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PRESENTATION

Operator

Good day, and welcome to the Outokumpu Full Year Results 2017 Conference Call. At this time, I would like to turn the call over to Tommi Jarvenpaa, the Head of Investor Relations. Please go ahead.

Tommi Jarvenpaa

Thank you. Good afternoon and welcome to Outokumpu's Full Year 2017 Earnings Webcast. My name is Tommi Jarvenpaa. I'm the Head of Outokumpu's Investor Relations. With me here today are also our CEO, Roeland Baan, and our CFO, Chris de la Camp.

We will be referring to the presentation that can be found on our website. As always, please pay attention to the disclaimer in the presentation, as we will be making forward-looking statements.

With these remarks, I am pleased to hand over to our CEO. Roeland, please go ahead.

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

Thanks, Tommi. Good afternoon, or good morning depending on which time zone you're in.

I would like to start with our normal slide which is the Outokumpu vision for 2020. And I will not go through it as I usually do, but just say this is an interesting point to reflect because we are now two-thirds into this process. Some of our friends would call it journey, which means that we have 40% behind us, 60% to go to become the best value creator in stainless steel by 2012.

Go to the next slide that will show you the progress we have made in getting to the target. So these on the left-hand side you see are the measures of success that we have been communicating. And starting with safety, we came from a rate of about 15 in 2015 to 8.7 in '16. We are now down to 4.4 against a target of less than 8 and a long-term target of less than 3.5, which will be best-in-class.

So we have made tremendous progress and more than hit our target and are clearly on our way to meet our 2020 target.

If you look at adjusted EBITDA, from the EUR 309 million in 2016, which already was a doubling over 2015, we have doubled, more than doubled again into 2017, EUR 630 million versus our 2020 target of EUR 750 million, well on track.

One of the highest profile initiatives in the company was reduction of our SG&A by 25%. In other words from the EUR 400 million in 2015 to EUR 300 million by the end of 2017 as a run rate. We made big progress in '16, had a run rate at the last quarter of EUR 80 million a quarter. We're now down to EUR 67 million versus EUR 75 million target; so again, more than easily made our target there.

Return on capital employed, we have a 12% target long term. The result of 2017 means that we have already reached the 11%-plus mark, which after 9 years of losses leading up to the first year of a positive ROCE in 2016, is great progress.

Our gearing alone one of the main headaches of our company with balance sheet is now down to 40% and very close to out longer term target of less than 35%, thanks to a reduction on net debt to now well below the EUR 1.1 billion. And that you might remember when we set out on our vision in March 2016, we had a target for the end of this year of EUR 1.2 million. Due to the great results, we have adjusted the target downwards or upwards, depending on how you want to look at it, and made that as well.

Now we do acknowledge that part of that was thanks to market conditions and specifically thanks to the increase in ferrochrome price. And you can see that in this slide that our ferrochrome results went up from EUR 80 million 2016 to EUR 217 million in '17, due to an average ferrochrome price of over $140 in 2017.

But at the same time, we made tremendous progress on our stainless business, EUR 58 million in 2015; EUR 229 million in '16; EUR 414 in '17. A very strong performance year-on-year, driven by self-help, specifically in reductions in fixed costs, variable costs, I already mentioned SG&A, and our commercial excellence program that has led to margin improvements.

If you look down into more detail at the business areas itself, you can see that the improvement is across the board. In Europe, apart from the already mentioned ferrochrome improvements, we improved significantly on stainless as well, from EUR 295 million, already a strong year to EUR 404 million this year.

In the Americas, although maybe not yet at the level that we want to be, without doubt, we made a big swing from the minus EUR 27 million in year '16 to the plus EUR 21 million this year. And in the Q&A, we can get into more detail there.

For Long Products, clearly as well driven by more healthy markets in especially oil and gas, but specifically by the cost initiatives that we took in Long Products, we are back into a solid profitable level.

At the same time, we had a variable year in terms of pricing. You can see this from the graph. We came into the year on rising prices; midway in the year, they started dropping significantly from June, July, onwards, reaching a bottom in October, and then have been increasing slightly again and now stabilizing at this moment; all this in the face of imports that stay more or less close to the 30% penetration rate. Again, the largest part of these imports comes out of Asia, specifically Korea, Taiwan and, to a certain extent, Vietnam.

In U.S., slightly different picture. Beginning of the year was the same, slight increases quarter-on-quarter. And then as from Q3, significant downturn in pricing. I think that was partially driven as well by the announcement of ATI on the joint venture with Tsingshan, which put some expectations into the market of lower prices, especially because this is what the joint venture was putting into the market as pricing. We see currently those prices reversing and improving again.

Penetration, import penetration, stays relatively flat at over 20%.

So with that portion of the key financials, I would like to hand it over to Chris. Chris?

Christoph de la Camp - *Outokumpu Oyj - CFO*

Thank you, Roeland. Good morning, good afternoon, ladies and gentlemen. Let's move on to Slide 10, the key financials.

As you can see here, looking at the stainless steel deliveries, in Q4 deliveries were down significantly versus the same period last year. We saw an increase in the Americas and in Long Products, but it was offset by a substantial decline in Europe. And I'll get into the details of that in a moment.

