

July 27, 2017

1 (15)

Company Outotec Oyj
Conference Title Outotec Q1-Q2 Half Year Financial Report 2017
Hosts Markku Teräsvasara, President and CEO
Jari Älgars, Chief Financial Officer

Operator

Ladies and gentlemen, welcome to the Outotec interim report January to June. Today I am pleased to present Rita Uotila. For the first part of this call, all participants will be in listen-only mode and afterwards there will be a question-and-answer session. Speakers, please begin.

Rita Uotila

Thank you, operator, and welcome on our behalf to the half-year financial report teleconference. We will hear the presentations from CEO Markku Terasvasara and CFO Jari Älgars, and then afterwards we will take questions from telephone lines. So please Markku, go ahead.

Markku Terasvasara

Thank you, Rita, and welcome on my behalf as well. Safety first as always. This is showing our lost time incident rate for the company. We remained at stable level two, which is good achievement, but of course we strive to push that down even further. And the ultimate target is, of course no accidents causing sick leaves.

First half of the year, in a nutshell, I think it includes for us both joy and satisfaction, but also disappointment. On a positive side definitely, we had again a strong order intake improvement, 34%, which came, looking on the first half of the year came basically throughout the businesses, including Minerals Processing, Metals, Energy and Water, and also Service. Of course when it comes to Metals, Energy and Water, when we talk about the bigger projects, we had a nice order intake in the first quarter, little bit less in the second quarter, but all in all, an improvement from last year. But of course, as said already earlier, getting more orders in Metals, Energy and Water is very important for us.

Another positive note definitely, a good performance in Minerals Processing, where both our sales order intake and results improved very well and we are very pleased with that development. And we're also pleased with the development for the service orders, which was good for the first half, and accelerating during the second quarter. MEW recovery is an area where we are disappointed. Of course at the end of the year we, in the beginning of the year we said that this is an important for our profitability, and our guidance, in a way when we talked about our guidance we emphasised that the turnaround in Metals, Energy and Water when it comes to order intake, and getting orders early in the year, has impacted in our result. And now we know that even though there was an improvement, it was not big enough. When it comes to MEW, the Metals, Energy and Water cost saving activities, we actually have achieved our planned savings, but obviously as more orders have not been coming in, we need further actions to restore segment's profitability. Another positive thing is that we see the markets getting to order. We have earlier said that the Middle East, Russia, South and Central

July 27, 2017

2 (15)

America have been very active for us. So have been very active for us; now we see that Australia, South East Asia is picking up, and even more positive development in Europe.

In quarter two, we announced these five orders that are more than €10 million in value. Two of them on Metals, Energy and Water side, and three in Minerals Processing. And in Metals, Energy and Water side, also including one big shutdown service order to a smelter in South America. Comparing quarter two 2016 and 2017, we see that the portion of service orders has increased, and we are really satisfied with that development.

Seasonality in MP, this chart is showing basically the cycle in our two business, indicating of course what we have also witnessed that the Minerals Processing touched a low point in orders first quarter 2016. Since then we have had good recovery. And also of course, as sales is following, it has improved our results. When it comes to Metals, Energy and Water, we touched the low point in orders last quarter 2016, now the order intake is above sales. Of course, as we said earlier we like to see even further improvement in our order intake for Metals, Energy and Water.

Looking Service business specifically, as indicated, service orders for the first half of the year increased by 15% and in quarter two by 17%. Sales however declined by 2%, and that was due to a lower order intake in shutdown and upgrade services in 2016. Today, Service represents 39% of the sales, and I think on a positive note when we look at the same order intake and sales development, our order intake in second quarter 2017 was the best quarter, on the best level since third quarter 2015. So the strongest quarter in service since two years. Order backlog increased somewhat, and we are stable at a little bit above €1 billion. Our book to bill rate was above 1, and then roughly €500 million of that order backlog will be invoiced this year. And 23% of that is in Service.

And now key financials, Jari, please.

Jari Älgars

Thank you, Markku. So if we go into the numbers, obviously we have a very polarised picture. If we look at Minerals Processing development and Metals, Energy and Water, and I will go more into this, but first we start on the overall numbers. Sales was slightly increasing from the previous years' same quarter and all in all we are a bit ahead of last year. Service sales is more or less flat and the percentage of the service sales is 39% when it was 42% a year ago. And this obviously has affected a bit the gross margin, but nevertheless, the gross margin was in the quarter quite low with 22% compared to 26% a year ago. I will come more into this later. And on half year basis, it's 23% when it was 25% a year ago. Our adjusted EBIT for the quarter was €2 million or 1%, and for the half year €3 million and 1%. And the result for the period, the quarter was -1, for the half year, -4.

If we go into the next page and look at the margin analysis for the first half of this year, last year we had the zero result after the first half. Obviously our volume has increased which would have anticipated that our margins should have increased, but we collected quite a lot of negative margin impact during the first half. And some of them especially for the second quarter. One of them is sales mix, where we could see already that the capex has slightly increased compared to the service, which was flat. We also have seen some cost overruns, mainly from new technology, where we have in the start-up of certain new projects, in some projects we have seen some challenges in finalising the projects and being able to get them to work finally. And this has caused us some costs.

