Company: **Outotec Oyj**

Host: **Pertti Korhonen**

Conference Title: **Interim Report for January to March 2016**

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Operator:

Good day, ladies and gentlemen, and welcome to the Outotec Oyj Interim Report for January to March 2016 conference call. Today's conference is being recorded. At this time, I would like to hand the conference over to Rita Uotila. Please go ahead.

Rita Uotila:

Thank you, operator, and hello also from our side here. We are ready to start with the presentation from Q1, and followed by a Q&A session. So please Pertti, go ahead.

Pertti Korhonen:

Thank you very much, Rita. So good afternoon also on my behalf. I will start with the safety performance because in our industry, safety is the most important thing. This is not a danger-free industry and therefore, we pay a lot of attention to this. I am happy to report that we had zero fatal accidents and our lost time injury rate was 1.2 per million hours, including our employees and subcontractors, which by any benchmark is actually a good figure.

If we then move forward and look at the operating environment in the first quarter, the challenging operating environment continued. The mining and metals industry sentiment continued to be challenging and of course, when there is less business available, also the competition continued at an intense level. We have seen volatility in the metals prices. We have seen recovery from the beginning of the year, but then also followed with some volatility, so we cannot yet see any certain trend there. And many producers in the industry are in a very difficult situation with their profitability or with their balance sheets, and therefore the theme in the industry is really to maximise cash flows and reduce all possible costs and of course this has continued to lead to

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postponement of investment decisions, and those investments which the producers are doing are really geared towards getting fast returns. So that's really the name of the game in the industry.

If we look by geography, markets in the Middle East and Europe were more active than the markets in Americas and Asia Pacific. And then looking by metal, by commodity, of course the iron ore value chain, the steel value chain has a lot of overcapacity, and there the investments were weak. Gold was actually adding a more upbeat sentiment, so that has been recovering, and that's also visible in the increased activity vis-à-vis investment projects. And then environmental projects, they were more active, and I will come back to that in few minutes, and then waste-to-energy market also in certain countries continued to be active.

If we look at the first quarter in a nutshell, starting from the minus side, so our order intake declined in the challenging markets, and I will elaborate that of course more in couple of minutes. Sales contracted because of the timing of the larger orders that we received last year and also the slowdown that we have been experiencing in the project deliveries because of customers. There is no new change here but there are some projects that are in this kind of a slower progress mode, because of customers' reasons. And then of course, our adjusted EBIT was negative, as we also indicated in our guidance that the beginning of the year would be on negative figures, and this was due to the lower sales and particularly lower provision releases, and I will open this a little bit more in a few minutes; and then the fact that the service order intake declined, driven by the weaker upgrade and modernisation order intake, although the spare parts already, they were developing positive.

Then on the plus side, we were able to conduct our €70 million cost-structuring programme as per plan, so that is on track, and it resulted to 9% improvement in the fixed costs, €8 million by the end of first quarter, and an annual run rate of 32. Spare part orders and sales grew slightly. Services sales actually, when looking in comparable currency, it grew 5% year-on-year. And then we successfully issued a €150 million hybrid bond to strengthen our equity and cash and cash equivalents. And then actually we saw some signs of stabilisation of the market towards the end of the Q1 as a positive sign.

Moving forward to the elaboration of the order intake, in order intake we reached €170 million of orders, so down significantly from the previous year's first quarter. Mineral processing orders were flat in comparable currencies but in Metals, Energy and Water, the orders halved compared to the previous year, and this is really due to the timing of the large orders. So if we move forward and look at the order backlog and the order intake by quarter, as you can see on the blue bar which shows the smaller orders, the service orders, the equipment orders, that continued more or less on a flat level in the first quarter but we were lacking these big orders that are typical in Metals, Energy and Water, and therefore the overall total order intake ended up only €270 million and of course impacting the order book. We are estimating that roughly €600 million of the Quarter 1 end backlog would be delivered still this year.