In terms of the adjusted EBITDA, we saw an overall positive timing effect of only EUR 6 million in the fourth quarter, but also a decline versus the same period last year.

In terms of the net results, a decline versus last year, but if you look at it year-on-year, a very significant increase. So EUR 392 million against EUR 144 million in 2016. This was driven, as last year, again supported by deferred tax asset bookings in Germany this time. So taking more of our tax losses back onto the balance sheet. Of course, if you recall, we did the same in Sweden and Finland last year. So we still have the U.S., predominantly left to go. However, that was EUR 125 million booking. We take that off the year results, you can still see that the net income for the year was pretty solid even without that.

The earnings per share in the year came out at EUR 0.95 per share, which was almost tripling versus last year. And as a result of that, our Board of Directors decided earlier today that they will propose to the Annual General Meeting in March a EUR 0.25 per share dividend.

Operating cash flow in the fourth quarter was strong. Again, this year, very solid cash flow, EUR 328 million operating cash flow against EUR 389 last year, and over EUR 100 million in the fourth quarter. And that contributes, of course, to reaching the net debt target that we set ourselves of less than EUR 1.1 billion. So we came in at EUR 1.09, which is a significant decline from where we finished 2016.

Again, 2017, we were restrained on capital expenditure. We only spent EUR 10 million more at the end of the year versus 2016, EUR 174 million against EUR 164 million. Slight uptick in the fourth quarter this year, but, again, we continue to be very restrained on this to preserve cash and improve our balance sheet.

Staffing levels came down as a result of some disposals, but also as the result of our ongoing cost saving efforts, around 460 staff during the quarter of the year.

Let's move on to Slide #11 and take a look at that, because we're well aware that our results in the fourth quarter disappointed and fell way short of consensus and expectations. So I want to build a bit of a bridge for you in terms of how we got from the EUR 56 million adjusted EBITDA in Q3 to the EUR 82 million EBITDA in the fourth quarter.

The blocks don't have exact numbers, but they're somewhat representative of the quantum of each of these pieces.

We did see a small increase across the board. If we add it up on base prices for the fourth quarter, obviously a significant impact from increased ferrochrome prices. And we saw against a very large net timing loss in the third quarter, we saw small timing profit. So the bridge impact of that is quite significant.

We also did not see the same negative effects in the Americas. Recall that in the third quarter we had not just supplier delivery issues, those continued, but to a much lesser extent into the fourth quarter. We also had a hurricane in the third quarter which we do not see, and the ferrochrome delivery issue that we did not see in the fourth quarter either. So all of that improved the Americas' result and you see the impact here.

And then we also clearly signaled in our last call and in our Capital Markets Day, saw a significant increase in maintenance costs. This was planned. This was scheduled maintenance and outages in Europe. Some of that had an impact, of course, on our deliveries in Europe. So that was I think the big unexpected impact that we lost a significant amount of our deliveries in Europe. And it was partly driven by the maintenance efforts and the low deliveries resulting from that. But also, we had some commercial issues in an effort to drive through higher pricing. Did not succeed and lost some market share as a result of that in the fourth quarter. We will fight very hard in the first quarter to regain that.

And the other piece which perhaps came as a bit of a surprise was the somewhat higher cost levels that we're seeing in the fourth quarter and that we'll continue to see into 2018, driven predominantly by raw material inputs, and I'll come to those in a minute, that we're seeing developing in the market.

There were smaller issues from the supplier issues in the U.S. And we have some small FX derivative losses as well.

But I think one of the big pieces that perhaps we need to focus on are the cost drivers which we flagged, and I want to do that on Slide #12.

I think we've had the discussions in the past and most of you will be aware that we use, obviously, we have electric arc furnaces. They use graphite electrodes to heat the metal. And the price of graphite electrodes is increasing rapidly across the world. To give you some sense, we're seeing increases into the early part of 2018 of over 300%. That's very significant given that we use quite a lot of this in the four furnaces that we operate around the world. So this is a significant amount of additional cost. I don't think that's a surprise; that is well-known.

The other piece which is probably a little less well-known is that we use a material called ferrosilicon which is used to deoxidize the melt of the stainless steel, which, again, we use in some significant quantities and the cost of this has gone up by over 45%, as you can see here. So that again provides cost headway that'll also impact us into 2018.

And finally, what we're also seeing is, and everybody will be aware of this, an increase in Brent and energy costs, obviously, an increase in costs has ramifications not just in terms of the energy we use, but it also has ramifications in some of the input materials that are based on oil [as well], so ultimately go up. And we've seen an increase from the sort of $50 a barrel level to touching $70 a barrel in January. So again, this is a significant increase. This is on top of, of course, a weakening dollar, and we sell our ferrochrome in U.S. dollars. That is also a significant impact over and above this.

So these are headwinds that we started facing in the fourth quarter and that we will continue to face to a significant extent into 2018.

Let's now move into each of the individual business area results, starting with Europe on Slide #13. You can see here that the chart on the left shows the delivery volumes. You'll see that it was clearly down sequentially, but also in the fourth quarter last year. The adjusted EBITDA as a result of that for the stainless business declined significantly from EUR 69 million to EUR 37 million, although, of course, the ferrochrome business improved.

