# Transcript for "Metso Q1 Interim Review teleconference"

**00:00:01 - 00:01:01**
Juha: All right. Good morning everyone. This is Juha from Metso's Investor Relations. I want to welcome you all to this conference call where we discuss our first quarter 2024 results that were announced earlier this morning. As earlier announced this presentation will be held by our CFO, Eeva Sipilä. This is due to some scheduling conflicts. Nothing more dramatic than that. Before we start the presentation, we have forward-looking statements that are good to remember. Also, a reminder that we will have our annual general meeting of shareholders after this call. That's why we try and limit the length of the call to 60 minutes. Please ask questions, one or let's say max two at a time so we can accommodate all the questions during the duration of the call. Without further ado, I'll hand it over to you Eeva.

**00:01:02 - 00:02:00**
Eeva: Thank you, Juha, and good morning. Good afternoon to all of you on my behalf. I'll start with the highlights of the first quarter. Market activity was in line with our expectations and with what we guided in our market outlook in February. We saw the pickup in aggregate activities. In minerals, the activity levels were unchanged with equipment being somewhat muted, whereas aftermarket activity was healthy. Operationally, it was a solid quarter in the sense that we were able to grow aftermarket sales on the back of the healthy backlog. Our adjusted EBITDA margin shows resilience despite sales being lower year over year and also cash flow. The development showed progress. Moving to the first quarter key figures. In orders, we had a tough comparison and ended eight percent down year on year, although sequentially growing over 10 percent. In constant currencies, orders were down five percent year over year.

**00:02:01 - 00:03:08**
Eeva: Sales at 1.2 billion were down roughly 100 million or nine percent, in constant currencies, seven percent. Adjusted EBITDA in euros was down only five percent, which meant that we delivered a 16.5 percent margin on our sales. This resilience is obviously something we have worked hard on with various structural business improvement topics over the past, but also been supported by tight cost management in the past months. I will revert to the other key figures a bit later in the presentation. Moving then to our segments. I'll start with aggregates. We were very satisfied with our order intake of €365 million for the quarter, while down six percent year over year. This is a significant pickup from the second half of 23 levels. The market remains below the unit levels of a year ago, and whilst dealer inventories have come down, we expect to see dealers focusing on reducing them further in Q2.

**00:03:08 - 00:04:17**
Eeva: However, this order intake will give us some operational support in the coming months. With the 300 million quarterly sales level our end-of-year backlog gave us, it is a very good achievement from the team to deliver a 17 percent adjusted EBITDA margin. In our mineral segment, we saw similar aggregate orders being down year over year, but the 997 million order and number four Q1 is growth on the previous year. We received one bigger copper project order that we announced in January. Otherwise, customers' slowness in making decisions about equipment continued and service orders were the key contributor to the order intake. Sales in this segment are largely a derivative of the order intake of mid-last year, and the 914 million level is 68 percent made of services sales. Whilst this mixed supported margins, the overall sales remaining on the low side pulled in the other direction, resulting in the 17.5 percent adjusted EBITDA margin.

**00:04:20 - 00:05:24**
Eeva: Then a few slides on the group's overall financials next. From our group income statement, I would comment on a few additional lines. Net financial expenses are up year over year due to the higher amount of debt but on similar levels as in the second half of 23. We have a bond maturing in Q2, so the amount of debt will decrease by almost 200 million in the next month. Then again, relatively, that older debt has a lower interest cost compared to the more recent bonds. Regarding taxes, our effective tax rate for the quarter was 25 percent, which is in line with that of last year's levels. Earnings per share were $0.15 for the quarter both for continued operations as well as for the overall one including also discontinued. Regarding our balance sheet, the total is slightly below that of the year-end. The changes may lean lower receivables on the asset side and lower payables on the liabilities side.

**00:05:24 - 00:06:43**
Eeva: These both reflect slower sales, but also our actions to improve cash flow. Inventories remain flat with the logistical challenges in the Red Sea and in Finland due to the strikes. We weren't exactly given much support to improve, but we have actions in place. We expect them to yield results in lower inventories in the coming

quarters. Net debt was down slightly to €825 million. Group cash flow from operations before financial items and taxes was €158 million supported by profitability. The net working capital change was still slightly negative, but less than in the previous quarter. Seasonally, usually a bit of a challenging quarter where we are quite satisfied with the cash. Finally, on our financial position, no change is as such in the quarter. The second quarter indeed will be busier when we expect to pay out the first installment of the dividend assuming our AGM later today approves the support proposal.

