Compay	**Outotec Oyj**
Conference	**Q2 2018 Interim Report**
Speakers	**CEO Markku Teräsvasara** **CFO Jari Ålgars** **Vice President – Investor Relations Rita Uotila**

Operator Good day, and welcome to the half year report for January to June 2018. Today's conference is being recorded. At this time, I would like to turn the conference over to Rita Uotila. Please go ahead.

Rita Uotila Thank you, operator. Welcome also, our Facebook viewers and everyone on the telephone line. We will hear presentation from the CEO, Markku Teräsvasara; and CFO, Jari Ålgars. Afterward, we will have a Q&A session. Please, Markku, go ahead.

Markku Teräsvasara Thank you, Rita, and good afternoon from my side as well, and welcome. We will start by having a quick look on the topics for today, of course looking at our first half year numbers. And also second quarter characteristics was that we had a strong order intake in all areas. We had good sales development on CapEx side, somewhat on the service sales side, somewhat held back by supply issues, which we are addressing. When it comes to profitability, it was improving. But there, we were a little bit held back by this service delay, delay in service sales and also extra costs coming from a handful of challenging projects, which we have discussed before about.

When it comes to market activities, while market continued positive, we have a demand situation which is still very much focusing on brownfield investment, debottlenecking. There has been improvements and modifications and upgrades, that gives good basic workload for particularly on MP side but also modernizations and Services will -- in all categories will benefit from this. As assets are utilized on a high level, it offers also a good opportunity for service, and that is clearly seen in our order intake development.

Quite many of the metals are active, (inaudible) copper, gold, nickel. And then, of course, during the quarter, we also received order in tin, smelting and also sulfuric acid projects.

As discussed already in the introduction, I think both the CapEx and Services enjoyed strong order intake development and the order backlog growth. And that is, of course, very positive for the future. As an example, I think what we lift -- what I would like to lift up is this significant energy order that we got, the biomass plant from Turkey. It -- so we are happy to have it, and it's important in many ways as it gives workload to energy business line where we have had a little bit lower utilization of our capacity, and this, of course, will help in terms of our workload but also in terms of profitability.

When it comes to big projects, decisions are still progressing slow and the customers are a bit hesitant in releasing big projects. But at the same time, we see that but even there, decision time is getting closer and closer.

These charts show different in business developments. As I said, order intake developed strong and -- in all areas. And of course, looking at MP, there is a fluctuation, of course, in all CapEx business as none of the quarters are, in a way, purely comparable or clearly comparable. We will always have fluctuations depending on the bigger orders. But overall, I think continued good level on Minerals Processing. Metals, Energy & Water, looking back a couple of quarters, we clearly have touched the bottom in the second half of last year, and now the order intake is improving and I think that is good to keep in mind. As -- when we start getting new orders, the first 6 to 9 months go in designing and then percentage of completion in these projects start to improve. So that was also taken into consideration when we gave the guidance for the year. We knew that our second half will be stronger than the first half.

When it comes to Services, there the picture was clear order intake and order backlog continuously growing, but we were -- in sales type, we were held back by these capacity constraints, which we are working on with -- together with our suppliers. So we are -- together with our suppliers, we try to shorten the delivery time to increase the production capacity in areas where it's needed, of course find new alternative suppliers as well and, if needed, do some reengineering to have more options to go for. We will improve this sales situation during the second half of the year and catch up some of the order backlog that we have built in.

In second quarter, if you look at the baseload for our service order intake, it's a recurring type of services. Spare parts, wear parts and technical services still remained on a good, high level, but we also -- we see the -- a significant modernization order that was helping to put the order intake up.

Looking orders specifically in quarter 2. All in all, 21% up and service orders increased by 18%. Again, good numbers.

There you see the geographical distribution of these announced orders, which are more than EUR 10 million in value, half of them, in a way quite many of them was coming from Europe Middle East and Africa region, particularly Europe and Eurasia, and then we had 1 announced order in Indonesia.

Again, what the -- what is positive in this picture is that out of these announced orders, totally 5 of them, 3 is blue, which means that it's going into Metals, Energy & Water, the area where we lack orders. So in a way, very good development in that respect as well.

And now some numbers from Jari Ålgars.

Jari Ålgars Yes, thank you, Markku.

Yes, as Markku already pointed out, we have had good development in the sales side. So the sales increased from last year's EUR 529 million for the first half of the year to this year's EUR 618 million for the first half of this year, which was an increase of 17%. Or if we look at it in comparable currencies, it was 23%. So quite a strong improvement in sales. And as the order intake, as Markku pointed out, also is growing, and the book-to-bill brings positivity as well for the future.