So if we look at the business area of Europe as a whole, and, of course, we'll be separating this out into ferrochrome and stainless starting from Q1 of this year. We're already showing that here. You can see that overall while the results stayed about at the same level, it was very much an increase in the ferrochrome results and decline in stainless steel.

There was a small net of timing and hedging impact, again in the face of increasing chrome prices and slightly increasing hedging nickel prices. The question's why was it negative? And the answer to this is that while we saw a positive timing impact, we did, at some stage during the quarter, hedge some of that. And as nickel continued to move up through the back end of the year, we had to take a mark-to-market impact on that. Not particularly big; it'll come back. But it moved a small timing impact into -- added a small negative hedging impact to the overall impact of minus EUR 4 million.

The ferrochrome result, of course, improved primarily because of better prices but also because of better production volumes. We produced 121,000 tonnes in the quarter versus 109,000 tonnes the previous quarter.

The one negative, of course, of ferrochrome, it's traded in U.S. dollars, and the dollar started weakening and has continued weakening obviously into Q1, but it weakened significantly in the fourth quarter. So this was a negative as a result of that.

I already commented on the lower deliveries, of course, both by planned maintenance but also because of the loss of market share as we tried to push through higher electrode prices and had some issues in achieving that.

Let's move on into the Americas' result then on Slide #14. Here we flag clearly that there would be seasonality. It is typical for the Americas on the distributor setting to destock in the fourth quarter. But also, the Americas, of course, have an extra significant length holiday in the fourth quarter with Thanksgiving that we do not see so much in Europe. So this impacted the deliveries. They were, nonetheless, higher than the fourth quarter of last year, but sequentially obviously lower than the third quarter.

Overall, the adjusted EBITDA improved significant from a very poor result in the third quarter. But we've explained clearly that the third quarter was impacted by a number of -- one of negative timing and supply issues in particular. This did not occur. But we did also see somewhat lower base prices that impacted the result negatively, although the impact on timing was positive. But overall the results obviously improved significantly as many of those one-off effects disappeared.

Then moving on to the Long Products business on Slide #15. Here there was a significant improvement both year-on-year and quarter-on-quarter in deliveries. And this was driven by better demand in Europe. So the Long Products business produces slabs in our Sheffield Unit that are also used as raw materials inputted in our European rolling operations, and that improved in the fourth quarter.

The result of that and also better cost management, the fourth quarter results recovered in the Long Products business from the third quarter and was a little bit up from the fourth quarter for last year. There was no timing impact here during the fourth quarter.

Now move on to Slide #16. Focus a little bit on the cash flow for the year as a whole. If we look at the operating activities, 2017 was a bit weaker than 2016, and this is driven predominantly by an increase in working capital. This was partly driven by overall general pricing levels moving up, so that drives up working capital. Also, perhaps, towards the end of the year preparing for 2018, we built some inventories to be ready for what we see as much better demand in the first quarter versus the fourth of last year. We saw an increase in working capital during the year, which caused somewhat lower operating cash flow.

We invested EUR 63 million net of divestments. There were a number of divestments that we announced for the year in the U.S., for example. And as I said before, we had relatively restrained capital expenditures of EUR 174 million. So the net amount of that was EUR 63 million, which generated cash flow then before financing activities of EUR 264 million.

We did significant refinancing that you'll be aware of. We repaid partial repayment of the 2021 bonds and also repaid the 2019 bonds. So significant cash out from that. So the overall cash balance at the end of the year was a little reduced. Nonetheless, our liquidity remains very solid at around EUR 0.8 billion. And the overall impact was a net reduction and net debt of EUR 150 million as a whole to get below that EUR 1.1 billion.

In terms of the balance sheet metrics, of course, during the course of the year they have again improved significantly. Net debt came down. The gearing came down. That was also driven partly by an improvement, of course, in the balance sheet to the deferred tax asset bookings, but also driven by our reduced debt. So gearing now at 40%. Leverage at a much more reasonable 1.7 level. Clearly, we're not happy with this yet. We will continue to work to move that gearing down to the 35% level that [indiscernible - technical difficulty]. So that effort continues. So we're well on track here.

It will not always be a linear journey as we go from quarter-to-quarter. Q1 tends to be better for business. Therefore, there will be an uptick in working capital. So we're expecting a little bit of an increase in working capital and that may have a negative impact on cash flow. But that is seasonality. And as last year where we saw an uptick in working capital in the first quarter and the significant release and cash generation for the remaining three quarters, we're probably looking at a very similar profile in 2018 as well.

Our debt maturity, which was an issue at the beginning of 2017, has effectively been resolved. But now, just looking commercial, rolling commercial paper in 2018, as a direct maturity, we resolved the issue of the revolving credit facilities. We have removed a significant bond financing. We have very small revolving -- very small unutilized facilities to be renewed in 2019. And the next big maturity really not coming until 2020 with a convertible, and then 2021 with the remaining bond debt we have.

