Compay **Outotec Oyj**

Conference **Q3 2018 Interim Report**

Speakers **CEO Markku Teräsvasara**
CFO Jari Ålgars
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Rita Uotila Welcome to Outotec's Q3 briefing. Welcome also our Facebook viewers and the telephone lines. We will first hear a presentation from our CEO Markku Teräsvasara and CFO Jari Ålgars, followed by a Q&A session. So please Markku, go ahead.

Markku Teräsvasara Thank you Rita. Good afternoon from my side as well. And this is quarter three and the January-September result release. I know that many of you are very interested about the news that was released last week, and we will of course come to that later towards the end of the presentation. And I'm happy to tell you and share with you all the possible information that way we can tell and is available at the moment.

But first, about our Q3 results. I think what can be said is that our improvement programs and activities start to pay off well. We have improvement in all the major areas when it comes to order intake, when it comes to sales, profitability. And it's also good to have a solid cash flow as well.

When it comes to market specifically, as I mentioned the improvement in order intake and sales is basically solid throughout the business. So, we have a good improvement. In the MP segment, or Minerals Processing segment, in the Metals, Energy and Water segment and as well in Service. The market is still very much dominated by the brownfield investments. So we talk about upgrades and modernizations, debottlenecking incremental capacity increases, and so on and of course, services. Yet there is no, not much greenfield investments in place.

When it comes to metals and regions we see that there is good activity in most of the metals and in most of the region's. And also growth opportunities, both for Capex and service.

However, this uncertainty and the lower metal prices are causing hesitation at our customers, so bigger investments are progressing slowly. Programs and projects are there but the decisions are progressing slowly. Maybe as a new opportunity we have had, we have not received so many orders in our energy business during the past couple of years. However, as you remember in the previous quarter we received a biomass energy project, and there is a number of cases in the pipe lines. So from an energy point of view there is of course opportunities on waste-to-energy side, specifically for [inaudible], which we need to take good care of.

This is the standard chart that we are showing. On the upper left corner, we have Minerals Processing segment, so the Capex and Service combined, and it continues the good development that we have had since second half of 2015 and making reference to what we had during the so-called boom years when there was a lot of greenfield projects up and running. We are already almost at the same level and this is predominantly coming from brownfields and service opportunity.

When it comes to Metals, Energy and Water we have said that 2017 was the turning point, the toughest year. There we have both sales and order intake improving, but of course in this area, particularly in some of the segments we'd like to have more orders.

For Service there is a good development in order intake and that is particularly true in Minerals Processing side. When it comes to sales, which is the grey coloured line, there we have indicated before that we have had some supply chain constraints, so we get the orders, they're going in the order backlog, but have not been able to deliver them as quick as we hope. We have put a lot of effort on that together with our suppliers just to improve the situation and towards the end of the quarter 3 we see a clear improvement. And also what we see going forward is that the supply situation finally starts improving for us.

When it comes to Service order intakes, maybe the column for the order intake for the quarter was low but if you look at the recurring type of service revenue when it comes to spare parts, wear parts and technical services it remains on a very healthy level. The only thing that fluctuates between the quarters, is how much bigger modifications and shutdown projects we have. And this is particularly true in Metals, Energy and Water business, which is where those businesses have a bigger portion.

During quarter 3 one order, which was bigger than 10 million, came from South America and it is related to the concentrator processing technology, or minerals process technology, from a big international customer. That was of course very good. Quarter on quarter we already touched upon that. Capex, a good improvement, Service a little bit a timing issue between this, particularly obviously in bigger modifications in Metals, Energy and Water side, and shut down services.

And now key financials from Jari Ålgars.

Jari Ålgars

Thank you Markku. So, as Markku already pointed out the numbers improved on all levels. We will go into that. If we start by sales, we can see that the sales for the quarter increased to €320 million when it was €274 million a year ago. For the first three quarters sales was €939 million compared to €803 a year ago, which is a change of 17%.

On service sales side again on the quarter the sales was €121 million when it was €125 a year ago, and then €333 million when it was €324 a year ago. Oh sorry, €333 million when it was €334 a year ago, where it was flat. And as Markku pointed out we had both modernisations and upgrades as well as shutdown services. In Metals, Energy and Water side we had reductions. So this is the main impact to why the sales number are lower, but then also we have had the impacts still on the supply chain.

