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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Outokumpu Annual Accounts 2016 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Tommi Järvenpää, Head of Investor Relations. Please go ahead.

Tommi Järvenpää - Outokumpu - Investor Relations Director

Thank you.

Good afternoon, ladies and gentlemen, and welcome to Outokumpu's Fourth Quarter and Full Year 2016 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 Christoph de la Camp. We will be referring to the presentation that can be found on our Web Site. As always, please pay attention to the disclaimer on page three 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.

Roeland Baan - Outokumpu - CEO

Okay, Tommi, thank you very much.

And welcome to you all on the line. Tommi referred to the disclaimer, flashed by it quickly - and then to the first slide, I have promised that I will start every communication always with our vision, this is no



exception. Just to bring it back to the mind, our vision is to be the best value creator in stainless steel by 2020 through custom orientation and efficiency.

Again, every word here counts. And when we talk about best value creator, it is to our three main segments, it's our shareholders, our customers and our employees. And we have communicated to you on the financial community point of view, the measures of success for the - our 2020 vision, which is a 500 million EBIT, and our 12% return on capital employed as a minimum, plus a maximum gearing of 35%.

It's time bound, there's a sense of urgency as you probably have seen from what we have been doing during the past year and what the plans are if we do not have a sense of urgency, then we won't make what we promised by 2020, and ultimately if you look at how we're going to do this, customer orientation and efficiency is back to basics. And I think you will find that back as well in the results that we are presenting.

Next page. I think the initial message is a very positive one. For the first time since 2007, the company has returned to the positive EBIT of 45 million after indeed eight years of consecutive losses. The main reasons of this result were a significant reduction in costs, where we have been able to reduce specifically the variable costs, both in Europe as well as in the Americas. And in Europe, we're talking about approximately a 15% drop in our variable cost per ton, and in the US, we're talking over 30% of cost improvements on variable cost per ton.

A great contributor of course, to the swing, has been the Americas. And volumes have been going up significantly every quarter and profitability has been improving quarter over quarter, as you will see later in the presentation. Our overall result in Q4 has been negatively impacted by a 9 million euro charge of old invoicing that we needed to correct, so not necessarily good as we did not pertain to this quarter, but to prior periods.

One of the big drivers we had as you know is net working capital reduction, we had a 200 million target there. We have over achieved and reached 307 million overall reduction of net working capital. And as a result, both the profitability and the positive change in our net working capital, we had a strong cash flow of around 390 million euros.

This has led to significant debt reduction, where we (inaudible - Mic Inaccessible) schedule, and we ended the period with net debt of 1.24 billion. And last but not least, reflecting the strong improvements during 2016, and our outlook for 2017, the board of directors deemed it the right time to reinstate a dividend and have decided to pay a dividend of 10 cents per share.

Next. We launched our vision, we have said as well that we are achieving, or we will achieve this vision through self-help and that our numbers are not based on market help. If you look at 2016 and you look at what actually was the environment, this has been proven correct. In Europe, base prices have basically been flat. In the US, year over year, base prices were actually down significant.



We had a strong lower nickel price during the year and on average we had a strongly lower ferrochrome price. In spite of that, we have moved from minus 100 million to plus 45 million. So, in spite of all - of a market that has actually been working against us, thanks to the significant improvement in our cost base, in our marketing, and our volumes, we have been able to achieve this turnaround.

If you look a bit more granularly at prices most of 2016, as said before, has been - in Europe, the pricing has been pretty stable at a relatively low level, historically speaking and only towards the end in the end of Q3 and Q4 have we seen a tick up of altogether probably about 40 euros. And we look forward - we can see this continuing into the first quarter 2017, where we see a continuation of stronger pricing.

On the import front, along one of the big issues, you could see that in terms of participation in the market, the imports are still at around the 25%, so there is not a huge difference to the past. The big difference is that you can see the Chinese participation in imports has disappeared, and as a result, the unfairly priced imports have gone out of the market, which is supporting pricing in this market.

Next, in US the graph, when anti-dumping was put in place in Europe, the Chinese volumes redirected themselves into the US, which caused a very steep drop in pricing from over \$1,400 to just over \$1,200, so over \$200 a ton drop. When the anti-dumping measures were announced - or that they say the investigation was announced and later on preliminary duties were announced, the Chinese imports, as you can see from the right hand graph, disappeared from the American market as well. And as a result, we have been able to significantly improve pricing. Still a far way off to where we were before the Chinese imports came in, but still significantly once again, improvement.

Same as you saw in Europe, the import participation is still around the 25%, so it's not so much that we have an issue with imports, we have an issue with unfair imports. As soon as those are out, you can see that normal profitability returns.

When you look at ferrochrome prices and nickel prices, nickel prices have been continuing down during 2016 and started recovering towards the end of 2016. We thought that we were - kept ending up in a sort of a trading range between \$10,500 and \$11,500 when the Indonesian announcement came, which pushed prices back to the \$9,500 level. Meanwhile, with the news coming out on what this - the ore export resumption, what that actually entails, as well as the results of the Philippine audits on the mining sector, the market has recovered and we are back over \$10,000 now.

If you look at ferrochrome, there has been an interesting story. It dropped to a historical low in the second quarter of 2016, only to lift back up towards the end of 2016 at - I don't know, it's not really a historical high, but one of the highest numbers it has been for a long time, the 1.65. Moving forward, currently if you look at what is happening on the spot market, the spot market is trading probably about 10 to 15 cents below where we were when this 1.65 was established, to say as well that at the same time - not really a lot of business is being executed. In other words, the 15 cents lower is what



the buyers are floating into the market, but they are not capable of selling - or finding a lot of sellers at that level. So, it seems to be relatively stable in that sense.

With that, I hand over to Chris for the financial part of the presentation.

Christoph de la Camp - Outokumpu - CFO

Thank you, Roeland.

Good morning and good afternoon, ladies and gentlemen.

