

**Company:** Outotec Oyj  
**Host:** Jari Ålgars  
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**Operator:** Good day and welcome to the Interim Report for January to June 2016 Conference Call. Today's call is being recorded and at this time, I would like to turn the conference over to Rita Uotila. Please go ahead.

**Rita Uotila:** Thank you, operator, and ladies and gentlemen, welcome to Outotec's Q2 Interim Report Briefing. Before we hear the presentations from Jari Ålgars, who's the CFO and acting CEO of Outotec, let me remind you that this is a recorded teleconference and the recording will be available later this afternoon on our website. After the briefing, you will be able to ask questions in the Q&A session. Now let's start with the presentation. Go ahead, Jari.

**Jari Ålgars:** Thank you, Rita, and also welcome on my part. It's Jari here. So if we start with the presentation, so in all we do, safety comes first. So our safety performance in Q1-Q2 has been quite good because we have had zero fatal accidents. Our lost-time injury rate has also gone down from last year from 2.8 to 1.5. and then we had 10 lost-time injuries reported and 1,200 reported near misses. So the development has been quite good on this part, and as we are working in quite exotic countries many times, although it's risky being in many countries nowadays, still this has been quite a success for us.

If we look at the businesses on page 3, so we can see that the Minerals Processing is stabilising while again Metals, Energy & Water remains challenging, for the low metal prices are not promoting any new investments, investments to existing capacity with fast returns and for environmental reasons, meaning that customers want fast payback on their investment, they are not investing into capacity too much at the moment, and they also are doing environmental investments where the emissions or water treatment or then they really want to utilise the off-gases for other reasons. So we have – we see development, good development in this area. We have also some slowness in services as producers focus on cost optimisation. And out of the markets, we are looking at, we can say that EMEA and South America are more active markets. And again, if we look at the metals, gold, copper, and then also as already mentioned sulphuric acid and waste-to-energy are the most active ones, as we will see in the projects also when we go forward when we look at the announcements. So as said, Minerals Processing is stabilising, but then also under Metals, Energy & Water, we have a little bit one-sided picture because the sulphuric acid is actually going quite well but then the metals refining side is weaker, clearly weaker.

And if we look at Q2 in a nutshell, the pluses and the minuses, let's start with the minuses, we have the challenges in the Metals, Energy & Water segments, they continue. We also see that project finalisation and payment collection remain challenging, as we have mentioned earlier. In good times, it is usually quite easy to

get the final acceptance from the clients and get the final payments because they earn money. In times like these, when customers don't earn money, usually there are good reasons not to give final acceptance and try to keep the last payment. So it's really a challenge to get this done to finalise the project.

And despite significant savings, which I will come back to later on, which has been successful, we can see that work still remains, which is the part we still have to do. If we look at the savings programme proceeds on the plus side, the fixed costs have actually been reduced by 19%, well according to plan.

And plant and equipment orders in Minerals Processing segment has increased compared to last year, which is a good sign that things start to – things have bottomed out, which we already stated that maybe that happened in the first quarter. This is further proof of it. Still the market is not very strong, but there is a market, which was not there in Q1. And service order intake +5% in comparable currencies, which is a plus, not a lot, but we still see that this is stabilising as said after the very weak December, January and February. So we're slowly but surely going in the that right direction.

Plant and equipment orders picked up in Minerals Processing, so we have more orders we announced in Minerals Processing. One is process equipment for Houndé Gold, Burkina Faso, one for Acacia Maden in Turkey, one for Bakyrchik Mining in Kazakhstan, and then also we had an iron concentrator to Iran which was announced just recently. Then on the MEW side, we had a copper smelter and acid plant revamp in South America, and then we also had a sulphuric acid plant for Intesca Industrial in Egypt. These were the main orders which we have announced for.

And if we look at our Minerals Processing, the order intake was €261 million, which in comparable currencies was actually 17% increase to last year. Again, in Metals, Energy and Water, the order intake was €190 million, which was actually €54 million or 51% less in comparable currencies, and this is also due to some of the timing. We got some big orders in the first, second quarter of last year, which also impacted this but obviously a significant number. And if we look at it on the left bottom corner, we can see that the service orders have come down, as well as the capex orders, but on the same terms, this has improved when we look at the currencies. So Americas consisted of 31% of our order intake, EMEA 53% of our order intake, and APAC 16% of our order intake.