If we then look at the sales and the profit numbers, our sales in comparable currency went down by 8%, in line with our expectations. Services sales in comparable currencies actually increased by 5%, which I think is a good result. And as we have commented, we believe that the overall services market will actually somewhat contract this year due to the savings actions that the producers are taking, so we can be pleased with this 5% Service sales growth in comparable currencies.

Gross margin went down from 28% to 24%, because we were lacking project release, the project provision releases in the first quarter. Last year in the comparison period, we had more significant releases of project provisions due to the completions of projects, but in the first quarter we did not have such impacts. So as a result, even though we were able to reduce our fixed costs, the adjusted EBIT went to the minus side, as we also indicated with the guidance that we gave in the beginning of the year. And the net profit was negative by €12 million because we incurred restructuring costs during the first quarter related to our cost reduction programme.

So on the next page there is a bridge which shows how year-on-year the adjusted EBIT has been changing, so that the negative items of course are coming from less gross margin because of smaller sales, plus then the lack of provisions releases compared to the previous year's first quarter as I mentioned. Then of course, we were partly able to compensate this through fixed cost decreases and we also had some tailwind coming from the foreign exchange gains on derivatives, and all-in-all, we ended up with minus €5 million adjusted EBIT.

If we then look by reporting segments, Minerals Processing order intake in comparable currencies was in practice flat – minus 2%. Sales was down by 10% in comparable currencies, so perhaps one could say that it's more or less in line with the market, and then Services sales was down by

5% in comparable currencies. And because of lower fixed costs, we were able to improve the profitability of Minerals Processing segment. Spare parts sales were flat year-on-year.

In Metals, Energy and Water, as already mentioned, the order intake went down by 50% in comparable currencies, and this was really due to the lack of any booking of larger plant orders. In Metals, Energy and Water, our orders are normally these kind of larger orders so the order intake comes from a few individual large orders, and that of course means that the order intake is very bumpy and varies a lot between the quarters.

On the positive side, the spare parts sales grew and that is of course developing to the right direction. Sales in comparable currencies down by 7% because of the timing of the orders we received last year. As you remember, last year was a good year for MEW order intake. However, those larger orders that we won last year, they are still in the early part of the execution and in that S-curve and, therefore, they are not yet impacting so significantly to the sales and profitability. And we are still having too high fixed costs in this segment, and therefore the adjusted EBIT was on the negative side.

Service order intake and sales declined. Service orders went down 14% in comparable currencies, and this was due to the weak market for upgrade and modernisation services. The spare and wear part orders actually improved quite nicely from the low levels of Q4, so this has been coming back in a good manner. And if we look at the Service sales, it was indeed up by 5% in comparable currencies, which I think is a good achievement in the depressed market, and the spare parts sales grew also slightly.

Moving forward to the cash flow, so the net cash from operating activities was on the same level as last year, €34 million, but we had significantly less capital expenditures, we did not make any acquisitions and therefore the cash flow, the free cash flow improved from what it was a year ago. And here, it's maybe worth mentioning that we have now completed our very significant investment project for common processes and IT tools. That is a project that we started in year 2011, and we have now successfully implemented and rolled out those common platforms. We had a very fragmented situation when we started but now we have a platform to really operate as a global company and therefore the investments are going down, and now it's also payback time for those investments. And these shared platforms are actually positively contributing for us reaching this €70 million savings.

If we look at the cash and equity, those were positively affected by the drawdown of the hybrid bond. We are using the hybrid bond predominantly to refinance our earlier financing instruments. We did not really need this for cash but we wanted to be able to do this refinancing and also strengthen the equity, because I think we have all learned during the recent years that the world can be a very volatile place, and it’s important to be prepared for volatility, and a strong balance sheet is one part of preparing in advance in case there is again more volatility in the marketplace.