Service sales, again, was improving from EUR 209 million to EUR 212 million, which is 2% or 9% in comparable currencies. But as Markku pointed out already, it was held back by this constraint in getting components and parts. Thereby also, their share of Services dropped from 40% first half of last year through to 34% this year.

The margin was 23% a year ago, and it now is 22%. This has been impacted by mainly 2 things. One is the sales mix, which is due to that the share of Services in sales diminished. And as the margins are better in that part of the business, it also had an impact on the overall margin percentage. In addition to that, we also -- we are settling one of the projects that had been challenging to us, the handful we have talked about earlier, which is a positive thing. We were able to get one on the books and contract it with us going forward, but it also had some impact on the cost on the Metals, Energy & Water side. I will come to that a little bit later, but this means that the adjusted EBIT increased from EUR 1 million last year to EUR 15 million this year and on a quarterly level from 0 last year to EUR 8 million this year, which means that it was both 2% for the half year as well as 2% for the quarter, while it was last year, both half year and quarter, 0%.

We were also impacted by exchange rates -- volatility of exchange rates in -- especially in June was quite high, and this had an impact on the quarter and then also on the half of a year. Obviously, this is more timing issues than anything else. It will to even out over time, but it had an impact on this quarter and this half year higher than usual.

And in addition to that, worth mentioning is we took quite a sizable part of the costs of the simplification program, restructuring cost with the EUR 9 million out of the assumed EUR 12 million for the whole program during this quarter, which made the result for the period be a bit negative.

If you go more into the detail about the result, as the result was EUR 1 million last year, for the first half of the year, and we made EUR 15 million now, the difference is on -- the main difference is -- the main difference here is really on the volume. The volume grew and brought a lot of additional margin to the result. We also were able to save on the fixed costs compared to last year, and that's what we are obviously continuing with the simplification. There is really no impact of the simplification program yet on the fixed costs. Yes, they will come later.

On the margin side, we were impacted by the sales mix that we had lower spare parts in the service side, and it also impacted some of the upgrade and modernization projects as we also need parts to be able to finalize these. So the volume was impacted due to that and also then the margin, and then the GM erosion coming from some of the challenging projects, especially one which we were then able to close.

Minerals Processing, we see continued good progress. Order intake continued to increase from EUR 323 million to EUR 346 million, 7% or in comparable currencies 15%. Sales also grew from EUR 319 million to EUR 353 million, 10% or 18% in comparable currencies.

Service sales grew somewhat from EUR 143 million to EUR 150 million, but we were also -- we were building up quite a lot of backlog. The change was 4% or 13% in comparable currencies. But as said, it would have been an opportunity for more. However, we were still able to improve with the increased CapEx sales. The result, from EUR 26 million to EUR 33 million. And the adjusted EBIT from 8% to 9%, somewhat impacted by exchange rates.

If we then go into Metals, Energy & Water, the order intake and sales developed well, going from EUR 282 million last year to EUR 335 million this year for 19% or 22% in comparable currencies. Sales increased from EUR 210 million to EUR 266 million, 27% or 30% in comparable currencies. Here also, we'd see the same thing as in Minerals Processing that service sales was held back due to these constraints in supplies and going from EUR 66 million last year to EUR 63 million this year; change, minus 5% or plus 1% in comparable currencies. This means that the results improved from minus EUR 22 million to minus EUR 15 million. But obviously, minus EUR 15 million is still quite or the result was negative and was impacted by the service sales and was impacted also by thechallenging projects. We have a handful of each one we were closing, and the costs were included in this period of settling this. And this means that adjusted EBIT changed from minus 10% to minus 6%. Here we saw somewhat bigger impact from exchange rates from plus EUR 4 million to minus EUR 2 million -- plus EUR 4 million last year to plus -- minus EUR 2 million this year.

What I would like to bring up in addition to this is obviously that we are doing well on the cycle. Our sales has increased from EUR 210 million to EUR 266 million. EUR 266 million is still likely a quite low number, but as the order intake is EUR 335 million, this will turn into sales later on, we can see that the future is going -- we are going into the right direction if we look at the future.

Improved net working capital and gearing. So some of the numbers to bring up from this page is obviously the net interest-bearing debt improved, going to negative as negative is a positive. And this is mainly due to that we were paying off short-term debt, and also the cash situation remained and positive. This also obviously impacted the gearing, going also to negative, from plus 12% to minus 6% from a year ago, so. And in addition to that, the net working capital, as mentioned here in the header as well, going from plus EUR 27 million to minus EUR 43 million, which the main impact was really lower inventories. Advances received remained on the same level. And we could see that from quarter 1, which was extremely strong, it was a little bit evening out to a more normal in quarter 2. But going forward, we believe with coming order intake and additional advances received, situation will continue to be positive, as it is year-to-date.