I expanded a little bit on the aspiration to halve our interest expenses by 2020 to a level of roughly EUR 50 million. We've made very good progress during 2017 on that. Not only did we recall the 2019 bonds out of running cash flow, we also partially recalled the 2021 bonds. Those carried coupons of 6 5/8% and 7 1/4%. So significantly high cost debt removed.

We restructured our pension loan portfolio and reduced several million euros of interest cost there. We reduced some of our financial leasing obligations. And most notably, towards the end of the year, we renewed our revolving credit facility. So we have a EUR 650 million standby facility utilized at the moment that now runs into 2021. That also came with much better terms and conditions attached than the previous facility. It's a lower cost and significantly lower burden covenants attached to it.

So overall, the run rate interest rate in 2017 was reduced by EUR 35 million. And we will see that coming through in the 2018 financials. Of course that'll not just be a net income but also cash flow positive impact.

And with that, I'm going to hand back to Roeland to talk a little bit about the outlook for the first quarter of 2018.

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

Thanks, Chris. So indeed looking forward to the first quarter, we are seeing continuing healthy markets both in U.S., as well as in Europe, as well as, by the way, in Asia. So healthy underlying demand going into 2018.

On top of it, of course, the first quarter is seasonally strong. And as a result, we expect higher stainless steel deliveries in Q1 compared to Q4.

On the other side, however, we have some clear cost pressures from graphite electrode already mentioned by Chris, ferrosilicon and energy costs as well as a weakening of the U.S. dollar. The lower ferrochrome price already is known for Q1 at $1.18 and Q-on-Q it has an impact as well.

Still taking everything into account, we expect for Q1 a higher adjusted EBITDA compared to the previous quarter.

Tommi Jarvenpaa

Thanks, Roeland. Operator, we are now ready for the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Luc Pez from Exane BNP Paribas.

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

First of all, if you could comment a bit more on the underlying market trend both Europe and the U.S. I understand the general comment about situation. But if you could give a bit more color as to how price is developing, especially in the U.S., following the late Q4 pressure because of the ATI/Tsingshan JV. Follow-up question on this would be related to what are you rated with regards to the associated risk with the ramp up? So that would be my first questions.

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

So Luke, the associated risk of the ramp-up, I assume of the joint venture? Is that what you mean?

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

Yes. Yes. Sorry.

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

So let's start with the market trends. It's obvious that the world is entering a very healthy cycle of increasing demand in general, not just for our products but GDP growth numbers forecast are being adjusted upwards continuously. Markets are healthy. Commodities in general are on the way up. So we are in a very healthy environment. Consumer spending is driving this, which is good for stainless steel. And we see in that sense both in Europe and in U.S., very, very healthy markets which reflects itself into our order book. We see strong order booking into 2018, so really very positive. On price development, Q1 over Q4, as I said, you saw an uptick during Q4 of prices. And we expect that uptick is now stabilizing in Europe. So we see a sort of average equal price into Q1 as we close out on Q4. In the Americas, as I said earlier, you saw a little bit of a downtick in Q4, but then in January a price increase that was announced stuck and is working. And we actually think that there is further room on the upside in pricing in the Americas. If you then look to the JV, difficult to say, of course, and speak for another company. What we have seen is that the JV went into the market and offered product at the same time we have seen as well that the startup of the operation has been not without problems. So the uptick of it is that we really haven't seen the material itself coming into the market yet. And ATI, as you know, as well commented that they don't see any significant influence from that JV until the second half of the year. So little impact in the first half, and then we have to see what the impact is, if at all, in the second half, given the strong markets and as well given the uncertainties that we have around what the real cost thing is of the joint venture and the product that they bring in.

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

You're pointing a lot to this cost pressure. If I may, you are the only one pointing so blatantly to these issues as a reason for the lower profitability. How do you explain that some of your competitors are able to improve earnings margins in spite of this cost pressure? Is it because of your mix issues you've been facing in Q4? Is it, therefore, temporary? Should it be more difficult, also, to pass through into Q1?

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

First of all, I don't think our competitors have been improving margins. So that would be one step too far to say so. The cost pressures are there. I mean, you can go onto all the publications, neadle coke, which is the main ingredient into electrode chargers, electrode material is in short supply. And there is clearly a shortage. Pricing, which was about $2,500 a tonne in early 2017, on the spot market, has gone up to $23,000, $26,000, which is where it at the moment is staying. We all have our contracts in place. So we all have, as an industry, stainless or nonstainless, we have some buffer from contracts and past inventories. That doesn't mean that you should not try to move to pass on these increases in costs, because I learned at school you should work at replacement cost rather than on your historical cost if you want to survive long term. So we do see these increases in cost. They are there. Our competitors clearly see them as well. How they chose to treat them is up to them; I can't say anything about that.

Operator

We will now take our next question from Seth Rosenfeld from Jefferies.