The €70 million cost efficiency programme that we introduced in November is proceeding on plan, and in first quarter we materialised €8 million net savings, which of course corresponds to €32 million annual savings. So the progress is happening and of course our actions will take us to this €70 million level, and the programme is on track. Biggest part of the cost savings is coming from personnel reductions. We’ve reduced 460 persons since we started the programme. The acquisitions that we executed brought us 74 more persons, and then we added 25 persons to different bottlenecks in the business, for example to grow the spare and wear parts business.

Key events after March 31, of course the AGM meeting on April 11, and also we were able to settle an old dispute that actually goes back to Larox company, which we acquired 2010. So in 2007, they did a deal, which then later resulted in some disputes, and now we have been settling that deal. It’s handled in the one-time costs because it was related to the operations of this acquired company before it was owned by Outotec. And on Monday this week, we announced a gold deal in Burkina Faso, €13 million order and this chart shows that the gold market is maybe a little bit more active now. It also shows that we have good offerings in gold, and that we have our presence in Africa in a good shape so that we can serve customers also in this kind of country.

If we then move forward to look at the market outlook, we think that the market outlook will remain uncertain and volatile. The market is clearly split in two. If we look at strictly the minerals and metals processing market, there the capacity is still exceeding the demand basically in all metals and minerals, and we are expecting that further capacity adjustments will be needed and will be happening in the industry. And if we combine that to the outlook of long-time metal prices, these two factors really don’t support massive investments at the moment. So we are not counting on the minerals and metals capex market recovering. As we have said earlier, we expect that this capex market in minerals and metals will somewhat contract still this year.

Then on the other hand, sustainable solutions are in demand. Our customers need to upgrade their plants, what comes to environmental performance, and also to improve the management of the risks on the environmental side. So here we clearly see a segment which is growing. Geographically, the Middle East is an active geography and as you know, there are quite ambitious and serious actions by the governments in Middle East to diversify their economy to be less dependent on oil, and minerals and metals processing is a very natural industry to develop and grow to become an important leg of the economy, and in these countries, they actually have very good minerals resources. So we are participating in this growth segment in a good manner, as a company.

Waste-to-energy solutions are also in demand in certain countries but of course the fact that it's linked to subsidiary and environmental regulations means that also this market is quite lumpy, dependent on how these current subsidy schemes go forward.

Service business is dependent on industry production volumes, which is basically driving the field services and spare and wear parts business. We believe that that will be pretty stable but there are price pressures from the spare and wear parts and field services parts when producers are trying to improve their capex costs. What comes to upgrades and modernisations, that has been a slow market and that is the reason why our order intake in the first quarter in Services was down. Producers are utmost trying to postpone the need to do upgrades and modernisations as long as possible. Of course at certain point of time, they need to start to invest again as the investment levels to upgrade and modernisations are below the normal amortisation. So basically at the moment, the industry is depleting current capacity and that of course can't continue forever. So at some point of time these activities need to pick up.

And then what comes to our focus in 2016, it is extremely simple. As a first priority, bring down the fixed costs to the level so that we can make sustainable profitability as a company and recover from the losses that we made in third quarter; and then secondly, continue to improve the competitiveness and cost structure of our product offerings. That's very important to be able to compete successfully in the marketplace, where price pressures are present. And then secondly, continue developing the Service business, as that is a more steady and recurring business compared to the more volatile capex business. And then of course, seeking opportunities from those growth segments that I elaborated on the previous page. So this is our focus very much this year.

And if we look at the financial guidance, we have reiterated our earlier guidance. So we are expecting the sales to be between €1 billion and €1.2 billion, and the adjusted EBIT to be approximately 2-5%. This adjusted EBIT corresponds to the previous term of EBIT before one-time costs, and this is the new terminology so it basically equals to comparable EBIT.

We now have, after the first quarter we have €240 million in pocket what comes to sales. We are expecting €600 million to come from the current Q1 end backlog. So we need €160-360 million sales from new orders in order to meet this guidance window, €1-1.2 billion, and naturally, the biggest part of this €160-360 million new sales will be coming from services. So what comes to the capital revenues, there we are already pretty well covered and don't need so much these amounts of new orders generating sales this year. So this is the guidance, and now I think it's time for questions and answers.

