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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's Outokumpu Interim Report Second Quarter 2019 Conference Call. (Operator Instructions) I must advise you that this conference is recorded today, Thursday, the 1st of August, 2019. I would like now to hand the conference over to your speaker today, Tommi Jarvenpaa. Please go ahead, sir.

Tommi Järvenpää ***Outokumpu Oyj - VP of IR***

Thank you. Good afternoon and welcome to Outokumpu's Second Quarter 2019 Earnings Webcast. My name is Tommi Jarvenpaa. I am the head of Outokumpu's Investor Relations. With me here today are also our CEO, Roeland Baan, and our CFO, Pia Aaltonen-Forsell.

We will be referring to the presentation that can be found on our website. And with these remarks, I am pleased to hand over to Roeland. Please go ahead.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

Thank you, Tommi, and good afternoon everyone. So I would like to start as always with reminding you of our vision, to be the best value creator in stainless steel by 2020 through customer orientation and efficiency. And as our results in Q2 and actually in the first half show, we are still making tremendous progress to our set goal, hitting our operational KPIs where we put them.

So if we go to the results, in a difficult market we actually have satisfactory performance in the second quarter thanks to perfect execution from the operational and the commercial side. If you look at the EUR 91 million of EBITDA, look at the bridge, it's clear that the market as I already said with this difficulties through the continued imports of low-priced material from Asia result in lower deliveries. But at the same time we have been able to increase the pricing and the mix both, in actually all our BAs -- specifically, though, in Europe where the specialty group has made tremendous progress as well.

Then on the cost side, we have been able to continue our drive for higher productivity and as a group we have overall achieved a higher than 3% productivity compared to last year. So as I said before, we really are making still fantastic progress on these targets that we set out.

Ferrochrome, as you can see, was flat and then as Pia will later explain, we had some small negative on the other operations resulting in the EUR 91 million I've said.

If you look at the market environment on the pricing side, prices in Europe, the base prices, have really not moved. They're more or less flat, a little bit down. The same goes for the U.S. and the same goes actually for the average nickel price. So the Qs were pretty much comparable in that sense. Ferrochrome benchmark of course benefited us, was up $0.08 with the known sensitivity of 10 million for $0.10 that shows you where the difference comes from, they're mitigated by the maintenance cost that we had there.

But the biggest issue of course that we are as an industry facing are the imports. Since the introduction of Article 232, and if you look at the right-hand side of the graph, you can see that indeed the imports into the U.S. have been deflected, have been taken out. And they have found their way into the only open market still around, which is Europe. And in spite of the safeguards and in spite even of the latest current safeguards that were activated in February, that is still something that is coming into the market.

The penetration went up to 30% for the quarter and if you look at -- in the quarter itself, it was actually towards the end of the quarter even slightly higher than that.

The result of that on pricing has been clear in the past already. We dropped off a cliff in 2018 and we have more or less stabilized, that is around EUR 800 a ton level. And at this moment, we might see a small increase but it is very, very negligible. There's still enough pressure not to be able to raise prices too fast.

In the U.S., the same thing happened in the reverse, pricing up and has been pretty stable ever since.

If we now look to what we are expecting going forward on volumes, this comes from SMR. And in Europe, a deeper dip than usual in the third quarter. There are a few reasons to it. One, of course, is the much-advertised slowdown in automotive but the other thing is that the inventories in the distribution segment due to the imports out of Asia are still pretty high. So there's reduced demand in that segment. We expect as well that -- that will reverse into Q4, where you see indeed in the return to more normal volumes in the market.

In the States, we see pretty much stable development, not too much differences Q-on-Q.

Now with that, I'll hand over to Pia.

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

Thank you very much, Roeland. Good afternoon and let me start by a few comments on the key figures.

We have discussed the deliveries, you see the clear decrease, the stainless steel deliveries were down to a level of 584 kilotons in the quarter, and of course in percentage terms compared with the year-ago, a significant step down, 13% and also some 6% compared with the first quarter. So under those circumstances and in the market environment reaching the EBITDA, the adjusted EBITDA of EUR 91 million is still a satisfactory result.