Moving on to slide number 10 now, which shows an overview of our key financials. And on the table, I would like to pick out just a few of the key ones. Let us first of all take a look at the deliveries for 2016, versus 2015, and we can see that there was a very strong increase over the year, and this was driven predominantly by higher deliveries in the Americas.

If we move on to the sales, they were down in 2016 versus 2015. This was as a result of lower sales prices that we've achieved in both Europe and the US.

Moving on to the underlying EBIT, I would like to highlight the fourth quarter result of 38 million euros here against the third quarter results of 32 million euros, so an improvement, but particularly the improvement from 2015 to 2016 was very, very significant as Roeland has already outlined. Conscious that there was a change in the depreciation here, but nonetheless, the underlying profit also improved substantially because of the self help measures we have taken.

If we then move on to the - to the net results, this is probably where the most significant change has happened in the fourth quarter, with a very strong profit, and this was driven by the booking of a deferred tax asset. I will come back to that point in a moment, because it is very significant in our results, and obviously led to an overall net result, and positive for the year.

Our operating cash flow also in the fourth quarter continued on the good track record of the previous three quarters, nearly 390 million euros of cash generated through the year with 200 million approximately of that, in the fourth quarter. That was substantially driven by a further reduction in net working capital - I shall also return to that point. The gearing - and I'll return to that too, very substantially down versus the third quarter, and as was the net debt.

Let's move on to slide number 11 and lull for a moment on the tax booking that we made in the fourth quarter, you could see that there was - there was approximately 189 million euros of deferred tax income booked. And this relates to previously unrecognized deferred tax assets from losses in Finland and Sweden.



We have, from time to time talked about the very significant loss carry forwards from our history, and it was time to recognize some of those in Sweden and in Finland as we achieved positive results there, and we are very confident in our forward view that we will continue to make a positive pretax result there, so there was a requirement to take those tax losses back on and credit the tax assets associated with that.

There are still significant tax loss carry forwards in other tax groups of the company. They amount to over 2.5 billion, mainly in Germany and very mainly in the US. And as and when those entities make a yearly profit and are solidly back into profitable terrain, we will be able to recognize those deferred tax assets as well. So, we hope to achieve that as soon as possible and as soon as those entities turn positive.

I'd like to move to slide number 12 now and start focusing on each of the three business areas individually, starting with Europe. The chart on the left shows the annual deliveries over the last three years, and you can see that in 2016, we had a good increase of approximately 3% of our delivery performance in 2015. On the right hand side, you see the improvement in the underlying EBIT, and of course, this is also a significant driver of our improved results for the year. It was driven on the one hand by the higher volumes, and on the other hand significantly by decreased costs.

If we take a little bit of a look at how the year as a whole panned out, in the first half, we still saw prices significantly under pressure, but as you know, during the second half, they started to increase and certainly gave momentum to the improvement in the results in the second half of the year.

The overall 2016 weighted average base price on deliveries decreased by 30 euros a ton, so we did not get much help there year on year. Costs continued to be reduced very significantly and very successfully. We started the EMEA restructuring program with the closure of Bochum and Benrath prior to 2016 and the expected benefits started coming through strongly in 2016 now.

SG&A costs in Europe in particular, reduced by 49 million euros and contributed strongly to the European result and also to our overall target of 100 million reduction by the end of this year. And we also saw as well, as Roeland has already mentioned, a very clear reduction in variable cost per ton in our European business. The ferrochrome production for the year was 469,000 tons, and of course that was impacted somewhat negatively by the maintenance work that we carried out in the third quarter.

Moving over to slide number 13 and the Americas business, I mean take a look at this on an annual basis first and delve a little bit more into the individual quarters. The chart on the left hand side shows the movement in deliveries and the improvement in deliveries over the last three years and you can see that there's really been a step change in 2016 versus prior years, in terms of the deliveries achieved. We're almost 30% up due to a very strong commercial development and this wasn't just a good market environment, this was really self-help measures and a much greater focus on our commercial activities in the Americas.



On the right hand side, you can see the development of the EBIT over the last three years, with a very strong improvement in 2015 to 2016, which was on the one hand of course, driven by the higher deliveries, but also due to a 25% reduction in variable cost per ton. Generally in the Americas, we saw significantly reduced import volumes from China as a result of preliminary anti-dumping duties that we've discussed in the past, and these are reduced imports and -generally healthy underlying demand resulted in higher base prices through the year. However, if we look at the full year and we compare it versus the previous year, then we still have an overall average of sales price that was \$10 per ton lower.

I think if you look at the EBIT chart on this slide, it doesn't tell the whole picture for the Americas, so I'd like to turn to slide number 14, and just delve into that a little bit more fully. Let us take a look at the Americas' performance on a quarterly basis for the year, and you can see on the left hand side that there was a very strong increase in deliveries from Q1 through to Q3. We did see a decline in Q4, as expected. This was due to seasonality and this is fairly normal in this business in the region there.

But if you look on the chart on the right hand side, you can see how EBIT has improved quarter on quarter for the first three quarters, although we did see a decline in the fourth quarter, which on the one hand was due to the lower volumes, but also because of the 9 million charge that Roeland mentioned. And this was - we finally resolved the dispute with one of our suppliers of a back invoicing issue, and took a 9 million euro charge there, so that was an unusual charge and you might want to have to take that that out in terms of showing the underlying trend for the year.

I'd then like to move to slide number 15, which shows the development of the long products business this year, and this business had a very difficult year. It's of course, somewhat dependent on the oil and gas sector, and you can see that that played a role here. However, we did manage to increase our deliveries from 2015 to 2016, and this was partly also driven by good internal demand and here is where the melt - melt facility in Sheffield plays a big role because it produces products not only for our long products business, but also for our European business, so that's contributed to the increase in volumes in the long products business.

The underlying EBIT developed negatively. It was a small loss in 2016, which was partly the result of lower prices, but there were nonetheless in that, very good cost reductions that the business did achieve. And again, if you look at quarterly results, it improved somewhat throughout the year.

