



# Outotec

## Sustainable use of Earth's natural resources

Interim Report

Q1-Q2 2014

# Slightly improved market activity in Q2

- Increased geopolitical uncertainty, short-term metals demand outlook and weak metal prices performance slow down investments
- Competition is intensive putting pressure on prices
- Customers focus on reducing their operational costs

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- Good level of sales activity
- Investment sentiment improved in Q2
- Demand for services continued solid due to reasonably good production utilization rates

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# Order intake improved in Q2, up 80% from Q1 2014

€million	Q2		YTD	
	2014	2013	2014	2013
Outotec total	<b>379.5<sup>*)</sup></b>	365.6	<b>589.8<sup>**)</sup></b>	856.7
Growth, %	4		-31	
Growth comp. currencies, %	15		-23	
Services	<b>147.8</b>	138.5	<b>281.0</b>	272.0
Growth, %	7		3	
Growth comp. currencies, %	21		18	

The change in the service order intake reporting principles increased Q2 2014 order intake by approx EUR 25 million<sup>\*)</sup> and Q1-Q2 2014 order intake by approximately EUR 35 million<sup>\*\*)</sup>

# New orders in Q2 by region

Americas 38 (22)%



High purity alumina technology for Orbite Aluminae, Canada  
< EUR 10 million



Filtration plant for alumina refinery for Alunorte Brazil  
≈ EUR 50 million



Shutdown services for 3 years for Samarco Brazil  
(value not disclosed)

EMEA 33 (57)%



Operation & maintenance services for Kalagadi Manganese, South Africa  
EUR 17 million/3 years

APAC 29 (21)%



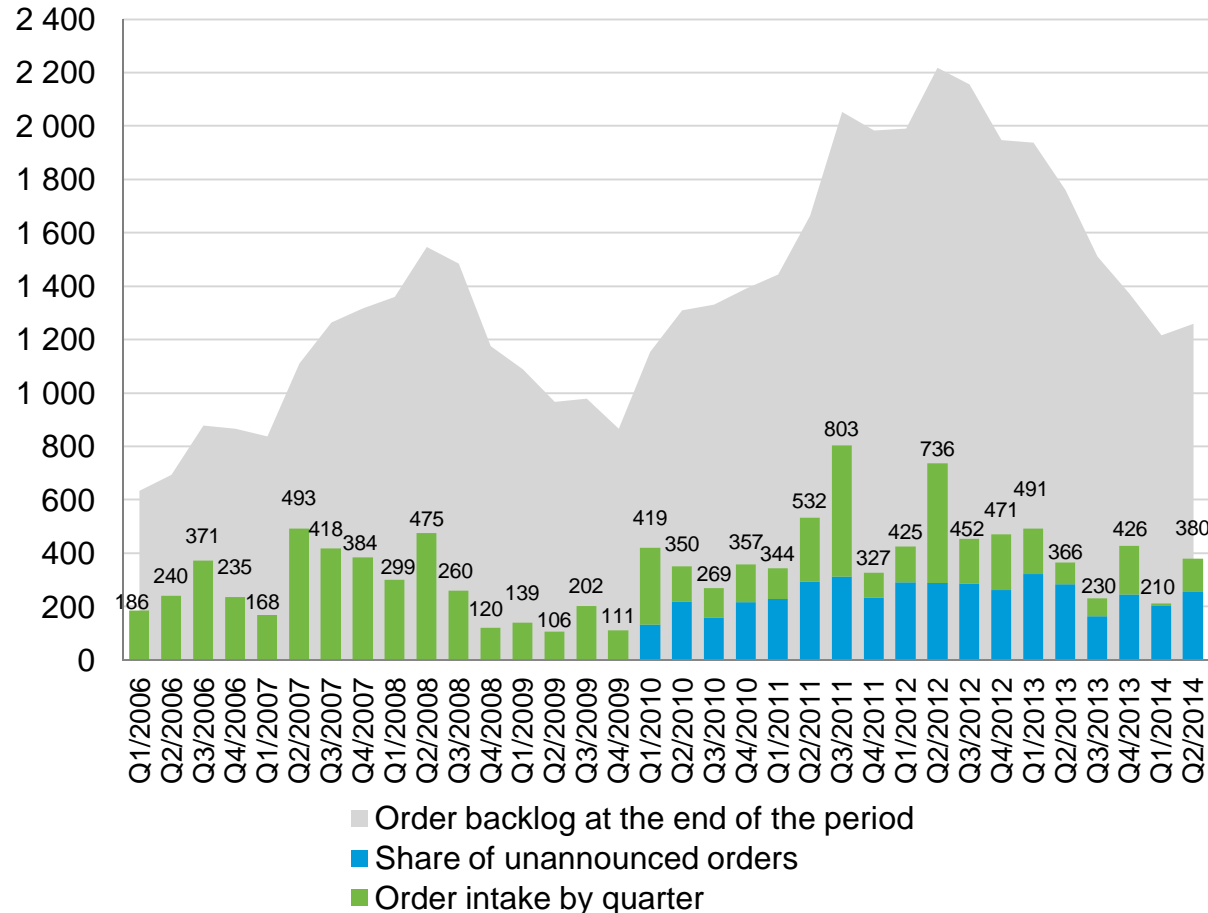
Iron ore pelletizing technology India  
≈ EUR 70 million