So Markku, please.

Markku Teräsvasara Okay. Thank you, Jari.

And then a little bit about the market outlook and guidance before we open up the Q&A session.

First, an update on simplification program. As you all remember, this program was launched in April. And now we're coming to a phase where a simplified structure in our organization is operational from July 1. And now we continuously focus on simplifying our processes and making sure that our clarity improves, we will be faster. And of course, the processes will be developed in a way that we can absorb more business through our existing organization.

A few words -- more words about that. It is -- as written here, it has an impact on people. The main objective has not been restructuring and cost saving as such. We simply wanted to simplify our organization, cut down the number of management layer, reduce the number of managers and also reduce administration and then be able to then invest in business-related activities instead and then kind of move the whole organization closer to customers.

There is a saving included, and that will be -- that program will have about EUR 25 million saving, which we'll get full impact by the end of next year. There has been a restructuring cost there or there will be a restructuring cost, about EUR 12 million, included, of which EUR 9 million was actually, as Jari said, was on our second quarter result. And I think it's basically -- a couple of examples. It's early days. So now the organizational part is done or being executed as we speak, and the new structure is in place. The focus will be on improving processes. But already, by taking the management layers away and simplifying our governance, we identified that we have actually been able to transfer thousands of working hours into business-related working hours, mainly saying from administration to customer work. And that work will definitely continue. And also, out of the savings as such, I think just thinking of a reference, roughly 50% come from administration fees. And then another big part of that is, of course, some of the non-profitable operations that we have discontinued or will discontinue.

When it comes to market outlook, some greenfields are -- have been a bit still on hold. So that doesn't mean that they are not being prepared. So of course, there have been some design work already done who haven't shown a kick-off. And in the horizon, we see that the challenges that our customers are facing today when it comes to efficiency improvements, energy and water -- availability of water and recycling of water, they very much supporting our business as well as the small, complex ore and declining ore grades.

So in a bigger picture, I think that the market trends are positive. As we said, service, we expect it to grow, and the market offers good opportunity for what we have done this year, which has been clearly revenue driving. We know our processes very well. So when we go to customer and do an audit at the customer site and review how things are performing, we quite often almost always, we find something to address, and that has definitely brought more work for our service people and more order intake.

When it comes to metals, these metals remain active, as we see also, when it comes to so-called electrically-high and so battery metals: copper, lithium, cobalt and nickel. There is a fair bit of activity in those areas. We have lithium and cobalt projects ongoing. Of course, nickel and copper as well. Copper has traditionally been a big part of our business and will remain so. But even in lithium and cobalt space, we see activity and we see more things to come.

Our financial guidance is kept the same. And of course, we will continue to execute our strategy through our 5 must-win battles. And just to give a couple of example of what we have done during the second quarter, I think this audit and asset walks on service side, which I mentioned, they are there. And the other area, of course, there has been a lot of discussion about the projects and project margin erosion. During quarter 2, we have introduced a new risk assessment tool, which will help us to identify risks in the projects and then address them before we engage. And also, we have started the project manager certification program or restarted that we can -- to really make sure that our project managers have the best skills and best tools to execute the projects.

And then from product competitiveness area, I'd like to lift up one interesting project and also related to simplification because I think this goes very much hand-in-hand with simplification.

One of our product areas, ferrous they modularized a pelletizing plant. And with that new modularized structure, we see that the engineering hours, the people of a pelletizing plant will design a pelletizing plant, will require thousands and thousands of engineering hours. So with this modularization concept that we have introduced, we have actually halved the need for engineering hours from what it was 3 years ago, and we see that there is even further potential. So if you really can half your engineering hours on certain processes, I think that, if anything, is a process improvement or efficiency improvement.

And then before we go into Q&A, just to summarize what has been discussed. Of course, we are happy with the development of our order intake in all areas, and also sales development overall. What we need to work harder on together with our suppliers is to get service deliveries, contracts and shortened delivery times. And also, on MEW side, there is an underlying sales that is driving to positive side, and we need to make sure that the challenging projects that we have -- still that we have in our books, a handful of them, will be executed in a good way. And as Jari said, now we have one of them off the list and settled with the customer.

So with these words, we now open up the Q&A session.