I think the highlight from my perspective, on our report, is the strong operating cash flow, the improvement in working capital that we have been able to do during the quarter, and then the net debt reduction that followed that. So I will get back a bit more commenting on the working capital and I think the reduction in net debt is particularly good news since we also paid the dividends of EUR 62 million during the quarter. So I'm very satisfied with that.

Our gearing then ended at 49.8%.

But if we have a look a bit at the performance by each BA we could start by BA Europe. And I think we had seen several strong points in BA Europe's report. It's evident when you look at this waterfall here that we have been able to achieve good steps when it comes to the pricing and mix. And I would still reiterate there the importance of the product mix and the improvements that we have been able to make there, because when we look at the base price development as Roeland just commented upon, that remains stable on a very low level even during some -- by some statistics even a little bit down from Q1 to Q2. Only a little bit, but still.

So with that in mind, I think this positive development is a good achievement. We also see good and positive steps when it comes to productivity development and other continuous improvement efforts].

So you do see here the 6% tick-down in deliveries, very much caused by the increased imports, and then also with the endgame right now the distributors having inventories on an average level. So this was a clear downside in Q2 and continues to be challenging throughout the next period.

Net of timing and hedging slightly negative and on the cost side we have some improvements, for example the graphite electrodes and the electricity prices where we have a little bit of improvement. And then in others I do think it's worth mentioning that there's been some reversal of the hedging losses that we could see in the first quarter report, and in the end we reached the same number as a year ago, EUR 73 million as adjusted EBITDA.

Let's next have a look at the Americas, and I think when we look at the Americas, the continued distributor destocking and the sentiment also in the market has been causing lower deliveries and these were really somewhat also lower than we had expected. And that caused in the end, our net result to end slightly on the negative side at minus EUR 8 million adjusted EBITDA of the quarter. Compared with the first quarter of course, we also have some positive movements. A little bit of an improvement in pricing and mix, lower truck and freight costs in the U.S. and then the impact of the net of timing and hedging was positive during the quarter.

So overall, again, the volumes really at least from my perspective being the main negative impact compared with also what we had seen earlier.

A few words then on long products. The market here and demand in -- particularly in Europe has been weakening. We still see a positive development on the result so deliveries were a little bit down, but pricing and mix and this is both customer and product mix, improved which was a good step. And we had also positive, small positive movements in all of the other main topics such as timing and hedging, costs and also some reversal of FX losses that we had in the first quarter. So this is -- this is then taking us to a EUR 6 million adjusted EBITDA.

And finally on the BAs, let's have a look at ferrochrome. You might recall that Q1, the deliveries were record high and we have continued on a very good level when it comes to production. We have also still had high deliveries in the second quarter, even though they were a little bit lower than in that record high first quarter. The benchmark price of 1.20 was a bit higher in the second quarter. Now we know that it's again down for the third quarter, as Roeland explained. But still here we enjoy the somewhat higher price. And then we had the planned maintenance shutdown where the cost impact was about EUR 5 million, and that really kept us then at the result level of about EUR 31 million for the ferrochrome business.

And then perhaps to my favorite slide, the cash flow generation. And what you see here is a working capital release of EUR 96 million in the quarter. And I think we have had a lot of focus on this internally. We have particularly looked at inventory levels in each part of the chain but also focused on other areas such as accounts payable, you know, the contract structures that we have, as well as particularly the overdue management. And I think we have made good progress in all of them. We have hit all the internal milestones that we have set for ourselves. And it's also visible now in the end result which is a positive of EUR 96 million.

And not to mention all of the details from last year, but I do think still it's worth mentioning that in the second quarter last year this figure was minus EUR 18 million so the delta is quite significant. And you might remember that it was very significantly positive also in the first quarter. So we continue this positive momentum and development, here.

And then the CapEx during the quarter was at EUR 37 million, and on the right-hand side you see our estimate for the full year where really the main efforts from our side have been in the Kemi deep mine project which continues as planned. Then also on the digitalization and ERP projects that have been important for us, and we continue working with those. And then overall we expect in terms of annual maintenance CapEx this year around EUR 100 million. And I think all of those have been represented as well in the second quarter.