Smelting technology for Nyrstar Australia  
(value not disclosed)

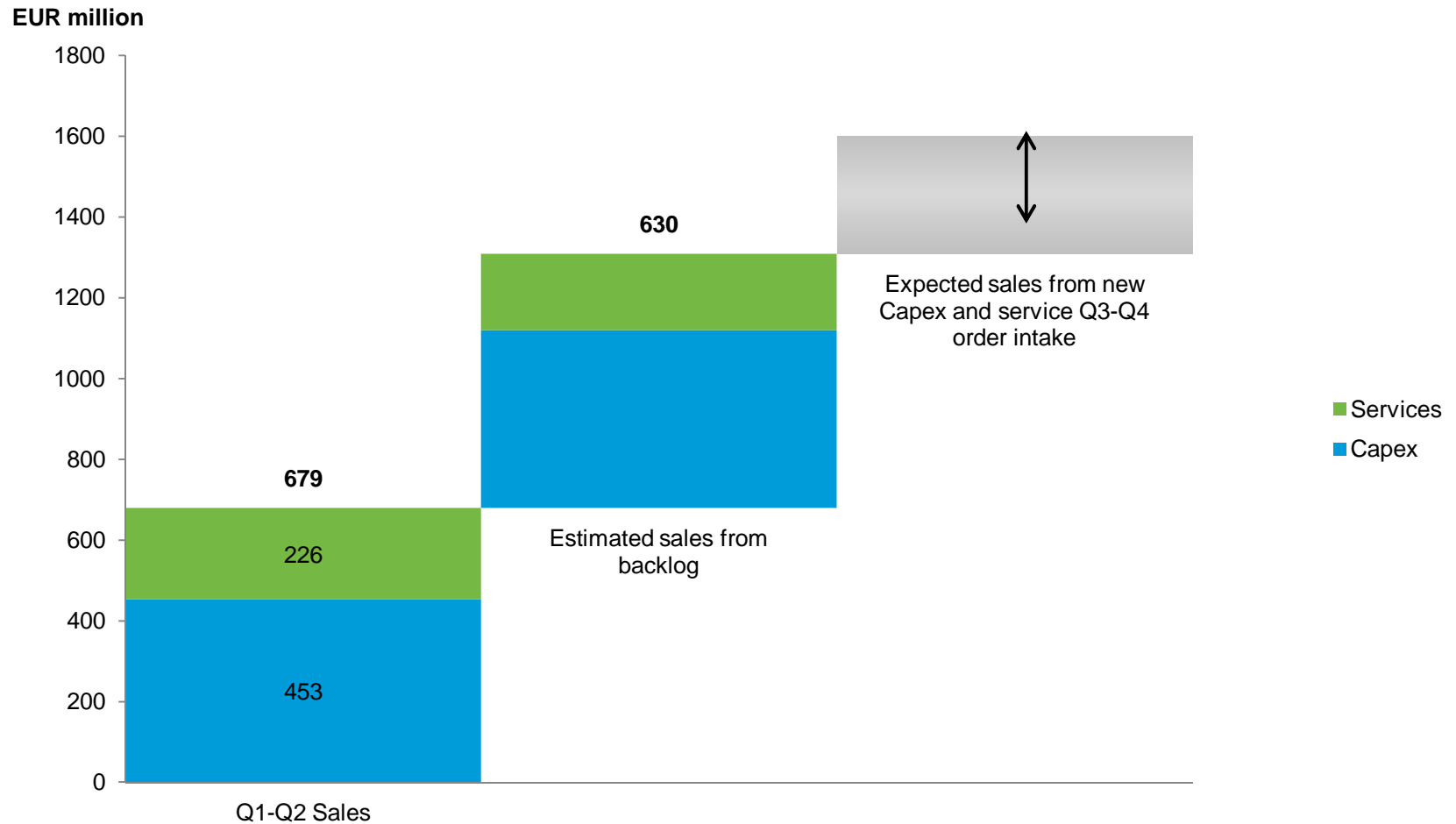
# Order intake up 80% from Q1

EUR million



- Order backlog at the end of Q2 2014: EUR 1,259.7 (1,761.3) million, services representing EUR 280.3 (209.1) million
- **24** (37) projects with value in excess of EUR 10 million, accounting for **63** (66) % of the backlog
- Order backlog included **1** suspended project with a value of some EUR **4** million
- Roughly **50** (53)% (or approx. EUR **630** (930) million) of the backlog is estimated to be delivered in 2014

# Full year 2014 sales bridge from order backlog



# Profitability weakened by low sales and cost overruns in five large MEW projects

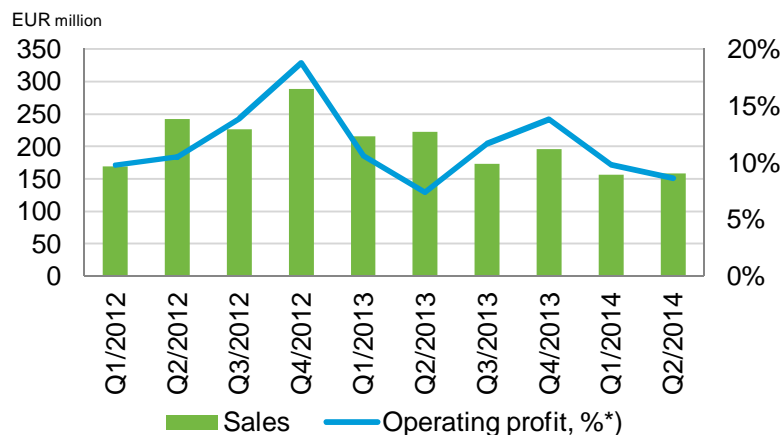
EUR million	Q1-Q2 2014	Q1-Q2 2013	Change%
Sales	<b>679.1</b>	1,014.3	-33*)
Gross margin, %	<b>19.4</b>	20.0	-
Operating profit from business operations	<b>16.3</b>	78.3	-79
- one-time items**)	<b>-3.9</b>	-0.2	-
- PPA amortization	<b>-4.0</b>	-6.6	-
Operating profit	<b>8.4</b>	71.5	-88
FX impact (unrealized, realized)	<b>-2.6</b>	3.3	-
Operating profit margin, %	<b>1.2</b>	7.1	-
- from business operations, %	<b>2.4</b>	7.7	-

\*) Comparable currencies, -28%

\*\*\*) One-time costs related to cost efficiency program and M&A

# Minerals Processing

## Sales and operating profit\*) development



- Order intake increased from Q1
- Good margin levels despite the sales decline
- Cooperation with Tomra Sorting to expand offering for concentrators