Rita Uotila Thank you, Markku. And now we'd like to thank our Facebook viewers. And of course, this will be recorded, so available also, the Q&A session, later on this afternoon on our website. Now, operator, we're ready to take questions from the telephone lines.

Operator (Operator Instructions) We will take our first question from Magnus Kruber from UBS.

Magnus Kruber Markku, Jari, Rita. Magnus from UBS. A couple of questions from me. First, could you quantify the amount you paid to settle the contract in Metals, Energy & Water, please?

Jari Ålgars We -- it's Jari here. Hello. We have not announced this, so we would not be sharing this at this moment of time. This is something between the customer and us.

Magnus Kruber Okay. But this was the big project you have been talking about for multiple quarters now?

Jari Ålgars No, this has been one of the things we have said that has been part of the handful of projects. The big project is the one that goes into next year. That is the (inaudible).

Magnus Kruber Okay. Yes, yes, you're right. You're right. Sorry. And also, regarding the service and the delays that you see, is that the same also that you have seen before? Is this a sort of a moving problem that continues to arise when you continue to grow at a good rate?

Markku Teräsvasara I think what we can say here and maybe also explaining a bit that, of course, when we have a CapEx sales and order intake [inaudible] at the same time a service, in some cases we talk about same -- exactly the same components. And when they both go up, some of the suppliers face a situation where they need to increase their production quite a lot, or sometimes even double. So now what we are doing is that together with them working to really make sure that at least when they need to invest in new capacity, we are there or also rearranging new product, just changing priorities. And also, not the least, of course, if that is needed, find a new buyer. We found -- we have found already a buyer that can deliver the same. And in some cases, even reengineering can be considered if we see that the delay is maybe becoming too long. But as I said earlier, this is something that we have been working on for quite some time. And of course, we expect the sales to catch up in -- during the second half of the year

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Magnus Kruber Okay, good. And finally, on the big biomass plant in Turkey. Is this project starting to absorb fixed cost already now in the third quarter?

Jari Ålgars Yes, to a very small degree. It's in very early stages. So there are a number of people involved in it, but I would say only in a couple of months when we really go into detailed engineering and supply, then it will start to impact more. Yes, that's part.

Magnus Kruber And let's say when this goes into sort of a full production or full engineering, how much of the fixed cost in that business line will it be able to absorb?

Jari Ålgars We do not give guidance on singular projects in that way. But let's put it that way, we need to have a number of these, this does not not consume all the hours. So we -- and people. We need a number of these continuously to have a good workload. So we still need more orders, but this is improving the situation significantly because going, as Markku stated, from virtually 0 to already a nice backlog, it is a very different situation.

Operator We will now take our next question.

Unidentified Analyst I had a few. I'll take them one by one, if I may. In relation to the supply chain issues that you're currently facing, can I just get a bit more color from you on whether these, as we understood, mainly relate to external supply chain bottlenecks or whether there is some part relating to the internal perhaps service hour capacity constraint? And if there are some relating to the internal supply chain bottlenecks, then what are you doing -- what have you done year-over-year in Q1, Q2 this year to resolve them? Looking at the CapEx numbers that you're reporting, business seem to be up year-over-year much. I was expecting to see a bit more expenditure then perhaps in trying to resolve these issues. But perhaps you can share a bit more color around what specifically are you doing to resolve these.

Markku Teräsvasara Yes, I think that was briefly touched upon already, but we can start from the first part of the question. We are -- on the service side, we have some in-house manufacturing, which -- where we can work in a way, increase work and also do some catch-up. But as I think already discussed in various meetings, a lot of our components come from external suppliers, and that is the main area to work in.

Unidentified Analyst Okay, that’s very clear. My next question was in relation to your legacy contracts. So some of these contracts that perhaps area lower margin in nature, I know you're doing -- you've kicked off a new risk assessment tool for assessing projects ahead of time, time negotiation with customers, which is great. But just how much more risk is there in the legacy contracts with respect to margin deliverability? And which areas are we, which areas of the business do they mainly relate to, if any? Is it mainly in the metals, in refining and smelting? Or is it more with iron ore pellet? Or which areas are they likely to relate to, please?

Jari Ålgars If we start with the latter question. We have not opened up for exactly which area we have the means. So this we have not guided for, so we will not do it now either. They are all in Metals, Energy & Water. And what I could say to the first part of the question, obviously these projects are in a very late stage, and their percentage of completion is already on a very high level. So there is no -- the backlog impact as such is not very big that there would be a huge amount of sales, to come out of these projects anymore. It's more to get them finalized and then if there are additional costs with finalizing them, which is the risk. So far, we've not seen that there would be the technical solutions we have in order to get them finalized. All seems to be right, but they have been driving out, and -- this business, what we have seen. And this, of course, takes up extra cost. And now, of course, this time, we settled one finally with the client. We also have some extra cost due to this. So this is mainly the area we are talking about where the risks are, not -- it's not so much in the backlog and sales and margin issues coming out of that.

