CORPORATE PARTICIPANTS
Christoph de la Camp Outokumpu Oyj - CFO
Roeland I. J. Baan Outokumpu Oyj - CEO, President and President of Europe Business Area
Tommi Jarvenpaa

CONFERENCE CALL PARTICIPANTS
Anssi Kiviniemi SEB, Research Division - Analyst
Bastian Synagowitz Deutsche Bank AG, Research Division - Research Analyst
Carsten Riek UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research
Cedar Ekblom BofA Merrill Lynch, Research Division - Analyst
Charlie Clark
Hjalmar Ahlberg Kepler Cheuvreux, Research Division - Equity Research Analyst
Johannes Grasberger Nordea Markets, Research Division - Senior Analyst of Materials
Johannes Grunselius Handelsbanken Capital Markets AB, Research Division - Research Analyst
Kevin Hellegard Nielsen Goldman Sachs Group Inc., Research Division - Analyst
Luc Pez Exane BNP Paribas, Research Division - Stock Analyst
Michael Shillaker Credit Suisse AG, Research Division - MD and Head of Global Steel and European Miners
Olof Grenmark
Philip Ngotho ABN AMRO Bank N.V., Research Division - Analyst
Seth Rosenfeld Jefferies LLC, Research Division - Equity Analyst

PRESENTATION
Operator
Good day, and welcome to the Outokumpu Interim Report Second Quarter 2017 Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Tommi Jarvenpaa, Head of Investor Relations. Please go ahead, sir.

Tommi Jarvenpaa
Thank you. Good afternoon, ladies and gentlemen, and welcome to Outokumpu's Second Quarter 2017 Earnings Webcast. My name is Tommi Jarvenpaa, I'm the Head of Outokumpu’s Investor Relations. With me here today are also our CEO, Roeland Baan; and our CFO, Chris de la Camp. We will be referring to the presentation that can be found on our website. As always, please pay attention to the disclaimer on Page 3 in the presentation as we will be making forward-looking statements.

With these remarks, I'm pleased to hand over to our CEO, Roeland, please go ahead.
Thank you, Tommi. As always, I would like to start with our vision and just repeat it, again, it is to be the best value creator in stainless steel by 2020, through customer orientation and efficiency. This is still for us the guiding principle. And as you know, this is applied on to our 3 stakeholders; customers, shareholders and employees. And we remain committed to this vision and are confident that we will fully reach the vision.

Going to our Q2 results. We had a solid Q2, in spite of the issues that you all know about on the ferrochrome production, and I'll get to that. Before, however, getting into those details, one thing is -- something that is very near to what I believe in, and it is that, no result can be satisfactory, if you do not have a spotless safety record. And unfortunately, in the second quarter, we had a fatal accident with a contractor in our facility in Sweden, Degerfors. We have spent tremendous amounts of time and effort in improving our safety performance. Looking at the statistics, we have almost brought down our incident rates from 2015 to now by 3 quarters and still apparently, it's not enough yet to safeguard everyone in our company, who has to do with our company. So it is something that in spite of the strong Q2, overshadows, in my opinion, significantly, the performance of the quarter.

Moving to more of the numbers side. So as I said, it was a solid result, EUR 199 million, bringing the first half of the year to an adjusted EBITDA of close to EUR 500 million. Of course, the market has helped us here. We had a healthy market with higher ferrochrome prices and higher stainless steel base prices. However, our own productivity and efficiency improvements have contributed strongly as well. We have continued to bring down our SG&A, as you can see from the numbers. We have reached solid productivity numbers of 4.5% group-wide. So we in that sense operationally are still well on track to bring the improvements that we have set off to do. One exception has been ferrochrome. And again, we have been talking about this now for a while. Our ferrochrome furnace #3 kept on giving problems during the quarter. And apart from not producing the amounts that we actually want out of it, we have as well decided to take it down for longer towards the end of the quarter and into quarter 3 in order to fully mitigate and repair anything that is not all right with it. So the low ferrochrome production was the other negative for the quarter. And then we had a negative timing impact due to the lower raw material prices. In spite of that, we achieved a very healthy cash flow of EUR 150 million, which allowed us to reduce our net debt to about EUR 1.24 billion.

When you look at the markets, European base prices have come under pressure towards the end of the quarter specifically, as nickel prices fell over the quarter, and towards the end of the quarter as well, it became clear that ferrochrome prices will be falling. We saw 2 effects. One was that, there was a hesitation, especially in the distribution sector, to take volumes in expectation for a lower alloy surcharge and lower transaction prices. And that in its turn gave us as well some downward pressure on pricing. If you look at the right hand of this slide, you see the import penetration, that has actually grown, it's now up to 27%. So still on a slight upward trend from what it was earlier in 2016, and this is specifically from the rest of Asia.

Looking at the Americas. There the base prices have been stable. The effect of the destocking has been less noticeable, although destocking has happened there as well. And at the same time, you can see that, the import numbers still are pretty much in check, now trending still downwards to about 22%, 23%.

So with this overview, I would now like to hand over to Chris for some of the financials.

Christoph de la Camp - Outokumpu Oyj - CFO

Thank you, Roeland. And good morning, good afternoon, ladies and gentlemen. If we turn our attention to Slide #8 at the pack, we summarized here the key financials for the second quarter and set them in comparison to the second quarter of 2016. You can see that, stainless steel deliveries in the second quarter relative to the comparable period last year almost at the same level. We had increased deliveries in the Americas, but they were offset by somewhat decreased deliveries in both Europe and in Long Products. Looking at the sales, they were clearly up. This was driven by higher prices. And looking at the adjusted EBITDA, you can see that was very, very clearly up against the comparable period last year at 3x the level, and then the net result was solidly positive in the second quarter. The operating cash flow at EUR 150 million was robust. And our net debt has come down by over EUR 250 million versus the same period last year. It's now at the lowest level that it's been for many, many years. We continue to be very restrictive in our working capital expenditure, EUR 31 million of cash expenditure. Although, looking forward, we're expecting to finish the year at around EUR 180 million of cash out, in terms of investing in key projects and maintenance of our assets. Personnel numbers have also
come down. We’re about 400 people down versus the same period last year and about 350 people down versus the end of 2016, in line with our assets improved productivity, particularly to reduce SG&A costs and the back-office staff that we have.