Operator:

Thank you. If you would like to ask a question at this time, please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find your question has already been answered, you may remove yourself from the queue by pressing *2. Once again, please press *1 to ask a question. And we will take an opening question from Manu Rimpelä of Nordea. Please go ahead, your line is open.

Manu Rimpelä: Good afternoon, can you hear me?

Pertti Korhonen: Yes. Hello, Manu.

Manu Rimpelä:

Hello, hi. My first question would be on this – you mentioned that you are seeing some signs of stabilisation in the market, so could you just elaborate on what these are and kind of what gives you some confidence to believe that those are real and tangible signs which will turn in to more business in the – towards the end of the year?

Pertti Korhonen:

So thanks, Manu, for the questions. So indeed, we have seen some signs of stabilisation. The spare part, spare and wear part orders strengthened nicely from the low level where they ended up in the fourth quarter. When I commented about the fourth quarter results, I said that we experienced a surprise in the end of the year, because normally there is kind of a peak in the spare and wear parts demand towards the end of the year, and I commented that perhaps what has happened was that the remaining budgets were cut and therefore that a peak in the spare part demand did not happen in the end of last year. Now we have seen that the demand is recovering, and actually our orders grew nicely sequentially from the fourth quarter in spare and wear parts. So this is one sign. Then the other sign is that as some of the metals prices have been having a more positive development in the first quarter of the year, the activity level at customers has been increasing, our tendering and quotation activity has been improving. So the sentiment is developing to the right direction. And as I referred to in the order intake, we said that the result, the reason for the weak order intake in first quarter was the timing of orders. So perhaps implicitly from that, you can read that the order intake pipeline is not empty but it's really about timing in being able to close those orders.

Manu Rimpelä:

Okay, and can I just follow up on the orders? So I mean we've seen delays taking place and the pipeline remaining quite healthy for quite some time, but that kind of hasn't necessarily lead in to orders. So what gives you confidence that this time you can actually close those orders and they – also from your side and from the customer's side?

Pertti Korhonen:

Well, our order intake is always volatile between the quarters. We were quite pleased last year, 2015, that we were able to close our orders in practice at the same level as we were able to close in 2014, despite of the fact that the market was down. So yes, it was bumpy but we ended up to a flat level last year in a declining market. And if we look going forward, yes, Quarter 1 was weak what comes to orders but we actually have a healthy funnel in front of us, and I believe that we can close orders.

Manu Rimpelä:

Okay, and my second question would be on the guidance. If I just look at the Q1 2015, I think you had then said that you're going to deliver €740 million of sales from the backlog and you ended up doing €1.2 billion of sales, and today you expect to deliver €600 million from the backlog and still have an upper end of the guidance at €1.2 billion. So I'm just trying to understand that €140 million difference between Q1 this year and last year. So what will make up that? Is it really possible to get that much more business out of services, especially as the service order intake was down in the quarter quite significantly and has been falling for the last five to six quarters?

Pertti Korhonen:

Manu, is your question referring more to what we are expecting to deliver from the backlog, or is it more referring to what do we expect from new orders?

Manu Rimpelä:

So my question is do you believe that the €1.2 billion upper end of the guidance is reasonable, given that you have already €140 million tailwind – sorry, headwind – when you go in to the Q1, given what you have in the backlog compared to what you had at the start of last year, and then you delivered €1.2 billion in sales?

Pertti Korhonen:

Of course there is a window, and these figures represent our current best understanding of the low and the high end of the window where we could end up. This is based on mix, on timing of the backlog, so timing between services and capex. Mix and timing – the mix between services and capex, and then the timing of order backlog in capex plus the expected timing of coming orders. So when we go through those mathematics, this is the range that we get. Last year, we have to remember happened was that the first half of the year looked pretty fair. Things were developing in a stable manner. Then came June and the Shanghai stock market crash which sent then the metal prices to a very strong declining trend, which meant that in the second half of last year again producers were tightening their investment plans and starting to slow down and brake on their plans. So the dynamics changed quite drastically between the first half and the second half of the last year, and that of course impacted a lot where we ended up for the full year compared to what we anticipated in the beginning of the year. So we were caught by surprise in June what happened in the global markets.