Share of service thereby went down to 38% of the sales, when it was 46% a year ago. And for the first three quarters, 36% when it was 42% a year ago. When we look at the gross margin, it was 23% when it was 24% a year ago for the quarter. But for the first three quarters, is on the same level, 23%.

The adjusted EBIT thereby improved from €14 million for the third quarter a year ago to €18 million now, or from 5% to 6%. And for the first three quarters the result has more than doubled from €15 million to €33 million, or from 2% to 4%.

If we then look at the costs below the adjusted EBIT, we have restructuring costs of €10 million for the first three quarters, when we did not have any a year ago. The amortizations have come down slightly, from €6 to €5 million. And thereby our EBIT is €18 million compared to €10 million a year ago for the first three quarters, and the percentages, 2% compared to 1% a year ago. And the result for the period is €7 million when it was €1 million a year ago. The result was affected a year ago by exchange rate impact, €9 million when this year it is flat zero.

If we look at the impact on the adjusted EBIT compared to a year ago, the adjusted EBIT was €15 million a year ago. We obviously have a higher volume now which has increased and improved the results, but we still have challenges with gross margin erosion in some high impact projects. And then also the sales mix, mainly due to that we had lower relative service share, that's also impacted the results. The fixed costs we have continued to keep in tight shape and thereby we have a result improvement from those businesses, ending up to the 33 million what we saw on the previous page.

If we then go into the different business segments, the first segment we have is Minerals Processing, which has had quite a nice improvement. Order intake increased by 10% percent from €487 million to €535 and the sales have increased by 16%, from €467 million to €540. And the service sales have increased by 9% from €214 million to €234 million. So very good numbers on all levels. And the adjusted EBIT improved thereby from €41 million or 9% to €55 million and 10%.

And again, here we can see that we had exchange rate impact last year same period, of €6 million where we have a flat zero this year. If we again look at the Metals, Energy and Water, there the picture is a little bit different. Yes, we've had strong order intake from - with 19% from €351 to €417 million. Sales also the same 19%, from €336 to €398 million, so we can clearly see we are improving here. Volume is increasing. And the service sales, we have challenges which was pointed out already. We have had quite large modernizations, upgrades and shutdown services a year ago. Not this time, and this has impacted that the service sales is down by 18% from €120 million to €99 million this year.

The adjusted EBIT has improved but still is negative, from -€21 million to -€17 million or from -6% to -4%. The impact from the exchange rate was €3 million a year ago when it is flat now.

So, still our results in the Metals, Energy and Water segment is clearly negative. Obviously, the biggest impact we have is on the provision increases or gross margin erosion on the high-impact projects. This is the single biggest, giving the single biggest impact to the result.

If we go to the financial situation, it’s stable and we have a rather solid cash flow. If we start with the cash flow, the net cash from operating activities was €88 million plus, when it was -€7 a year ago. So very good cash flow.

Net-interest bearing debt has also improved from €37 to -€64 now, driven by obviously the additional cash we've got, but also that we have lower net-interest bearing debt. Gearing has thereby improved from 8% to -14%. Equity-to-asset ratio is more or less the same, from 40€ to 39%. If we go to the networking capital, which is the strongest driver of cash, it's improved from €16 million to -€65 million. Here the advance and progress payment, we've also been able to collect receivables and then we have higher payables, those are the three main drivers for the improved net working capital. On the line below you can see that the advances received have improved.

I leave over to Markku then again.

Markku Teräsvasara Thank you Jari. The first thing is to give a quick update on our simplification program, it's ongoing. As you remember from last time, we ran a simplification program in the company, with main objective to improve efficiency in the company internally, but also towards customer work. That included two parts - one was streamlining the organisation which was done and concluded by the end of the second quarter, and what we are working on now, is to work with selected processes to simplify them and making sure that we can improve our efficiency in these processes. We also look at some non-profitable operations that we decided to discontinue.

So just to refresh, the target of this program is savings of roughly some €25 million and restructuring costs up to €12 million of which €10 million will come this year. This program is progressing as planned.