Let’s now turn to #9, Europe in a little bit more detail. And you can see, Europe continued its strong performance into the second quarter. Deliveries were about 3.6% down versus the same quarter last year. But if you look at the market overall in Europe and Eurofer-reported market numbers, they were down 8%. So not only did we hold our market share, but we actually relative to the market increased a little bit. The adjusted EBITDA for the period was at EUR 178 million. That’s over 130% up year-on-year, and it was driven probably by higher base prices for stainless steel, but as you know, ferrochrome prices in Q2 of this year were much higher than in the same period last year as well. It was also driven by product mix and, of course, by ongoing reductions in our variable costs per tonne and by the reductions in our SG&A costs. Continue to see in Europe strong underlying demand in Q2 and in all customer segments. And we saw base prices increase, not just quarter-on-quarter, but also significantly, versus the same period last year by EUR 120 per tonne. And distributor inventories have now moved above average historic levels in Europe, so have moved up there. And then if we look at our ferrochrome operations, clearly, the price was much higher this year than the same period last year. But as Roeland already mentioned, we continue to have issues with our ferrochrome production throughout the quarter, so production volumes were low, 36% reduction year-on-year. This was also due to the postponed maintenance. So the production there struggled throughout the quarter and due to the technical issues that we’ve talked about in the previous calls.

Turning to Slide #10. Let’s look a little bit more closely at the Americas performance. We can see that, deliveries once again increased by 5.1% versus the same period last year and just about reached a new record level there. EBITDA compared to last year was up very significantly and it reached almost the same level as in the first quarter, driven by higher deliveries and prices, but also by a reduction in variable cost per tonne and also SG&A costs in this area. We also are seeing the product mix in the Americas continue to improve. In the second quarter, demand was robust. We saw distributor demand somewhat negatively influenced by declining raw material prices and inventories have decreased a little bit to below long-term average levels. If we look at the quarterly base prices compared to the previous year’s base prices, they were up by about $105 per tonne. And the one comment we do have to make is that, the result included a one-off positive effect of EUR 6 million. Needless to say, you’ll be aware that the U.S. dollar also weakened a little bit during the second quarter. So that also had a little bit of an impact on the results.

If we were now turn to Page #11 on the Long Products results, we can see that it was once again very solidly positive during the quarter. Second quarter deliveries decreased a little bit, because of lower internal slab deliveries to Europe. Long products produces not just for the external market but the meltshop in Sheffield also supplies Europe and -- with slab and input for its own operations. Looking at the adjusted EBITDA improved mainly because of higher base prices but also because of improved cost competitiveness, and underlying demand during the quarter remained solid. We saw decline in distributor demand towards the end of the quarter here and high base prices in Europe and both -- and the U.S. compared to the same period last year. The comparison to last year has to be made in the context of there being a significant loss last year due to the pound derivative we entered into last year. So that was EUR 5 million negative impact. So while the increase looks very big at first sight, if we make that comparison, it was still higher but not by quite as much. We also had a positive impact from raw material-related inventories and metal derivatives in its result.

Turning to Slide #12, you can see that our cash position strengthened further. The net cash from operating activities was EUR 150 million in the second quarter, clearly, much higher than during the second quarter of last year. We generated a net cash, that is if you offset investments into assets minus receipts from disposals was EUR 9 million. And so if we deduct that, the cash flow before financing activities was EUR 141 million. Our cash and cash equivalents at hand increased significantly through the end quarter and stood at EUR 289 million. There was an increase in net working capital during the quarter. And although, we did reduce our inventory tonnes and our trade and other receivables, we did also reduce our payables by over EUR 126 million, as we needed to support the reduction in inventories through lower purchases and that reduced our payables. So the net impact of all of those was actually an increase of EUR 29 million. We did not get much support from lower prices overall during that quarter. If you look at the financing costs during the second quarter, they were EUR 31 million, interest expenses of that were EUR 24 million, the rest went to derivatives and hedging instruments. Our overall liquidity reserves continued to be very strong, EUR 289 million of cash in the bank and very large stand-by facilities, in that we have a liquidity reserve of over EUR 1 billion. And our net debt decreased by EUR 137 million to a new low of EUR 1.24 billion (corrected by company after the call).

If we now turn to Slide #13, you can see on the left-hand side, the development of our net debt. It has continued to come down. It picked up a little bit in the first quarter, because of the working capital issues come down again in the second quarter. But the leverage, of course, if you compare
that against the LTM EBITDA, continues to fall dramatically, when they are solidly below 2, at a level of 1.8. And our gearing is also continuing to decline. It’s reached a new record level low of 48%. Debt maturity on our debt is also no longer an issue here. We’ve worked through all the longer facilities through 2017 and refinanced them. The facilities you can see here are short-term commercial paper, have little maturities coming up in 2018, with a big repayment wall, if you like, during 2019. That’s a bond on the one hand and then revolving credit facilities that need to be renewed in the course of that year.

So couple of other things on the financing and balance sheet side that are relevant for the second quarter. We redeemed EUR 25 million of the EUR 250 million senior secured notes that are due in 2021. This was probably our highest piece of financing. And when we negotiated as part of that financing, the opportunity to refinance 10% in the first year and exercise that option because there was a big, big opportunity putting some of our cash to work there. Moody's also upgraded us during the course of the quarter and would issue a corporate family rating from B2 to B3 and the probability default rating to B2-PD from previous B3-PD. Our senior secured notes, both those that are due in 2019 and those that are due in 2021 were upgraded to B1 from a previous rating of B2. The outlook on the ratings remains positive.

