for maybe ‘17 and ‘18 or the years after? So would that be a good number to be working with or will we just remain around the $140 million, $130 million level which you have been guiding for 2016 as well?

Roeland Baan: I think for the way forward, a level of 170 and 180 would be too high for us, I’d rather say it’s between the current number and the 160 number depending on the individual years. That is not coming in a very equal stream of course, but that would rather be the estimated capex range that we are seeing adequate for Outokumpu, as we are in a very well-invested state.

Bastian Synagowitz: Okay, perfect, thank you. Now, just one follow-up on the trade receivable which you have been writing down. What has happened here? Did your counterparty default or what has gone wrong?

Roeland Baan: No one has defaulted. We have done a risk assessment and decided to be on the careful side and take this write-down.

Bastian Synagowitz: Okay but is it essentially, is it the liquidity position of your customer which has triggered this event or what is the reason behind it?

Reinhard Florey: We are not commenting on any details regarding our customer.
Bastian Synagowitz: Okay, fair enough. Thank you.

Operator: As a reminder, ladies and gentlemen, to ask a question, please press *1. And if your question has already been answered, you may remove yourself from the queue by pressing *2. We will take our next question from Luc Pez from Exane BNP Paribas. Please go ahead, your line is open.

Luc Pez: Hi gentlemen, most of my question have been answered but I would have one remaining. Could you be maybe a bit more specific to the Americas business as to which is the exact structure of your contract there, what is the share of quarterly lag contracts, quarterly spots here or whatever ballpark at least so that we may better understand how the price filters through your P&L in the coming quarters? Thank you.

Roeland Baan: Luc, it’s a question that I get regularly from our competitors and don’t answer. So I’m afraid I cannot answer the structure of our contract business in the US.

Luc Pez: If I may add a follow-up, therefore I must say, like one of my colleagues, I’m quite surprised you see you ramping so fast the volumes, especially at a time where imports are coming off. That can easily explain why prices are not moving up and therefore that could be detrimental to your case into the US. What would be the comment you would make to that? Are you so confident that the US rate case is going to move in your direction or...

Roeland Baan: The evidence is very clear. We have announced an increase of $160 a ton in December. We have announced another $80 a ton in February and there was another announcement of $80 in April. So the move is clearly up, and you can see that as well in the market; it’s just a matter of when does that start filtering through into your average pricing.

Luc Pez: But what I mean is that even when you look at the CRU numbers, you can see that only $40 of what has been announced year-to-date has been sticking, which leads to me think that maybe
having a more pricing – or a volume strategy would help you capture more prices rather than volumes?

Roeland Baan: Again, so the CRU just records transaction prices, and that includes as well what has gone to the contracted business. So just watch the space is the only thing I can say.

Luc Pez: Okay, thank you.

Operator: We will take our next question from Johannes Grunselius from Handelsbanken. Please go ahead, your line is open.

Johannes Grunselius: Yes, this is Johannes from Handelsbanken. I hope you can hear me, gentlemen?

Roeland Baan: Yes.

Johannes Grunselius: Yes, good, good. Most of my questions have been answered but I would like to ask you about the Q2 guidance here, because I mean, Roeland, you are very clear that you will have headwind from ferrochrome prices, lower ferrochrome prices. You gave a ballpark number how that impacted your fourth quarter. So maybe this impact is like $15-20 million now in Q1. But on the other hand, you have tailwind I suppose from better prices. I also see that in the report that there was an unusual high negative impact from Others and eliminations. And yes, you should also have a more positive tailwind from cost-cutting. So I’m surprised you are not guiding up the second quarter. What am I missing here in the moving parts? Thanks.

Roeland Baan: No, you are not missing a lot, Johannes. There is one element that I mentioned, and we haven’t quantified whether it has a significant impact, and that is the rise in scrap prices. So the input cost is going up due to, as I said, reduction in the risings and upward pressure on pricing and intrinsic nickel. So that has an influence. And the other thing that you didn’t mention in your balance is the alloy surcharge, which had a significant impact and that still streams through into Q2 as well. So for the rest, I think you are spot on.
Johannes Grunselius: Okay, that’s helpful. That’s pretty big impact then from scrap prices. Yes. I just want to come back to your, also, explicit guidance for Q2. Sorry, this has already been discussed a few times here in the call but just to be certain. So the underlying EBIT was minus 20 and if we would adjust for the inventory write-offs and the receivable write-offs, this number would have been minus 5. Am I correct that you refer – that we should use minus 5 as a reference for the guidance for underlying EBIT for Q2?

Roeland Baan: Use minus 20.

Reinhard Florey: Yes, let me repeat. We have guided on underlying EBIT. There is only one number for underlying EBIT in Q1 and this is minus 20.

Johannes Grunselius: Okay.

Reinhard Florey: We have just explained that within this underlying, there are some special effects that we are seeing but we have referred in our guidance clearly to the underlying EBIT number.

Johannes Grunselius: Okay, thank you very much.