Market outlook, we discussed that already briefly but there is a good demand on the market. And of course, what is challenging for the industry, and I see as positive for Outotec, is that in metals and particularly minerals the grades are getting lower. There is critical water situation in many areas. We have energy as a challenge and of course like to have our efficiency and proactivity from the processes by automating them and increasing analytics and digitalization. All that is good for Outotec because it's an area where we have been performing well. It will involve some new technologies and of course part of that with water is also to make sure that the tailings can be placed and process water recycled in a very efficient way. Good opportunities for Outotec.

Service, we have said, is still a good growth area for Outotec. There we have focused on two specific activities, where we do so-called asset walks or audits where we together with our customer, we make an assessment on the process, on the process equipment, and based on that make an improvement plan or modification plan. Sometimes only related to service activities to keep them up to the maximum availability and productivity. That has been very useful and very appreciated by our customers.

The other thing is of course the service experts or expertise to make sure that our customers are running their plants and their equipment in the best possible way and getting the capacity that is installed in those processes.

We talked about the metal market. Most of the metals are active, somewhat hesitation in decision making because of the lowered metal prices and uncertainty in the global economy. But overall, the demand and supply picture is good from our point of view. And then, of course, as discussed, this waste-to-energy and biomass opportunity is there.

A little bit in a coming business, electric [inaudible] seems to take speed in many areas. These batteries and related infrastructure, they will consume a lot of copper, lithium, cobalt and nickel. And these are also supporting Outotec's business. Copper has traditionally been about one third of our revenue, so whenever copper is growing well, it is good for Outotec. There is also barely no lithium case in the world where we are not involved one way or the other. That is also positive. You remember at the end of last year and this year we announced quite significant orders in cobalt. So we are actively there and quite recently as well in nickel. So I think this electric [inaudible], provided that the growth continues in a good way, is a positive thing for Outotec.

Now financial guidance. Sales was reiterated and it is between 1.2 - 1.3 billion euros and adjusted EBIT guidance was narrowed from 5-7% to 5-6%. And this is excluding possible material costs and additional costs related to the ilmenite projects, which we'll soon talk about more.

As discussed earlier we have had this Must Win Battle program since the release of the new strategy about one year ago and there has been a good development and the program starts paying off, in terms of order intake, sales, result improvement and so on. It is a very good foundation and platform for further improvements. There are the five areas. I'm not going to go through all the detailed things that have happened during the quarter. I just want to lift it up as we will soon talk about this ilmenite case that one program, the Project Excellence, is very much focusing on making sure that we have a good control over risk, good risk assessment on the project. What we're doing, where we're doing and how we're doing and also making sure that people that are working with the projects are trained in a sufficient manner. So a lot of effort for the last two years has been put in place, or last one year, has been put in place to make sure that we have a good Project Excellence in our company.

So now, a little bit more about this ilmenite smelter project, and I'm happy as I said to tell everything that is possible to be told at this stage. First maybe a bit about the project as such. It is a project, an ilmenite project that was sold in 2012, including two large electric furnaces and I think that the discussion lately has been evolving a lot around these furnaces. But of course, this project as such contains much more than just the furnaces. Furnace is important part of the plant, but of course, there is a lot of other significant plants related to materials handling off-gas treatment. There's a water treatment plant, there is iron treatment organized and slag granulation. And of course all the related infrastructure is built in very remote location. So the project included a lot of infrastructure that needed to be put in place.

So yes, a lot of discussion lately about furnaces, but they are just part of the total investment the customer was using. We have communicated that this is the first of its kind and that maybe also requires more clarification. It is for Outotec the first of it's kind for ilmenite application, which means that we have delivered similar furnaces to other applications about twenty pieces before and they are running well without any disturbances.

Also it is not the first electric furnace that has been delivered in ilmenite application. There is a number of cases around the world, where ilmenite is treated in a similar way. So even this is the first of its kind for Outotec in that particular application, but we have experienced electric furnace design before, and of course, that is also used by other companies in the industry.

It's also talked about large electric currencies, but this is not the largest electric furnace that we have made of that type. We have made electric furnaces that are 50% bigger in capacity. So also to put that in scale.