\*) excl. one time items and PPA

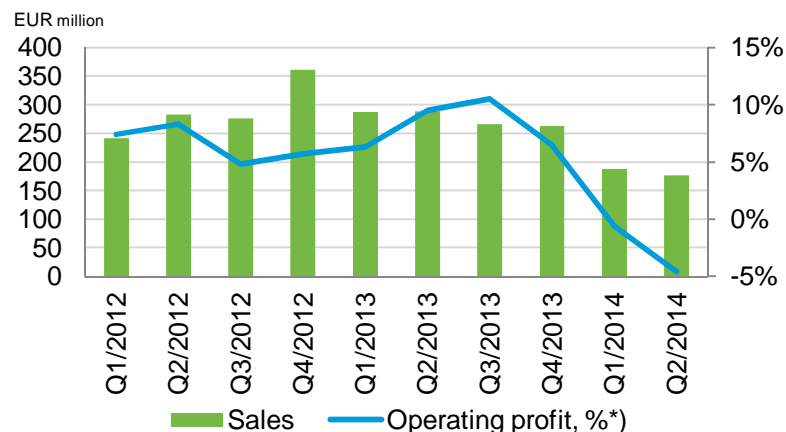
EUR million	Q2 2014	Q2 2013	Q1-Q2 2014	Q1-Q2 2013	Change %
Sales	158.4	223.0	314.5	438.3	-28
Operating profit from business operations *)	13.7	16.6	29.0	39.4	-26
Operating profit margin from business operations, %	8.6	7.4	9.2	9.0	-

\*) Unrealized and realized exchange gains related to currency forward contracts and bank accounts decreased profitability by EUR -1.6 (increased by 2.4) million in Q1-Q2 2014.



# Metals, Energy & Water

## Sales and operating profit\*) development



\*) excl. one time items and PPA

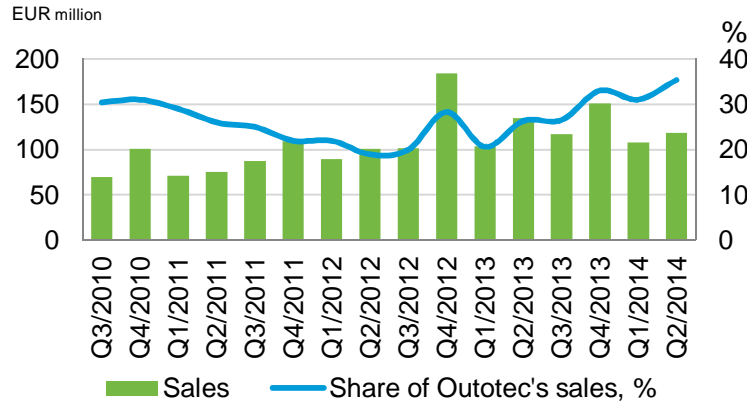
- Order intake increased from Q1, especially long-term service contracts
- Operating loss due to cost overruns in 5 large projects
- Acquisition of Republic Alternative Technologies
- Launch of Nickel Matte Chloride Leaching process

EUR million	Q2 2014	Q2 2013	Q1-Q2 2014	Q1-Q2 2013	Change %
Sales	176.9	288.3	364.6	576.1	-37
Operating profit from business operations *)	-8.1	27.5	-9.3	45.7	-120
Operating profit margin from business operations, %	-4.6	9.5	-2.6	7.9	-

\*) Unrealized and realized exchange gains related to currency forward contracts and bank accounts increased profitability by EUR -1.0 (1.0) million in Q1-Q2 2014.