Following the good cash flow, we have been able to reduce our net debt and when we also -- if we would look at the second quarter of last year, and actually taking into account the about EUR 130 million from IFRS 16, it's clear that we are now able really to reduce the real underlying net debt, both compared with the first quarter this year and with the figure a year ago. So this is a good and positive development.

On the leverage side, we are a bit up compared with the previous quarter.

And my final slide here is to highlight one of the achievements that we have in extending our maturity profile. So during the quarter we have signed a new term loan. This is a EUR 400 million term loan with a maturity in 2023. And it's important, I think both in terms of the maturity profile but also because this is now a new type of loan linked to our sustainability targets. So both in reduction of CO2 emissions as well as safety which both remain key priorities for us in our sustainability work. So it brings even more attention both externally and also of course internally to these topics.

In the graph that you can see in these pictures here, this is still the situation at the end of June. So although we have signed this agreement about the term loan we expect to actually draw the loan during the second half of 2019. So it's not visible here yet, but you see that a EUR 400 million loan with the maturity in 2023 will of course significantly shift the maturity profile and -- and also reduce the amount of maturities in the short term quite a lot. So it was a good set for us and I think with that said, Roeland, it's over to you.

Roeland I. J. Baan *Outokumpu Oyj - President & CEO*

Thank you, Pia. So to the outlook for the third quarter, I said before we expect the steel market, the stainless steel market to remain challenging for the factors already mentioned and we can dig into that more during the Q&A. We expect lower deliveries in Europe and the stable level of deliveries in the Americas. The ferrochrome, of course, will be negatively impacted by lower benchmark price and we have a planned maintenance shutdown of one of the ferrochrome furnaces which is expected to have a total cost impact of about EUR 10 million during the second half of 2019. All together we expect adjusted EBITDA to be lower than the one of the second quarter of 2019.

Tommi Järvenpää *Outokumpu Oyj - VP of IR*

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

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of Anssi Kiviniemi from SEB.

Anssi Kiviniemi *SEB, Research Division - Analyst*

First of all, the deliveries Q2, they were lower than you guided, and kind of the underlying and apparent demand has been weak during the summertime. How's the seasonality when we go into Q3? You guide for lower volumes in Europe, that's traditionally the case but should we estimate kind of similar seasonality than in previous years? So could you first of all open a little bit on that?

Roeland I. J. Baan *Outokumpu Oyj - President & CEO*

All right. So first off, the remark on the lower deliveries in Q2. Yes, they were lower but don't forget we gained market share in both Europe and the U.S. So relatively speaking, on a market position we have done pretty well. So it comes back to what I said earlier. The underlying markets are slower than they have been. And then coming into seasonality, Q3, we do expect that the seasonality impact will be similar to previous quarters but there is, as I showed, this projection from SMR that the overall consumption for Q3 in the European market will be slightly lower than normal, normal seasonality.

Operator

Thank you, and our next question comes from the line of Luke Nelson from JPMorgan.

Luke Nelson *JP Morgan Chase & Co, Research Division - Research Analyst*

A couple of questions for me. Firstly what, if anything, are you factoring in around inventory revaluation adjustments within the Q3 guidance? Secondly, just specifically in terms of the BA Americas, can you give a bit more clarity around sort of expectations and again, what you're factoring in terms of Q3 guidance around hedging and timing movements. And then sort of high-level longer-term around your guidance at BA Americas, and the annualized EBITDA run rate of EUR 200 million per annum by the end of 2020. Obviously still at a loss in this quarter. Can you just maybe paint a bit of a roadmap around how you plan on getting back towards that level of -- of profitability by the end of next year? Sorry, EUR 100 million run rate, if I said that incorrectly. Thanks.

Roeland I. J. Baan *Outokumpu Oyj - President & CEO*

So the first two questions I gladly hand over to Pia, and I'll talk a bit about the longer-term activities in the Americas.

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

Thanks very much. It's Pia here, hi. And I think I can very shortly answer to those -- you asked particularly about the inventory valuation but I think we tend to look at the net of timing and hedging as sort of one total bucket of events. And I don't think that we foresee any major negative impact from those. And it's -- I think it's -- yeah. Maybe we could say that it's not the two-digit figure, but just to say that it's not a major impact. But it could be slightly negative.