Of course, what happened then, that the process was not starting as planned and the furnace was shut down safely. So of course, safety is very important, so it was discontinued in a safe manner. What happens then now is that there will be a detailed investigation together with our customer and also using the industry experts, to first find out what happened, as we don't know that clearly yet. And also then consequently, who is responsible, if that can be identified clearly. Then if it shows to be the case that it is under Outotec's responsibility, yes then it would have a negative impact on our 2018 EBIT.

Once the reasons for that have been identified and agreed, then the furnace needs to be rebuilt. And that rebuild will take approximately one year. And of course, potential material costs will be booked in quarter four but the cashflow impact will come later. What is important also that we have agreed with the customer that we continue the project together. A said, it starts by identifying the root causes at this stage and then agreeing on how to both proceed with the project.

So I think this is what I can say at this stage but of course, questions and answers session we can try to answer whatever additional questions you might have, if we have an answer for that. Thank you.

Rita Uotila Thank you Markku and Jari. Now it is time to close the Facebook live. Thank you for participating. We will move to the Q&A session. So operator, we can open the Q&A.

Operator Thank you. Ladies and gentlemen, if you do have an audio question for the speakers, please press zero one on your telephone keypad now. If you would like to withdraw your question, it is zero two on your telephone keypad. Once again, it's zero one on your telephone keypad to register for a question. And we kindly ask you to limit yourself to one question at a time and then rejoin the queue. And our first question comes from the line of Alexander Virgo from Bank of America Merrill Lynch. Please go ahead. Your line is now open.

Alexander Virgo Thanks very much and good afternoon. I guess to ask the one question then. When you look at this smelter and the furnace, I think you rebuilt the furnace once already. And I think you took a provision for that rebuild project, I suppose, for 40 million euro. I wonder, could you just talk a little bit about how that was spent, whether you used the whole provision and whether that's a fair number for us to think about for this one? You know, if we take that as a worst case. Thank you.

Jari Ålgars That 40 million was not related to the rebuild of the furnace. It was related to that the project had challenges in the start the previous time, and the project was prolonged so it's for additional cost for being on the project. And then there were also some potential customer receivables what were provisioned for. So this was not for that particular part.

Alexander Virgo Ok, so there's not a relevant benchmark.

Jari Ålgars No.

Operator Thank you. Our next question comes from the line of Antti Suttelin from Danske Bank. Please go ahead. Your line is now open.

Antti Suttelin Thank you. Hi. This is me Antti from Danske. I would have two really, really important questions so if you wouldn't mind to answer them. How much is the value of the furnaces? The two furnaces that you have at the plant? What is there? Should I come in as a client and want to buy these kind of furnaces, how much would they cost?

Markku Teräsvasara I think our competitors would love to hear the numbers but we are not able to disclose that.

Antti Suttelin Can you give me a percent of the total value? We all know what project this is. We know the project value. Can you indicate which share of the total value are the furnaces?

Markku Teräsvasara No. I cannot indicate further than what I already mentioned. I think furnaces here are a part of the bigger plan. There's a lot of other expensive components and process equipment included as well. Not to forget that the infrastructure when you build something in a very remote location that comes with a cost.

Antti Suttelin Can the furnaces be more than fifty percent of the total value?

Jari Ålgars We do not comment at this moment.

Antti Suttelin Ok, then my second question. Is there any risk of Outotec having to compensate lost production? It has been three years now idle plant. Is there any such risk?

Jari Ålgars We have a policy that we do not accept consequential damages in our contract.

Antti Suttelin So you would say it's, basically, only that you repair it. Nothing additional can be expected as a cost for Outotec.

Jari Ålgars I think, obviously, if we say that, there might be some technical things. There might be some redesigning, but repair and redesign are the main things we're talking about.

Antti Suttelin Yeah, all right, that's all from me. Thank you.