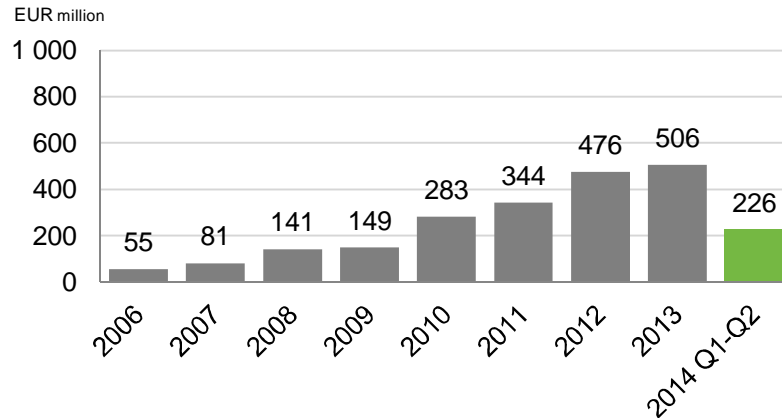
# Service business

## Service sales by quarters



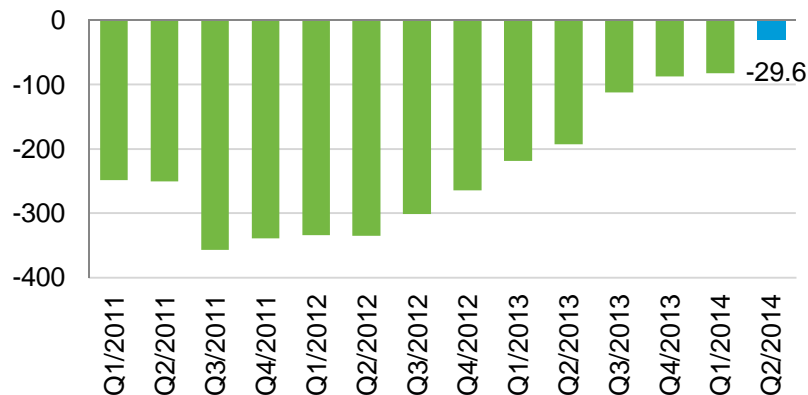
- Order intake increased in Q2 7% YoY, with comparable currencies 21%
- Growth came from long-term operation & maintenance and shutdown service contracts
- Negative impact in Q2 sales from FX rate changes