We have a stable backlog. We have at the moment a little bit over €1 billion in our backlog so not a lot of change. We actually had an order intake which was more or less same as our sales, so we have been stabilising in that regard, and we expect that roughly €490 million out of this backlog will be delivered in Q2, and leading to sales. And the Iranian projects not included in the Q2 and backlog was €185 million.

Timing of plant and equipment orders in 2015 and weak service orders in 2016 decreased the sales. If we look at the numbers, we can see that in Q2, our sales was €268 million when it was €311 million in the comparable period, obviously decreased by currencies, and the service sales was very low in the first – or in the second quarter with €100 million compared to 126, and this is mainly due to that we had the low order intake in December, January, February, which led to low sales in

Q2. So the share of services in sales dropped from 40% last year to 37% due to this this year.

Gross margins were lower, mainly due to that we did not have any big projects we could finalise and release provisions for during this year what we had last year. And the adjusted EBIT was €5 million during the second quarter when it was €16 million last year. The €5 million – as we had €5 million negative in Q1, which means, we came back to black zero now in the first half of the year or the reporting period. And the profit for the period was minus €3 million, mainly from restructuring costs, and for the reporting period minus €14 million as we have made a clear loss in the first quarter of the year.

The fixed cost savings did not fully compensate for lower sales. If we look at the first half of last year, we had €24 million adjusted EBIT. Now we have much less sales, which actually brought the result down below the zero line. We also had last year, we were finalising projects, we could release provisions, which further brought the comparison down. With the fixed cost decreases, we were able to bring the result back to zero but not more than that. So we still have work to do on our cost side and also in our cost competitiveness improvement in order to bring also the margins up in this situation.

In Minerals Processing, we had improved order intake, the fixed cost savings starting to show, and the service sales was impacted by lower order intake in Q1. So if we look at the first half of the year, order intake €261 million, compared to 245 last year. And if we look at in comparable currencies, this impact was actually even bigger, 17% improvement.

Sales again still, as it is following the lag from the order intake is still going down as the order intake came down last year, and ending up at €232 million when it was 273 a year ago same period. And service sales €125 million when it was 150 a year ago, and that impacted by the lower order intake in Q1.

And adjusted EBIT still, despite the sales, was significantly lower, was flat, €10 million, between – same as last year, so which means that the savings have started to show, that we were able to keep the profitability despite the drop in the sales.

Metals, Energy & Water, metals refinings order is on a low level. Demand for sulphuric acid and off-gas solutions is quite high, quite good, and profitability remains challenging due to this one-sidedness and also the low order intake. So for the first quarter or first half, the order intake was €190 million when it was 409 last year, a very significant number, therefore down 51%. Sales 275 when it was 315 a year ago, so declining. And the service part of that, 90 when it was 94 a year ago or more or less flat looking at comparable currencies. And then the adjusted EBIT actually dropped to 7 – minus €7 million when it was plus €17 million a year ago. The main reason of the difference is really we were not able to finalise projects during this period and so we were not able to release provisions into the result.

If you look at the next page, upgrade and long-term service contract and sales, orders and sales declined and the cost optimisation puts pressure on services. We can see that upgrades and shutdown services are postponed, spare parts inventories are optimised, so it's a tough market to be in. But as said, we have still

been remaining to be reasonably resilient here and we will going forward put with even more focus on this.

Ongoing projects tied up more capital. As I said earlier, the first half of the year, usually due to customer behaviour, we have seen a negative net cash from operating activities. We saw it last year, we saw it this year too, but due to that we did not have a lot of new orders that we could book the downpayments on – it led to that we were slightly more negative this year in the net cash from operating activities. Again, we were lower on that capex and the acquisitions, so ending up with a clearly less negative number after the investing activities, minus €62 million compared to minus 96 a year ago.