Operator	Thank you. Our next question comes from the line of Jonathan Hanks from Goldman Sachs. Go ahead. The line is now open for your question.
Jonathan Hanks	Hi, thanks for taking my question, maybe it sounds like we're not going to maybe get a number on the on the furnace impact, but maybe just ask more broadly; I just want to know how much further cost cutting do you think you could do in Metals, Energy and Water? And it is it feasible that this this division has kind of acceptable margins if volumes don't improve? Or is it simply a case of we need higher volumes?
Markku Teräsvasara	I think what has been discussed in a number of occasions before, of course we do think and also work towards the situation that all our businesses are profitable, so we are prepared to do what is required and in Metals, Energy and Water as well, but we have also said that we see that the demand situation for Metals, Energy and Water segment is improving and we're expecting to get further orders. And orders are expected to come in areas where we had a lower workload, so we are continuously balancing this situation as we see.
Jonathan Hanks	That's great.
Markku Teräsvasara	No cost cutting can be excluded but it's something that you have continuously to do.
Jonathan Hanks	Quickly, can you help us in terms of thinking when the gross margin pressure, which is presumably in that business, will kind of trough if you like.
Markku Teräsvasara	I think, of course, that is not only depending on what we do on the market, but again coming back to these initiatives that we have started in our company. That the work on the projects Product Competitiveness and Project Excellence. They have and will have a positive impact on margin.
Jonathan Hanks	Ok, thank you very much.
Operator	Thank you. Our next question comes from the line of Erkki Vesola from Inderes. Please go ahead, your line is now open for your question.
Erkki Vesola	Hello, good afternoon, Erkki from Inderes. Regarding still the ilmenite project. How do you assess the reputational risk regarding the project if you see any? And how do you see risks to future order intake regarding similar projects?
Markku Teräsvasara	So what we see and hear at the moment, we do not see that this project in a way is affecting the rest of the business in that sense.
Erkki Vesola	Not at all?
Markku Teräsvasara	No, that is our view.
Erkki Vesola	Thank you.
Operator	Thank you. Our next question comes from the line of Magnus Kruber from UBS, please go ahead. Your line is now open for your questions.

Magnus Kruber Hi Magnus from UBS. On this project again, do you have project professional indemnity insurance on this project and was that utilized the last time you run into trouble with the two to furnaces and is that insurance still valid?

Jari Ålgars We do not disclose the individual insurance policies we have on the project and who is covering it. So we can only say that in general, we have insurance is a normal part of our business.

Magnus Kruber Ok, got it. Thank you. I'll get back in line.

Operator Thank you. Our next question comes from the line of Andrew Wilson, from JP Morgan. Please go ahead. Your line is now open for your questions.

Andrew Wilson Hi, good afternoon, an apology for another question regarding the smelter problems. Just so I'm clear, and it might be my lack of understanding, but is there any change to provisions required for anything else on this project as a result of the issue with furnaces? So i.e. would we expect anything additional to the furnaces that we need to be provided for us as a result of the problems.

Jar Ålgars Generally, obviously the delay time always costs money so that would have an impact obviously as well on top of that. So obviously, depending on the end result of all of this is obviously also the customer might want to discuss some price issues. But these are just speculations at this point, obviously. So the main thing we're focusing on at the moment; what is the problem and what are the things we need to do in order to the fix the problem.

Markku Teräsvasara And maybe to expand a little bit. Of course, now the shutdown and the issues that we're facing, are relating to the furnace. So the rest of the plant has been working in a normal way.

Andrew Wilson Thank you, I'll get back in line.

Operator Thank you. Our next question comes from the line of Manu Rimpelä from Nordea. Once and once again, I do you remind you if you would like to register for a question, it zero one on your telephone keypad. Manu, your line is open. If your line is muted locally Manu Rimpelä, could you please unmute your line.

Manu Rimpelä It's Manu Rimpelä from Nordea markets here. Could you talk a bit about how do you see the Metals, Energy & Water division and especially this Metals business as in the kind of a longer run? I think you done almost 100 million, of course, overrun so far since 2012 without including the latest one. We're looking at the average annual EBIT including all of these cost overruns or something like below 20 million and then let's see what the last one ends up being. So is this really a business that makes sense to have given the big risk that you're taking in these projects? Would it not maybe after this make sense to close it down or license it outside of Outotec? How do you think about the kind of future of this business in the light of the latest adversaries?