It has been a difficult business because of the pressure that we saw from import volumes. We saw obviously a drastically lower oil and gas demand as a result of the lower oil price earlier this year, but we continue to work very hard on the cost base of this business and to improve the profitability through that. There have also been - we've also achieved the completion of a - an expansion project in our facility in the US in Richburg. We're now focusing more of our production on rebar capabilities to become less dependent on the oil and gas business.

And now, let's move to number - slide number 16, where we show the cash flow improvements that we achieved in 2016. You can see that whereas we made operating cash losses in the previous two



years in 2016, it was a significant cash profit. And this was very substantially driven, not only by our improving EBITDA, but also by a significant release in net working capital, which amounted to 307 million euros for the year.

The cash inflow was offset partly by financing costs, the total of 121 million euros, of which interest expenses we're 105 million euros. And as we've indicated in the past, we look at a very strong focus during 2017 to reduce that overall interest expense.

CAPEX came in at 164 million euros. That was a little bit higher perhaps than the 150 we targeted, but it was due partly because of the investment in Hernandez that we already talked about previously. Our overall liquidity reserves were at 1 billion euros, which is very, very adequate, both from a covenant and a liquidity headroom point of view. Overall, as I've explained, all of these activities and the significant cash generation led to a significant reduction of net debt, and we'll take a closer look at that on the next page.

You can see here on the chart on the left hand side the development of our net debt over the last four years, and it has come down very, very significantly, not just from 2013 through to 2015, but through the course of last year as well. But now, at 1.24 billion, which leads to a gearing ratio of 51% that we are well on our way to reaching the target of 35% that we set ourselves. And our net debt leverage is now down at 4.2. We still consider that to be high, but it is trending obviously in the right direction.

On the right hand side, you can see the overall debt maturity profile that we have for the company. The 2017 number looks very high, but most of that dark bar there that you can see - the dark blue bar, is actually rolling commercial paper with some smaller unused slide facilities.

Not so very long ago, we still had a very large debt maturity wall in February of this year - a longer term debt maturity wall at the end of this month. And I'm pleased to say that we've now entirely removed that wall so that we no longer have significant debt repayment challenges in 2017, smaller ones in 2018 and the bigger wall is now out to 2019, so that is also very good progress.

Moving on then finally to slide number 18, I'd like to just briefly elaborate on a - on a technical issue that we - that we announced and communicated a couple of weeks ago. We have decided that in the future, we will use adjusted EBITDA as our main performance indicator. And we've taken this decision because we believe that as a company, our focus in the foreseeable future needs to remain on cash generation and on net debt reduction, that EBITDA is a better metric for this than EBIT that actually the most relevant indicator for that.

We'll start implementing this practice from the first quarter of this year, so this will be the last time that we will use EBIT or underlying EBIT as a key profit indicator, but for next quarter onwards, that will be the new way of reporting.

Perhaps a couple of words around the differences I'd like to restate those, the underlying figures exclude raw material related inventory gains and losses and metal derivative gains and losses, while



the adjusted figures do not exclude those raw material related inventory gains and losses and metal derivative gains and losses. So, that is the only key difference.

If you look at the impact of that in 2016, the impact would have been about 10 million euros. And in the fourth quarter of 2016, it would have been negligible, so this doesn't lead to a significant change in profit, but it does lead to, in our view, a more comparable and a better way of reporting our results.

So with that, I'd like to hand back to Roeland to discuss the outlook for the first quarter.

Roeland Baan - Outokumpu - CEO

Thanks, Chris.

So, looking forward the stainless steel market is expected to be strong in Q1, with a healthy underlying demand, both in the US and in Europe. Our Q1 delivery volumes are expected to be higher in Europe and significantly higher in the Americas, if you compare it to Q4. Cost saving initiatives are expected to continue according to plans and continue to build up on what we have initiated in 2016. And the higher ferrochrome contract price, of course will have a significant positive impact on the business area Europe's profitability.

If we go to the outlook, as we have probably earlier here there's one thing I want to say upfront, which is because we have moved from the underlying EBIT to adjusted EBITDA as our metric, we deemed it necessary to rebase the values for our outlook one time, and that is in Q1. So, although we normally guide on a qualitative basis, we have said that for Q1, because of the changes, we want to give a more direct quantitative guidance, and what that guidance is, is that we expect our EBITDA - our adjusted EBITDA to be over 250 million euros for the quarter. Going forward, we will take that as the benchmark and go back to a qualitative expression of our guidance.

Secondly, in our outlook, because of the progress made in 2016, and corrected for the fact that we are now going to pay a dividend, we still think that we will be able to improve on the end of year target that we have for net debt, and we are looking to get to a target of below 1.1 billion euros of net debt by the end of 2017.

And that concludes our presentation.

Tommi Järvenpää - Outokumpu - Investor Relations Director

Thank you, Roeland.

Operator, we are now ready for the questions.

QUESTION AND ANSWER



Operator

(Operator Instructions)

Seth Rosenfeld, from Jefferies.

Seth Rosenfeld - Jefferies - Analyst

Good afternoon, and congrats on a very strong set of results. I have a couple of questions, first on guidance and simply moving on to the Americas division. For the Q1 guidance, I was wondering if you could just give us a bit more color or perhaps a bridge perhaps quarter over quarter, looking at both the impact of the chrome price and also the underlying stainless profitability stripping out chrome? Can you give us a sense of what level of base price hikes we expect to see hit your P&L in the Q1, given the trailing impact in spot prices, any sense of scale there would be very helpful.

And then separately, on the Americas business, profitability has improved quite a bit, but clearly continues to disappoint and lag up here like Acerinox for example. You're now running at very high utilization rates, so can you walk us through what are the necessary steps to catch up on the margin front? And on what sort of time horizon that might be an achievable target?

Thank you.

Roeland Baan - Outokumpu - CEO

So, on the first question, we do not guide specifically on parts of our business. We have given a guidance back in Q2 on what the potential impact is of a 10 cents move in chrome, as a relative figure, which you have to correct as well for input prices. For instance, in Q2, coke prices were significantly lower than they are now as a result of cost on producing ferrochrome have gone up and the same goes for electricity, et cetera. So, an exact bridge, we won't give. The impact is significant.