Let’s go to Slide #14. And before we get into the outlook statement that Roeland will give, I just like to say a few words on timing impact here. And we’ve tried to demonstrate this in a couple of charts to try to make it clearer. The timing gains and losses when we talk about them occur from the difference between purchase price and invoice price of metal components. So the purchase base is the periods during which determines the alloy purchase price for scrap or prime material supplies, while the invoice base is the period which determines alloy surcharge for stainless steel customers. Timing gains or losses between those arise from all alloys, but are usually significant only for nickel, chromium, molybdenum and iron. Have hedging in place to mitigate timing impacts related to nickel. And for ferrochrome, molybdenum and in this period, particularly for ferrochrome, it’s very relevant, it’s not possible to hedge those because there is no market. So just in terms of giving a sense of the size of timing impact, you’ll recall that we talked about timing and hedging positive impact from the first quarter of around EUR 33 million. And ferrochrome moved up by $0.55 per pound. And in the third quarter now, it has settled at $1.10 per pound, so that’s a decline of $0.44 per pound versus the level in Q2. And it gives us some indication of the size of the timing impact that we’re expecting in Q3.

And with that, I’d like to hand back to Roeland to give you an outlook on the next quarter.

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Yes. Thank you, Chris. So in summary, if you take all the things together we have been talking about, we see for Q3 the typical seasonal slowdown which will lead to a slight decrease in volumes in Europe. And not so much though in the U.S. where you see stable volumes Q-on-Q. We see some market pressure still continuing because of the destocking that started and because of the changes in the alloy surcharge. And then we see indeed the effects from ferrochrome, as Chris was saying, we have seen a drop of $0.44 a pound that will significantly impact the profitability of our ferrochrome operation, which will not be significantly mitigated by volumes as the furnace has been under maintenance until the third week of July and has started to ramp up since then. And on top of that, we see the sizable negative impact from the raw material-related inventory and metal derivative losses as explained just in the previous slides. On the other side, underlying stainless steel demand is expected to remain healthy in both Europe and the U.S. and see -- we experience that everyday. All together, Outokumpu expects significantly lower Q3 adjusted EBITDA compared to the previous quarter.

Tommi Jarvenpaa

Thank you, Roeland. Operator, we are now ready for the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We’ll take our first question from Mr. Michael Shillaker from Credit Suisse.
Michael Shillaker - Credit Suisse AG, Research Division - MD and Head of Global Steel and European Miners

Three questions, if I may. Firstly, just on Section 232. Roeland, have you got any sense whether stainless is likely to be included in Section 232? And if you kind of, if so, evaluated the sort of potential on the business A, from the U.S. operations, and B, any sense of what the Europeans will do to counter that? I think it’s pretty clear that, they’ll end up countering with some kind of safeguard measures. The second just on the smelter ops. Can you give us -- because I think several calls in a row now, we’ve talked about the smelter ops being under control within the quarter, and we’re still not quite there. So what’s your confidence that, by Q4, the smelter ops will be up and running fully? And then third question just on the guidance, and I think I probably know the answer, but I’ve got to ask anyway. There’s quite a difference between somewhat used in Q3 -- and significant used in Q3 and somewhat used in Q2, and I kind of know we went through this sort of Oxford English dictionary concept in the last quarter. But is it fair to say that, somewhat probably became significant through the quarter, i.e., it was quite a lot worse by the end of the quarter than you first thought, hence the pre-release? And can you give us any help, and I know it’s difficult, but any help in terms of the extent to which you expect Q3 weakness to be temporary, seasonal inventory write-downs and similar versus something that could be a little bit more permanent, which is the smelting operations depending on how you worked out through and also base prices in similar. I mean, even if you can give us sort of a percentage split between how much you think is temporary or permanent or longer-term, and therefore, your confidence level that Q4 actually should be stronger than Q3?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

All right. Thanks, Michael. So let’s start with Section 232. The easy part of the question. It’s very unclear of what is happening there. Theoretically, stainless steel would be included in Section 232, if that is going to materialize. The form is unclear. There have been various discussions ranging from a flat fee -- a flat remedy on all tonnes coming in to a more likely scenario that has been proposed of having a import quota, depending on what was the historical average over a certain number of years like 2014 and 2016 and then tariff on top of any volume over the quota. We have, as a company, been look at all these scenarios. We have been working through having seen what it does to our operations potentially. And we have clear actions determined on how we would react if they happen. Overall, we feel that we have enough work done that we can mitigate whatever the scenario is into possibly even our own advantage. The ferrochrome smelter. We intended to take it down in May for about a week’s maintenance and then ramp it back up. We were delayed in that, because of the availability or the delivery of some of the parts that we needed. So we have been limping through the quarter until we had all the materials in-house to actually get the maintenance. We have meanwhile as well gotten the input and help from 2 different sources, 2 different specialists in both ferrochrome smelting itself and just the technical side of the building of this type of furnaces. With them, we decided to do a longer shutdown, do literally scooped out the whole inside of the furnace, repair all sort of elements that we saw there, rebalance the volume of it. And then we have agreed to a very strict ramp up curve that should avoid any repetition or the issues we had in the past, and as a result, would not lead to any imbalance as we have seen in the past. We restarted the furnace Sunday a week ago, by warming it up. We started charging material as from the end of last week. And we have actually started to tap material yesterday evening for the first time, this morning, again, and we will do another tapping this afternoon. Power has been switched up to now about 40% of its full power. And everything is currently running according to schedule and without any hiccup. With the help of the specialists we have called in, and with the very rigorous program we have in restarting it and ramping up, we believe that the furnace will reach its designed capacity and will not have the instability repeated that we had in the past. And then has somewhat become significant, yes, somewhat became significant. That is, it was clearly as a result of the timing effects, and this ferrochrome issue became a bigger drop than we had forecasted ourselves internally. How much is permanent and how much is temporary? Clearly, the timing is a temporary thing. The -- it’s like a python eating a deer. It takes time before it’s being worked way through the snake and that’s the same here. It takes time, but then its actually digested and gone. Same goes for the ferrochrome issue. I do believe that, we will have the stability we need. And as we said, we see still markets as being underlying pretty healthy.