Markku Teräsvasara I think if you look back on the history of the company, these technologies have been an important part of Outotec for many many years and delivering good results and good profit. And for the last couple of years, because of this cyclicality nature and lack of investments, have been tough. Of course as mentioned earlier, we have to continuously monitor our businesses and a communicated during the strategy release on what was coming up, of course, is that the expectation is that all of our business is profitable.

Manu Rimpelä But you don't see a risk that your customers are starting to question your viability in this area and also kind of your balance sheet. They have this big project that they give you a big prepayments on, are you seeing any risk for that?

Markku Teräsvasara I think our finance situation is solid. Of course, it's up to them but they are normally mostly interested in having a well performing plant and process, and in that respect, Outotec has excellent references in areas that we are involved in.

Jari Ålgars We have to remember, we are delivering lots of plants every year, which are quite succesful and the customers are happy, and here we are talking about a number of high impact projects which have been in there for a while. And we just have to make sure we don't get these going onward.

Manu Rimpelä Okay, thank you. I'll get back into line.

Operator Thank you. Our next question comes from the line of Alexander Virgo from Bank of America Merrill Lynch. Alexander, your line is open.

Alexander Virgo Thanks very much. Maybe we move away from Saudi for a second. I wonder if you could just talk a little bit about service development. Some of the momentum seems to have leaked out a little bit. I just wonder if you could give us a little bit more color around that. Maybe prognosis for the quarter. Obviously your backlog for delivery in the rest of this year does underpin the guidance pretty well already. So just wondering what you can give us in terms of service momentum into the back-end of the year and into next year. Thank you.

Markku Teräsvasara I think service momentum remains solid. We have added throughout the year, we have a good development in our order intake. Consequently, we have been building up order backlog, when it comes to spare parts and wear parts in the Services side. And now when we see that we get deliveries improved and under control which we were already witnessing at the end of the quarter three. I think we have a have a good expectation for quarter four.

Alexander Virgo And just a quick follow up if you mind me asking, the 330 of backlog for delivery in Q4, how much of that would actually be Services?

Jari Ålgars We do not guide for that separately.

Alexander Virgo Ok, thank you.

Operator Our next question comes from the line of Mikko Ervasti from SEB. Please go ahead. Your line is now open.

Mikko Ervasti Thanks very much and I'll take you back to Saudi Arabia. Do the issues you have there point to a more widespread design flaw that might need to be addressed in the second furnace of this smelter as well or in other smelter projects completely or even in the earlier deliveries? Thanks.

Markku Teräsvasara No, I think it's too early to answer the question. I think it's good to reflect back also what maybe where the questions coming from when these furnaces were shut down and then rebuilt after the initial start-up during 2015-16, but at that time it was due to operational issues. Now after rebuilding it, we are starting up with it again. And I think it's too early to say, what are the root causes in this case.

Mikko Ervasti Ok, thank you.

Operator Thank you. Once again, ladies and gentlemen, if you do have a question for the speakers, please press zero one on your telephone keypad to register. And our next question comes from the line of Magnus Kruber from UBS. Please go ahead, your line is open.

Magnus Kruber Hi it's Magnus again. A couple questions on your covenants. Your annual reports suggests you have adjusted equity and liquidity. How do you define those two metrics?

Jari Ålgars We have not guided for these, so they are just two metrics, and we are not guiding for how they are calculated, how large or, what number they are.

Magnus Kruger Ok, it would be useful to know that, but ok. And then again, away from Saudi Arabia.

Markku Teräsvasara Maybe to add, when we talk, our financials are stable, it includes also that we have headroom.

Magnus Kruber Ok, good. And the headwinds you had in Metals, Energy and Water for provisions for this quarter. Could you give us some color on that?

Jari Ålgars Yes, the projects were mainly in Metals, Energy and Water and we talked about mid a single impact on the net effect.

Magnus Kruber Got it. Thanks a lot.

Operator Thank you. Our next question comes from the line of Olof Cederholm from ABG Sundal Collier please go ahead. Your line is now open for your question

Olof Cederholm Hi it is Olof Cederholm from ABG. Just very quickly, back on Saudi Arabia. You say that it's just the furnaces that are troublesome, the other things are working. But aren't the furnaces an integrated part of the plant. Can they still produce things in the plant? The way things are.