Seth R. Rosenfeld - *Jefferies LLC, Research Division - Equity Analyst*

I have a couple of questions, first on guidance, and then, second, kind of drilling into the European business place. On guidance, I was wondering if you can please give us some sort of framework with which you can better understand the sequential EBITDA growth you believe is realistic. Obviously, returning to the first quarter '17 level seems some way off. But how can we gauge the scale that is realistic on your own assumptions? And then secondly, within Europe, I appreciate the new reporting clarity between stainless and chrome businesses. So thank you. But when I look at just the profitability of European stainless, it appears as though EBITDA per tonne in the fourth quarter fell to the lowest level since early 2016, despite your commentary that base prices rose year-over-year. Can you help us better understand what mix of cost pressures weighed on performance in Q4? Will those alleviate in the first quarter? Or is this the new normal? And with regards to the maintenance outage, lastly, I'm surprised you say the maintenance outage led to lower shipments. I would assume that there was an inventory build in preparation. How confident are you that we're past this headwind?

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

So on the guidance, you know we don't go much more granular. But what we see is really a healthy market. So volumes will be significantly up; there's no doubt about that. At the same time we see pricing holding at current levels. We don't see significant, in Europe, we don't see significant opportunity for increased pricing due to import pressures. Don't forget, the falling dollar benefits Asian imports because that is product in dollars that doesn't change; dollar changes, in euros it becomes cheaper. So you have limited chances to move up pricing. And then on top of that, you have the increases in cost that we mentioned. However, the volumes plus the activities that we undertake to continuously drive down our cost more than offset these other elements. And as a result, we still see higher, and note that we don't say slightly higher, we see higher result in Q1. In Europe, I fully agree with you that the fourth quarter was a disappointment. And I'll get into that in more detail. I do want to point out something which maybe or maybe not has been missed. But we produced in Europe over 2017 a total of EURO 417 million EBITDA in stainless alone. So not helped by ferrochrome, just purely stainless profitability. You compare that to our peers, and the latest we have, of course, is a Aperam's Report. If you take their results, knock off Brazil and then take the dollar/euro exchange rate, you'll see that we are ahead in earnings in Europe on stainless of our main competitor. So I would say that our profitability in Europe is pretty much in line with the best in this business. Why do we have [poor] Q4? There are several reasons. One, indeed, is the maintenance outage. And in the maintenance outage, unfortunately, when we came back on in Tornio, our biggest mill, we had a hiccup in December in the -- or November in the melt shop which lost us significant volume sort of downstream. And as you probably know, our bottleneck is not in casting and rolling, it is in cold rolling. So once you miss tonnes in your casting, you cannot make up in your cold rolling, so you cannot bring that material to market. And secondly, and you can see that as well we lost market share in October and November, which we regained partially in December, which was a direct result of our introduction of the electrode surcharge. We put a EUR 30 a tonne electrode surcharge. We did not budge from that strategy because we said it's necessary to recover the cost. Our competitors did not follow or put another way of recovering those extra costs, and we lost volume specifically in distribution and in automotive. We have adjusted our commercial practices to equalize with where our competitors are and now we have regained again our normal position. But those two effects together led to a significant reduction in volume. As you can see, there was more 20 -- it was 26,000 tonnes versus Q3 that we were down; whereas, in Q4, normally we are up. So if you look at these things where you say, okay, theoretically we should have been up 40,000 tonnes from where we are and we spent, rightly so, by the way, EUR 30 million extra on maintenance in order to make up for lack of maintenance from the years '13, '14, '15. Then there is about EUR 60 million missing in the quarter. I hope that answered your question.

Seth R. Rosenfeld - *Jefferies LLC, Research Division - Equity Analyst*

That's very helpful. Just to clarify, so the maintenance cost was EUR 30 million in Q4. That will not repeat. And I'm reading you right, the loss of 40,000 tonnes of shipments would equate to an additional EUR 30 million. Is that correct?

Christoph de la Camp - *Outokumpu Oyj - CFO*

EUR 25 million to EUR 30 million, yes. And the maintenance is from Q3 to Q4. To Q1, it will be a different number; whether it's the full EUR 30 million or not, I'm not sure at this moment. I don't have the figures in from of me. But the bulk will not repeat, that's correct.

Operator

We will now take our next question from Michael Shillaker from Credit Suisse.

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

First just trying to get my head still around the number versus where consensus was. And just on the conversation in the last quarter because we're talking about the missed volume and higher cost as being the key variable between sort of guidance, effective guidance, and where consensus came out -- or where the number came at -- sorry -- versus what consensus was. But wouldn't by November time we'd have known a lot about the increasing costs that were coming through from electrodes, assuming on one hand, and, on the other hand, would we also not have known that because of the maintenance is similar, that the volume was actually going to be down in Q4? Because I think last time we did all get together it was the Capital Markets Day, so that was November. So that's question number one. Question number two, just on the electrode issue, because you are clearly making a lot more noise about electrodes than a lot of peers, can you just talk about your electrode pricing: when you renegotiated contracts. Are you fully on contract? And have you been forced into the spot market for electrodes at all? And is that part of the problem? And what is your contract spot exposure on electrodes? I'm assuming it's all contract. But if you could clear that up for Q4 and for next year. And the third question, I mean, I think everyone agrees it is a healthy market, Roeland. You talk about a healthy market. But if you look at the carbon steel market, they're suffering from similar cost pressures. It's a healthy market. Steel prices are going up. People are making better margins. What do you think the issue, the problem is in stainless steel at the moment, where we're in this reflationary environment, it's very normal when things get better that costs go up, et cetera, et cetera. That's actually normally quite a healthy sign. But for some reason, stainless steel seems a little stuck and it's not able to put base prices up sufficiently to pass on what's going on, on the cost side.