Markku Teräsvasara I think just to add to what Jari said is that -- Jari, you touched upon that already, but when it comes to project margin, erosion, I mean, in quarter 2 and first half year that can be related to these handful of projects. So the basic underlying project business goes as planned. And also, as our sales is increasing, then, of course, the impact of these projects will be less for ourselves.

Jari Ålgars So the further we go and we are able to phase out these challenging projects and get new orders in and grow, the impact, obviously, will get smaller and smaller.

Unidentified Analyst Yes. Well, that's very helpful. And then my final question was around competition. In which one of your business areas are you seeing competition most intense, most difficult for you? And who are these competitors? Are you able to name a few?

Markku Teräsvasara We have different competitors in different areas. And I think what we can say on MP side, Minerals Processing side, they already have had some higher activity. And so you can really make a kind of a -- analyze this on competition and how intense is that and who are the players and so on. But when it comes to some areas, so Metals, Energy & Water, when the projects are very few and far apart, it is actually really difficult to make a judgment on it, the competition, in a way. Sometimes, you win and then it might happen that some other company gets the deal. But also, the competition landscape is much more diversified.

Jari Ålgars The competition has remained intense. So it still is very, very intense, yes, in general.

Operator We will now take our next question.

Manu Rimpelä It's Manu Rimpelä from Nordea. Could I just ask on the supply chain issue still? Where should I see them? Because if I look at your backlog for delivery for the remainder of 2018, so I think it's flat year-over-year. But then you also had the equipment, the business order intake, had been growing, and service order intake is growing. So shouldn't the backlog for delivery for this year be up? Or where can I see that if you expect to resolve these issues in the -- kind of in the coming quarter?

Jari Ålgars Yes, sorry, I'm not sure I understand the question. You mean that the sales will be flat? Or what are you referring to?

Manu Rimpelä So why is the backlog for delivery at the end of the second quarter for the rest of the 2018 only flat compared to last year that the order intake is up? And then you also have the supply chain issues, which had pushed some of the orders in coming quarters -- I would expect the backlog for delivery for second half of 2018 to be up and not flat.

Jari Ålgars It depends a little bit on what is the consistency of that backlog. Last year, it was mainly Minerals Processing. And there, the turnaround time of that backlog is faster. Obviously, service backlog has a faster turnaround time. When there are -- or when the backlog is small, Metals, Energy & Water, it takes longer time for it to turn into sales. So this is the main difference for why the numbers sometimes, if you look at the total backlog and the backlog that will turn into sales, is differing.

Markku Teräsvasara And then, of course, as we have received the good orders on the service side, the service portion of our backlog is becoming bigger and then that turns faster. So that is explaining things. But of course, there's other things as well from their equipment sales point of view.

Manu Rimpelä Okay. And then another question just related to the guidance in terms of the sales and the backlog. So, I mean, you're looking for a pretty steep still increase in the orders that you expect to take during the second half of the year and deliver if you look at the higher end of your guidance range. So how should we think about the -- I mean, I guess the delivery from order to sales in service is probably between 3 to 6 months. So how comfortable or what are the moving parts in the higher end of your sales guidance range compared to the lower end?

Markku Teräsvasara In a way, I think it is what we have said from the beginning of the year, that we will have a stronger second half of the year because of starting receiving particularly on MEW side starting receiving orders at the end of last year only and now also increasing. But of course, if you look at the component or the elements where it comes from, it does -- of course, we are working with our fixed costs and made them (inaudible) but also decreasing it so there will be more sales generated through a lower fixed cost. We have the service sales as we get the deliveries going. The service sales, which comes in with the higher margins, that will increase. And of course, as MEW business lines get more workload, the absorption from there is better. So these are the main components. And of course, not to mention, as we aready have discussed, these handful of projects that we need to execute in a good and successful way.

Manu Rimpelä And I'm so sorry to repeat myself, but your backlogs and deliveries for the second half of the year is flat for -- compared to last year. So from that point of view you're not expecting to deliver more from the backlog than you did in the end of the last year. So kind of the growth, to my understanding, has to come from new orders you expect to make in the next 2 quarters. I'm just kind of trying to understand that -- how come you have so high confidence that you will be able to win a lot of orders that you can deliver sales during the second half of the year?