If you get to the stainless market, we see significant increase in volume in the Americas, and we see a continuation of improved pricing in the first quarter in base price. The same we see happening in Europe, where we see an increased volume and better pricing

Seth Rosenfeld - Jefferies - Analyst

-- okay thank you, on the Americas--



Roeland Baan - Outokumpu - CEO

Yes, on the Americas, yes we have been lagging for years the profitability of NAS. We are at the same time, closing the gap. And that is something that is not overnight. The progress we have made specifically on the cost side is the big driver of profitability, that potential we have in driving out further cost has not come to an end by far, so it is a continuation of our cost drive that will bring our margins ever closer to what you see from NAS. And we, by the way, do not have specific figures on the North American operations of Acerinox I cannot really comment on.

Seth Rosenfeld - Jefferies - Analyst

One last follow up on the Americas, I know that you reported a small drop in your realized base prices during Q4, that seems to be somewhat different that the spot prices and the benchmark prices that we can see from various data providers. Was there an issue there with discounting or any other thing in the market that would have impacted you uniquely in Q4 in the Americas?

Roeland Baan - Outokumpu - CEO

No, on the contrary. We have in the - in Q4, opted to not do any drop in pricing, as you know we would see in Q4 - historically you have always seen it as the distribution sector in the US, stops buying the only way they would take volume is if you have steep discounts.

This has been a practice for years. We have said that we absolutely will not participate in that practice and have offered to actually take advantage of some very lucrative export opportunities. And the one thing that always influences our specific pricing is our mix. And we get - if we get more black coil into Mexinox for instance, then that influences immediately our average pricing. But our market pricing has been absolutely at the high end.

Seth Rosenfeld - Jefferies - Analyst

Great. Thank you very much.

Operator

Our next question comes from Philip Ngotho from ABN AMRO. Please go ahead.

Philip Ngotho



Yes, good afternoon, it's Philip. I have a few questions if I may. First of all on the tax loss carried forward, you indicated there is approximately 2.5 billion left that is unutilized, so you - that's of course a different valuation from last year. I was just wondering if you could also indicate what portion of that will remain - what will never expire, so which portion doesn't expire.

And then my other question is - we saw recently that you divested part of plate mill in US, I was wondering if there are any other units within the portfolio that you might be looking at or what your views on that? And my last question is on your order book, I was wondering if you could give an indication of how well and - how well filled they are in Europe and in US, what the lead time is at the moment?

Christoph de la Camp - Outokumpu - CFO

Okay, I'll take the question on the tax losses. I don't think they are materially different from last year. I mean recall that the 2.5 billion is after we have - after we have effectively put the tax loss carry forwards or the tax assets for Finland and Sweden back on the book. So, the difference between the number you probably have in mind and the number that we're now declaring as the - as the - as the Finish and the Swedish tax losses, so that gives you some sense of the size that we've put back on.

Then the second question is of those 2.5 billion a very large part - we don't have a number, but a very large part relates to US tax losses, and those do not have an expiration period.

Philip Ngotho

Okay, thank you.

Roeland Baan - Outokumpu - CEO

And then on the other two questions, Philip, the divestment of the quarto plate mill was an optimization of our portfolio. It was one of the divestments you might remember in 2016. We always said there will be no large moves, either acquisitions or divestments, but this will still be one where it was within our portfolio - not core - although quarto plate is core having a far flung operation that is working in a very small niche in a very large market without its own direct backup from melting does benefit the portfolio. We do not see, at this moment, anything - maybe on the horizon where we want to do something similar.

Philip Ngotho



Okay.

Roeland Baan - *Outokumpu - CEO*

On the order book, if you look at both EU and US, yes they have been filling up nicely. Orders have been, I would say, accelerating in January in both territories. In Europe, we are booking into May now. And in the US, we are booking now into end of March, early April.

Operator

Michael Shillaker, from Credit Suisse.

Michael Shillaker - *Credit Suisse - Analyst*

Hello? Hi, Mike Shillaker of Credit Suisse, a couple of questions if I may, first question, can you just help us out a little bit again on the ferrochrome situation in the Q1 guidance, in terms of the timing of the - of the surcharge actually hitting the P&L, because you benefit from the fact that you make ferrochrome, but you're raising the surcharge.

And I guess there is a degree of lag between you raising the surcharge, and that actually being implemented and then invoicing and actually hitting the P&L, so is it fair to say that the - that did not fully hit the first quarter and some of that will lag into the second quarter, regardless of the second quarter contract?

The second question is I guess one we thought we'd never ask a couple of years ago, but companies in this business tend to go from over levered to under levered quite quickly and you could see a scenario when - within a year or two's time where you are actually looking under levered, so can you actually give us some thought on the longer term capital allocation between CAPEX, shareholder returns, M&A and similar?

And just finally on the ferrochrome market, it - it's very odd, because it's not behaving at all like nickel, and I know you're talking about a sort of - a sellers' strike apparently at sort of 150 or so, but nickel still seems to be telling a very different story, so what really do you think has happened fundamentally between ferrochrome and nickel in the last quarter or so to see such a significant gap in fundamentals opening up? Thanks a lot.

Roeland Baan - *Outokumpu - CEO*



All right, so on the surcharge question, the surcharge is nothing other than a pass through of input cost to the customer. The profitability of our ferrochrome is the price we charge for the transfer from our operations into either our own facilities or into third party market. And as we said about 70 - 75% goes into our own system and the rest goes into the market. So, it's a direct relationship. There's no lag. It's just we produce ferrochrome, we sell it to either our own system or to the outside world and that's our realization.

Under levered, over levered, I'm an extremely conservative Dutchman, so I'll give - I'll give this question to Chris, who--

Christoph de la Camp - Outokumpu - CFO

Well, it's a nice problem to think about Michael. I think at the end of December we we're at a leverage of 4.2, that is not extremely cautiously leveraged quite yet, so I would say let us get to the bridge and then cross it when we get there. We still have a long way to go before we are underleveraged, I think from the current base. And you know, we are a publicly listed company, there will be an expectation for dividends in the future. We will be conservative on CAPEX but we have - we have some way to go before underleveraged, I think.