## Service sales

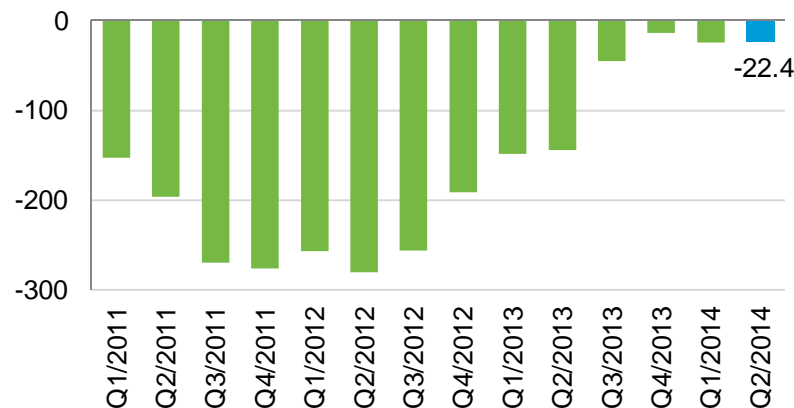


# First half of 2014 cash flow positive despite declined order backlog

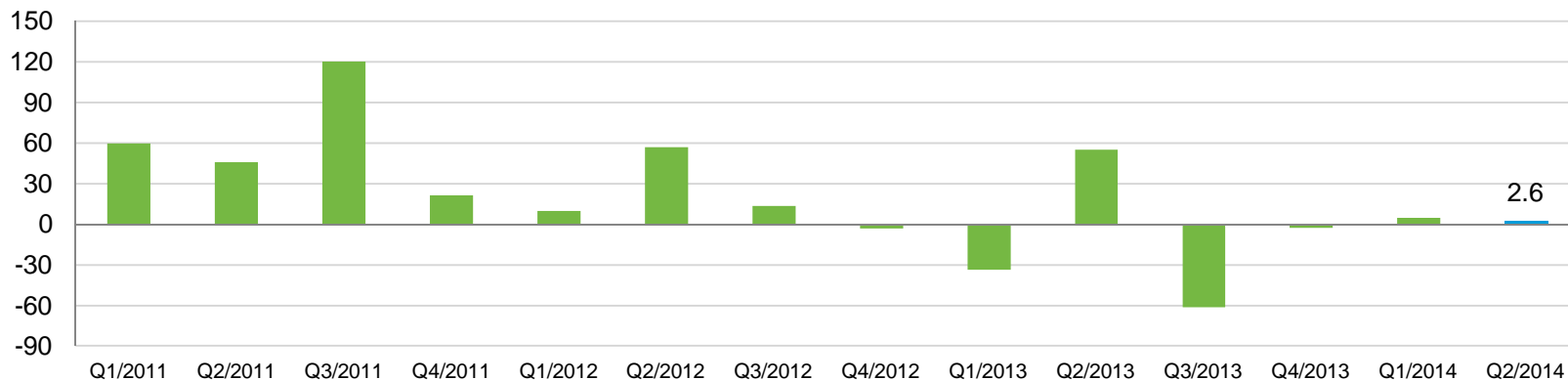
## Net interest-bearing debt



## Working capital



## Net cash flow from operating activities, quarterly

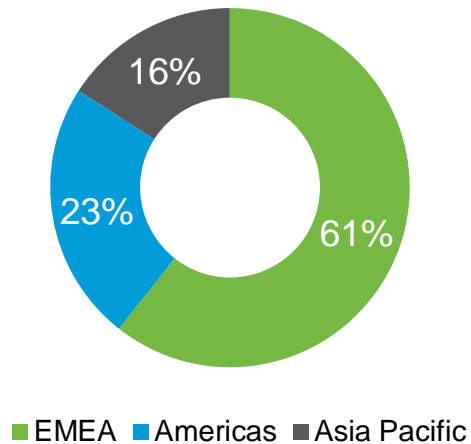


# Solid financing structure, advances declined

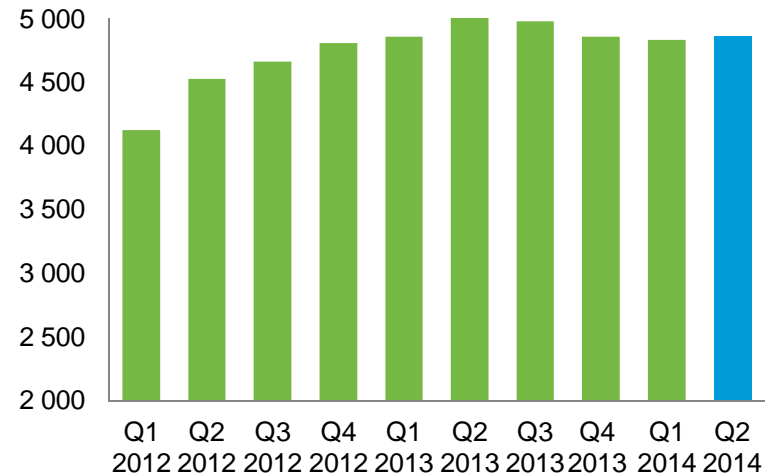
	6 / 2014	12 / 2013
Gearing, %	<b>-6.6</b>	-18.2
Equity-to-assets ratio, %	<b>39.0</b>	38.5
Return on investment, %, LTM	<b>13.9</b>	25.7
Return on equity, %, LTM	<b>10.5</b>	19.4
Equity, EUR million	<b>445.6</b>	477.4
Balance sheet total, EUR million	<b>1,391.1</b>	1,530.3

# Personnel

Personnel by geography at the end of the period



Personnel at the end of the period



- Net reduction of 174 persons since June 2013
  - Reduction of 545 persons through cost efficiency program, voluntary resignations and retirements
  - Increase of 371 persons due to service growth, strengthening of product management and engineering as well as an acquisition
- Temporary personnel: **8** (9) %
- FTE contracted people: **417** (603)
- Service personnel at June-end: **1,557** (1,485)