Michael Shillaker - Credit Suisse AG, Research Division - MD and Head of Global Steel and European Miners

Okay. And I think you alluded to a bit, is it reasonable to assume that some of the base price fall has been in part driven by the transaction price fall on the back of ferrochrome, and therefore, you could argue that, that is to some extent temporary relative to underlying fundamentals?
Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

It’s anyone’s guess. I only look at what I see and this is probably the best guidance. What I have seen from our direct consuming customers, the automotive and appliance customers, and there is absolutely no interruption in the strong demand that we have seen.

Operator

We will take our next question from Johannes Grasberger from Nordea.

Johannes Grasberger - Nordea Markets, Research Division - Senior Analyst of Materials

It's Johannes from Nordea. I've got a couple of questions here on my side as well, and I will try to ask them in a one row. So the first one would be on ferrochrome as well. And I'm just wondering here, when released the guidance downgrade for the second quarter the other week, what really was the main driver for this guidance change? Was it the fact that you will not just be able to use kind of the less costlier ferrochrome output from your own smelter, and instead, you had to buy as a net more ferrochrome from the market I mean, a way you lost the quite wide, say, spread to the market price relative to your own cash cost? That's the first question. And the second question on ferrochrome. Again, what are you seeing is happening in the spot market and in demand supply? And I've seen some price upgrades in the Chinese spot market quite recently, so what is your thinking? What is happening over there? Then the third question would be on working capital. So the negative effect in the second quarter, was that kind of a timing issue? Should we still expect that the cash tied into the balance sheet in the first quarter would eventually be released during the course of this year as we see that the metal prices are quite a lot lower today than in the first quarter? And then, the final question would be on any cost tailwinds coming in for the third quarter? You mentioned that, in the second quarter, there were some positive elements from variable costs and SG&A and that type of thing. So is there any kind of positive effects from this type of cost elements coming in for the third quarter? That's the final question.

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Okay. Thank you, Johannes. I'll start off and then hand over to Chris. The main reason for the downgrade was, in principle, the inventory of raw material delay, so the high cost inventory that started working through the system, and why was that? As we saw that demand was slowing down and inventories went up, we decided to significantly reduce inventories by consuming the materials we had, and at some stage, even for a couple of weeks, stop our melting operations in order to make sure that we can evacuate the inventory. That changes the profile of the raw materials that you have in stock. In other words, you keep more high price materials in stock, and as a result, you have a bigger hit from that metal lag through your system. And as we saw that coming, we said, okay, this is now getting to a point that we want to go to the market and say that this is happening on top, of course, of the ferrochrome issues that we discussed. So as for your second question, what is happening to the spot market in China, we see clearly an uptick in the stainless steel market in China. You see the melting rate's going up, the demand for stainless steel is going up, pricing is going up for stainless steel, nickel is clearly underpinned by the activity and so is ferrochrome. The results of the past are no guaranty for the future, same here in this market. If China keeps up, yes, then we would see a positive support, but that is to be seen. And working capital, Chris?

Christoph de la Camp - Outokumpu Oyj - CFO

So yes, Johannes, so you'll recall that, in the first quarter, obviously, there was a significant build in working capital, and we put it down to 3 key factors. One was obviously, a reduction of balance sheet financing. That reduction remains in place. So for the time being, it does not come out of working capital. The second piece was due to the high level of pricing, particularly chrome and ferrochrome and chromite that was in the system and the higher base prices and a higher business volume that we saw in Q1 due to Q4 of last year. And now while ferrochrome did come down a little bit in the second quarter, it wasn't very much, and the same time, base prices actually moved up a little bit. So that pricing impact did not come out during the course of Q2, but now seeing ferrochrome prices fall, and we've also seen base prices come down a little bit off their peak. We should see those effects coming out through the rest of the year. The final factor was working capital tied in due to high levels of receivable. We also started reducing those and also started drawing down some of our inventory levels. But to do that, you need to sell more and buy less at the other end. When you buy less -- when you sell more, then your receivables sort of go up. So that's a counter effect to the higher -- to the overall
level of receivable reduction we had and you need to buy less, which means that your payables go down as well. So that’s working its way through the system at the moment. And will also come out, therefore, in the second half of 2017.

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area
And then the last point on cost tailwinds. We, of course, continue with a full focal indication with our cost programs. We have -- if you look at the cash conversion costs, we have now achieved in Europe, about a 3% improvement over last year. In the U.S., we are running at over 15% versus last year and that focus will not abate. So this is for us, as we all said, this is the basic issue of fixing Outokumpu is back to basics, making sure that we are the cost leader in our industry.

Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst
All right. And I just got one more follow-up question here. Thinking about the fourth quarter, I understand that you are not guiding fourth quarter as such, but realizing that all right in Europe, there is going to be some maintenance breaks and thinking about the uptick in the Chinese market, is there a risk that the steel market in the western part of the world could possibly overshoot in the fourth quarter, because while inventories, I suppose, are not that high end of the day and hence will have the very strong underlying demand trends, and if the Chinese prices start ticking upwards, it could be that the buying activity will be reversing quite quickly? And the kind of -- the follow-up question of this follow-up question is that, what kind of demand activity are you kind of expecting for the third quarter? I suppose, there is no assumptions of any kind of the reversal of the restocking or inventory value -- inventory activity or anythings like that compared to the second quarter?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area
So there is no doubt that inventory levels in the U.S. are quite a bit below the historical averages. In Europe, however, they are above historical averages. The scenario you painted is a possible one. I don’t think we would be negatively positioned if that happens. We have enough steel inventory in our system to react to whatever is needed. We have enough contracts with our suppliers to make sure that we have sufficient raw materials to certify the market if that happens.