Liquidity and equity remained solid, we paid off €30 million debt, and we still have a significant liquidity. Our equity to asset ratio is good, and our equity is, due to this, much stronger than we had last year because of the hybrid, which is treated as equity. So the balance sheet more or less remained flat than a year ago, compared to a year ago.

Fixed cost savings, achieved as planned. We had €8 million savings in the first quarter, as you can see. Now that can start to show, we actually are cumulatively saving €34 million now after the first half of the year. We expect this to continue to reach the targeted fixed cost level what we have set up for ourselves. So this is going well according to plan.

Personnel development is of course the other part of the coin. With this we have – with the savings, this is mainly through personnel reductions. So since we announced this and we had 4,900 people; now we are down to a little bit less than 4,300 people and the plans we have in place, we will continue with.

Events after June 30 2016, the first one was we updated our disclosure policy July 1. July 4 we announced the Acacia Maden Gökirmak copper project. July 12, we announced the Bakyrchik Mining, and July 27, we announced an iron concentrate project in Iran. And then also, yesterday, we announced that Markku Teräsvasara will assume the duties of Outotec's CEO on October 1 2016, one month earlier than we had stated last time.

Market outlook remains uncertain. Industries' investment forecast for 2016 is lower than in 2015. We expect further capacity adjustments where supply exceeds demand in those areas, and current market conditions and long-term metals prices outlook is not supportive for bigger investments. Sustainable solutions are in demand due to tightening environmental regulations, as you also can see from the geographic area. Some geographic areas such as the Middle East are more active. Process modernisations are driven by the scarcity and cost of water, as well as emission control, and waste-to-energy solutions are in demand in certain countries, but linked to subsidies and environmental regulations. And we also expect service opportunities through productivity improvement. The key areas and key focus in 2016 is to improve fixed and product costs, develop service business and seek opportunities from growth segments, the ones that are out there. This will continue.

And the sales guidance for 2016 is reiterated, and the profitability guidance range is narrowed. And based on the continued challenges of Metals, Energy and Water

segment current order backlog and uncertain market conditions, the management narrows its profitability guidance range and expects that in 2016 sales will be approximately €1.0-€1.2 billion, and we already have sales from the first half of €507 million. We expect from our order backlog the second half sales of €490 million. So to reach the lower end of the range, we need €3 million new sales; and to reach the higher end, we would then need €203 million sales. And the adjusted EBIT will be approximately 2-4%, as it was earlier to 2-5%. And the wide guidance range we still have in place reflects the current volatility of the market.

And if you look at the profitability roadmap from 2015 to 2016, we see the savings improving, sales reduction, which has come down quite significantly, is playing a role. We also see a market risk, which is either bigger or smaller depending on how things develop. We also see that we are not able to get the provision releases we were able to get last year, and then we have also added some depreciations this year, ending up in a guidance upper boundary of 4% and lower boundary of 2% depending on how that market risk and sales develop.

So that was the presentation. And I think now it's time for some questions.

- Rita Uotila: Hello, operator, now we are ready to take questions from telephone lines. Please go ahead.
- Operator: Thank you. If you would like to ask a question at this time, please press \*1 on your telephone and please ensure that the mute function is switched off to allow the signal to reach our equipment. Again, please press \*1 to ask a question. We will now take our first question from Antti Suttelin from Danske Bank. Please go ahead, your line is open.
- Antti Suttelin: Hello, it's Antti here. I have two questions. First of all, I can see that the cost savings, the €70 million is now fully visible. You had €34 million savings in first half – that's close to €70 million on an annual level – and your first half EBIT was breakeven, so what can you do to improve earnings going forward?
- Jari Älgars: We have a number of areas where we see of course we will continue with the savings plan as said, so that will continue, and we expect to see more of that. I think the other part is really that we still can do more in the service side. We can even focus more. We can have more site account managers out there. We can improve our supply chain and bring down the cost of our spare and wear parts, and thereby improve our service sales. Also, we can improve our competitiveness in the capex side the same way. We still can go more into better-cost countries than where we are today. We still can improve on our supply chains. We can do productisation, meaning that we can optimise our products to be more cost-effective, still reaching the same output. This all we are working on and I think all of them, we are expecting to see results. We have seen results in all of these areas already. But maybe as you rightly said, the most visible have been in the cost savings. But we have done, we have reached results into other areas as well and we expect to see more of those.
- Antti Suttelin: Yes, because if I look at your commentary on the market, it seems that you remain very cautious, you don't expect much help from the market. Is this correct?