**00:06:43 - 00:08:01**
Eeva: Then as well indeed what I mentioned earlier, the final 197 million of our earlier bond maturing. Now we did refinance already in November when we launched the 300 million bond. Hence we have as you see from the figure on liquid funds, we have more than normal liquid funds awaiting this repayment. Moving then to sustainability and our outlook. Good progress in delivering on our sustainability key performance indicators continued also in Q1. We are targeting three out of the four targets. In logistics, the $CO_2$ emissions reduction is only six percent, which means that we have work to do to reach the 20 percent reduction target we have set for ourselves by 2025. Even if the number of shipments is slightly lower, the longer routes on some of these shipments do increase the challenge from a $CO_2$ point of view. Then to conclude with our market outlook.

**00:08:01 - 00:08:24**
Eeva: We expect the market activity on both the minerals and aggregates to remain at the current level. Previously we expected the aggregates market to improve. This did materialize as you see from our numbers. Now we are expecting the market to continue at this level of activity. With that, I think we are ready for your questions.

**00:08:25 - 00:08:29**
Juha: Thanks, Eeva. Operator, we can now open lines for questions.

**00:08:34 - 00:09:00**
Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Elliot Robinson from Bank of America. Please go ahead.

**00:09:01 - 00:09:19**
Elliot: It's Elliot from Bank of America here. I've got two questions. If I just start with the first one. A quick one on the guidance. Can you just confirm that the guidance is talking about activity levels on an absolute level in aggregates and mining? It ignores any degree of seasonality, for example. Thank you.

**00:09:21 - 00:10:03**
Eeva: Yes. Indeed Elliot. We try to focus on the market outlook on the commentary that adds value to judge the sort of underlying healthiness or activity levels. Obviously, we may occasionally comment on seasonality if that is something specifically relevant, but indeed hoping that this outlook sort of adds a bit more flavor than just the seasonal pattern. Obviously, we have the seasonal pattern mainly in aggregate in the first half versus the second half, much less so in minerals.

**00:10:05 - 00:10:20**
Elliot: That's great. Thank you for that. The second question is actually just to do with the comments that you made within aggregates and dealers. Could you just give us a bit more information did you say that you were still seeing a bit of destocking? Does that vary by geography at all?

**00:10:21 - 00:11:38**
Eeva: Well, indeed, we've seen the dealer inventories having a sort of dampening effect on demand since last summer as you may remember. The dealers have been focused on taking their inventories down. Obviously, that inventory has come with a clearly higher cost from a working capital point of view due to the higher financing costs. Clearly, we've seen progress and reduced inventories, and otherwise, obviously, I doubt we would have seen such healthy activity in Q1 as we saw. However, what I did mention is that it's not all gone. We do expect the dealers to focus still on their inventories and be a bit hesitant to add inventory as such because the financing cost, of course, and the interest rates as we all well know, haven't yet come down. The cost remains something for them to be focused on. However, these types of digestion issues usually take a few quarters and it's clear there's been progress.

**00:11:38 - 00:11:52**

Eeva: Obviously, there's always an exception to the rule and things vary. Some are in better shape than others. However, overall, it has been moving as expected in the right direction.

**00:11:54 - 00:11:57**
Elliot: All right. That's perfect. Thank you very much. I'll get back in the queue. Thank you.

**00:12:03 - 00:12:09**
Operator: The next question comes from Chatrita Sinha from J.P. Morgan. Please go ahead.

**00:12:11 - 00:12:31**
Chatrita: Good morning. Thank you for taking my questions. I have two, please. Firstly on sales. Peers have also seen some weakness this quarter. I just wanted to ask how much of your Q1 sales performance was due to your own seasonality or broader industry trends that you're seeing, and how confident are you in the run rate improving for the rest of the year.