Operator
Our next question comes from Seth Rosenfeld from Jefferies.

Seth Rosenfeld - Jefferies LLC, Research Division - Equity Analyst
I’ve got couple of questions outlook for your realized prices this second half of the year. In the release, it looks like your Q2 results benefited from base prices actually slightly up quarter-over-quarter. But we’ve seen a pretty sizable reduction in spot prices from the Q2 peak, especially, in Europe and also a meaningful discounting below benchmark based from what we are hearing from some industry contacts. I guess, 2 questions. First, when do we expect recent base price pressure to hit your ASPs? Will this weigh on Q3 or actually not hit you until the fourth quarter, given your contract structure or lead times? Second, you know market pressure recently on base prices. Can you confirm, does that comment reflect kind of backwards looking issues throughout the second quarter? Or is there actually a continuation or acceleration of that pricing pressure today going into late July?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area
All right. Q2 base prices were indeed up over Q1 in Europe about EUR 20, and in the U.S., it was more or less flattish. And we have seen as well the reports from CIU on the pressure on base prices in Q3. This is something that seems to be happening every quarter, as for every third quarter, when volumes gets less and/or when raw materials prices fall, the -- there is a spillover between the alloy surcharge and the base price, there’s a bit of a
confusion there. Over time, that shift relates itself normally. As you know, we do not comment on for competitive reasons, we cannot comment on future prices. I can only say that, we still see this extremely healthy underlying market.

Seth Rosenfeld - Jefferies LLC, Research Division - Equity Analyst

Can I rephrase that, then? If base prices today flatlined for the next 6 months, would your realized prices be lower or higher in the fourth quarter than in your third quarter?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Again; it's something that I'm afraid. I'm not allowed to answer. This is what competition authorities do not want any sort of price signaling going forward.

Seth Rosenfeld - Jefferies LLC, Research Division - Equity Analyst

Okay. I'll try again. Can you give me a sense of where your lead times are currently in Europe and in the U.S.?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Yes. That I can. We are in the U.S. about 5 to 6 weeks, and we are in Europe, 7 to 8 weeks. We are starting to book into September in the U.S. We are finishing our book in September here in Europe.

Seth Rosenfeld - Jefferies LLC, Research Division - Equity Analyst

If I can just ask one final question on ferrochrome. As those volumes do come back hopefully in the course of Q4, should we expect some improvement in your fixed cost leverage within that chrome processing business, such that higher volumes even at a lower price would aid your realized margins? Or is that not a fixed cost intensive business for you?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

It's not that fixed cost intensive as the rest of the businesses is. Of course, you have your labor, but it is less cost intensive. It will have an effect, there's no doubt. But it's not as significant as you would have it, if for instance, the melting operation in your meltshop of your stainless operation.

Operator

Our next question comes from the line of Olof Grenmark from ABG.

Olof Grenmark

Olof Grenmark, ABG Sundal Collier. I will limit myself to one question, please. And that is that, you've talked a lot about your ferrochrome issues during Q2. Could you please help us out by stating what negative EBIT effect you had from those issues in the second quarter? That's all.

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Chris?
Christoph de la Camp - Outokumpu Oyj - CFO

Yes. We don’t want to particularly comment on the profitability separately of the ferrochrome business at this stage. But the negative EBIT effects from the volume were significant, and they were significant enough to also cause us to make the early release of the results statement that we did last week.

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

I think that what you can see, Olof, is the production numbers that we report and you know we have a potential production capacity of about 135,000 tonnes in the quarter and that shortfall, of course, is significant. So I think you can probably get to the mark.

Operator

Our next question from -- comes from Carsten Riek from UBS.

Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research

Most of my questions actually have been answered. One maybe on the base prices again, because we still see a downward swing in surcharges, at least until recently, and the transaction price differences between Asia and Europe and Asia and America is still comparably high, especially compared to Europe. So a similar question to Jeff -- Seth’s question, how long will be the base price pressure continue in your opinion? Is it over in the third quarter? Or is there a chance that actually it spills over in the fourth quarter?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

The -- you are referring to the spread to the Chinese prices...

Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research

Yes, the transaction prices, exactly.

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

So if you look at how the alloy surcharge has come down now 3 months in a row with every month’s about a EUR 100 -- over EUR 100, and at the same time, you look at the swing up of about $200 in the Chinese prices, that gap has come down significantly.

Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research

Okay. So you believe it’s over up sooner than later?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

I can only lead you to the water. That’s all.
Carsten Riek - UBS Investment Bank, Research Division - Executive Director, Head of European Steel Research, and Equity Analyst, European Steel Research

Okay. That’s fair. The other question I have is, we recently got again the story about 3.8 million tonnes of new Chinese stainless steel capacity from Shandong Xinhai Technology, which apparently is supported by Baowu. Is that something which worries you going forward? It’s more a strategic question. Or do you think the capacity cuts in China are sufficient in the stainless area in order to absorb this kind of incremental capacity of about 4 million tonnes?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

It’s very difficult to gauge that. There are closures of stainless, we have seen that. We have seen switches of stainless back to carbon. We have seen the opposite as well. You see that those stainless capacity, especially on the nickel pig iron backing in need of being build all directed at China. I think for us, with our extremely strong footprints in the Americas and in Europe, the more important thing is that, we are having significant protection for the next 5 to 7 years, and you have to look at this in a longer-term view. So I do believe that the Chinese government is very serious in closing down inefficient capacities, be it carbon or stainless. I do believe as well that, the market there still is growing and will automatically absorb a big chunk of the overcapacity. And I do believe as well that, at some stage, rational thinking will come into the whole capacity question in China as well. So it’s a long-term game, and we, at this moment, do not see any short-term and short-term, I talk about 5-year plus significant impact.

Operator

Our next question comes from the line of Luc Pez from Exane BNP Paribas.