Luke Nelson ***JP Morgan Chase & Co, Research Division - Research Analyst***

And the BA Americas, the longer-term targets around the EUR 100 million run rate?

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

Yes. So we -- we are executing on the things that we have said we will execute on, which means that in short order we are completing the restructuring in Mexico getting to the end of that. We have put in place a full new team in the BA Americas management group where we have very clearly set out the objectives in terms of cash conversion costs. The logistics issues that we have discussed, where we are opening in both the Midwest as well as on the west coast. We will have logistic hubs to bring down the logistics costs further. The same goes for the route to Mexico and the route from Mexico to the west coast, where we're now moving to containerize transport in order to bring down the cost. We see already this part of the second half, you see the electrode costs coming down slightly. But we expect it to come down much stronger yet in 2020. We have a new head for commercial where we are embarking on a much more granular approach to the market, more differentiation in our products, better mix which you already saw in Q2 and that will continue. So we -- and then last but not least, we are in full flow with the ferritics investment so all in all, we are on the path to actually get to where we said we will go.

Operator

Our next question comes from the line of Bastian Synagowitz from Deutsche Bank.

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

Yes, good afternoon. I just have a couple of questions. Firstly, could you please help us understand the bridge into the third quarter? You just mentioned a single-digit negative from inventories potentially (inaudible) and maybe another EUR 15 million headwinds from the price drop and the maintenance in ferrochrome. And maybe another EUR 15 million to EUR 20 million from the seasonal weakness in Europe and maybe also the Americas that would put us somewhere close to EUR 50 million to EUR 60 million every day. I'm not asking you for precise guidance here, but does that put us into the right ballpark or is there anything I'm missing, that would be my first question. And I'll just take them one-by-one.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

Pia.

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

Yes, I think in terms of the main elements, I think you have mentioned all of the key elements. And I think it's so easy to make disclaimers here. I mean, of course I wanted to give an answer on the inventory revaluation net of timing and hedging but we all know it depends on the specific metal prices. So you know, things could still happen in that area that -- that we -- that we cannot simply disclose at this moment. And really of course a major element is the delivery figures. So here we have also seen the impacts of the imports that have been quite significant, and this is a volatile environment as well. So these are the typical CFO disclaimers where I would say that you have the right elements, but there will of course be, you know some sort of deviation in the exact outcome depending on how the market conditions will now continue during the quarter. So we have seen continued high imports early in the quarter, of course.

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

Okay, thank you. Then my second question is already thinking ahead to about the fourth quarter. Is there any visibility you've got on market dynamics at this point, and are they adding any other one-off items or maintenance charges which we will see? I think Tornio used to have this EUR 15 million to EUR 20 million cost headwind from the annual maintenance shutdown. Maybe you can give us some early color there?

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

So on winter maintenance that will -- is -- that been always the case and that will be the case as well this year. We will have, because of the patterns, we will have more maintenance in December than we have in the Q before that. Visibility on the markets, I'll approach it a little bit differently, Bastian. What we have seen is that with the safeguards and then especially with the new periodical safeguard set in July, that of course we had 2 times 5% ease-off, one in February and one in July. Whereas the underlying stainless steel market has basically not developed. So net-net there is more room for imports than there was actually under the old regime. Now, the other thing that we see is that because a number of these quota are still global quota that early on in the period there is an overfilling of these quota. We are seeing some products that literally a year's quota was filled in two or three days. So that is one thing that is distorting the market and that will - indeed is one of the things why I said distributors have quite a bit of inventory, because they are the buyers of this product. However, if you take a step back the quota as they are represent still ultimately about 25% of the demand. So what you see in maybe over-imports early on the period should balance itself because in some states, the quota -- the quotas are full and the domestic producers will be back in the thing. So all in all long answer, we do see improved volumes in Q4 but ultimately it will be very important to see as well what comes out of the safeguard review that the commission will come up with in September because that is when the new regime will come out, where for instance the question about Indonesia, will it be included, and if it is included will it get its own country quota or will be part of the global quota. All those answers will come in September.