**00:12:34 - 00:13:50**
Eeva: Well, indeed. I think our sales really are a reflection of the backlog. I mean, we started the year with a lower backlog and hence then on unexpectedly sales in both segments are reflecting that in minerals obviously as I referred to in my comments. Of course, it's not just the previous quarter, but it's really the order intake of Q2 and Q3 last year that is visible. I wouldn't say there was a seasonality. It's really a derivative of that. I wouldn't be able to see any industry pattern. I think these are company-specific. As we work with customers, obviously we work with their time schedules on the deliveries. There is a certain difference now when we have clearly fewer bigger projects and less POC, so more complete contract billing type of things. However, they would be in the course of very ordinary variation.

**00:13:50 - 00:14:23**
Eeva: Now with the improved activity in aggregates, I think we're comfortable with seeing sales pick up. Then again in minerals, we've seen a very stable market clearly sort of health in the services. Then that sort of service order intake usually obviously comes through quicker. That gives us visibility on this year quite well.

**00:14:25 - 00:14:39**
Chatrita: Thank you, Eva. Then the next question is just on inventory. You mentioned some challenges to unwinding inventories this quarter. They seem to be higher than what we saw in December. What do you see as the cadence of this unwind through this year and next year?

**00:14:40 - 00:15:46**
Eeva: Yes, I think we're pretty flat in comparison to year-end or actually 12 months back. Obviously, there is a bit of an inflation in these euro numbers if we compare it to the levels of 12 months ago. Volume wise we've actually already made some progress. It is a sort of balance that we're taking to ensure availability in times where clearly sort of supply chains are impacted by geopolitical events. Then in a way of balancing that with clearly a desire to deliver better cash flow this year. The actions are in place and that said we do expect to see results in the coming quarters even if Q1 wasn't as good a start as we originally perhaps planned, but in line more important of course that the actions are moving.

**00:15:47 - 00:15:48**
Chatrita: Thank you. Very clear.

**00:15:55 - 00:16:01**
Operator: The next question comes from Klas Bergelind from the city. Please go ahead.

**00:16:03 - 00:16:46**
Klas: My first question is on the aggregate outlook. Obviously, the improvement came through as you expected for one quarter. Now you think the market will stay at the current level. On the order trends in the near term, am I right to assume that you could see a similar decline in orders and aggregates year over year in the second quarter down mid-single. You talk about continued destocking among dealers, you obviously met very easy comps thereafter, but just in the second quarter and then around different geographies. Last time you talked about China, India, and Brazil improving on top of what I think was the normal seasonality we get in developed markets. How are the different geographies developing now as part of your forward-thinking? I'll start there. Thank you.

**00:16:47 - 00:18:18**
Eeva: Well, I would want to go to a very specific quarterly guidance. There's always a bit up ups and downs. Obviously, as this first quarter, comparisons were tougher in both segments for that matter. The comparisons do get easier as the year moves forward. Then again, our outlook is based on a sequential view going forward because we think that's more helpful for you and your colleagues rather than comparing year over year. I think our message in aggregates is that indeed we saw the pickup and that's important. We are in that sense, on a healthier level. However, it is important to understand that we are below last year's levels when one looks at the sort of market and we don't expect that to change in the coming weeks, which is basically what we're talking about in your reference to a question of Q2 and here, we would need clearly a bit more strength on the macro and perhaps in interest costs and funding costs of our customers or dealers turning the corner.

**00:18:19 - 00:19:33**
Eeva: Then to your question on did I got it right on the sort of more from a global point of view and how this varies. Clearly, the North American market is relatively strongest in the sense that the underlying demand there for infrastructure is very visible. Now as we enter the construction season, we clearly see a dealer stock for that. We have seen the rest of the world improve. I think Europe is the weak link. I'm sure you know as well as I do on all the challenges we have with the European economy. Obviously, that's something that I think we've said already for a few quarters that we don't really expect Europe to improve in 24, and unfortunately, nothing has happened that would change our mind on that. However, then we're really focused on the opportunities we have in Asia and South America. As an example, India right now is entering election season.

**00:19:33 - 00:19:51**
Eeva: Q2 probably will be a bit sluggish there because the country is very focused on running the election process. However, that's then more of a quarterly issue. Then we would expect the economy as such to deliver opportunities in the second half of the year.