- Jari Älgars: This is correct. I think we are looking more at what can we do in the current market to improve our situation.
- Antti Suttelin: Okay and then the second question. Positively thinking, how much kind of a project release provision inventory, if I put it that way, do you have currently? I mean, assuming clients all of a sudden wanted to complete all projects that have been ongoing, how much would you be able to release from provisions in that case?
- Jari Älgars: This is a number we have never let out and I don't think we should start now. We have, in each and every project, we aim to have enough provisions and then if the projects go well, we can release these, because there is always a risk element and if that risk element doesn't happen, we are able to release provisions out of it.
- Antti Suttelin: But last year, looking just on your bars, it seems that the amount was, roughly speaking, €30 million in 2015. Is it about the same or is it considerably different?
- Jari Älgars: I think when you look at our profitability roadmap, we have said that this year we don't expect to see much of that at all. So I think this is more or less what we are stating with our profitability roadmap. We see that there is of course less of them because that year, last year, we were able to finalise many projects we sold during the good old years. So big, really big ones, and that – we have less of them now but also, as stated, it's more difficult to get them finalised with the clients at the moment and to fight, in the final payment. So everybody, when they have a plant which is already up and running, it kind of, they are not so keen on releasing the last payment to us. So this is a – let's say, the situation is different now than it was beginning of and still last year.
- Antti Suttelin: All right, thank you.
- Operator: Thank you. We will now take our next question from Andrew Wilson from JP Morgan. Please go ahead, your line is open.
- Andrew Wilson: Hi, good afternoon, everyone. A few questions if I can please. Just on the service business, I was just hoping you can give us a bit more detail across the various areas, because it sounds like obviously orders were up, but I think that was against a weak comp, and then sales obviously looked weak, and then there's commentary suggesting that the service demand is actually weakening. So in terms of orders for the second half, should we be expecting the service orders to be coming down on the H1 run rate and is this purely on the sort of the genuine upgrade and refurb side, or is it on parts as well? So just looking for a bit more sort of detail around the moving parts there please?
- Jari Älgars: I think we are – what we intended to communicate was that it would remain weak. It's not in the range any way of what we saw in December, January and February. As I said, we are not at those low levels. But we still don't see the market taking off kind of strongly in that area. We still see customers avoiding spending as much as possible but it's clearly better than it was in December, January, February, and this situation remains. And I think we are more looking at the market is there, the market is weak, we can do more internally. We can improve our own competitiveness. We can have more people out there on the site and thereby, we are not anticipating – we are still anticipating there is opportunity out there going forward. And if you look

at then more specifically, I would say still the capex like modernisations in service is very slow, and that's been the case also during the last quarter.

Andrew Wilson: Okay so the parts side is actually, is that more unchanged than rather than weaker?

Jari Älgars: Yes, this is correct, yes.

Andrew Wilson: Okay and can I just ask a question just on the sort of development of the profitability in the second half? Can you give us any help in sort of bridging, I guess, sort of through the Q3 and the Q4 in terms of either cost savings or I guess where you sort of see – clearly we need to make up some margin in the second half, and should that be concentrated in the Q3 or Q4 or do you think it's going to be an improvement in both quarters, just to try and sort of to help us with the quarterly development?

Jari Älgars: Yes, I think the cost savings will be more kind of, let's say, I don't see any big difference between the quarters as such. It's more now on the, let's say, cost competitiveness side, purchasing savings, how can we improve our own stuff where I think we can do more impact. The impact we have made on the cost savings, they will continue and they will roll – and we will see them rolling in, but not with any specific different base with any of the quarters. It will just continue, and the weak base we really saw in Quarter 2 and then it will a little bit, let's say, it will continue. Of course, we will lower our costs, but the base will not be as strong as it was in Quarter 2 going forward.