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

Roeland, I've got one more question on cash flow and also the balance sheet, and I think you did actually a really good job on the cash flow side in the second quarter. And now if we think about the third quarter I think you do have the EUR 90 million cash in from the property sale and you're also in for further capital reduction towards the year. But if we now look at the underlying cash flow before working capital and before the non-core sales, you're actually draining cash and you've been quite relaxed with regards to the balance sheet obviously after the first quarter. Does that still hold true, given that we are getting closer to a 4 times net debt-to-EBITDA and the macro indicators are clearly not getting any better? And what would be the catalyst for you to tackle the CapEx budget or raise cash in any different way? Thank you.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

So just a few general remarks. We are not relaxed on the balance sheet which is why you see that we actually are still reducing that. We are completely focused on cash, and I think it is an amazing achievement that we have been able to bring down -- bring -- have a tremendous cash flow in Q1 and Q2 and bring down our debt. If you correct for IFRS 16 which of course is just a bookkeeping thing, then we are actually now at our lowest debt level since Q4 2017. So I think this is testimony of our focus and that we are not relaxed. This will continue in Q3 and in Q4 so again, we are fully aware of what's happening and we are bolstering our balance sheet where we can. What we cannot of course influence is the market. We can do everything we can on what is in our -- under our control. The market is the market and alternately if you look at the multiple is going up, yes it is because actually of course we have lower EBITDA rather than we have higher debt. Pia, anything you would like to add?

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

I think in terms of, let's say, alternative ways of thinking of the capital structure and as well the funding portfolio that we have, you have seen that we have taken significant steps in changing our maturity profile and I think we continue to be very focused on that, and analyzing various alternatives. So I mean, this is not the end of the game. This was actually just a first significant step in ensuring that we have the structure that is beneficial for us and also then the maturity profile.

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

Thanks for clarifying. Maybe just again to follow up on this, I mean, what would be the catalyst for you to basically tackle the CapEx budget or essentially think about any other alternatives, because clearly even I guess with all of these measures, given the earnings trend, I think the net debt-to-EBITDA multiple obviously is still very high. And it may not be so much an issue when it comes to the equity ratio, but just in terms of, like, ongoing cash generation at this point of the cycle versus where the absolute balance sheet number is, is possibly not the right size.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

So if you look at CapEx, we said about EUR 240 million for this year. EUR 80 million of that is the investment in the deep mine. So if you look at the base CapEx, EUR 100 million of maintenance and safety plus another EUR 60 million of the normal development and expansion, that actually is a very manageable level and it's the level that we have always said that we -- we have sort of a base level of EUR 160 million. The deep mine is an exceptional thing. Just to bring it back into memory, we are mining down to about 500 meters currently. We are running towards the end of the seam at that depth. And in order to secure sufficient supply of ore until the end of the 2030s, we are now investing a total of EUR 250 million that of course comes in one block. It's in three years that you have to put it in, and it buys you then almost 20 years of supply security. A low price to pay for what this product gives. If you say let's stop that because we want to squeeze cash out, then basically it will mean that you will get -- you will suddenly find yourself without ore supply somewhere on 2023, 2024. So we will not do that. However, if push comes to shove and really things go pear-shaped, then of course we will be able to squeeze. There's no doubt. But at this moment the operational imperative is still bigger than the worry about our leverage.

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

Okay. So basically that means that there's no sort of time buffer you've got in this -- in the CapEx project plan here in case you would shift it, that essentially you would still have a buffer of like, a year or two before essentially you would get the impact from the ore supply?

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

No, that's not how it works, Bastian. So as the old seam phases out you have to start phasing in the new seam. And this is binary. So what it needs is because now you're down in 1000 meters you need a hoisting shaft that goes down to 1000 meters. Otherwise, you can't get your ore out. So it is literally, the hoisting shaft has to be in place before you run out of the seam that you have now, and that starts becoming critical in 2022. So that means that we have 2019, 2020 and 2021 to actually have that investment done in order to make absolutely certain that you have no shortage. So there's no possible shift. When I say we can squeeze, the squeeze will be more on other stuff that we're doing than on this project. Again, this is -- this has a tremendous return and the alternative of not having your own ore supply for us will be much more damaging.

Operator

Our next question comes from the line of [Tony Robo] from [Odo].