**00:19:53 - 00:20:26**
Klas: Thank you, Eeva. My second one is on the service orders in minerals X currency. They're not far from the very strong level of last year, and they're obviously always seasonally stronger in the first quarter because of these maintenance contracts. Or if there's something else, your life cycle penetration coming in better than expected, and so forth. It will see any early signs of restocking. That might be too optimistic, but just curious about what drove that very strong minerals order intake on the service side. Thank you.

**00:20:26 - 00:21:25**
Eeva: Yes, sure. I think the main driver is really the production focus of our customers. As you've seen, metal prices have actually improved especially copper which is important for us and hence there is indeed a lot of focus on making sure operations are running well and that obviously builds for a healthy environment for our aftermarket business. We had a very tough comparison indeed because last year we had a couple of bigger more, one could say CapEx-like orders in the mix. When the slowness on all the bigger decisions is there obviously it was not there. This really comes from a lot of smaller deals and then really speaks for the underlying activity levels.

**00:21:28 - 00:21:48**
Klas: The very quick final one is on the margin performance in aggregate. Don't get me wrong seventeen percent is a very good level and bad read peers. I appreciate that the level of equipment sales is very low which is seen under absorption. However, was there any normalization of price cost in the quarter where costs were perhaps higher still against lower pricing in the pino?

**00:21:50 - 00:22:42**
Eeva: I think we've done a very good job of balancing and really focusing on our margins so that we are balancing our cost development with the prices that we drive in the markets and really that is visible in our margin. Indeed as you say, obviously, we lack some operational leverage in the business because of the volumes on the equipment side being lower. Then I think we've really well compensated by not being very hungry on the margin side to protect that.

**00:22:43 - 00:22:44**
Klas: Thank you.

**00:22:45 - 00:22:46**
Eeva: Thanks.

**00:22:51 - 00:22:57**
Operator: The next question comes from Max Yates from Morgan Stanley. Please go ahead.

**00:22:58 - 00:23:50**
Max: Good morning, Eeva. I just wanted to ask a question on the minerals margins and obviously, you've done a good job this quarter keeping them flat despite sales declining. If I think about where sales will probably end up for the full year, I think they'll be around flattish. Do you think in that environment you can continue to keep the margins of the minerals business flat? I guess the reason I'm asking this is obviously one of the things you're going to try and do during the year is reduce your inventories. I'm just wondering whether we should expect any impact to come through on the margins that would be of any size or substantial that we should keep in mind. Or is that not really a concern for you? Do you think you can continue delivering these kinds of flattish or even slightly higher margins in minerals if sales flatten out or even return to growth in the second half? Thank you.

**00:23:51 - 00:25:23**
Eeva: Thanks, Max. Indeed we have worked for our margin targets, and we are definitely driving for improved margins in minerals. This year we will be supported by the aftermarket heavy mix. It really is then a question of driving optimal cost actions on the equipment side. Obviously, project execution matters. We've made good progress in improving the gross margins and in our execution and those elements of course are very important for this year as well and we have on the minerals side the sort of benefit of having pretty good visibility on the sales. In that sense, we can obviously plan our actions on that. Indeed, we're comfortable that we are moving in the right direction in the minerals. We realized that there is a lot of focus on us being able to demonstrate a margin improvement there. That's what we're very focused on. Then, of course, we also have the external market that may make it easier or more difficult for us, but it's really around the self-help that we're focused on.

**00:25:24 - 00:26:07**
Max: Okay. I mean, maybe if you can, just as a follow-up to that, give us a bit of a feel for the self-help that is going on in the background, because I think obviously it's been some time since we had formal cost savings targets with the synergies plan after rootstock. I know there's ongoing work that's happening behind the scenes, but is there any way you can give us a feel for the kind of one or two things that you're doing behind the scenes structurally on the cost base in minerals? I'm thinking about what helps us get that kind of step up from these margins towards that 20 percent level. Anyway, you can quantify what kind of benefits that may generate either this year or in the next two to three years. Thank you.

**00:26:07 - 00:27:23**
Eeva: Sure. On the aftermarket side, I mean, it's not even behind the scenes because we've sent out press releases. You've seen several actions taken on our aftermarket footprint. We have decided to close our foundry operations in the Czech. We have decided to close a rubber factory in Sweden. Both of these have been announced and are now going on and basically in the next couple of months, we'll see and that obviously gives us certain benefits on what we have been working on with the more optimized footprint cost and also improve the utilization rate of what we have ongoing. Then we've been focused on expanding our service networks. We just opened the service center in Australia last month and obviously have made that investment with a very focused business case and focused actions to be able to grow our presence in a very key mining market.