Roeland Baan - Outokumpu - CEO

If we go to what's different in ferrochrome for the nickel, a lot is the answer. And I'll start with nickel, nickel is one of the volume wise, largest traded metal. It's traded on the exchange and it has a system of LME and as it's - as it's at the stocks inventories where you can sell into.

So, if you look at what happened - happens on the nickel market, we have been growing inventory for years now, because there has been over production of nickel. And as a result, you have probably combined 9 or 10 months of inventory sitting in LME and Sheffield warehouses. Currently, you could say that there is a shortage in the supply demand balance of what is being produced and being consumed in nickel, but as said, you have this sort of natural cap of the inventories.

And then you have nickel pig iron, which would - probably with a price - a cost that will make it viable at - from about \$13,000 that's another natural cap as soon as you get to \$13,000 or higher, you might see more nickel pig iron come back. Although again, the input costs are big - a big driver and with the current coke and coal prices that is moving target. But it's a very specific market.

Ferrochrome is not being traded on exchange. It is - it doesn't have huge stockpiles. It is very much a product that's produced in three or four major territories. And where you - and you have basically one very large consumer, so it's a much more volatile in that sense, market, but much more in - a real time market than nickel is.



Michael Shillaker - Credit Suisse - Analyst

So, yes you're basically saying that the - that the supply side as well in ferrochrome and the inventory situation is actually a lot lower, and that's why - and that's why the price is behaving like it is?

Roeland Baan - Outokumpu - CEO

Oh the price is behaving like it is because one, demand shot up with the increased melt rates in China, and two, because of the higher input costs, specifically coke.

Michael Shillaker - Credit Suisse - Analyst

Right. Okay - all right, just sorry back to the first question, Roeland, and you're right - and absolutely right in terms of the ferrochrome business itself in that the price goes up in the ferrochrome business makes money straight away, but for Outokumpu, that only actually turns into EBITDA at the Group level if the transaction price goes up, and otherwise, you're going to squeeze your mills, you'll make it in ferrochrome and squeeze the mills and therefore the question is is the actual pass through in terms of the transaction price and the surcharge, has that been in the first quarter, absolutely instantaneous or was there any lag?

Roeland Baan - Outokumpu - CEO

Yes is the answer.

Michael Shillaker - Credit Suisse - Analyst

Yes, it was instantaneous?

Roeland Baan - Outokumpu - CEO

Yes.

Michael Shillaker - Credit Suisse - Analyst

Okay. Thank you. Perfect.

Operator



Thank you.

Our next question comes from Carsten Riek from UBS. Please go ahead.

Carsten Riek - UBS - Analyst

Thank you very much. It's Carsten Riek from UBS, a few questions from my side. On the ferrochrome again, because for me it wasn't supply shortage at the - in the middle of last year, we we're seeing four smelters going out in South Africa. All we see right now is supplies actual reacting on the high ferrochrome prices.

What is actually baked in to your forecast going forward with regard to ferrochrome prices? Because if I look at your net debt target, it looks like you reduced net debt by around 150 million, which would be more or less after the first and second quarter achieved. Do you - are you a little bit more cautious on ferrochrome during the year?

Second question I have is if I look at your net working capital, which significantly contributed to the free cash flow, how much is left there? And with increasing ferrochrome prices, and with also increasing volumes, what does it actually mean for your net working capital assumption next year.

The other question, you answered already, CAPEX, I believe you are around 150 million 2017? That's it pretty much. Thank you.

Roeland Baan - Outokumpu - CEO

Okay, Carsten, thanks for your questions. On ferrochrome, we give an outlook for the business quarter by quarter. We don't give any outlooks for specific parts of the business and that way we are not for longer term, so I really can't help you there.

Net working capital I'll ask Chris to answer that. But your first thing, when you talked in your first question about you must be less bullish on ferrochrome going forward because of the net debt not going down as fast, first of all again, as I said, we have a dividend that we're going to pay. Secondly, we have decided, given the outlook, to increase our CAPEX slightly to about 184 million. And we do that because we see significant opportunities to have cost saving, quick return investments in most of our facilities. And then the net working capital question will explain part of the cash as well.

Christoph de la Camp - Outokumpu - CFO



Okay, yes so to address your first question, Carsten, I think we squeezed the lemon fairly hard in 2016, right. So, I think there's not much juice left in that one. So, underlying - I don't think there's much to go on it in net working capital reductions. But clearly, given the guidance we've given, which is premised on high ferrochrome prices, higher base prices, higher transaction prices, therefore--

Roeland Baan - Outokumpu - CEO

Higher volumes.

Christoph de la Camp - Outokumpu - CFO

-- and higher volumes, you're going to see a significant increase in accounts receivables during the course of the first quarter, so we're here to - we're going to have a cash outflow due to net working capital increase, and that offsets to some extent, in the first part of the year, the very strong EBITDA. Now, we will see that come through as the EBITDA works its way through the cash conversion cycle and forms high cash down the road, but it's not going to be by the end of the first quarter, as you suggested. I think that will be more towards the second quarter.

Carsten Riek - UBS - Analyst

Okay. Do we also see a reversal of the payables, because they were considerably down in the fourth quarter?

Christoph de la Camp - Outokumpu - CFO

A little bit perhaps, but not in a major way, I don't think. I think you'll see more the - you'll see the impact typically more on the payout side during the course of Q1.

Operator

Bastian Synagowitz from Deutsche Bank.

Bastian Synagowitz - Deutsche Bank - Analyst

Yes, good afternoon, gentlemen. I've got three questions left. Firstly just to clarify briefly on your guidance, can you just briefly confirm that your Q1 guidance is not including any one-off valuation effects from nickel or ferrochrome?