Markku Teräsvasara Of course, you need all the parts and functions in the plant to work so that you can produce.

Olof Cederholm So wouldn't that mean that the risk, sort of the monetary risk that you're running is broader than simply the furnace technology?

Markku Teräsvasara Yeah, what Jari mentioned earlier is that our policy in contracts and agreements do not accept the consequential damages and also what I mentioned previously that we have actually after this incidence had a meeting with customer, where we agreed that we will work together, continue work together in this project and the first objective is to find out what happened.

Olof Cederholm Ok, thank you.

Operator Thank you. Our next question comes from the line of Manu Rimpelä from Nordea. Please go ahead. Your line is now open for your question.

Manu Rimpelä Thank you. My follow-up question would be if you could just shed some more light on the way you think about your guidance for this year, I mean excluding any provisions. You are still guiding for very significant fourth quarter results, even higher than you've done year to date so far if you take the higher end of the range. So I was just curious to understand that where - how do you kind of think around the Metals, Energy and Water profitability, because I would imagine that that is obviously the biggest single factor driving this swing, and if you look at the Q3 sales and profit of that division, it actually didn't really improve at all compared to what it is Q3/2017, even though you have €10 million of higher sales. So why should we expect such a sudden jump in the fourth quarter in the profitability of the group?

Jari Ålgars We got quite good order in-take in the service side and sales has not been following. This means that we have been building up quite a lot of the backlog in the service side, and quite many of those orders actually are supposed to be delivered in Q4. So we should see an improved rate of service share and also out of that a big part would be in spare parts. So that this one of the drivers, one of the key drivers I would say.

Manu Rimpelä Can you also comment on how do you say the services split the kind of pent up backlog being do you see that both divisions have kind of a very strong services Q4 coming up? Or is it more in one part of the business because we don't know how your services order are split between the two divisions.

Jar Ålgars For spare parts, yes, it's for both quite significant. And on the Metals, Energy and Water side we definitely would need still more orders in the upgrades, modernization as well as in the shutdown services. Obviously, that would not be significant anyway this year. I think we improve they absorption or the workload situation.

Manu Rimpelä So you think that Metals, Energy and Water will reach breakeven in Q4 for positive results?

Jari Ålgars We do not guide for separate business segments.

Manu Rimpelä Thank you.

Operator Thank you. Our next question comes from the line of Andrew Wilson from JP Morgan, please go ahead the line is now open for your questions.

Andrew Wilson I just have two follow-ups. One follow-up on Alex's question earlier on development of the services business. You mentioned that large modernizations were down year-on-year and that contributes to the overall number. Am I right in thinking that these are just large, large piece of service work which inherently will be lumpy, and therefore it's not - that's not a comment on the market. That's just the timing of the individual orders.

Jari Ålgars On the Metals, Energy and Water side, yes, clearly there is a bigger impact on this on there. Minerals Processing you could see the growth was quite nice and it contemplates the market development. Maybe the service has been somewhat impacted there, as well on the delivery constraints. But in general it is developing well.

Andrew Wilson Ok. So, it's not a - that's not any change to some sort of underlying market development. It's just the timing in certain orders.

Jari Ålgars Yes, in Metals, Energy and Water it's a big, big impact coming from modernisation, upgrades and shutdown service.

Andrew Wilson And maybe just one just on the more general commonly makearound the kind of mining activity and demand. You reference here a couple of things which have impacted in terms of the respondents of orders, and also some struggles of financing for small mines. I'm not sure if that has changed in terms of the specific wording from the Q2. I mean it's not change you saw Q3 versus Q2. In terms of I'm guessing it's kind of general macro uncertainty having increased then having impact in terms of customer order patterns. I mean, is that the, is that the right interpretation of the Q3 sort of market commentary?

Markku Teräsvasara I think in a way you are right. If I understood the right on you and on the right track. We saw that the hesitation coming in 2003 regarding bigger projects, not that the projects have disappeared. They are there, but the decision has been postponed. Because of the uncertainty and because of metal prices have come down somewhat.

Andrew Wilson Yeah, that's perfect. Thank you.