Unidentified Analyst

I have a few questions. The first one is on your 2020 EBITDA target of EUR 750 million. I see one slide in the presentation recalling this target in the bridge in order to get to that figure. The equity consensus currently has an estimate of about EUR 500 million and it's about the same at Moody's rating agency, I talked to Moody's analyst recently. Do you -- I would like to understand if there is any specific reason why you don't adjust the target. Is it because you still believe in the EUR 750 million, or I guess this is my first question.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

So that's a very good question and it's one that I'm very happy to answer. When we set the 750 million we did that on the basis of the market that we were in, in early 2016. So it's the 2015 market that you have to take into account, which means the 2015 base prices, 2015 ferrochrome prices, nickel prices, etc. So that's the environment, we call that a mid-cycle environment, that we set the EUR 750 million on. That is -- that makes sense, when you do that in 2016, because you have a baseline that is meditated on that -- on those numbers. If those numbers are there in 2020, yes we will make the EUR 750 million. Now, the question is, are those numbers there? If you have a different market, for instance like we're at today where base prices are not EUR 1100, but they are EUR 800. Yes, you have a correction for that and you will not make the absolute number of EUR 750 million but something less than that, in spite of the fact that we as a company will have hit all our internal targets and all our improvements. The issue is, what do you -- do you not change it or why do you keep it on? We had the opposite question in 2017 when our EBITDA was racing away and the same question came all the time, why are you not putting your -- your target up and we had the same answer then, which is we do not know what the market circumstance is going to be in 2020. So as we said at our CMD as well, we keep EUR 750 million but we will have to correct that for the real market circumstances up or down, and that will give you the final number.

Unidentified Analyst

And my second question is on the convertible loans maturing next year, Moody's mentioned in the latest report that it was the refinancing the measures to take in order to refinance this convertible loan would be something they will consider in order to assess what they will do with the negative outlook that they put on the rating. Do you -- could you please give us the color on the way you intend to refinance this amount?

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

So we have very recently signed the agreement about the EUR 400 million term loan and I mentioned this earlier in the presentation of course, that gives a huge improvement on maturity profile. It also gives us a lot more flexibility and room to consider a range of options when it comes to the refinancing also of the convertible bond because very much, at least statistically right now it seems that we will have a maturity in February 2020 of EUR 250 million. So I think following also discussions with Moody's that one of the really key elements that they also alluded to was our plan with the term loan that we have now already delivered upon, and we will draw on this loan during the second half of this year. So we have room to maneuver and we may also consider other options still in order just to have the loan and debt portfolio that suits our needs and then the maturity profile that we want to achieve.

Unidentified Analyst

Thank you. My third question is on balance sheet receivables. Could you please give us an update on the amount?

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

That's a very good question. I think I would even need to sort of -- I can give you some light first but just on the overview of our actions in that area. And I think there are -- there are two things to consider. One is of course the development of the sale and the other one is the development of our ability to manage overviews. And I think we have been making a lot of progress and keep all our targets when it comes to the overdue management. And when it comes to [trade] and other receivables at the end of the second quarter, the figure was EUR 739 million. And this is the level where we disclose it. So there are also some other receivables included in that figure.

Unidentified Analyst

Okay, thank you. And my last question on the ramp-up of the margins in the Americas division, in order to get to more confidence in the way you'd be able to, to increase the profitability. Do you benchmark yourself -- I'm sure you do -- but we lack some data in order to benchmark your division versus that of competitors. I mean, could you please give us a little bit of color on where you're going to sit in terms of for example, EBITDA margin versus your competitors in order to have more comfort on the ramp-up of your margins in this geography?

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

Naturally we do benchmark for what we know. As you know, our competitors do not detail their operations in the Americas. So we have probably just as much from public sources, as much information as you have. So if you can actually get our competitors to divulge more, it would be very much appreciated. Having said that, we have a pretty good idea of where the gaps are and those are the things that we are addressing. We of course there are structural differences, as we have discussed before. For instance, the nearness to the market, where our midwestern competitors are better positioned than we are. Having said that, we have an advantage with the Mexican operation. So yes, we do very detailed benchmarking, and part of our projections of where we're going to get in 2020 are coming from bridging these gaps that we see.

Operator

The next question comes from the line of Sandeep Peety from Morgan Stanley. Please ask your question.