Markku Teräsvasara Of course, we expect to get more orders as well, but this is a continuous process we review at which state we have our orders and of course, when we have projects where we are in the middle of the project, then there's a lot of big item deliveries that will generate higher revenues. While in the beginning the revenue recognition is slower, and it's the same in the last part of the project. So it's not really apple-to-apple comparison in that sense, and -- unless you are looking at (inaudible) portion of the service.

Manu Rimpelä Okay. And then on the Metals, Energy & Water, if we look at the -- you have a top line that's up some EUR 10 million from Q2 as compared to Q1, and the equipment business was up more than that. But then still, your loss -- EBITDA loss was slightly larger than in the first half of the year. So is this really -- this is explained just by these kind of settlement costs and other non-underlying costs that impacted the profitability? So should I see the normal operating leverage and the absorption of fixed cost in the quarter without this?

Jari Ålgars Yes, short answer.

Manu Rimpelä	Okay. And you are not willing to help us in terms of understanding the impact of these? Or how are they showing up in the bridge that you showed?
Jari Ålgars	Yes, as said in the bridge, we have 2 items what we were showing that we -- or actually volumes, and we were showing the savings in fixed cost and then we were also showing the margin changes. So actually, the lack of being able to deliver service orders obviously impacted both businesses. And I would say related to history because the amount of service in Metals, Energy & Water has been lower than in Minerals Processing. So it had a bigger -- it would have a bigger impact on Minerals Processing. Then obviously, the challenging projects are in the Metals, Energy & Water side. And obviously, the changes there are bigger compared today to the Metals, Energy & Water. So the savings of the fixed cost has been, I would say, is a little bit more than [ten] spread. So we still have a need in Metals, Energy & Water for more orders. Yes, we got some nice orders now, though they have not started to impact. They came very late in the quarter. They have to impact the absorption rate in any way in quarter 2. So quarter 2, we still were facing underabsorptions in Metals, Energy & Water. In Minerals Processing, we are in a good workload situation, has been so for a long time and continues to be so. So this is a little bit more color on the -- this.
Operator	We will now take our next question.
Antti Kansanen	It's Antti from DNB. Still coming back to the previous question on the several bottlenecks and the outlook. When was the last time when you started to see these issues on the service sales side and started to work with your suppliers to correct them? And were there -- did you have a view on that when you were giving out your sales guidance and EBIT guidance for this year?
Markku Teräsvasara	We -- yes, we started facing them in quarter 1, and, of course, started working with them immediately.
Antti Kansanen	Yes. So what I'm getting at is how crucial is it to fix these issues quite quick term on Q3 to actually reach the guidance that you are giving? How much is based on that short-cycle service sales growth that you're expecting now for the second half?
Markku Teräsvasara	Of course it is important to fix it as soon as possible. What -- but of course, it's possible we have the orders in our backlog, and now we just need to speed up the delivery so that we can catch up during the rest of this year.
Antti Kansanen	Okay. And then secondly, on the discussions that you have had with your mining customers on the bigger projects, the greenfields and larger brownfields, have you seen any changes on that or potential delays in recent weeks as certain metal prices have gone down quite substantially? Or do you expect that to have any bearing on their longer-term decisions?
Markku Teräsvasara	I think that you can -- of course, there is this long-term view and a short-term view and what is the consensus on the market. We found that there was a kind of a small hesitation within some customers to proceed at the end of the quarter when metal prices came down. However, we managed to receive orders, I think, on a good level, and the outlook from that point of view remains good. At the end of the day, it's always difficult to exactly know when customers are

ready to make decisions. But there is plans. And when the confidence comes back on a longer-term view, and then this can be very quickly take effect. So many of them has been planned to a certain -- or designed to a certain degree already. But yes, maybe a small hesitation because of the metal prices and some uncertainty from the trade discussions. But so far, it has not happened -- it had not impacted our order intake that much.

Operator We will now take our next question.

Alexander Virgo It's Alex Virgo from Bank of America. I'll try to ask the second half from a slightly different perspective, please. Looking at your implied second half margins, I wondered if you could help us bridge from the EUR 30-odd million of EBIT you had in H2 last year to the circa EUR 60 million, I suppose, that would be implied for you to hit the guidance for this year. I think the last time you did north of 9% margins in H2 was 5-or-so years ago when sales were about 50% higher. So I just wonder if you could talk about this, please, then I'll follow up with 1 other question.