Operator Thank you. Once again, ladies and gentlemen, if you do have any questions, it zero one on your telephone keypad. There will be brief calls whilst any remaining questions are being registered. And our next question comes from the line of Manu Rimpelä from Nordea. Please go ahead the line is open once again.

Manu Rimpelä Thank you. Not sure if this was asked already, but did you say how much the provision, how much did you book additional provisions in the third quarter?

Jari Ålgars The net impact of the provisions which were in the Metals, Energy and Water side, was mid single number.

Manu Rimpelä And I mean, I think if you add that on top of what you have been booking so far, so we're running on maybe something like 10-50 million of provisions in the year to date figures. So how much more do you think that you will have to book, excluding again, this big project? And, well, what is it that is causing this? Because I guess you always marked the markets. These projects saying that this is what we expect the cost to be. And then every quarter you find out that it's going to cost you more.

Jari Ålgars Yes I think we have to admit with this handful of high impact cases. It's been a hard job to finalise them. And we have been surprised with the amount of cost that has been there. It's been higher than we have initially expected.

Manu Rimpelä And can you remind how many projects are we talking about? And how many and what kind of completion timetable for them?

Jari Ålgars As we've said earlier in one most of things we're expecting they would be finalized by end of this year. Yet they the progress has been slow there by also causing cost increases, because as said, the longer we need to have people onsite and the longer we need to work on things it increases the cost. As such the other ones are obviously significantly smaller in size than this one, but we are talking about the ilmenite plant. So the rest are much more I would say normal but challenging and we are going in the right direction will be able to close them. But I think at this point, learning from previous, maybe I should stop guiding on when they are ready, it could be sometime soon. But it's been hard.

Manu Rimpelä And sorry how many projects are we talking about?

Jari Ålgars Handful of projects.

Markku Teräsvasara I think we have used this handful, for some time and then we also announced that one of them is closed. So you can figure it out.

Manu Rimpelä Okay, thank you.

Operator Thank you. Our next question comes from the line of Magnus Kruber, from the UBS. Go ahead, your line is open.

Magnus Kruber Hi. And yes, moving back to this Saudi project again and if we step away from the liability issue related to this and look at the pure repair cost and the cost that will take for you to get this up and up and running. I think you mentioned, of course, that the 40 million was not a valid comparison. Could you sort of try to explain to us a little bit more in detail of how we should think about this for this repair? What's related to equipment cost, what is related to man hours and so on? And so have any sense for how to asses this?

Jari Ålgars As Markku already pointed out, I think the best way you do is if we say that this whole project this an EPC project, it also includes construction which includes infrastructure, roads, buildings, groundworks, electrification, etcetera which you don't have to build the second time, even if you redesign or rebuild something. Then obviously we have a number of different process islands, which are roughly six in amount. Yes, the furnaces are significant part of this project, they're of the island. But still there are there are other important process parts as well and then, based on that, I think you can. You can assume that redesigning, rebuilding, then. This part we don't know what is required yet. This can be somehow assumed, but as said, there are many things affecting this. So we still have some way to go.

Markku Teräsvasara Early days. We will, together with customers be the best team forward. And use of course, third party expertise where needed, and when needed. And I'm confident that we can. We can, together with them, correct the issue and get the plant up and running.

Magnus Kruber Thank you so much.

Operator Thank you. Our next question comes from the line of Antti Suttelin from Danske bank. Please, go ahead your line is open.

Antti Suttelin Hi, it's me again. You said that this is not the largest furnace you have delivered in the past. So what is the value of your largest furnace that you have delivered over time?

Markku Teräsvasara I think that even if I had the number in my head, probably that would be confidential information for the same competition reason that I mentioned before.

Antti Suttelin Can any furnace cost more than hundred million euros?

Jari Ålgars I think we will decline to answer that. It would - let’s stick to what we have said so far.

Antti Suttelin Ok.

Operator Thank you. And as we have no more questions registered in the queue, I now hand back to our speakers for any closing comments.

Rita Uotila Thank you, operator, and thank you everyone for participating in the active Q&A. Thank you for our presenters, Markku and Jari.

Markku Teräsvasara Thank you.

Jari Ålgars Thank you.