Unidentified Analyst

Hello, hi. I have three questions. Firstly, on BA Europe division I see that pricing, improvement from pricing in mix is close to EUR 42 million. This is the same level of EBITDA that you generated in Q1. So can you let us know how sustainable this is, and why was this not -- the improvement not seen before? And then secondly, I see the effective tax rate for this quarter is close to 70% so maybe if you can explain what is leading to it and what are your expectations for the full year. And the final question, you have seen EUR 100 million of working capital released during the first half of the year. So should we expect similar levels going into the second half of the year? Thank you.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

All right, so let me start with Europe. Actually, you have seen this before, this margin improvement, because we have over the last I would say 6 quarters, probably, shown a mix improvement. And to put some numbers against it, we came from our -- what we call our pro range in volume was about 6%, six quarters ago it's now over 12%. So you see a clear improvement in that share of the mix of pro grades. And the pro grade margin is a multiple of our normal standards. Whether we can improve even further, it depends. Currently we are flat out on these specialty products, on these pro grades. We are looking to de-bottleneck and move certain partial production to other places in order to further free up capacity, and whether you see this mix improvement continue in Europe depends on how successful we are on that. On the other hand in the Americas, as I alluded earlier, we do have still a lot of runway where we have been very much a single-product producer, and getting now much more into diversifying in other dimensions, gauges, grades, etc. So there is still movement ahead as well. On the tax rate, Pia?

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

So I think on the effective tax rate there are two main topics to be mentioned. So first of all I really want to say that this is a P&L tax rate, so this is not equivalent to anything having to do with cash taxes. But nevertheless, it's a relevant question and there are two elements. One of them is that we had one item, more as a one-off if you look at the commodity figures, where we do not expect full tax deductibility. So there is this item of about EUR [80 million] which has not been given the tax deductibility and then the other one is at the -- when you look at the structure or where we are generating profits and also from jurisdictions where we are generating losses from sort of a taxable profit or taxable loss perspective we have for example a longer history of losses in the US. That means that we cannot book deferred tax assets at least amid those losses. And I think those are the two main items that then lead to a higher effective tax rate in the P&L. And when you asked about what we look like going forward, of course this one-off item will not repeat but the fact that we are not able to book deferred tax assets on the losses in the U.S. and other such structural changes. They are of course depending on our profitability development but I would assume that on a taxable profit level we remain in this situation also during the rest of the year. So that means that this effective tax rate will remain high. It has nothing to do with cash taxes.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

There was one -- one additional question as well on working capital release, where Sandeep was saying we have released significant working capital already in the first half. We do expect that we have further release in the second half as well.

Operator

Thank you. Our next question comes from the line of Anssi Kiviniemi from SEB.

Anssi Kiviniemi ***SEB, Research Division - Analyst***

Still a couple of questions left. On slide 5, this has been addressed in previous questions also, but I just want to make sure. Some EUR 60 million boost as I look at the picture comes from mix and price and customers. How much of this will continue Q3, Q4? And is there something else in Q3, Q2 result that kind of boosted the profitability? Meaning for example, scrap utilization, scrap discounts, etc., that kind of won't repeat themselves in Q3? That's my first question. Then the second question is on E.U. safeguards. Do you think that it's fair to think so that if in the next year will be added to the other countries, let's say residual quota, that Indonesian volumes into Europe will slow down? Or is it fair to assume that as a matter of fact, those volumes will exhaust the other countries' quota and thus the price pressure remains intact. Kind of what is your thoughts, what are your thoughts on that? That would be helpful. Thanks.

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

Very good. Maybe I can start, just maybe by let's say qualifying the answer a bit to say that the impact that you see here, which is very significantly positive on the pricing and mix, I think we have discussed the underlying reasons, the really improved product mix, etc. But obviously this is a bridge impact so this was the improvement from the first quarter to the second quarter. So in a way when you ask that will they last, it's a different question than will they continue to improve. So I don't think we have been specific in giving guidance on our pricing or the mix or so on, but of course I think that we can say that we have achieved a good level with the product mix. And then obviously we have taken a really good step in the second quarter, but as Roeland explained, I mean, actually when you look at the history we have been able to build this during a longer period of time. Maybe not with so significant steps in a quarter, but still it has been a continued development. So I don't think I can -- sorry I cannot be more specific than that. I think on some of the input costs we have a little bit more information. So we have been discussing, for example, the electrodes, and those gave a positive from Q1 to Q2 and where the prices are right now most likely there will be a small positive against Q3 if the prices remain where we see them at the movement.