Andrew Wilson: Okay so we should just expect Q3 to see an improve and then Q4, everything else being equal, just because the cost savings clearly come through incrementally, is that right?

Jari Älgars: Yes, correct.

Andrew Wilson: Okay and if I just going to ask one final question, just on the Iran orders, which obviously you've talked about are not in the order book, but in terms of can you just talk about a little bit about the pipeline and also the kind of timeframe and whether there has been any movement in terms of sort of likelihood of those orders be in a position where you can take the first payments and therefore we can see them in the order book?

Jari Älgars: I think we are discussing with clients in Iran on an ongoing basis. We have cases there which we are quoting. I would say even though after implementation they happened, things have been not gotten much different. It still takes a long time. Maybe there is more openness between the banks and trying to find ways between the Iranian banks and the banks we have here, and also maybe looking at instruments we did not have before, like LCs was very hard to find. It was very much cash, cash-driven. Maybe we will see some new instruments. So I'm still hopeful that Iran will continue to develop, but the development is always slower than what you would want it to be, I think that's the case. But I'm positive – I'm positive towards Iran, and we are focusing on that. I would have liked to see more happen but I guess that goes for everything I am looking at, so.

Andrew Wilson: I guess, so we can just characterise that as hopeful on the basis that nothing has gone wrong, it's just the timing, which we all know is difficult on these orders?

- Jari Ålgars: Correct.
- Andrew Wilson: That's perfect, very helpful. Thank you.
- Jari Ålgars: Thank you.
- Operator: Thank you. We will now take our next question from Manu Rimpelä from Nordea. Please go ahead, your line is open.
- Manu Rimpelä: Good afternoon, it's Manu here from Nordea. My first question would be on the services. So would you just help us to understand a bit better the phasing of the sales as we go into the second half of the year because if we look at the order intake, so that's been running organically at around down slightly less than 10% for the first half of the year, and order intake was down 10% in 2015 as well. So how should we think about that translating into sales for this year? I mean so far, the sales clearly declined in Q2. So should we expect that that deceleration starts to gain pace in the second half of the year for services?
- Jari Ålgars: I think as still the service business, which kind of takes longer to turn into sales, has been more of modernisations and upgrades where there can be a lack of a year or more before we kind of execute and move it into sales so it means obviously more portion of the sales is more short-term transactional type of business now. So it should for the most part be moving to sales quickly, as we could see also from the lack of order intake, December, January, February, it was immediately visible in our sales now in Q2. And I think this is what we should see also going forward.
- Manu Rimpelä: Okay and it was – so Q2 was an abnormally low level because of the very weak Q1, is that what you're trying to say?
- Jari Ålgars: Correct. Yes.
- Manu Rimpelä: And then on the cost savings, how do you see the employees developing for the rest of the year? I mean, we saw a pretty significant drop now in the second and the first quarter compared to the end of last year. So do you still expect or are have reached the level where you want to be, or are you still looking to get significantly lower that number over the coming quarters?
- Jari Ålgars: We are still going down. We announced at the time when we did it that we would reduce about 650 employees. At the moment, we are on the range of 500+. So we still have over 100 to go, which is kind of being executed, where the process of negotiation has just taken so long. So it still will go down with roughly that amount.
- Manu Rimpelä: Okay, thank you and then final question on these, you mentioned the big projects that you were able to complete last year and take provisions from them, and not expecting to get those provisions this year. So are you seeing that the margin profile of these projects has worsened with, especially, as you were mentioning, that there are issues getting the last payments from the customers? So are you having to take bigger provision cuts or release less provisions than you had expected because of these issues? Is that impacting profitability more than you had expected?