Luc Pez - Exane BNP Paribas, Research Division - Stock Analyst

Couple of questions, if I may. Could you be a bit more specific on the ferrochrome volume you would have in mind for Q3? I understand the risk associated with any ramp up, but if I take your starting point during Q2 at 86 and targeted run rate at, let’s say, 130, 135, would give me something in the tune of 110, is it the figure you are comfortable with? That would be my first question. Second question still related to ferrochrome. Could you maybe be a bit more specific as to what you see in terms of outlook? And how market conditions are developing on the ferrochrome market? And how you would see Q4 trends? And last but not least, on the Americas, if I restate your EBITDA from the EUR 6 million one-off, first if you could explain how you -- is this included in the adjusted EBITDA? I would appreciate. And secondly, it means that the profitability has only mildly improved versus Q1, whereas your utilization rate is at 86%. Consequently, my question is, when do you see profitability getting, let’s say, a proper level given the good utilization rate you’re achieving there and what you needed to get to proper profitability?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Okay. So on the ferrochrome. In Q3, as I said, you -- the first 3 weeks, we were in maintenance, and then we were a week heating up. So you can basically say that, 1/3 of the quarter is gone in terms of volumes. And then you have ramp up, and as I said earlier, we don’t want to make the mistake that we probably made last year in ramping up by doing it too first and then getting into an unstable operation. So we have a clear but careful ramp up schedule that we follow. So the volumes will remain low, but there will be no significant mitigation of the lower prices by volume. The Americas profitability, first of all, we don’t work, as I said earlier, with capacity utilization numbers. We sincerely believe that the nameplate capacities that is on those machines do not reflect the reality of what we can get out of them with the correct operational measures. Secondly, we have always maintained that, it will take until 2018 for us to get into, what we call, commercial maturity as well. We still have in our mix, although, we are improving and getting more continuous mill plate into cold rolled and more black band into continuous mill plate, we still have a significant part of our mix into whole black band, and we still have an opportunity of moving more from the continuous mill plate into cold rolled. So I agree with you that the profitability is not where it should be, but at the same time, we are both commercially and operationally moving continuously up the value-added ladder. And I’ve said are confident that we will achieve that full maturity by 2018.
Luc Pez - Exane BNP Paribas, Research Division - Stock Analyst

All right. Could you maybe elaborate a bit more on the ferrochrome market outlook?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Oh, yes, sorry. Very, very difficult. I'll be extremely open there. We have seen this whiplashing up and down, and ultimately, the driver, the biggest sole driver is China. We saw it in Q2 of 2016, when in March, China stopped buying and ferrochrome prices tanked to $0.82 a pound, only for China to start remelting in April and May and spot prices shooting up leading to a $0.16 increase in the ferrochrome price the quarter after. We saw it as well from Q4 to Q1 and now again from Q2 to Q3. So China is here the driver. Good news is the current demand and strength in the Chinese markets reflecting in the spot prices in ferrochrome, but I would not dare to say anything about Q4.

Operator

Our next question comes from Philip Ngotho from ABN AMRO.

Philip Ngotho - ABN AMRO Bank N.V., Research Division - Analyst

I have 2 remaining. The first one is, just to get -- to try and get a better understanding of the order of magnitude for the Q3 earnings drop. You just discussed what the impact would be on ferrochrome. My question there as a follow-up and is also a bit related to the question about whether there is a high fixed cost base, is whether you can confirm the sensitivity that you gave few quarters or a year ago, whether that still holds given the lower-volume levels that you are pushing out? So I believe it was EUR 15 million for every $10 per pound movement in the ferrochrome price. So that's my first question. If you can confirm if that sensitivity still holds. And then my second question is related to the negative earnings impact of working through the more expensive raw materials. I was wondering if looking back now in hindsight, whether you think that you've been actually working with a too large inventory level, whether you are caught off guard? Or do you see this really as something that's just being part of the business and bit out of your hands?

Christoph de la Camp - Outokumpu Oyj - CFO

Yes. So I'll take the first one. The guidance that we gave still holds. And we've actually always talked about EUR 15 million to EUR 20 million, and I think we're more at the bottom end of the range here of the lower volumes, so you can use that as a benchmark, I think. And then the negative earnings from the timing. I don't think we carry a particular high level of inventory at the moment relative to historic levels. I mean, constantly trying to obviously reduce the level of inventory, but I think at the moment, it's in reasonable shape, but obviously, it's something we continue to chip away at and on an ongoing basis, because the lower we can get it obviously smaller those timing impacts will be, both on a positive but also on the negative side. So it's the most effective way of mitigating those timing impacts.

Operator

Our next question comes from Cedar Ekblom from Bank of America.

Cedar Ekblom - BofA Merrill Lynch, Research Division - Analyst

One question from me, gentlemen. If I read the release, it says that, imports have gone back up quite strongly in Europe. It's now standing at 27% of consumption, which is close to where it was before. We saw the initial moves to protect the European market against the imports a few years ago. Can you comment about whether you think there is going to be any increase in initiatives to try and bring more trade protection into Europe? Or do you think that the supply that's coming into Europe now is more economically fair? If that's the right word to use. In other words, do you
actually think the industry has the ability to argue for more trade protection or its high imports at nearly 30% of consumption is something that we're just going to have to deal with going forward?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Yes. So the -- I think the highest level we reached was something like 31% or 32% when China was pumping material into Europe. And China alone represented more than 10% of the imports. It shows as well that, in a healthy market that we have currently in Europe, there is room for imports, because don't forget that the capacity we have in Europe does not only serve the European market, it serves to a lot extent as well the EMEA market and even the Asia market. We ourselves export a significant amount of material into Asia on the higher end of the spectrum. And as a result, there will always be room for imports and actually need for imports. The main issue here is, are these imports at a decent price level. And we believe that it is still the case. The moment there would be any indication of unfair competition and dumping, of course, we as an industry will together with Eurofer make a case and try to eradicate any unfair trade practices. As long as it is fair competition, and if I look at the price levels in Q2, in Europe, I would say fair levels.