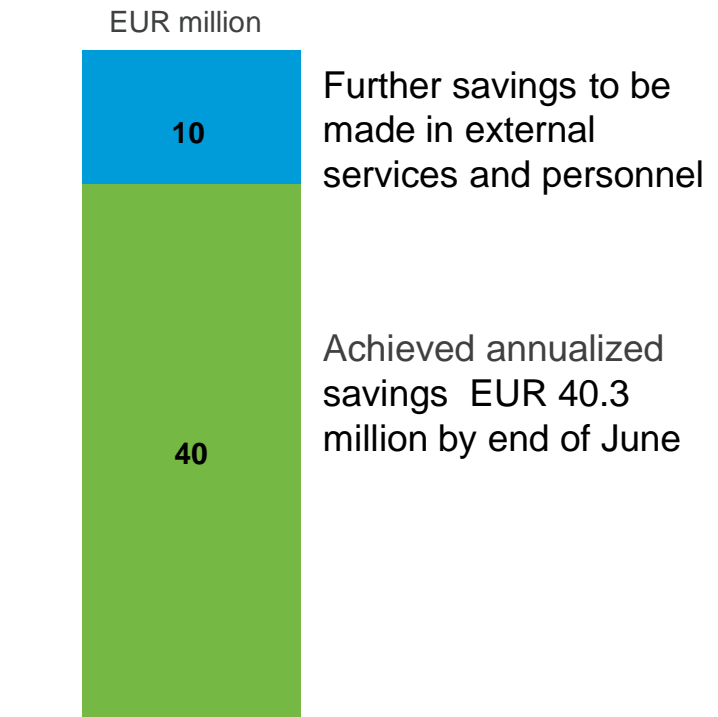
# Key events after June 30

- July 28: purchase of the assets of KALOGEO Anlagenbau GmbH in Leobersdorf, Austria to expand its energy business.
- July 28: lowering sales and operating profit margin guidance for 2014 and published order intake and order backlog for the second quarter of 2014.
- July 23: Outotec commented on market rumors concerning a potential bid for Outotec by The Weir Group by stating that Outotec has not been approached or received a bid for a potential combination of the two companies.



# Efficiency improvement program is on track

- Most of the targeted annualized EUR 50 million savings will materialize in 2014
- 429 persons reduced since September 2013
- In addition, 116 voluntary leavers (annual saving EUR 6 million)
- Cumulative one-time costs EUR 16.1 million, total estimated max. EUR 30 million
- In H1/2014, operational fixed costs (incl. sales, marketing, admin and R&D as well as fixed delivery costs) declined by EUR 44 million YoY.



# Our priorities in 2014

- Win new orders
- Grow service business
- Improve profitability





# Market outlook: signs of improvement but uncertainty continues

## Minerals & Metals

Market for environmental solutions will grow due to tighter environmental requirements

Signs that mining companies see need for new investments to address weakening ore grades, operational inefficiencies and growing metals demand

## Energy & Water

Short-term outlook for alternative and renewable energy is uncertain

Outlook for industrial water treatment solutions continues to be good driven by increasing production volumes and cost of water.

- Uncertainties of the global economy and fluctuations in metal prices are expected to continue, impacting both capital investments and operational spending.
- Geopolitical instability and trade sanctions are expected to impact business activity in Russia and some other markets.
- Demand for service solutions is expected to continue to develop in line with the industry's volume.

# Financial guidance for 2014 (July 28, 2014)

Based on the current market outlook, customer tendering activity and assessment of order backlog, the management expects that in 2014:

- Sales will be approximately EUR 1.4-1.6 billion, and
- Operating profit from business operations<sup>1)</sup> will be approximately 4-6%.

<sup>1)</sup> Excluding one-time items and PPA amortizations.

In 2014, PPA amortizations from completed acquisitions is estimated to be approximately EUR 8.5 million and one-time items related to the cost savings program at maximum EUR 18 million.

The main reasons for the change in financial guidance were:

- Lower sales in Capex business due to delayed order intake in the beginning of the year, and slowness in project implementation in Russia due to increased geopolitical uncertainty.
- Cost overruns in five large Capex projects which have been won during 2009-2012, the majority of which are expected to be completed by the end of 2014.

Outotec



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