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

Okay. So let me start with the last one, because that's the one where I have absolutely no answer. I don't know where carbon steel currently is -- is trading at and I don't know what in the industry, in the carbon industry, what the return on capital employed numbers are. I saw one of our carbon colleagues announcing their full year results yesterday. And it was clear that our return on capital employed is far superior to what happened there. And I think generally speak, if you would look at carbon steel 2017 return on capital employed, that there are not that many that are over 10%. But I could be mistaken. So I'm not sure how true your assumption is. The only thing I can say is we are having healthy markets. We have healthy pricing as well. And as an industry, we are making healthy profits. The point is more that if you want to go even higher, then there are, specifically in Europe I would say, there are some effects where the reality of increasing costing is not yet reflected in pricing. I do believe that at some stage it will happen. But at this moment, as you saw with our EUR 30 increase, only EUR 30 for a surcharge on electrodes, basically we got punished. We lost volume very, very quickly. So when in reality it will come through, I don't know. It will at some stage, because I agree with you that an inflationary environment -- or reflation as is taking place at the moment, often will affect the full supply chain, including us. Contract position on electrodes, I'm not going to share that. That's part of the -- it's individual's company's secrecy how they do it. Again, you say we are the only ones making noise. That's not true. If you look at the long products markets in the U.S., and in Europe, they have all put on electrode surcharges. So it is an effect. If you read Metal Bulletin, you are seeing that electric arc furnace carbon operators are very, very worried and see the same cost pressures. So I don't know why our competitors in Europe choose not to talk about it. You have to ask them. I can't answer. So then the last question, did we know about the volume miss and the miss in guidance? We didn't miss our guidance. We said that we would be higher Q-on-Q, and we are. So we never said that we would be at the EUR 170 million for Q4. That is, we have given enough guidance as well on where the things were, including what we saw on maintenance, including what we saw on pricing where we said it will be about equal to Q3. So we have no reason to change anything in our guidance. Our guidance was correct. On the volumes, that was a surprise that we got ourselves only later in the quarter because of the breakdown or the poor comeback of a melt shop in Tornio. Still, it didn't material impact our guidance or our internal targets for Q4.

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

Sorry, Roeland. I wasn't saying that you missed guidance. I was saying the difference between what you reported versus consensus. And the question I guess was really one of the reasons that's been put over this morning today has been the higher cost as well as the lower deliveries. The lower deliveries I understand that maybe that surprised you at the end of the quarter. My question was, were you, as a company, aware of the higher cost when you came to market? Because if you were, obviously, it's not reasonable to say that's part of a bridge between the miss versus consensus. But I'm guessing you were probably surprised negatively during the quarter by the extent of the cost increases.

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

No, because the cost increases were I think about EUR 8 million hit for the quarter. So again, we knew that. That was in our own internal forecast. And it is relatively small compared to, for instance, a EUR 30 million difference in maintenance. Hence, we mentioned in the guidance the maintenance rather than the cost increases.

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

So when I look at the bridge on Page 11, the red with higher costs. So the maintenance is EUR 30 million. But we're saying the higher cost is only EUR 8 million?

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

Well, that includes derivative --

Christoph de la Camp - *Outokumpu Oyj - CFO*

Michael, that's just for the input costs. There are other things as well. Higher costs also include spillover issues in the U.S., and some FX derivative losses.

Operator

We will now take our next question from Bastian from Deutsche Bank.

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

Firstly, so just getting back on this market share loss. It seems like a reasonably (inaudible), obvious supposedly from your clients to the electrode surcharge which you introduced. And you mentioned that you gained part of the market share loss back already. How long do you expect it to take to gain the full market share back? That would be my first question. And then secondly on ferrochrome where you point out some fixed headwinds, but at the same time, if we look at the South African rand, it was strengthening quite a bit against the other currencies and I think to some extent the low Q1 settlement was clearly a negative surprise. It seems like there is a bit of bottoming in the ferrochrome market. Just would be curious to get your view on whether you think that likely there's a little bit uptrend on the way and whether you think that possibly the next settlement could hedge higher from here. Thank you.

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

So the market share already started recovering in December, and we expect to be at our normal market share in Q1. So that effect is gone in Q1. On ferrochrome, you're actually right, the increase of the value of the Rand definitely helps us. And if you look at China at the moment, there is clear upward pressure on ore and, as a result, as well on ferrochrome prices. So if you would look at it today and if we would have to say, okay, at today's market indications, you will probably be 15 to 20 cents higher than where we are today. But it's still the same when we're at the end of March when the negotiations for the contract takes place that we have to see. But yes, there is clearly upside (inaudible).

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

And I've got one more follow-up, just one. Your competitiveness versus some of the Asian players and thinking particularly of the essentially new mills which have been evolving around Tsingshan and the fully integrated I think nickel pig iron produces. My general understanding is that they are generally quite sensitive particularly to fuel and gasoline. Now, obviously, we're seeing a lot of inflation. You pointed that out as well in your charts. I mean, do you think that that is essentially, to some extent, impairing the cost base for some of your competition in Asia, which obviously is still a reasonably aggressive competitor also on the European market after the Chinese essentially dropped out?