Manu Rimpelä:

Okay, and final question, just on the provisions and the Metals, Energy and Water margins, was that all the provision in that division? And also I mean, I guess this provision is a normal business for you as you complete the projects, and I would imagine that there's less projects in the backlog today than there was a few years back. So should we expect more of these kind of provision-related release headwinds in this year and the coming quarters?

Pertti Korhonen:

Last year in the comparison period, these provision releases came from the projects of Metals, Energy and Water. Normally, that's really where we have more significant provision releases happening. In Minerals Processing, the business is more geared towards equipment and we don't have a similar dynamic effect coming from there. We have a healthy level of provisions against our backlog but when we have been doing our planning, we have been assuming neutral provision changes for the full year.

Manu Rimpelä:

Okay, no further questions, thank you.

Operator:

We will take our next question from Andrew Wilson at JP Morgan. Please go ahead, your line is open.

Andrew Wilson:

Hi, good afternoon, everyone. A couple of questions from me please. Could you give us an update on where you are on the Iran orders? I mean, you provided a number, I think, in the presentation but just in terms of pipeline of when you might be able to put those in to the backlog?

Pertti Korhonen:

Indeed, thanks for the question. So we have €220 million of Iranian project orders not included in the Q1 end backlog. As we have communicated, we are only booking those orders when we receive prepayment, so we have a very conservative policy there. And it's 220 and of course, things have progressed well what comes to lifting off the sanctions in Iran, and gradually the business is starting to return in to a situation where, for example, for financing and for credit, it starts to normalise. So we hope that the political development will continue in a stable manner, and this lifting off the sanctions and putting the practices in place in financing and banking will be proceeding. And in case that will continue to happen, then we should be able to start to move these orders that we have won also to the backlog. So gradually coming in.

Andrew Wilson:

And can I just ask a second sort of similar question in terms of the pipeline for gold projects? You obviously talked about the activity picking up, and we've seen an order already booked for the second quarter. I think on the previous conference call you did, you talked about having others in the pipeline potentially being booked in the first half. Is that still a realistic timeframe?

Pertti Korhonen:

Yes, indeed the activity level in the gold has been increasing. I don't think that I referred to any particular gold project regarding the first half but as a general comment, I would say that the activity is higher in that market segment and we have cases in our sales pipeline.

Andrew Wilson:

Okay, perfect, and then just a final question just on the outlook for Services. You obviously talked about the improvement sequentially on the Q1. Is it sort of realistic to think that the outlook is pretty similar to what those Q1 levels look like? So basically still pretty difficult in terms of the service side, but spares and wears trending at a higher level than what we saw in the Q4 as we go through the remainder of 2016?

Pertti Korhonen:

The trend in the spare and wear parts looks again promising after the disappointing Q4, as we already mentioned. So it was really a surprise, this Q4, but now it's now going back to the right direction, and of course we will work hard to make sure that that will continue to happen. The biggest uncertainty in Services is really this upgrade and modernisation market, that how long can customers continue to postpone the upgrades and modernisation activities that they would eventually need to do. So that's where the uncertainty is, but maybe that's the way to summarise.

Andrew Wilson:

Yes, perfect, thank you.

Pertti Korhonen:

Thank you.

Operator:

We will take our next question from Peter Murdoch of Morgan Stanley. Please go ahead, your line is open.

Peter Murdoch:

Yes, hi Pertti, hi Rita, just the one question from me. It's just on pricing. I read in the report, you commented on increased competition and you've commented on it on the call. Is this – the question is is this broad-based? Is this equipment and services? And then in Services, does this include the spares and wears? And then finally, does this mean, because I guess pricing increased year on year, does this mean the backlog now that you're booking, is that at a lower profitability than what the backlog was say 6 to 12 months ago?