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

And then as to the safeguards, it's a lot of speculation. But we assume that Indonesia will be included and we assume as well that that will have an effect on the volumes, whether they will be -- whether they will be part of a global quota or not doesn't really matter a lot because it's not the Indonesian volumes as such that are pushing down the pricing. Don't forget we report cold rolled prices, and when we talk base prices for 304 cold rolled. And although the cold-rolled imports of Indonesia into European market have gone up there's still they're over 3%, they're about 9% or 10% now. But they are not big enough to really move the market. So the price pressure comes from the overall import pressure, because prices in China are low as well and Korea as well. So it's not just Indonesia.

Operator

Thank you. And our next question comes from the line of Krishan Agarwal from Citigroup.

Krishan M. Agarwal ***Citigroup Inc, Research Division - Analyst***

Hi, thanks a lot. This is Krishan from Citigroup. Just to follow up on the guidance, and you said that the guidance was set in 2015 and then afterward that things have changed particularly on the European base price. So considering the European base price of EUR 800, at that time EUR 1100, a $300 per (technical difficulty) and you have 1.5 million tons of delivery, it works out close to EUR 450 million. My question is that is it a better way that you adjust that, adjust the guidance of EUR 750 million by it's EUR 450 million and then work back for this EUR 270 million so efficiency in the commercial growth gained (inaudible) the new target? Is that a fair way, you think, to look at the mixture, the 18 months or this year?

Roeland I. J. Baan ***Outokumpu Oyj - President & CEO***

I like your thinking, Krishan. We refrain from doing that because the markets are so volatile, that then you will be changing potentially every quarter, you will be changing your outlook or your target. So we prefer to -- to keep on sitting on these targets and we -- if you -- if you want we will not -- probably so often anymore. But for internal purposes this is how we actually work, and we work on the drivers of our business and we make the bridges to that EUR 750 million with that. So that for us internally, it works extremely well to see where we are still on track or not.

Krishan M. Agarwal ***Citigroup Inc, Research Division - Analyst***

And then one question for Pia. You guided for EUR 150 million of working capital reduction, EUR 100 million already delivered in Q2. So do we assume that EUR 150 million coming from working capital and then EUR 90 million coming from the land sale probably would be the net reduction of the net debt for this year, as you mean that the operating cash flow would be able to fund the CapEx?

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

Yeah. I think you have captured, really, some of the very key points and of course then with some impact as well from what our profitability will actually be. And maybe it's better that I just don't sort of comment that further. I want to add a few things on the working capital. So I think it's important to note that if we think about the milestones that we have set, we have hit all of those and we have even been a little bit overperforming on some of them, so you see already a strong performance in the second quarter as well. But that gives, of course, some confidence that we are well on track to meet our targets and maybe even with some potential of exceeding them. However what we have to remember is also the dynamic. So for example, inventory levels are really important but if you really want them to impact your cash flow, then the inventories need to be on the level where we want them to be several months before the actual year-end for example. Because then we have the time to actually invoice and even receive the cash. So the Q3 figure is important in that sense because what (inaudible) to tell us a lot about the overall level that we are able to receive throughout the year. So I think we are well on our track. The real estate sales obviously as well being a key element because it's EUR 90 million so it's a significant step in our cash flow.

Krishan M. Agarwal ***Citigroup Inc, Research Division - Analyst***

And then just to cross check, so EUR 90 million you're not paying any taxes on that? It's straight forward cash receipt?

Pia Alexandra Aaltonen-Forsell ***Outokumpu Oyj - CFO***

That is straight forward cash receipt, yes. That is the cash impact.

Operator

Thank you. We have no further questions at the moment. You can continue.

Tommi Järvenpää ***Outokumpu Oyj - VP of IR***

Thank you very much, and thanks for attending our earnings call. Our third quarter results will be published on the 31st of October. Until then, thank you and goodbye.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.