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

Very difficult to say. Indeed, these competitors are mainly coal fuel and coal pricing is going up significantly. Still, they have a cost advantage. I do think, by the way, that a lot of the volume that comes out of these new mills, take Tsingshan, is mainly going to go into Asia and not that much into Europe or U.S. It's going into rerolling. Rerolling is not that big in Europe and the U.S., but is big in China.

Operator

We will take our next question from Ola Soedermark from Kepler.

Ola Soedermark - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

To follow up on Europe and the results so we can understand it a little bit more. Is it fair to assume that it was high margin product that you lost that volumes on after a slower ramp up and after maintenance stop and the electronics shortage?

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

So in Europe, we are predominantly cold rolled sellers. We sell very little hot rolled. So most of what we have in Europe in the market is higher added value, that's correct.

Ola Soedermark - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

And when it comes to maintenance stops in 2018, you said that it's not -- there are maybe going to be some maintenance stops in the first quarter. Can you clarify it a little bit?

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

No, no.

Ola Soedermark - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

And also, are we going to have a normal maintenance stop in the fourth quarter in Europe, or in third quarter?

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

Sorry. That was my fault, Ola. We will not have a maintenance stop in Q1. But we will have ongoing normal maintenance. So that will be a sum, which I don't have here at hand. If it's similar to Q3, for instance, then the delta of EUR 30 million will exist if it's a bit more. So I don't know. We will have, like every year, we will have 2 maintenance periods, one in July/August, mainly in the Nordics, and then one in December. Both, by the way, should be of lesser extent than they were in this year where both last year and -- sorry -- 2016 and 2017, we spent more, and especially in 2017, we took the position and actually we communicated that early in the year as well, took the position to significantly spend more in maintenance to improve reliability of our assets.

Operator

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

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

I'll start with the Americas first. So how much of the mix improvement now is through actually? And I'm thinking here also from timing perspective, is there a certain, say timing or a month or a quarter when these long-term contracts usually get negotiated? Because I remember from the Capital Markets Day that the message, at least to me, was that the strategy for this year or the outlook for this year is to improve the mix. And I suppose looking at the fourth quarter earnings, there hasn't been much of mix improvement yet effectively in. So are we still seeing that improvement kicking in during this year at some point?

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

So it's an excellent question. Mix development in the U.S., in the Americas, was disappointing. But we clearly did not get the traction in the local market, the Mexican market with our cold rolled product that we were aiming for, and, as a result, we, in order to keep our assets efficiently running, we resorted to export of hot band to Asia and Europe. So the mix was poor in 2 ways, less cold rolled and more exports than expected. So that was a clear disappointment. To your point, when does the maintenance season start, that is normally October/November. And the good news is that we have had tremendously good bookings. And actually, for the first quarter, on cold rolled, record bookings into the domestic market. So it looks a little better. And it should because this is what we have been working on all the time. But when [rolling], if you want to say, so in 2017, is our contract business was just a smaller portion and, as a result, we felt that on the spot market we could sell the difference, and we couldn't. Now we have far stronger contract business so we have a far better basis for our cold rolled domestically.

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

And in terms of the wider gauge products, is that also selling well? Because I remember that there's a cold rolling line for what the wider gauge products ever was. Was it 60, or something like that? And is that also selling well now that the oil and gas markets are coming up? And I suppose that product is used in that business quite explicitly. Or am I wrong here?

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

No. And actually, it's 2 ways. It goes into oil and gas. I mean, if you have wider and you have to create vessels, you need less welds and have a stronger structure. So that is one of the places where it goes into. The other one is, strange enough, into industries where they need not as wide, like appliances, because they can, by taking the large coils and slitting, they can use a double width more efficiently in their [thing]. So yes, it is going up, the sales in our wider material. But it will never be 50% of the market. It is a high-priced, higher-priced niche that we are developing. So it is developing but it's not significant yet.

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

The last question on the Americas' business then, is that in terms of the mix improvement where are we now in the fourth quarter in terms -- if you could give any kind of wording? Are we 10% through? 20% through? And then by 2020 we will be then 100% through? Or just to give some kind of color on the trajectory, how quickly the mix is expected to improve?

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

I refer to our earlier statement which is we expect the Americas to reach its commercial maturity in 2018. And given the way we see our order book

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develop plus the strategies we have in place, we do believe that, indeed, 2018 will be the year that we will be at our potential for our domestic cold rolled sales.

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

I have 2 kind of financial questions left. And the first one will be on the hedging policy on the FX movement. So is it just a translational impact and is there a delay to it? Or is it kind of immediate direct effect? And then the final one will be on the bridge going into Q1 2018 from Q1 2017, and just looking at the profits that you made a year ago as opposed to -- or what has changed since then? And please correct me if I'm wrong here. But it's lower ferrochrome price, we will have a better mix in the U.S., stable market and prices in Europe, better oil and gas market, which will be, I suppose, good for long products, and then the only negative in addition to ferrochrome is actually the cost effect in graphite electrodes. That is the question.