Pertti Korhonen:

Thanks for the questions, Peter. So all in all, of course, when the producers are in a difficult financial situation, they have a strong agenda to reduce their opex and capex costs. So I would say that the price pressures coming from customers are there both for the capex solutions but then also for services, including the spare parts and wear parts. That's very clear. And the way how we are attempting to fight those price pressures is to actually improve the cost of our supply chain and to improve the cost structure of the products and the projects that we are delivering. So that is really the mitigation action that we are taking, and we are trying to resist taking in deals with bad margins. So that's the strategy that we are having.

Peter Murdoch:

Okay, thank you.

Operator:

Our next question comes from Jonathan Hanks of Goldman Sachs. Please go ahead, your line is open.

Jonathan Hanks:

Hi Pertti, hi Rita. Just curious on the better comments on gold, if I just look at your precious metals revenues, they peaked I think in 2012 at about €280 million, and then in 2015 they're just under €100 million. I'm just curious to hear your thoughts on where you think a normal level of demand from the gold industry is at this kind of gold price.

Pertti Korhonen:

Jonathan, so it's an excellent question. Unfortunately, perhaps my answer will be a little bit disappointing. I would say that those numbers are not so much reflecting the overall size and the development of the market but rather the fact that we were able to win some significant big individual gold projects at that time. Of course the overall level of the market was also higher. We are all remembering the fantastic gold prices which were there at that time so the overall market was higher. But it was also impacted by some large individual gold projects. I think that we are well in a good position vis-à-vis the gold market because during the recent years, we have systematically strengthened our portfolio and the offering in gold. Last year we bought this company BIOX which is in the bioleaching of gold, and all in all, through our own R&D investments, we have been developing gold offerings. So actually our offering, product and technology offering, in gold is stronger than ever, and let's now hope that the positive momentum continues here, and also that we could leverage our offerings in a good manner but of course, difficult to make any promises.

Jonathan Hanks:

Okay, thank you very much.

Pertti Korhonen:

Thanks, Jonathan.

Operator:

As a reminder, if you would like to ask a question, please press *1 on your telephone keypad. Our next question comes from Guillermo Peigneux of UBS. Please go ahead, your line is open.

Guillermo Peigneux:

Thank you. Thank you very much for answering the questions. Just one question actually regarding service profitability. Could you comment a bit on the progress of the EBIT margin year on year and maybe quarter on quarter as well, and kind of make some granular comments on how wears and spares are in terms of profit margins versus upgrades or modernisation as we speak? Thank you.

Pertti Korhonen:

Hello Guillermo, thanks for the question, although it's a tough question. Let me a little bit elaborate it. So – but we are not giving anything extra on these margins, but if I elaborate the situation. So as I said earlier, there are pricing pressures also in spare and wear parts when producers are doing everything they can do to cut their opex, so the pressures are of course there. And the way how we are mitigating those pressures is through sourcing and procurement actions, optimising our supply chain and really trying to fight hard to keep the margins there. Plus, actually then also by pricing policies, making sure that we optimise the revenues and the absolute sales margins that we are getting from that business. That's what we are doing in a situation where there are pressures on the price.

Guillermo Peigneux:

And is that offsetting for the declines or the lacklustre demand prospects you have at the moment? I just want to, in a way, get a sense of how profitability is evolving in this part of the business, if you could make any – not maybe quantitative comment but qualitative one, that would be good enough. Thank you.

Operator:

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

Michael Kaloghiros:

Yes, thanks, everyone, and sorry, Guillermo, for you not being able to ask your questions. I'll ask mine, and I hope you'll be able to do it next. So first one on your comment on the activity level following the pickup in the commodity prices. So I'm just interested because it sounds a bit different to what we heard during the reporting season, so I just want to understand where is the activity picking up except on gold? Is it minerals side on your testing measurements/analysis part of the business or is it on the metals side of the business? Just a bit of granularity on where it is coming from please.