- Jari Älgars: No, not really. I think it's more like we, before we get the final acceptance, before we get the final payment, we really cannot do anything because we still have an outstanding risk there. So as long as we are fighting to get those final payments in, we cannot really do much of anything. So I think this is the main case. We are seeing delays in this. And as was said earlier, of course last year, we had from the golden days quite a lot of big projects that led to provision release, so there are less of them now. Less projects.
- Manu Rimpelä: Is this the reason why you changed the upper end of the margin guidance? So what was that due to?
- Jari Älgars: No, it was more, as said, that MEW development. As said, the order intake was not good in the first half of the year and it was also the orders we got were very one-sided. So I think this is the main reason for that. So obviously, it is a quite challenging situation in MEW and as said, if it's coming in with a lag – MEW usually come with the lag of about a year – MP has gone through that trough already and we see some stabilisation. With MEW, we definitely are not there yet.
- Manu Rimpelä: Okay, thank you. No further questions.
- Operator: Thank you. As a reminder, if you would like to ask a question, please press \*1 on your telephone. There are currently no questions in the queue – pardon me. We have another question from Tomi Railo from SEB. Please go ahead, your line is open.
- Tomi Railo: Yes, good afternoon. It's Tomi from SEB. A couple of questions. First, can you just remind us about the unannounced order seasonality? The level didn't actually pick up specifically or particularly in the second quarter compared to the first quarter, which usually tends to be the case, but what sort of indications would you have for the third quarter and fourth quarter?
- Jari Älgars: Yes, I think we might see the similar type of trends. The orders that are out there, as said, they are few – earlier said also – they are few and far apart. We can see them pretty clearly. We can also see that the amount of modernisations which form part of this unannounced orders is less. So I think we should also see going forward that the amount of unannounced orders are less, at least for the time being this looks to be the case, so.
- Tomi Railo: Is that also suggesting that the pipeline has changed and is the customer quoting activity, has that picked up or has it actually changed at all during the quarter?
- Jari Älgars: No, the customer quoting activity is actually strong and good. It's just they are a bit slow into coming into a decision making to award the orders. And so we have enough to do on the sales side with quotations and visiting customers and working on different type of projects for them, but for them to make a decision is taking a lot of time. So as you could see, we started to see some decision making in Q2 which we did not see in Q1. At the moment, it looks, the situation looks very similar as it does look for the last quarter.
- Tomi Railo: Thank you.

Operator: Thank you. We will take our next question from Michael Kaloghiros from Bank of America. Please go ahead, your line is open.

Michael Kaloghiros: Hi, good afternoon, Jari. Good afternoon, Rita. My question is on your restructuring and the personnel developments, I mean it looks like you've done a very good work at reducing services personnel over the past year or so. If I look at the non-services personnel, I mean compared to where we were few years ago, if I look at a kind of ratio of that non-services to services personnel two years back or one year back and where it is now, I mean you're still way below where you were. I hear you saying that you're pretty much getting into the end of the personnel reduction with maybe just another 100 to go. I mean should I read that like you are fine with the kind of like cost structure you have in the non-services part of the business?

Jari Älgars: I would say that we are of course not accepting anything but profitable businesses. So we are looking at – if we need to do something somewhere still after we have kind of run out the current plans, we will make and execute new plans. But at the moment, we have not announced any such.

Michael Kaloghiros: But I mean, should we understand that you're keeping the cost structure as it is to, I mean maybe to prepare for hopefully getting more volumes or I mean, should we expect more cost actions to come on that part, the non-services part?

Jari Älgars: I would say like that I think you can also see from the order intake that certain parts of the business are showing kind of a positive trend. Certain parts of the business are challenged and if we can see that that challenge continues, if we are not getting in enough orders, we have to put in more cost structure. So what I'm saying is this is, it's not stopping here if we need to do a more.

Michael Kaloghiros: And just to – I mean again, if you look at maybe roughly, the kind of services sales per employee has come down, you know – I mean has improved actually as you reduced the services personnel, I mean should I just assume this as a proxy for your margin development in services as your margin in services improved over the past 9-12 months?

Jari Älgars: I think the picture is not that kind of clear because some of – with some, many of these service people are out in the different countries and in those countries, we have a lot of admin people as well and we have done quite, let's say, heavy reduction on the admin and functions side, more – even more than in the business side. So I think that's probably what to some degree is shining through here also. So it's not, even if it's says service here, it means also support people to reach the service business. And also it means blue-collar people because we also have overtime contracts, for instance, which also makes a big impact on this. And in some of the areas, we can – we have seen that customers have insourced part of the work. So, and also in some areas, we have seen that customers have reduced the amount of work. So as such, I would say the margins have remained and we have adjusted the people to where the business level is currently.