And then secondly on base price - base prices in Europe, it seems to me like European prices are still lagging the price dynamic, which we have seen in China. And then on the other hand, we still have the re-opened anti-dumping case against Taiwan. We've obviously seen some uptick in base prices and you kind of hinted there is more upside, but shouldn't this environment give us more some more scope to see a much more significant base price dynamic? I guess as the market leader, you would obviously need to take the lead here. So, quite curious to hear your views.

And then lastly, could you please give us some color on how your P&L and cash tax rate would look like in the first quarter, and maybe also if the first quarter result is sustainable, i.e. what is the tax rate we can assume, going forward on this revenues level. Thanks so much.

Christoph de la Camp - Outokumpu - CFO

Great. I'll take the first and then - and the third one, Bastien. So on - in terms of the guidance there, we - we've not included any positive valuation effects of inventory and nickel in there, so there's no assumptions around that.

And in terms of the tax, I mean our cash taxes in the coming period will obviously be very small, because we have these large carry forwards, so any taxes that come due on the profit will eat against the loss carry forwards and therefore not be very cash relevant. There will be smaller amounts of cash taxes because we have - we have to again, go down to the very individually legal entity level. We do have some legal entities that do not have loss carry forwards, so in those we will have to pay - and there are also some jurisdictions where you have minimum tax payments, so it'll be small, but - very small but some cash tax payments.

In terms of the cash tax rate, and in terms of the actual P&L rate, I would expect it to be slanted a little bit more towards the 20% level than - or 30% level, because a lot of the profit will come obviously from the ferrochrome in the first quarter, and much of that profit is generated in Finland, and that has a lower tax rate than say the US. So, in the low 20s I would say.

Roeland Baan - Outokumpu - CEO

Yes, and then on pricing, China indeed has - the pricing has jumped significantly, and that is partially because of the higher melt rates, but the largest from Chinese pricing has been the cost. A lot of the melting comes through the integrated route in China, and again, back to coal and coke that has a significant impact on the cost.

As I said, we have still 25% of consumption in Europe comes from imports, so it's not just China we're looking at. You have to look at all the exporting entities that look at this market, so you have to always weigh between what you prudently should be doing without actually open the floodgates for imports coming in. It's not just China.



On Taiwan, the anti-dumping case, there was a investigation to see whether there is any circumvention that is still going - and until there is an official announcement from the commission, there's nothing I can comment on.

Operator

Roger Bell from JP Morgan.

Unidentified Participant

Hi, actually it's [Stefan Steinder] from JP Morgan. I have two questions. The first one is on inventory levels at distributors, are they above or below average levels, given this part of the year? And the second question is on the customer behavior, given the increased volatility in nickel, in the early part of this year. Thank you.

Roeland Baan - *Outokumpu - CEO*

Yes, good question. So, inventory levels in Europe are below historical levels for the time of the year, not significantly, but they are below. In the US, they are slightly above. You would expect it as well, because towards the end of the year, the end unit consumption tails off, so it's - and - it's slightly. So, there's no big strain either way on either of the markets.

The move that we saw of nickel suddenly dropping might have had initial sort of pause, but as I said, our order books and order intake during the month of January have been very strong, so it looks that the underlying market is still strong enough and inventories not big enough so that people can sit back and see what actually is happening with nickel price.

Operator

Luc Pez from Exane BNP Paribas.

Unidentified Participant

Hi gentlemen, one question if I may, with regards to Mr. Trump and talks of border tax, have you thought over the implication of - for your Mexinox subsidiary? Could you maybe quantify the share of final products that goes back into the US and if any border tax is implemented, would you think of expanding the cold rolling operations in the - in the US?



Roeland Baan - Outokumpu - CEO

So, first of all, it is still unclear what Mr. Trump actually is going to do. He has lit up a lot of little helium balloons and some of them will pop, some of them will stay. So, we'll see. As far as the volumes that go, we bring black hot band from Calvert into Mexinox so US to Mexico, and we bring back probably about 80 to 90,000 tons from Mexinox into the US.

If there will be a border tax, and there are a lot of questions, is it a border tax just from Mexico in the US or will Mexico put up their own retaliatory things? Will it be across the board or for supply chain parts that existed from before; will there be exemptions? Whatever it is, we do have a plan B, which is ready to go if it needs to be, that will absolutely minimize any negative effects.

It will probably require small extra investments in Calvert, in - but in the order of 10 to 15 million to takeover some of the capabilities, but it's nothing major or alarming, as far as we are concerned.

Operator

Johannes Grasberger from Nordea.

Johannes Grasberger - Nordea - Analyst

Sorry about this but I have to come back to this deferred tax asset discussion, so am I understanding this right, you have sort of 2.5 billion euros of unrecognized assets still kind of lying on the side lines? And I'm just trying to calculate this in my head, that would kind of imply sort of five years of zero tax payments, but Germany and the US, while I guess Europe - the Finnish and the Swedish assets are already in pretax profit, so they're sort of the tax payments are coming in advance, is this kind of the right way to look at it?

That's the first question.

Christoph de la Camp - Outokumpu - CFO

Well, the way you have to look at it is that we have - so first of all, we have to subdivide our total loss carry forwards into different tax entities, if you like. And the five major ones are Finland, Sweden, Germany, the US and the UK, not necessarily in that order. So, the way we look at this is that we say if we have a tax entity that is making a profit or that made profit in 2016, and where we are very confident that we'll continue to make a taxable profit going forward, then we have to take the tax element of those losses and put them back on our balance sheet and that has a P&L impact.



So, we have done that. In the past we indicated around about 3.7, 3.8 billion of tax loss carry forwards so we're - now we're down to 2.5. So we have done that to the Finnish in Swedish ones and the math suggests that's about 1.3 billion, that's where we've now taken the tax credit back on. That means there is less loss carry forwards are still there, but we've recognized the tax assets associated with them.

Now, if you look at the rest, those entities did not at a tax level make a profit in 2016, so we're not able, at this stage to recognize the deferred tax assets associated with them. Once those do make a taxable profit, we will start recognizing the tax assets associated with them. So, the remaining 2.5 is predominantly Germany and the US. There's some in the UK, and at this stage, we still have those tax assets associated with those losses to bring back on at some stage in the future. Is that clear or is that still confusing?