**00:27:23 - 00:27:55**
Eeva: There are a few other ones in the pipeline still under work so I think they are certainly very concrete things as part of this. Then on the equipment side, it's really this gross margin focused on procurement savings efficiency and overall project execution and delivery execution and the actions continue.

**00:27:56 - 00:28:06**
Max: Just to try and push you on any kind of quantification in any way we could frame the size of the impact or is that difficult to do at this stage?

**00:28:07 - 00:28:35**
Eeva: Well, we haven't commented on individual actions. Obviously, as I said in some of the press releases, you get an idea of the magnitude based on a number of personnel affected and these types of things. However,

overall it's all done to improve the margin. I think the ultimate measurement is and should be the minerals segment margin going forward.

**00:28:36 - 00:28:38**
Max: Okay, I'll get back in the queue. Thank you.

**00:28:43 - 00:28:48**
Operator: The next question comes from Anders Idborg from ABG. Please go ahead.

**00:28:51 - 00:29:15**
Anders: Hello. Just a question on the sales in the deliveries in minerals. I mean, obviously quite a low number, down about 25 percent and well below where orders have run for the past year. What was behind this? Was it customers deferring delivery? Was this a surprise to you or was it how deliveries were scheduled?

**00:29:17 - 00:30:43**
Eeva: No, it's not a surprise, I think. I obviously appreciate you. You only see the backlog number as such. We obviously see how a time-wise space is distributed over the months and the years, and as I said, bearing in mind that, of course, part of the minerals backlog is also for the next years for the 25 and 26. I mean, yes, a few days less in March. I wouldn't write big stories. Easter comes every year, and it just depends a bit on if it's Q1 or Q2, so of course, a few days of aftermarket business lost, but again, nothing really in a big way. I think it's really just the sort of what we have in the mix. As I said, we have less POC. Obviously, POC would usually be a bit more sort of stable. When we have more complete cost billing that, of course, means that we need to be fully ready. Then the total timing in this sort of small and medium-sized business does vary. It sometimes just goes between the quarters.

**00:30:46 - 00:31:13**
Anders: Okay. That's good. Just to verify in terms of your backlog and what you deliver now in minerals, does that now fully reflect a favorable price versus cost situation where you had been able to sort of price those contracts? I mean, even a few quarters ago, we talked about some legacy contracts still flowing out to you. Would you say that what we have now is representative basically going forward?

**00:31:14 - 00:32:09**
Eeva: Yes, I would say what we demonstrate is representative. Obviously, execution is like safety. You need to excel on it every day in a way. However, I think the overall legacy coming from dating back prior to merger time starts to be pretty much done. Then obviously what we have is something in the discontinued operations, some of those legacies that but when we think about the minerals segments, I think rather representative but that said, it's really about building also the processes and ways of working so that we ensure that we do continuously improve. There we have work ongoing, but moving in the right direction.

**00:32:10 - 00:32:12**
Anders: Sounds good. Thank you.

**00:32:12 - 00:32:17**
Eeva: Thanks.

**00:32:17 - 00:32:23**
Operator: The next question comes from Christian Hinderaker from Goldman Sachs. Please go ahead.

**00:32:25 - 00:33:00**
Christian: I want to start maybe on the margin in minerals. I think the service mix was up from 59 to 68 percent year on year, but the margin was flat at 17.5. Just want to understand, I presume the comps now are comparing in terms of the central costs that have been absorbed into the business, I guess, mindful of what's driving that margin resilient. However, clearly the service mix improvement, one might assume that margins were up on an annual basis. I'll start there.

**00:33:02 - 00:33:55**
Eeva: As I mentioned in my starting remarks, the balance in a way of that higher service mix then vis a vis the fact that indeed sales were a bit low. That does create a certain pressure from the more fixed costs. When you think about our R&D type of costs that are distributed on a sales number that's not growing. However, other than that, there's really nothing one or four or that type of thing, and a bit of a slower start for the year.