Michael Kaloghiros: Second question on, maybe coming back to the question earlier on your adjustment of the guidance, and I'm trying to reconcile the different moving parts, because on the one hand, you say that you didn't get the orders that were expected in Metals, Energy business, but you haven't moved the top line guidance, just the margin

guidance. So I mean, is it the execution in that business that is maybe underperforming your previous expectations, or is it the projects that you were expecting to be completed this year with some sort of like a provision release at the end of the year that have slipped into 2017. How should we read this?

Jari Älgars: I think really we should read it in that way, that MEW is very much about sizable projects, and where we have a good backlog and where we have work carrying forward. And the worrying part is of course if we don't get new orders to fill up when the backlog is starting to decline, then we come to a point where work stops. But many times we see, we have a visibility 6-8 months forward on the workload in MEW, which means in principle you don't see any order intake but it still doesn't mean that we don't have work. But at some point of course, when there is not enough of orders coming in filling up, where others are going as sales, then at some point we have to do something. And I think this is how you should read MEW. We need to improve the order intake going forward, otherwise we have to do something else.

Michael Kaloghiros: But is it fair to assume that the phasing of the delivery of the backlog hasn't changed this quarter compared to where it was beginning of the year or last quarter?

Jari Älgars: Correct. This is correct. But we still have work going forward, but let's say that what we see in front of us, the workload is diminishing because we had so low order intake in first half of the year. Now we need to improve that in the second half of the year, get in some of those bigger projects which we did not achieve during the first half of the year, which would give us more work and backlog and then carry us forward. Otherwise, obviously, we have to look at how can we save costs.

Michael Kaloghiros: Okay. Last question maybe just on cash, which has been a bit disappointing so far this year. I read your comment on your receivables and how difficult it is. Maybe if you can give us a bit more comment on this and also just if I look at your advance payments received, it looks like, I mean, they are coming down in the first six months compared to where they were at the end of last year, while at the same time the book-to-bill is positive and is positive as well on the equipment side though. I mean, have you seen like a change in the amount of advance payments that you receive or is it just a timing effect? I mean, what can you tell us about the cash budget?

Jari Älgars: It consists of two parts. One is it's purely a timing issue. We usually see more payments in the second half of the year due to how customers buy and we have seen that during the last three years, it follows a U-curve. So for us, this is more or less going according to the plan with this order intake. This is roughly what we should see, and this usually turns to the positive on the second half of the year. So we return back to more – we return back more to the starting point of the year. So this is, we don't expect to see anything different this year either.

Michael Kaloghiros: Okay, great, thank you very much.

Operator: Thank you. We will now take our next question from Jonathan Hanks from Goldman Sachs. Please go ahead, your line is open.

Jonathan Hanks: Hi Jari, hi Rita. Just wanted to clarify – maybe I missed it – did you mention that kind of ability to collect payments from your customers had been getting worse throughout the year or was that just kind of a general comment on the first half?