Jari Ålgars Well, I guess one of the main things, as Markku pointed out, is really that we are able to take this service (inaudible) to shoot up the service sales to go up because we have quite a significant backlog at the moment. And as you can see from the order intake, the order intake is also quite strong. So this difference, obviously, play a vital role in this that we get this (inaudible) all the problems solved durnig in the second half of the year. And then the other part, obviously, for the guidance is the challenging projects, that how well we are able to finalize this without further cost implications. And I would say then that the third one, which also Markku pointed out here, was that -- which would be of a lesser not a small -- and at least we are able to get new orders and improve the workload situation in the areas, in Metals, Energy & Water where we still have a lack of work. These are the 3 main things to improve our second half of the year. And we -- you'll have to remember, when we look at last year, the whole second half of the year, we were severely hampered by very low workload in Metals, Energy & Water. Now we have restructured, we have less people and we also get more work. So the situation is different in that respect and also then, obviously, that we have a higher backlog of service now. This is when compared to last year. The overall situation is better. But we still, yes, need to succeed on those 3 points. And that's been how well...

Alexander Virgo Sorry, I cut you off.

Jari Ålgars Oh, no. I was just saying they're dependent, and how well we are succeeding on this is one different place than assumed in the guidance.

Alexander Virgo Right Okay. And then second question just on cash flow. Maybe I'm reading it wrongly, but I was surprised you didn't see -- given the strength of orders coming in and, I guess, the growth in -- particularly in MEW, I was surprised you didn't see much of an increase in advances paid as part of that and a better impact on cash flow. Is that an indication of any changes in advanced payment terms? Or should we read anything more sinister into that?

Jari Ålgars Well, it's (inaudible). It's just timing issues. We've got a lot of advances and progress payments also from the first quarter orders. That's why we saw such an unusually strong first quarter. That money was used to start to develop a project in the second quarter, and the orders we got in the second quarter came very, very late in the second quarter. So we got some advances, but we did not get any progress payment whatsoever. So it was just, let's say, balancing out the first quarter. And going forward, we see a very normal situation. So no changes.

Operator We will now take our next question.

Erkki Vesola It's Erkki from Inderes. Still talking about ensuring. So talk about subcontracting capacity among your existing suppliers going forward. Do you provide load guarantees? Or what kind of tools do you have to ensure the sufficiency and the right timing [inaudible] you have in the subcontractors' processes?

Markku Teräsvasara Yes, of course we use the whole toolbox when we are trying to do, in a way sometimes, helping them with a -- if there is just a small investment requirement, we can be part of that. If it's a -- sometimes, we use the same thing as our customers use to pay bonus on a faster achievement and also look at other sources. So I think very much we use the whole toolbox available to speed up our deliveries. And of course, I think we must pay the suppliers also willing to help in that plant.

Operator We will now take our next question.

Andrew Wilson It's Andrew Wilson from JPMorgan. I just have 3, I think, probably quite quick questions just to follow up. Follow up on the question on the second half profitability. Is there any benefit from the cost-saving program, which, obviously, you're incurring some costs now? Can you give us any help on how much support that might provide in the second half just conscious that it is at a very steep pickup sort of second half-on-second half or even second half-on-first half, please?

Jari Ålgars Yes, we have not given any guidance how much will be -- it will start to take effect -- I think you can assume from the number of people we are going to lay off and then that you have half a year left. You can make some assumptions yourselves. Second equally important thing for us is obviously that we get the new orders we talked about, additional orders. In MEW, obviously, also the help from the orders we already got in order to improve the absorption and then also turning cost from fixed cost to cost of goods sold. So these are roughly equal size improvements we are looking for.

Markku Teräsvasara Jari, but it will have positive impact on the result, simplification.

Jari Ålgars Yes, absolutely.

Andrew Wilson Okay. On the -- I just noticed on the slide around the -- just inside the organization talk about some nonprofitable operations being discontinued. Can you give us a sense of what sort of revenue number that is or just the size of those operations? I mean, is that a meaningful number? Or is that kind of it's on the edges?

Markku Teräsvasara No, it's not the -- it's part of these 200 people that we have announced, and it's an operation that is behind a production type of environment. So I think you can make your own estimations on that.

Jari Ålgars But it's not meaningful. So it's been an operation which we have been analyzed now and we're kind of looking for -- and it starts to improve as the cycle improves. But at this point, we feel that this part of the operation will not improve enough for us to really keep it going forward.