Johannes Grasberger - Nordea - Analyst

Yes, kind of follow up on that one, so if just take the Q4 - the equity level of 2.4 billion and you reverse 2.5 billion in deferred tax assets back to the balance sheet--

Christoph de la Camp - Outokumpu - CFO

No, no, no, no - no, no, you have to take - you have to take the tax - so those are the loss carry forwards, and then you apply the tax rate in each jurisdiction to those 2.5 billion, so let us say for - as an average, the tax rate is 30%, that you would apply 30% of those 2.5 billion of those loss carry forwards, so around about 830 million euros as an asset on to the balance sheet, not the 2.5 billion, but just the tax element of those.

Johannes Grasberger - Nordea - Analyst

Really, exactly, exactly--

Christoph de la Camp - Outokumpu - CFO

Yes.

Johannes Grasberger - Nordea - Analyst

-- so now to the actual business questions, so I'm quite curious about the European steel markets, where are you actually seeing the demand coming from? And are you seeing any kind of restocking impact? Or is the underlying demand really that strong which is pushing up the volumes in Q1? And



regarding that one, the discussion on base prices, so do you think the base prices are at a fair level, compared to a long history right now or should strength of the underlying markets still allow higher prices, given that the reduction in China's inputs has already happened?

Roeland Baan - Outokumpu - CEO

Demand is very healthy I would say in everything that's consumer driven, everything from white goods to automotive is and as well in building construction there is a lot of activity going on in the housing market. All those sectors are very strong. We still see the large industrial sector somewhat subdued, although they're coming back it's - from, well the low of 2016. And we are seeing some extra activity coming in in the US specifically on the oil and gas side. So, it's across the board. There are no real segments that are lagging behind that much.

On base prices, if you look at the historical numbers, we have been in Europe at some stage at 1,400 euros per ton, and we are currently at 1,150, 1,160. Now, the - I think your banks are the first one to say that performance of the past is no guarantee for the future, so that goes for us as well. There have been better pricing moments. We will, as a company, do what we can of course, to optimize the way we price in the market, where we have to defend both our volumes, as well as our profitability for pricing and we will - we will make that call whenever we have the possibility.

Johannes Grasberger - Nordea - Analyst

Okay and the last - this question is really about Mexico as well, so have you had any indication from the market that you could have a inflationary environment for steel prices in case the tariffs are put between Mexico and the US, because as far as I understand, the US stainless steel market is short of domestic capacity, so cutting anyone out of that market would in theory - as far as I would look at it raise the price.

And the second question is that you said that you have a plan B in place, is it actually possible to just move the cold rolling equipment from Mexico to Calvert, which would I suppose, reduce that cost and it didn't sound it's very expensive to do this plan B, if you were talking some 10, 15 million cost impact from that, that's the final question.

Roeland Baan - Outokumpu - CEO

Let me start that, moving the cold rolling facility would not be 10 to 15 million, that would be basically akin to building a full new plant of half a billion or whatever, so that's not the plan B. Just a few points on the markets. The market in Mexico has been growing for the last decade, very, very strongly, all for stainless steel.



We are the only domestic producer. We are fully utilized in that facility and actually could sell more into the Mexican market if we would not have a strong supply commitments as well in the US. So, plan B will be to redirect those stream from - that go now into the US into the local market, which will displace a number of the importers - without, by the way, any loss of pricing, as far as we can see.

The investment that we will do in Calvert are just in the small extra capabilities to be sure that we can replace that specific product and produce it locally in Calvert.

Operator

Johannes Grunselius, from Handelsbanken.

Johannes Grunselius - Handelsbanken - Analyst

Yes hello, everyone. Johannes Grunselius, Handelsbanken, so most of my question have answered, but I still have a few questions. First of all, the - there was apparently a non - sort of a non-recurring thing in the underlying EBIT in Americas, 9 million you said in supplier invoicing correction, could you give some color on what that is?

Christoph de la Camp - Outokumpu - CFO

Yes, we have a partner there who provides services for us and the last two years, in 2015 and '16, they incorrectly invoiced us for some of their services. Then they came back in 2016 and said we believe that we mis-invoiced you for some of these services. And then we had a lengthy discussion with them through Q3 and Q4 and ultimately, we agreed that they were correct that they should have invoiced us more and that total amount over that period added up to about 9 million euros, so we agreed with them that we would pay them for that - their services going back when they made that booking in 2000 and in the fourth quarter.

Johannes Grunselius - Handelsbanken - Analyst

Yes okay, that's clear. But I mean to me it sounds like a very a non-recurring thing, but still you booked it as a - as an underlying, but that's good to get the counter on it.

Christoph de la Camp - Outokumpu - CFO

Yes, it's - it is - it is an underlying because if you - if you go back and you were to take it back over the last eight quarters, you could say if you divided by eight, then each quarter, we should perhaps have going forward it will actually impact the cost base by 1 to 2 million euros as well, so we felt it



was prudent and unfair to look at it as an underlying. You could make the argument, and we had the discussion whether it was underlying or not. In the end we opted for the side of conservatism here.

Johannes Grunselius - Handelsbanken - Analyst

Sure. Sure. Then another detail question, I mean if I look at your underlying EBITDA per division for instance, you have - you have a pretty big number now, which is the intragroup items, and the other operations minus 16. If I look at the full year, for instance, that number was 41, so it's about a million per every quarter, am I right that this number was pretty high and we should expect the level for the forthcoming quarters to be slightly lower? Or can you give me some help there please?

Christoph de la Camp - Outokumpu - CFO

Yes, that number - I mean part of it - part of it is services that it would be a bit, just management services and other things we had in the company, but the main elimination area there is also for certain materials to move around for example, ferrochrome as profits on those go up and then that's that. The other piece is that also since 2016 in the end, ended up being a very strong year absolutely stronger than we we're expecting in the beginning of the year. That means that a lot of our employees are eligible for a bonus and we also include that in the last quarter.