- Jari Ålgars: I would say it's more a general comments from the first half, and we see that we just have to work more and more, and harder on this one. But we also see that when we work harder, we get more results. So in a way, the situation has not changed and it's certain countries where we see more challenges than others and then in India for instance, China. Those are countries where we see it's even more challenging than elsewhere. But this is to some degree a global phenomenon that we see. But some customers still are good in paying and have been doing this also through the time, but there are customers who clearly utilise the situation now and we have to fight to get that money. I think it's not gone worse during this first half. I cannot say it's worse now than it was at year end and the situation is the same, the same amount of work.
- Jonathan Hanks: Okay, thank you very much. Cheers, bye bye.
- Jari Ålgars: Bye.
- Operator: Thank you. Thank you. We will now take our next question from Johnson Imode from Bloomberg. Please go ahead. Your line is open.
- Johnson Imode: Hi, thanks. Just getting back to Iran, I was just – it looks like you are looking some orders now but I was wondering if you had a feel as to why some customers are able to make advance payments to you and other are obviously still finding it very difficult?
- Jari Ålgars: Yes, I think there are customers there which are better off than others and have cash available, and then I think we can also see that it's always a cash allocation, that cash is a scarce resource in Iran and it gets allocated to the projects that are most needed, and I think quite a lot of it is being allocated into the oilfields currently because the payback is very short in getting their oil running. But we also see clear signs that they also want to improve their assets what they have in the minerals side, so in the mining area. So I'm expecting to see some business going forward. But as said, it's very slow and it's a lot of work to get there before we have everything set and the banks setup and things in place.
- Johnson Imode: So are you saying it's less of a banking issue now and more of a how customers are allocating cash?
- Jari Ålgars: So I would say for it all I think it's a question of allocating cash. I think for our customers it's depending on what kind of financial situation they are in. Even though if they have cash, we need to setup – we need to set up kind of banking facilities at both ends, and I think also I said LCs have come into the picture as one option which we have not seen for a while, or seen for a long while. So it's going more into a more let's say normal business mode, but slowly because even banks have to get used to each other first and have to start to trust each other and get systems to function.
- Johnson Imode: Okay, thank you.
- Jari Ålgars: Thank you.

- Operator: Thank you. We will now take our next question from Andrew Wilson from JPMorgan. Please go ahead, your line is open.
- Andrew Wilson: Hi again, just a couple of hopefully quick follow-ups. On the, just on the projects, where you're struggling to get finalised and where the payments aren't forthcoming, can you just explain what – am I right in understanding that the situation is, that because they have effectively a system that's working, then they're just holding off the final payment? And if that is the case, what exactly is the leverage that you've got to ensure these payments do come through? I'm just trying to think about how this kind of unwinds over the next 12 months or so.
- Jari Ålgars: Yes, I think obviously our customers, when they have made a decision that they go with us, it's a long-term decision. We are there for a long time and they will need us when there's something that needs to be fixed, or they need some spare parts or similar. And that's usually standard time and it will come, but it's kind of at some point, we might have less leverage, at some point we might have higher leverage. But over a period of time, there's enough leverage to collect the money home. So I think it's more a timing issue than anything else. But obviously, there is always a risk with the clients that something might happen. So the longer it takes and the risk that something might happen during this year is kind of making that the risk levels are higher than normally because many of our customers are not earning the monies they used to, so the situation is different.
- Andrew Wilson: Okay, no, that's very clear and if I can just ask just a final question, unless I've missed it in terms of the disclosure, or perhaps you can help me, across the two segments, can you give us an idea with how the service orders have trended by segment year-on-year please?
- Jari Ålgars: As said, the modernisations and upgrades are still down. I think on the spare and wear parts, as said, that's more, definitely more resilient. And then on, let's say field service, etc., it's pretty okay; it's developing as it should. So I think that's more or less where we are. Maybe on operate and maintain contracts, we can see that some customers are more, let's say, hesitant in doing those. I think also for us, we are also pushing to make sure that we have enough profitability out of that. So that's probably looked at from both sides.
- Andrew Wilson: And if you were to split those dynamics by Minerals Processing and Metal, Energy and Water, can you give us an idea of what the year-on-year picture for the two divisions is please?
- Jari Ålgars: We have not given that guidance, so for the order intake of the service side. So as said, I think in general if the plants are running, we see field service, we see spare and wear parts. But I think when it comes to modernisations we – as it is more capex related, we see more of the same type of trend as we see in the bigger projects, if that is some guidance.
- Andrew Wilson: That's very helpful, Jari. Thank you.
- Jari Ålgars: Thank you.

Operator: Thank you. There are currently no more questions on the phone line so I will turn the call back to your host for any additional or closing remarks.

Rita Uotila: Okay. Thank you, everyone, for participating and so we can close the teleconference from all of the accounts here in Espoo. Thank you.

Operator: Thank you, ladies and gentlemen. That will conclude today's call and you may now all disconnect.

Jari Ålgars: Thank you.