Cedar Ekblom - BofA Merrill Lynch, Research Division - Analyst

Okay. And then one just follow-up question. Can you just comment on the origin of imports at the moment into Europe? And the trade protection initiatives that we saw obviously targeted China to a large degree and Taiwan to a lesser degree. With the imports now ticking back up to close to peak levels, has there been a change in the mix, in terms of where that’s coming in from? Or is it rather about same?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

There is a -- yes, there is, of course, still the largest part comes out of Asia. And within Asia, I would say that, the largest importer into Europe is actually Korea. And what you have seen as well in Q2 is significant increase of imports into Europe from the U.S. So those are the big moves. As I said before, I don’t -- we don’t see these import price levels as unfair and can easily live with them.

Operator

Our next question comes from Kevin Hellegard from Goldman Sachs.

Kevin Hellegard Nielsen - Goldman Sachs Group Inc., Research Division - Analyst

I guess, my only question left is, if you can in any way quantify the impact of maintenance 3Q versus 2Q and maybe even into 4Q as well, the timing of maintenance in the second half of this year?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Again, these are normal patterns we have. In Q3, we would have, I would say, over Q2 is slightly increased maintenance in terms of our value. For a simple reason that you -- over July and then August, you have -- because of holidays, you have shutdowns and do maintenance. And then you have another, of course, heavy maintenance seasonal always the same every year in the late November and December part. So that is not different this year from any other.

Operator

Our next question comes from Bastian Synagowitz from Deutsche Bank.
Bastian Synagowitz - Deutsche Bank AG, Research Division - Research Analyst

I've got 2 questions left. Just my first question is, again, on ferrochrome, and how to think about the moving parts of the business? And essentially I'm trying to separate the elements in your numbers and guidance which are driven by prices from the ones which are driven by the temporary issues. Now besides the volume effects you've been talking about in length in the second quarter, were there any additional repair costs which have been charged through the P&L? And then even if you don't give us the details on the absolute numbers, can you please give us some rough sense for -- whether the net effect of both volume loss and possible repair cost will get sequentially worse or better in the third quarter? I guess, we're all pretty clear on how prices will impact, but it seems we're still very unclear on these temporary items, so any help would be much appreciated. Then my second question is just following up again on working capital, where I thought you did a good job or precisely cash flow overall. I understand that, there is a lag in your business and how lower prices and volumes see through in your cash flow. But given the lower transaction prices and particularly the lower chrome prices, would you rule out that the working capital you have been building up could be fully reversed in the course of the second half? Maybe you could give us at least a broad range here?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

I'll take the first thing on the ferrochrome. The maintenance cost is a very minor part. We're talking about EUR 1 million, which was the real cost of this maintenance. The larger cost comes from the fact that the furnace was out for 3 weeks, while we were doing this and the ramp up afterwards. So as reflected in the volume in Q2 of 86,000(corrected by company after the call) and the volume coming through already made for what we expect in Q3. So maintenance is a very small part. And again, I believe that we will get the furnace now back into its normal stable operations and that this was a temporary thing. On the working capital, Chris, maybe you want to make some comments?

Christoph de la Camp - Outokumpu Oyj - CFO

Yes. So it's a good question, Bastian, and I think just building on what I said before, it very much depends also on pricing levels at the end of this year. So if we see ferrochrome, nickel and base prices back at the same level that we saw at the end of 2016, and clearly the -- that the price impact of the increase in working capital will fully reverse out. But that's a big if, and at this stage, I don't think we can say where prices will end this year. So that remains a question mark. As we also said before, we did reduce our off balance sheet factoring, and what we've done there in the background is obviously, take out facilities that were very high priced. We have a number of different facilities, some of them at higher price and some of it at lower price, so obviously, took out the higher price ones. And at this stage, overall, the off balance sheet factor remains lower. If we can find ways to find lower-cost facilities there, we may utilize them, but at the moment, we don't have any plans to do that. So there will also be a permanent effect. And the rest of it, I think, will reverse out mostly I think at least.

Bastian Synagowitz - Deutsche Bank AG, Research Division - Research Analyst

Okay. Roeland, just one quick follow-up, again, on volumes as I'm not entirely clear. I fully got the volume guidance, so obviously, the ferrochrome furnace and essentially 1 out of the 3 which is the largest was running not -- was not totally out in the second quarter, was just running at lower utilization rate. Now if I understand it correctly, it was fully out for most of the first month of the third quarter and now it's going to be like roughly in a stable ramp up process brought back to operation. And so is it fair to assume that the total production volume will be pretty much on the same level as in the second quarter? Or will it be possibly lower than that?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

No. It will be same levelish, yes.
Our next question comes from Anssi Kiviniemi from SEB.

It's Anssi from SEB. One question left from my side, and now, I would like to get kind of a more clarification on the raw material timing effects for Q3 result. When we look back Q3, now Q4 last year to Q1 and Q1 to Q2, you could assume just by looking at the ferrochrome price, that is probably the largest driver in raw material gains and losses that the magnitude of the raw material adjustment is going to be somewhere between EUR 25 million to EUR 30 million on negative side. So is this a fair assumption? And should we take into account other effects also? Or what is kind of your view on that issue?

Yes, I think, in terms of timing effects, I don't think your math is too far out, Anssi.

Our next question comes from [Christian Azoral] from Citi.

My -- most of my questions are already being answered. One question remaining is, euro has moved a lot against the U.S. dollar, so is there anything significant impact you would like to -- would have on your operation, given that in the Americas you have a lot of U.S. dollar and the pricing is mostly in the U.S. dollar?

Yes. So the U.S. dollar euro exchange rate impacts us in 2 significant ways. Clearly, it has an impact on the euro value of our American operations. So any result -- EBITDA result that's generated in the U.S. will be worth less in euro terms, if the dollar weakens and that has a -- that's had a bit of an impact clearly in Q2 as well, as the dollar has fallen. So that's 1 part. The second part is actually in -- on the ferrochrome side. Ferrochrome price -- ferrochrome is priced in U.S. dollars or in U.S. dollars per pound. And therefore, if we see an ongoing weakness in the U.S. dollar, then the receipts from material that we sell into the market in the U.S. dollar terms will also be worth little less in euros.