**00:33:59 - 00:34:32**
Christian: Thank you. Maybe just thinking about capital allocation. I think in your AGM release, you've confirmed the scope for a potential buyback, if I've read it correctly, 80 million shares. I just wonder, how do we think about that? In terms of your capital allocation framework, what would be the balance sheet position or market environment in which we might see something like that? Also happy to discuss M&A within this context. Thank you.

**00:34:32 - 00:35:56**
Eeva: Sure. Indeed the board is requesting from the shareholders the approval for a certain buyback capacity. That request is not a new one. It has been in the previous AGMs as well and then used to varying degrees. What we're seeing now in the market is actually quite attractive growth opportunities while we see that there's a short-term impact on the macro and a bit of hesitancy. The medium-term outlook on, for instance, corporates is very attractive. The pressure in a way to extract more minerals to support the energy transition or the data centers or what have you from a big corporate consumption point of view gives us opportunities to grow Metso, and hence for instance, these service center investments expand our footprint in key mining areas is something that we believe that will provide better returns to shareholders. Hence we were quite eager to drive them forward.

**00:35:56 - 00:37:23**
Eeva: There's also certain insourcing ongoing or yet mentioned the Mexican filter factory construction. That's ongoing as an example of that. Then indeed M&A, we did three smaller deals last year. We have a pipeline with several opportunities also as we speak. Certainly, I'm hopeful that we will be able to close a few of them this year as well because they're quite nice adjacencies that we're looking at fitting well to our business mostly, of course, rather small businesses, but a few sorts of ones where it also matters and this sort of new risk environment and a new geopolitical reality, of course, has led us to also think about our supply chain, what we insource, what we outsource, and this type of thinking. Well, I may also see the end be visible in our M&A, assuming sort of things move forward. Of course, it's not the easiest market for the buyers and sellers to agree. We have our requirements and our criteria that the way that we stick to.

**00:37:23 - 00:37:47**
Eeva: We'll see how successful we are. However, certainly sort of be it I said on the organic or non-organic where we are as management working very actively. Then ultimately, of course, it's for the board to have their view and their say on that. Are these more attractive from a shareholder point of view than buybacks or can we do both?

**00:37:48 - 00:37:49**
Christian: Thank you.

**00:37:49 - 00:37:50**
Eeva: Thanks.

**00:37:58 - 00:38:04**
Operator: The next question comes from Nick Husdon from RBC. Please go ahead.

**00:38:05 - 00:38:27**
Nick: Hi, thanks for taking my questions. My first one is on the cash flow. Obviously a nice improvement here year over year. I was just hoping you could give us an indication of how you expect this to develop as we move through the year, and maybe what some of the main moving pieces are in terms of backlog deliveries and net working capital movements. Thanks.

**00:38:27 - 00:40:02**
Eeva: Sure. Obviously, the backbone is profitability, and our focus is to be resilient on that even if the outlook is a bit more challenging as discussed, still, we think that we're being focused on the aftermarket business is good at a very cash flow generative business. That mix is supportive of the lack of bigger projects. Obviously, there are no really bigger advances. The operative cash flow is very much then relying on our actions, really on the inventory side, as I said, we've seen the payables and accounts receivable trend sort of quite logically, and I think we're on a pretty okay level. They do trend with volumes, whereas in the inventory as said we do think we are without affecting the availability without sacrificing growth. We actually have some extra opportunity and that would be the focus then on. However, by doing it in a balanced way, I don't remember if it was Max or who was referring to the inventory risking profitability.

**00:40:02 - 00:40:26**
Eeva: Certainly, we don't see sort of write-down issues that we would have the wrong type of inventory. We just feel we have a bit too much of it. Hence we absolutely focused on dealing it with in a balanced way and one that sort of also from a shareholder value point of view, a meaningful way.

**00:40:27 - 00:41:01**
Nick: Okay, great. Then turning to the aggregates margins, I mean, 17 percent in a fairly significant downturn is quite an impressive performance. I'm just wondering how much operating leverage is still in that business as the cycle hopefully improves in the coming quarters. I appreciate you've taken quite a lot of cost out of the business and you're expanding the footprint in India. However, it just feels like unless there's no operating leverage in the business, then as the cycle does improve, that margin should be moving much more into the upper teens.