Pertti Korhonen:

Right, well, thanks for the question. So yes, in the gold value chain, the activity level is higher. Then I mentioned earlier in the environmental solutions, so improving this, or reducing the emissions of metals processing plants. There is clearly more activity also in the water treatment and the effluent treatment area, and I think that the tailings treatment area – impacted by also some unfortunate accident that happened in the industry last year. So these are the areas where we are seeing higher activity levels, and also in minerals and metals processing, the market is not dead. So we are having cases by countries, by customers where certain producers have decided that they want to move forward with their investment.

Michael Kaloghiros:

Okay, interesting. Just then maybe a follow-up. If I look at your orders in Q1 and I look at your backlog and backlog for deliveries this year and next year, it looks like you didn't book any equipment order for delivery this year. They all went in to 2017 for the backlog. Is that correct or is that that maybe some of the deliveries that you were expecting this year and now you expect them to come next year, and you actually did book some orders for delivery this year in the equipment side, excluding services?

Pertti Korhonen:

Thanks for the clarifying question. So, if you look at the page 6 in the presentation which shows then order backlog and then the quarterly order intake in those green and blue bars, as you see from the first quarter, the blue bar, basically all our orders were unannounced orders which then include service orders and equipment orders that are specifically less than €10 million in size. And you can see that we did not have anything on green here, and the green part is those announced larger orders. So really, this blue part includes both equipment orders and then service orders, and we did not book any larger plant-level capex orders in first quarter that would be typically in excess of €10 million.

Michael Kaloghiros:

Yes. No, sure but I mean, you booked €170 million of orders in the quarter, €100 million of that is services, so the flow equipment orders is roughly €70 million, and it looks like it all went in to the growth in backlog for delivery in 2017 rather than really going in to the backlog for delivery in 2016. So I just wanted to understand if it was the case you just booked some orders for delivery in 2017 or did you get some for delivery in 2016 but against that, you had some maybe project that you expected to deliver this year and that have moved to 2017 to explain why the backlog for delivery in 2017 grew in Q1 versus Q4?

Jari Ålgars:

If it's okay, I would also try to answer Guillermo's question at the same time here, because I think they go a little bit better, that one. So what regards to our margins, yes of course, we see pressure coming also on the service and the capex side but we are trying to mitigate this by again giving pressure to our sub-suppliers, because most of everything we buy goes to sub-suppliers, we have very little own manufacturing. So we have been able to pretty well mitigate the pressures that way. If we then look at the service and the capex side, there is a cape element, a capex-like element in the service business which are these modernisations, which usually are pretty lengthy in size. They can take over one year to deliver. So some of the business in the service side goes over to next year, from 2016 to 2017, while we book it; and likewise of course in the big capex when we are selling, we will see some effects this year but the bigger effect next year exactly as you describe. But then we have these tear and wear parts and recurring service business, and that has a very short turnaround time, which is maybe one, two months, maybe even weeks if we happen to have the parts on stock. And as Pertti has been mentioning, we have not seen a very big change in that area year-on-year, and that's really what is giving most of the sales. And as Pertti also mentioned in the capex side of business, we have – we are in quite a good shape with regards to the amount of backlog we have. So we might even, if we are able to book orders reasonably soon, we might have a chance of increasing that. So that's roughly where we are. So the tough part is really in the modernisations. The bigger capex is okay, and then again in the spare and wear parts, it looks also pretty okay and the margins are not dramatically changed.

Michael Kaloghiros:

Understood. Last one, different topic, on the IT investment that you've done over the past few years and now that you're coming to end, just wondering if all of that was capex, or did you have a portion of that being expense in the past couple of years? And then looking forward, are you now going to maybe expense a little bit because you have to launch those new IT tools? And also just maybe, I think based on that, the kind of benefits you expect from getting those new tools in, and any way for us to quantify the potential benefit from using this new uniform IT? Thank you.