Is there any sensitivity number which you can provide for both these items to make it easier for us?

No. But I think you can probably do the sensitivity on the U.S. side pretty easily yourself, because you know what the change in the dollars is and you apply it to the Q3 and Q2 results -- Q2 result and Q1 result and then you'll see -- you'll be able to get the difference. And on ferrochrome, I think, it's -- I think again, if you could probably do the math by just applying the difference in exchange rate from Q1 to Q2 and forecasts.
Unidentified Analyst

Most of the ferrochrome impact would come only for the stainless -- ferrochrome deliveries you are doing outside, not for the materials used inside?

Christoph de la Camp - Outokumpu Oyj - CFO

And inside it doesn't play a big role. It’s mainly external. So its translation of the U.S. result into the euro that's important here, because most of the U.S. operations happen in dollars, lot of the Mexican business happens in dollars, and they transact in dollars between each other. So its what’s left over that's relevant in terms of the conversion back into euros. I mean, there is a balance sheet effect as well clearly, but that doesn't show up straight in the P&L, but they’re further down, up in the EBITDA level.

Unidentified Analyst

Yes. And finally, you have EUR 75 million of CapEx in the first half in cash flow, so can you remind us for the clear guidance for this?

Christoph de la Camp - Outokumpu Oyj - CFO

Sorry. EUR 75 million in cash flow you say in the first half?

Christoph de la Camp - Outokumpu Oyj - CFO

Right, in capital expenditure.

Unidentified Analyst

In capital...

Christoph de la Camp - Outokumpu Oyj - CFO

In CapEx, okay. The guidance for the whole year is EUR 180 million, and that’s euros, not dollars.

Operator

Our next question comes from Charlie Clark from Berenberg.

Charlie Clark

Just 2 quick ones left, if that’s okay. Firstly, is it possibly to quantify the impacts that nickel had on the raw material eventual losses? And also just a quick updates on how are ops are going at Calvert?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area

Chris, could you comment on the nickel?
Christoph de la Camp - Outokumpu Oyj - CFO
Yes. In the second quarter, the big impact was really ferrochrome. I mean, nickel did fall a little bit, it was small. We saw nickel during the quarter trend down about $1,000 per tonne. I think, there’s a little bit of a negative impact, but we also hedged a lot of that, so it wasn’t that big.

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area
Do you want to comment on Calvert?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area
Yes. Calvert, it is actually still going amazingly strong in the sense that you see the improvements quarter-on-quarter, and you think, well, it should be plateauing and then the next quarter, it’s even -- it’s repeating the performance. So we see tremendously strong cost control. We see especially on both fixed cost as well as variable cost improvements quarter-on-quarter, although Q2 and Q1 was probably less of a drop in the variable cost because, again, there is some -- there are limits to how far and how low you can go. It was a new record in terms of the variable cash conversion cost per tonne. So still going extremely well. All the facilities are doing well. So extremely pleased with the progress being made there.

Operator
Our next question comes from Hjalmar Ahlberg from Kepler Cheuvreux.

Hjalmar Ahlberg - Kepler Cheuvreux, Research Division - Equity Research Analyst
Just last question from me. I mean, you don’t want to comment too much on base price, I understand, but you say that, you see both pressure in U.S. and Europe, but could you say, if there is any difference between the 2 markets? I know inventories and imports are high in Europe, does that mean that pressure is high in Europe and U.S. or is it similar on base prices?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area
I have to refer to the CIU report, where CIU has reported about $60 a tonne drop in Q3 versus about a EUR 30 to EUR 40 drop in Europe, and I would go with those numbers.

Operator
Our next question comes from Johannes Grunselius from Handelsbanken.

Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst
Now all my questions has been answered, but I also have a question on the Long Products, what you anticipate therefore? Or what you see now? I mean, you helped us giving some insights in lead times for instance, for Europe, U.S. Is -- what do you see in Long Products in terms of demand when you talk to your clients there?

Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area
Yes. Long Products actually is -- has turned out to be very good market this year. We have seen interest from the oil and gas sector coming back, especially if you look at special bar in the U.S. has been going strong, the pros of going to Bruges or flanges and valves and all related to that same
oil and gas market, good. In Europe, on the automotive side, a very healthy market. So it’s actually -- as far as the external side is concerned, extremely positive, and we don’t see a change in that activity.

**Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst**

And is it fair that as big part as for your European business is distributed through distributors or is it more direct sales through your own channels here? Or can you elaborate a bit on that, please?

**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Yes. It’s actually lot of that direct sales...

**Johannes Grunselius - Handelsbanken Capital Markets AB, Research Division - Research Analyst**

Yes, okay.

**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

Because this is a high value. We are on the -- only on the high end of the product. So the special bars, special rebar all that is not as common. So a lot comes through products, but a lot is direct customer business into automotive and into producers of equipment for the oil and gas industry.

**Operator**

It appears there are no further questions at this time. I’d like to turn the conference back to you for any additional or closing remarks.

**Roeland I. J. Baan - Outokumpu Oyj - CEO, President and President of Europe Business Area**

All right. Thank you. So thanks for your attention to this call. Just in summary, a very strong Q2 and followed up by a Q3 that is impacted by a number of external factors. But the main message from my end is, as a company, we are delivering on our objectives internally, we are delivering on our operational targets, and we are well on our way to achieve our vision for 2020. Thank you very much for your attention.

**Tommi Jarvenpaa**

Thank you, Roeland. And thank you, everyone, very much for your attention and active participation. Outokumpu’s third quarter results will be published on October 26. Until then, thank you and goodbye.

**Operator**

Ladies and gentlemen, this concludes today’s call. Thank you for your participation. You may now disconnect.