**00:41:03 - 00:42:06**
Eeva: Well, indeed. If you look back at relatively recent history when we had a bit more operational leverage, we did deliver an 18 percent margin. Obviously, we are down even if I think we've been running faster than anything else, but still, the lack of volume obviously has an impact. Of course, this is not unexpected as I said, I think we've had a pretty clear view of the market and we've taken action very early and now with the Q1 going, it is going very much as expected. Of course, that gives us that visibility and helps us to plan and really manage the operational leverage. Indeed, the task would be slightly easier if there was a bit of a pickup in the European economy. As I said, we're not assuming it this year. It's not something we're counting on.

**00:42:08 - 00:42:09**
Nick: Great. Thank you.

**00:42:16 - 00:42:21**
Operator: The next question comes from Vlad Sajevski from Barclays. Please go ahead.

**00:42:23 - 00:42:44**
Vlad: Yes. Good morning. Thank you very much for taking my two questions. Both of them will be on gross margin. Let me start by highlighting that. Obviously, a gross margin was, I think, record high this quarter, which is a very good result despite the material decline in sales. What do you think was behind such a big drop in the cost of goods sold to make it happen?

**00:42:47 - 00:44:00**
Eeva: Well, I would say that it is that work that I referred to earlier really managing our margins in a way, and balancing what the cost of goods coming in and versus price. Then also this focus on procurement, specifically in the minerals segment. There's been a lot of activity on that side and really improving how we work with the supply chain in a focused way. Because at the end of the day, in a way, we want to continue growing R&D and in that sense, we want to have the opportunity to also invest in SG&A, and if putting that together with the target of improving margins, it does mean that the gross margin really need to be the focus and that there needs to be improvement there to show the improvement also on the adjusted EBITDA line.

**00:44:01 - 00:44:27**
Vlad: That's clear. Thanks very much. Can I also ask about the potential impact of the plant inventory reduction on gross margins going forward? Because when I look at your inventory composition, it looks like the biggest opportunity to reduce is on finished goods. If you start selling more finished goods, wouldn't it mechanically potentially have a less favorable impact on the absorption of costs of goods sold?

**00:44:30 - 00:45:58**
Eeva: Well, I think indeed this absorption is related to how we're able to run operations. Then inventory, of course, is out of operations already. If we're able to move that further then it can potentially add on, obviously, than if it means that we need to reduce activity in our operations to push a bit more inventory through rather than fresher deliveries then, of course, your question or what you're referring to could materialize and has said that's really a balance that we're working on as such. We believe and feel that we have a strong balance sheet. There's no urgency. The market is certainly relatively healthy, and we're taking the inventory actions in a very balanced way. However, in some cases, it's also a balance between those two. Then it's just a question. How do you plan it? How do you then take costs out so that sort of underabsorption doesn't impact the margins?

**00:45:59 - 00:46:01**
Vlad: Thank you very much. That's very clear.

**00:46:01 - 00:46:01**
Eeva: Thanks, Vlad.

**00:46:09 - 00:46:14**
Operator: The next question comes from Mikael Doepel from Nordia. Please go ahead.

**00:46:16 - 00:46:57**
Mikael: Thank you. Firstly, coming back to the question on aggregates and the margins there. I said you did 17 here with weaker leverage compared to last year when you did 18, which is wondering based on a comment there. I mean, it seems as if they should more or less move up rather than downwards, but just wondering, should we see a 17 percent margin as the sustained floor level, or is there any reason to assume weaker margins in the second half of this year, maybe driven by mix or something else? Could give some comments on that?

**00:46:59 - 00:48:32**
Eeva: Yes. Obviously, in aggregates, we have that three to four month visibility which is clearly shorter than in minerals. In that sense predicting the outcome of the second quarter from a volume and hence operational leverage point of view will be somewhat challenging. I mean, we will be wiser on it because I said it is partly now a reflection also on the macro and the financing costs and the dealer inventories on that. However, I think the structural issues we've done obviously help support indeed the seasonality of the business means that there can be relatively speaking slightly fewer volumes in the second half versus the first half, depending really on the market activity and the order intake in the coming months. We certainly have a lot of work ahead of us to run on this level. I think this is truly a very good achievement for the team. However, of course, success builds success.