Johannes Grunselius - Handelsbanken - Analyst

Okay, but what is a reasonable number to think of for the - for the coming quarters?

Christoph de la Camp - Outokumpu - CFO

No - it's difficult to say--

Johannes Grunselius - Handelsbanken - Analyst

Okay--

Christoph de la Camp - Outokumpu - CFO

-- I think - I think it was completely high in the fourth quarter this year. I think there was perhaps a little bit of catch up on the quarters as well.



Johannes Grunselius - Handelsbanken - Analyst

Okay, okay. Then on ferrochrome again, I mean you gave us the volume for Q4, I think it was 109,000 tons, I think you have a production capacity of 530,000 per year, in other words 132,000 tons per quarter, how should we think about volumes for the - for the 2017 and the quarters? Are you planning for any shutdowns during the year? And should I expect 130,000 plus to be the volumes to look at for the coming quarters?

Roeland Baan - Outokumpu - CEO

So, we have guided for Q4 that we had, in the ramp up during October, some issues with getting it to its normal capacity. And that's what you see in that 109,000 tons--

Johannes Grunselius - Handelsbanken - Analyst

Okay.

Roeland Baan - Outokumpu - CEO

-- we have as well guided for, as a general number, 500 to 520,000 as [i.e.] as our annual capacity, and it's what we maintained. That's what we are guiding the coming year as well.

Johannes Grunselius - Handelsbanken - Analyst

Okay, so no major impact from any shutdowns would you argue for the - for this year as it looks now or--

Roeland Baan - Outokumpu - CEO

I think we have planned some maintenance for ferrochrome furnace one, which is a smaller furnace, but there will not be a major impact.

Johannes Grunselius - Handelsbanken - Analyst

Oh, okay. Thanks. And my final question, the CAPEX going forward was mentioned in one of the discussions here I think earlier, but just to be clear, what kind of CAPEX level should we look at for



this year, 2017? And how should we expect the CAPEX for 2018, '19? Would that be a slight uptick - uplift in CAPEX because of opportunities that you see right now?

Christoph de la Camp - Outokumpu - CFO

Yes, I'll take that one. I think - I think the range of 150 to 200 million is a - is a very solid assumption for this year. We expect that to be the same going forward. There may be smaller spikes as some of the bigger projects get implemented probably the biggest looming over the next five or six years is the Kemi Mine, so in 2019 or '20 we may see a little bit of an uptick on that.

Johannes Grunselius - Handelsbanken - Analyst

Okay. Thank you very much for helping me on my questions. Thanks.

Christoph de la Camp - Outokumpu - CFO

Okay.

Operator

Thank you.

Our final question today comes from Hjalmar Ahlberg from Kepler Cheuvreux. Please go ahead.

Unidentified Participant

Thanks. I just wanted to check maybe if you could say something about the raw material cost pushing the ferrochrome industry in general. Do you have any indication of how much the cost - cash cost curve has moved in Q1, compared to usually?

Roeland Baan - Outokumpu - CEO

I have to admit I don't. I know my cost curve. It's very difficult to see what it does in Kasachstan, in South Africa or in China. I think what you can say is that the cost curve in China has been most impacted by the underlying input cost changes.

Unidentified Participant



Okay, thanks. And then on this new adjusted EBITDA, will you still specify raw material and inventory changes or you don't mention them at all when you report?

Christoph de la Camp - Outokumpu - CFO

I think we will need to review that in Q1. I think our tendency at this stage is on this day a very large and significant we will probably not report on them anymore in the future, only as a side note.

Unidentified Participant

Okay. And then just two questions on the savings you said that you have realized around 70 million or so in cost savings in SG&A in 2016, so will that mean that 2017 should have another 30 million coming or so - will it be a bigger impact as if this was the run rate at the end of the year?

Roeland Baan - Outokumpu - CEO

The run rate where we said the run rate has to be 300 million or lower by the end of this year, so there's more coming, but that's the target at this stage. And obviously, we're very confident that we will meet that and we'll work very hard to exceed it.

Unidentified Participant

Right, and then you have some other savings programs - other older savings programs, you still have some around 1,000 people you want to reduce workforce with, is that mostly going to impact Europe or where do you see other cost savings coming?

Roeland Baan - Outokumpu - CEO

Yes sure, as you know the SG&A program that we started has a large headcount impact. We said 600 heads, we have part of that already realized in 2016, but part of that will be over the next year to 18 months take place. The same goes for prior moves we've done with the closures. Not every head is out of our count yet, and that will happen over the next few periods.

Unidentified Participant



Right, and then maybe lastly on the - you mentioned you have moved forward some of your debt and increased your maturities, can you say anything about the financing cost, how will be that finance impact in the next years?

Christoph de la Camp - Outokumpu - CFO

It will go down, every product that we target. We've got a clear target to reduce our - as we said we've got a clear target to reduce our net debt, and by the way, that will also include a reduction in the gross debt, and therefore, we expect to have our overall financing to come down.

As I said before, it's going to be a combination of refinancing at lower costs - we still have some very high cost debt, repayment of certain facilities without refinancing them, and also looking at optimizing overall liquidity level for which the available - having that availability also obviously costs money. And there are also other ideas, but clearly financing costs will come down in the next years.

Operator

[Alaina Atasanterra] from Rothschild Asset Management.

Unidentified Participant

Just actually the same on financing. Do you plan to call the 2019 bond - the secured one that is from March I think, and if you are, I think just maybe wanted to give you color, I think another convertible bond would be a good option, I think there would be a nice appetite for that.

Christoph de la Camp - Outokumpu - CFO

At some stage, we will call that bond because it between now and when it matures, we will probably call it, but I can't get - give any indication at the moment of when exactly that will be.

Operator

There are no further questions. I hand the conference back over to your host for any additional or closing remarks.

Tommi Järvenpää - Outokumpu - Investor Relations Director

Thank you very much for your attention and active participation.



The first quarter 2017 results will be published in April 27th. Until then, thank you and goodbye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation.

You may now disconnect.

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