Operator: We will take our next question from Hjalmar Ahlberg from Cheuvreux. Please go ahead, your line is open.

Hjalmar Ahlberg: Thank you. Just one more question on the US and the pricing there. I mean, you don’t say how much is contract but could you say that, I mean will eventually all your product be impacted by prices or is this some not impact at all of this recent price hikes?

Roeland Baan: If you say eventually, with a timeline through 2017, you would be right. Look, there is a part is yearly contracts and that will basically continue at the fixed pricing.
Hjalmar Ahlberg: Okay and could you say something on the price, what you currently booking your standard 304 grade US, at which price, base price level it is now?

Roeland Baan: No, I can’t help you there, sorry.

Hjalmar Ahlberg: Okay and on shipment for Calvert, do you have any full year indication for that in volumes terms, for 2016?

Roeland Baan: I can’t give you any full year indication other than saying that the commercial ramp-up is continuing. And again, I want to stress, we are extremely happy on the progress we are making in Calvert both operationally and commercially, so very satisfied with what’s happening there.

Hjalmar Ahlberg: Okay and then looking on the imports I mean it’s been discussed a bit but do you have any – I mean the level in Europe, do you see it stabilising at these levels or do you see moving in either direction in the rest of the year going forward?

Roeland Baan: It depends on the exporters. I can really not answer that.

Hjalmar Ahlberg: Okay –

Roeland Baan: I think what is important, sorry, and to make a bit of a less flippant answer, what is important is that we don’t mind imports as long as they are at a level playing field. We can compete with any serious competitor in this market from wherever the product comes.

Hjalmar Ahlberg: Okay, thanks and you just mentioned the impact from scrap prices in Q1. How much bigger is impact going into Q2 compared to Q4 versus Q1 or is it the similar effect going into Q2 versus Q1?

Reinhard Florey: If you’re talking from a financial point of view, the impact that we are feeling in Q2 has very much to do with the Q1 price development because you’re purchasing the material of
course six to eight weeks before your final deliveries. So that is a little bit of spill-over effect. It is not that we are indicating a negative development in Q2 to happen regarding scrap pricing. This would be a completely irrelevant for us to point to any kind of direction here. But what we are saying is that what we have seen in Q1 happening and what is impacting us will have a negative impact in Q2, which also explains why the progress that we are making in terms of both pricing, volume and our efficiency is not fully visible in what we are guiding for in Q2.

Hjalmar Ahlberg: Okay and then just one on the write-downs again. I mean historically, what’s a typical level of write-downs for a quarter compared to the €50 million this quarter? And if you look back at the historically underlying EBIT, have you included write-downs in those or have you done, has it excluded?

Reinhard Florey: Write-downs are a topic that are only happening according to the prudence of how we are seeing the commercial situation and the economic situation. They have no pattern. And a normal quarter goes without write-downs, and if there are write-downs then they have a certain reason why they are being applied. But this is not something that we are guiding for or this is not something that has also a history that always repeats in that thing. So those are in the sense, one-time effects. However, in this case they are included in underlying EBIT because they are operationally related and according to the new rules, that is not an adjustment in the sense of a non-recurring item that you would do.

Hjalmar Ahlberg: Okay, thanks and then just a last one on your balance sheet. I mean you’ve being working a lot to get your net debt down and it’s going in the right direction. I’m just looking at some of your peers, as I see, ArcelorMittal raising equity, being pressured by creditors. How are you seeing your pressure from creditors developing in the last few quarters?

Reinhard Florey: Well, first of all, I think we have again strengthened our ability to have access to the capital markets with being a rated company now, clearly having access also to raising bond markets and other financial instruments. We have also a good liquidity at hand so in that sense, I think from the financial stability, this is clearly an improvement of the company. We do not
compare with companies like ArcelorMittal. That has a complete other dimension of debt level and we are also not having any kind of equity raise on our agenda.

Hjalmari Ahlberg: Okay, thanks a lot.

Operator: We will take our next question from Artem Beletski from SEB. Please go ahead, your line is open.

Artem Beletski: Yes, hi this is Artem from SEB, still two quick ones from my side, first relating to ferrochrome. Should we expect normal seasonal pattern in terms of production for Q2, so volumes would be down maybe 20% quarter-on-quarter in Q2? And the other one is really related to European base prices. So your prices were down some €50 per ton in first quarter. Does it relate to say a weaker mix from what you have seen compared to first quarter or is the market pressure bit more substantial compared to what the CRU is projecting?

Roeland Baan: On ferrochrome seasonality, we see stable development Q-over-Q. So I’m not aware of the seasonality you’re referring to. And as far as European base prices are concerned, our dip is more due to mix than anything else.

Artem Beletski: Okay, thank you. That’s all from my side.

Operator: There are currently no questions in the queue.

Johanna Henttonen: Excellent, so many thanks for participating in the call today. Thank you, Roeland. Thank you, Reinhard. And our next report will be for the second quarter and the date is July 26. So thank you for your participation, bye.

Operator: And that will conclude today’s conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.