**00:48:32 - 00:49:02**
Eeva: It's also seeing what we can do and how we can act and trying to manage that, but without giving any exact promises on how the quarters will look like. However, I think we've come a long way in building that resilience but there is always an element of mix and then as I said, the market can of course, still take turns that we don't see today.

**00:49:05 - 00:49:49**
Mikael: Right. That's fair. Then my second question is about your selling pricing in general. If you could talk a bit about that, what actions you took in the first quarter? Are there any other actions you need to take now based on inflation? I mean, you talked about some index pricing on parts of the consumables business, maybe in minerals and maybe also on the project business. Are there any hikes that you're doing in the service business? Are you lowering prices on some of the equipment business? Just to give some flavor on how you see the overall pricing picture out there right now and what kind of things you are doing.

**00:49:49 - 00:51:15**
Eeva: For sure. Obviously entering into this year we saw ahead in inflation in the area of labor and that has happened maybe there's the overall economy slowing has meant that in some areas there's a bit less pressure on salary and wage inflation. Still obviously in many countries, the salary levels were lagging the inflation in the previous couple of years. There's a bit of that catch up. That's something we were very focused on making sure that we do ensure that is visible in our pricing. What comes to areas where that labor component is heavier? Again, I think this is going as planned. It's obviously no surprise to our customers either. Everybody sees the same in the areas where there is a talent shortage. It's just important to be ahead of the curve in a way and be alert to it. Then obviously there's clearly less inflationary pressure in certain other areas, specifically in China, I would say it's a rather deflationary environment.

**00:51:15 - 00:51:42**
Eeva: Of course, then balancing our procurement to areas where we can find opportunities at the same time and then making sure that we also are able to price the value we provide to our customers. I think that just rather requires a lot of tight discipline and daily management.

**00:51:46 - 00:51:47**
Mikael: Okay. Thank you very much.

**00:51:48 - 00:51:49**
Eeva: Thank you.

**00:51:54 - 00:52:00**
Operator: The next question comes from Erkki Vesola from India. Please go ahead.

**00:52:01 - 00:52:02**
Erkki: Can you hear me?

**00:52:02 - 00:52:03**
Eeva: Yes, I can.

**00:52:04 - 00:52:25**
Erkki: Yes, still continuing on aggregates. Just for modeling purposes, could you provide us at least a verbal description of the aggregates of European sales division between different parts of Europe, I mean, say, between North, South, and Eastern Europe? What kind of demand outlook differences do you see between these regions, if any?

**00:52:26 - 00:53:53**
Eeva: Well, Europe has been a rather heterogeneous basket for the past couple of years. Indeed we do see differences in different parts of Europe. Overall Nordics continue to be the weaker area. The construction market here also on the infrastructure side is muted. It's perhaps slightly better coming from very low levels, but still on weak levels. There was a lot of activity last year in France related also to the Olympics. Obviously, now everything for that is built and in that sense ready. There's been a bit of slower demand there. Then again, it's still on a healthy level, but I would say that was at a very high level last year. Then, overall, I would say that less changes in the other parts, be it central or Eastern or Southern Europe. Indeed it does, there is a clear link to the overall economy and as we know, the European economies are slightly in different stages so there's some difference there.

**00:53:55 - 00:54:02**
Erkki: Thank you. Then could you provide a little bit of info on where your exposure is the biggest in the Central European countries?

**00:54:04 - 00:54:45**
Eeva: Well, I think we're relatively well present in all of the main markets. One could, of course, assume that relatively our home market is well covered by Metso. However, that whole market has been on low levels for a couple of years already, obviously. We have focused on other areas. I would say a generally good foot footprint in the Eastern European countries. Obviously, there's still an opportunity for us to grow and strengthen our network.

**00:54:48 - 00:54:51**
Erkki: Okay. Sounds very good. Thank you so much.

**00:54:51 - 00:54:52**
Eeva: Thank you.

**00:54:57 - 00:55:14**
Juha: All right. Thanks, everybody for participating and asking questions. This conference call concludes now and we are getting ready to welcome our shareholders to the annual general meeting. For everybody, we wish you a good day and speak soon. Thanks. Bye.