Andrew Wilson And then finally, just a question on the mix between within the Services business. Would I be right in assuming that the margins you achieved on spare parts are stronger than the margins that you achieve on kind of the upgrades and then the sort of larger-scale maintenance and reserve work? I mean, is that -- a, is that right? And then b, is that something we need to think about in terms of the profitability of the Services business as some of this kind of the non-spare parts work come through as the cycle improves? Just trying to think about that in terms of their impact on the margin.

Jari Ålgars We're -- what -- situation has not changed to what we have said earlier. So we can say Services contains of kind of 3 parts. One is spare parts or wear parts to the smaller degree. And then we have modernizations, upgrades. And we have field service or shutdown service type of work. And the margins on the spare parts, which is virtually all proprietary parts, is very good. And then the rest of the business, upgrades, modernizations, field service, shutdown service, margin are equal to the CapEx margin, so -- with some small variations. So this is why also the spare parts is very vital for us that we get them delivered. It has a significant impact on the result.

Andrew Wilson Okay. So if you think about it, if I think spare parts are clearly very high margin and then the rest of that service work is similar to the CapEx, is that the sort of summary?

Jari Ålgars Yes.

Operator We will now take our next question.

Tom Skogman Yes, this is Tom Skogman from Carnegie. Is there any risk of fine, some extra cost if you have very late deliveries of these spare parts? What kind of clauses do you have in the contract?

Jari Ålgars Yes, let's say so that so far, we have not seen any risks of this. And obviously, there are spare parts which are more crucial which can stop the operations for the client and then there are spare parts which is more kind of just filling up their own stock. We are following up the situation and making sure that we are not at any point causing any harm to our customers' operations. And thereby, we are aiming to keep the impact lower or nonexistent. So far, we have not really seen any impact from this type of things.

Tom Skogman Okay. One quarter ago, you said you had 5 legacy projects. So I assume it's right now that you have 4 left if one has been settled, is that correct?

Jari Ålgars I think your calculation is correct, yes.

Tom Skogman And can you please remind us, how is the bookkeeping going with these people? So I understood that you have taken extra cost quarter-by-quarter basically so that they will have 0 margin or 0 profitability impact hit. But as the share of sales now coming from these will reduce, I guess, dramatically year-on-year, that will, in itself, have a margin improvement. But how big sales difference is it in the second half year-on-year coming from this?

Jari Ålgars You can say that the sales coming from these projects are kind of negligible. They are very close today and...

Tom Skogman So one year ago (inaudible)?

Jari Ålgars Oh, one year ago? Sorry.

Tom Skogman Yes. So what's the difference then? Is it...

Jari Ålgars I would say one year ago, already we were at a place where we started to work on this project. So I would say now it's from my memory. But I would say that the impact then as well on the sales was not very high.

Toma Skogman And are you confident you will really close 3 more now in the second half and just have 1 rolling over to next year?

Jari Ålgars This is our target. Obviously, our clients also has some impact on this how fast or slow we are able to close this. So this is our target to really be able to have these out of the books as soon as possible. And first of all, we are fixing issues, are them client issues or own issues. And then after the client is up and running and has been running for some time, so both parties can see that the fixes actually are the right ones. And usually, you'll get into negotiating then the closing of the project. So this is why there is still -- it might seem that still lot of variation for such kind of late-stage project, but there is actually quite a lot of things still to finalize before you get into the stage that you can really close it with the client like we did now with this one order. So before, we are there that everything is solved, all their issues are solved, the client is running well and we have looked at it for a number of months. Only then you can have this discussion. And then, obviously, at that point of time, we have certain expectation but so as the client. And then we have, obviously, assumed what we can then resolve is what is still a question mark for us because the customer usually do not show their cards in advance to us as we do not either.

Tomas Skogman Okay. And then finally, I was wondering about the underlying gross margin if you take away these legacy projects. Is that already more or less similar in the -- in both divisions? Or is there a big difference?

Jari Ålgars Yes, I think we have not -- the margins are not that different. Maybe the main difference in the margin is really that the Minerals Processing have more spare part in their sales. Again then, the amount of leverage MEW could have by simply having bigger projects where you need less relative amount of people is then giving a certain benefit to Metals, Energy & Water. So there are pluses and minuses for both. But as we have said, the profit margins have, in general, always been better in the Minerals Processing, and the sole reason for that is the spare parts.

Operator As there are no further question in the queue, that will conclude today's question-and-answer session. I will now turn the call back to your hosts for additional and closing remarks.

Rita Uotila Thank you, operator, and thank you all, participants, to this Q2 call. And I wish you go through or return to the holidays. Have a great summer holiday. Thank you and bye-bye.

Markku Teräsvasara Thank you.

Operator That will concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.