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

So if we take the Q4/Q1 question first, Johannes, you're right, there will be better volumes. I mean the biggest impact will, indeed, be from the ferrochrome, that's correct. So that's where we see the negative. And there are no other significantly sized headwinds except for the cost piece, of course, that we talked about, because as we go through, we believe that those will actually get worse into 2018. So the second question then, or your first question, was around the hedging. So we do hedge some of the FX exposure that we have between the U.S. dollar and the euro. Predominantly we do it to ensure that when we buy nickel in and we price it out, there is an exposure there on the nickel. So we hedge that and then we do corresponding hedge on the FX underneath it as well. We do not hedge at this stage the exposure of the U.S. dollar cash stream that comes from our ferrochrome business. And the results, the U.S. results translate into euros. The U.S. results that translate into euros, of course, it is a relatively small impact because the result isn't that big, yet the biggest impact is from the ferrochrome income stream.

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

Right. So if I go back to the bridge, of course, I didn't mention the FX now. So the negative driers would be lower ferrochrome FX than the graphite electrode cost inflation. And on the positive side we will have better mix in the U.S., and better volumes for long products in terms of the oil and gas demand?

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

Yes, [impact] the better volumes in Europe, of course, yes. So it's better volume all around, yes.

Operator

We will now take our next question from Carsten Riek from UBS.

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

Two questions left from my side. The first one is again on the profitability. Is it correct to say you strive for being the most profitable stainless company? I'm just trying to estimate how you want to get there, because if I deduct ferrochrome and nickel impact in 4Q, the stainless steel operations made near EUR 20 million in EBITDA or EUR 36 euros per tonne. That's quite low. We learned that there was about a EUR 38 million impact on the maintenance. Is there any other adjustments which I have to take into account? And what actually would bring you to the next level? That's the first one. Second one, on the networking capital, we are seeing quite a bit of net working capital swing, especially in the receivables which went down EUR 160 million. How much of these EUR 160 million will reverse in the first quarter?

Christoph de la Camp - *Outokumpu Oyj - CFO*

I'll take the second one. So yes, clearly, I mean in terms of if we sell less material in the fourth quarter, the receivables, of course, decline, and we will see those receivables move up in the first quarter because we are clearly expecting more volume. So that will drive high working capital levels, yes. So there will be a swing back up from that for sure. But that's normal seasonality. I mean, that's the same effect we had last year. There should be a little bit more mitigation, of course, from ferrochrome prices being lower, so that lowers the value of the working capital. But at the moment we're seeing high nickel prices. So again, that has a negative impact in terms of increasing the value of working capital. So we'll have to see during the course of the quarter how nickel prices develop, and I think that'll determine, to some extent, the swing in working capital during the quarter. But for sure receivables will go up. In terms of the profitability, you've --

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

Let me do that one.

Christoph de la Camp - *Outokumpu Oyj - CFO*

Okay. Roeland will take them.

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

So on profitability, and I just repeat what I said earlier. So if you take our full year results on stainless only, just strip out ferrochrome. Let's look at stainless. And just look at Europe and compare it to what we know now from Aperam in Europe, which is the full result minus the 123 million dollars of Brazil. Then we produced a EUR 417 million result from stainless in Europe versus about EUR 395 million Aperam from stainless in Europe. So I think that we are, from where we came from, which was the [poor known man] at the bottom of the pile, we have come a long way and we are clearly on our way to be that best in value creation. We have a volume advantage, so we probably need to go dig up together. But we have, as you know, clear plans on how to do that. We are currently, as I said already, only 2 years into a 5-year plan, so 40% done. And we have many, many levers that we can still work to move on. And at the Capital Markets Day, we have talked about those levers and shown what we think are they worth going forward. If you concentrate on Q4, the only thing I can say is given the volatility that we have seen in the year, you have to take out that volatility. Q4 clearly is an anomaly where we had low volumes not normal for the quarter and we had already communicated, and very intentionally, increased very significantly our maintenance. So I think we are still very solidly on our way and the results going forward will show that.

Operator

We will now take our next question from Ephram Ravi from CitiBank.

Unidentified Analyst

This is Christian from Ephram's team. All my questions are answered.

Operator

(Operator Instructions) We will now take our next question from Kevin Hellegard from Goldman Sachs.

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

The import penetration looked quite high in 4Q in Europe. And you mentioned yourself that the weak dollar is an advantage for the Asian producers. Do you see a higher pressure in the market in your 1Q order book?

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

No. Again, our order book is pretty strong. Having said that --

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

So you don't see any pressure on base prices at the moment in Europe?

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

We don't see any pressure is wrong. We will see a slight decline in pricing in Q1 over Q4, but not significant at all. We don't see further pushdown on it. But I wanted to say it takes time for the supply chain to establish. So we don't have visibility in what is happening in Q2 or Q3. So can't we say that there will be no further pressure.

Operator

As there are no further questions in the queue at this time, I would like to turn the call back for any additional or closing remarks.

Tommi Jarvenpaa

Thank you. And thank you very much for attending our earnings call. Outokumpu's first quarter results will be published on April 26. Until then, thank you and good-bye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.