Pertti Korhonen:

Yes. Yes, thanks for the question. So if we look at how we treated the costs of these projects, we expensed such kind of costs which are direct costs that we incur when we are doing the work, but then we capitalise such parts which will be then basically utilised during the course of many, many, many years. So those were then capitalised. And if we look at the impact now to our numbers, you will see that the capex part will go, our overall capex investments will go down very much, and this is one part there which is contributing. Yes, of course, we will then be getting expenses from the balance sheet of the capex, but the benefits that we are expecting to get from here exceed the opex that is coming from the capitalised items.

Jari Ålgars:

And in addition to this, what you saw in the first quarter is very much of the investments we have already depreciated during the first quarter. So the savings you saw on our chart already took this, to the most degree, into account so you should not see a big increase over the next quarters on top of that.

Michael Kaloghiros:

Okay, excellent. Thanks very much.

Pertti Korhonen:

Thank you.

Operator:

As a final reminder, if you would like to ask a question, please press *1 on your telephone keypad. Our next question comes from Manu Rimpelä of Nordea. Please go ahead, your line is open.

Manu Rimpelä:

Just two follow-ups. Could you just comment on the health of the supply chain, given that you and all your competitors seem to be pushing through the price pressure you are getting from your customers down to the supply chain? So do you see that there is still room to do this?

Pertti Korhonen:

Absolutely, we still feel we have an opportunity to increase the amount of sourcing with high-cost countries to lower-cost countries. We still have room to improve it, so all is not exhausted yet.

Manu Rimpelä:

Okay, and you are not seeing that the suppliers are starting to have issues on their balance sheet and profitability?

Jari Ålgars:

No. For us, this basically means also about finding alternative and more competitive suppliers. Of course, we are transferring the pressures that we are having to the current suppliers, but very much the supplier cost improvement means that we are actually finding more, or have been, finding more competitive suppliers from the best cost countries.

Manu Rimpelä:

Okay, and then just a second follow-up. Would you be able to share how much the Q1 order intake in services was related to spare and wear parts because we've seen your orders are falling quite significantly? So I mean just to understand how that's evolved compared to, for instance, 2015 Q1?

Pertti Korhonen:

So we have not given the split but we have said earlier that typically, roughly, over the course of the time, roughly 50% of our services business has been typically spare and wear parts. However, there are strong quarterly fluctuations because of the timing of upgrade and modernisation orders. And then we said that the order intake from spare parts was improved slightly from previous year, and it's improved from the fourth quarter. And actually, the material – on the service page, you'll find a split, so it's the page 11, which gives you an indication of the split.

Manu Rimpelä:

Okay, thank you.

Operator:

Our next question comes from Pia Rosqvist of SEB. Please go ahead, your line is open.

Tomi Railo:

Hi, good afternoon, it's Tomi Railo, SEB. Just a question on the full year profit and the comment you continue to make that profits are weighted towards the second half. Are you saying that the second quarter would be closer to breakeven, or is it also loss-making as was the first quarter?

Pertti Korhonen:

Thanks for the question, Tomi. So the reason why we said in the beginning of the year that the beginning of the year will be, start of the year will be a plus was because we wanted to guide the market to understand that really we are seeing that the beginning of the year will be a plus. And I think that it looked like we were able to get the message through quite nicely because the consensus and then what we deliver was pretty much spot on. And so that's why we said that in the beginning of the year, and now we are saying that the profit will be weighted to the second half. We are not guiding second quarter specifically.

Tomi Railo:

Okay, thank you.

Operator:

As we have no further questions, I would like to turn the call back to the speakers for any additional or closing remarks.

Rita Uotila:

Thank you, operator. That was all the questions at this time so on our behalf, thank you very much for participating. And just as a reminder, Outotec's Capital Markets Day will be on June 7, coming up. So stay tuned for more information on that. Thank you.

Pertti Korhonen:

Thank you.

Operator:

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