July 27, 2017

3 (15)

And in Metals, Energy and Water, the lower sales from the first half of the year, and also especially then in the second quarter, added with the lower workload has impacted there the margin. And then also the exchange rates, where we can see that the exchange rates show on the gains and losses a positive number, but this is very close to all of it is worsening in the margins. So we see the same negative in the margin, close to. And then we have had a savings on the fixed cost, and this is how we end up at €3 million positive results for the first half of the year.

If we look at Minerals Processing, in general, things look fine. Order intake has increased by 24% year on year, from €261 million to €323 million. Sales has increased by 39% from €232 million to €323 million. Service sales has also increased by 14% from €125 million to €142 million. And the adjusted EBIT has increased from €10 million to €26 million. Or in percentage from 4% to 8%.

Obviously if you think about the overall numbers, this means that Metals, Energy and Water has then again gone in the other direction. Which you can see on the other page.

Order intake, which is kind of good number here in the Metals, Energy and Water side, we have been able to increase the order intake from the very low last year by 48%, from €190 million to €282 million. But sales, due to that we had a very low order intake last year, has come down by 21% from €275 million to €217 million. Likewise has the service sales, by 24% from €90 million to €68 million, as the service in Metals, Energy and Water is more shut-down services and modernisations, and upgrades, so we have seen a negative impact here, which has led to that adjusted EBIT is €-19 million when it was for the corresponding period last year €-7 million. And the adjusted EBIT percentage is -9% when it was last year -3%. And obviously, as Markku already stated, this is a clear disappointment. We have gone with our restructuring program on plan, but still orders are not coming with the same speed. Despite we have good order intake, they have come very late in the quarter and we have too little of the big ones. So we have to continue to do cost saving actions here, and obviously we need more orders to be able to turn around the situation. So as said, we have a very polarised situation. Minerals Processing is going quite well, and we expect it to go well forward also, but Minerals Processing we have not succeeded yet with the turnaround. Sorry, in Metals, Energy and Water.

If we go into the order backlog, and with the mature order backlog and the low level of advanced payments has affected the cash flow. So it has still not turned around. It still continues negative less than in Q1. Still our anticipation is that this will start to turn on the second half of the year.

Liquidity and equity remained solid; we have quite a good situation in that side, so there is no reason to be worried on this. But obviously for us it's quite important, now that we start to turn around Metals, Energy and Water, and that we also are able to turn the cash flow. These two things are obviously on the top of our agenda, going forward.

Markku Terasvasara

Okay, now back to me. When it comes to market outlook, we see that the market continues stable. When it comes to customers, their continue to focus on profitability and cash flow when it comes to new investments is still pretty much brown field, where the investment goes in the productivity improvement or capacity increase for smaller equipment orders they have carried the lines. So there is still very little pure green field investments. But of course, they are coming closer and closer. The market is fairly good throughout the base metals range, that we have. Also lithium and sulphuric acid and energy prospects on the energy side, there is a lot of opportunity, but we focus on waste to energy. And basically, as such, applications. On the MP side, paper markets will continue, expected to continue. On Service side for the recent quarters, we have seen good development in spare parts. Now we see

July 27, 2017

4 (15)

that there is more opportunities throughout all categories, we have received some shutdown orders, and also technical service is developing well. So we see that the service is coming in from the wider front. For the Metals, Energy and Water, the situation is that we are negotiating in many projects, but the projects are still few and far apart, and the timing of this larger orders is difficult to foresee exactly when the customers are ready to place the order.

Our financial guidance was changed two days ago, as I'm sure most of you noticed where the sales is now expected to be approximately €1.1 to €1.2 billion, and the adjusted EBIT is expected to be approximately 3-4%. And the previous guidance is below. Our focus area going forward, we continue to win orders in a competitive landscape. On the Minerals Processing side where the market is stable, we are quite pleased with the rate or the percentage. We win the orders, we have some more opportunity, I think we will work actively to get more business in that area. In Metals, Energy and Water side, projects are still fewer and far apart, and there of course, every order is important and that is the focus that we are putting forward.

Cost-saving activities will continue, as mentioned already earlier. In Metals, Energy and Water, we achieved the cost saving target we had initially. And yet of course not all of that materialised in second quarter. We see some more savings kicking in, in the third quarter and going forward, but we also see that in the absence of more bigger orders, we need to continue cost saving in Metals, Energy and Water.

Strong focus on Service will continue, with the new organisation; I think the first initial result is encouraging. We have an opportunity through our big installed base to continue to improve service, and we worked actively in our supply to improve our cost competitiveness of our products. And tying all that up together and also referring to the first topic of course, strengthen the customer centricity in the program, we are at the moment actually running a training program in the company for both sales leadership and also sales throughout our organisation to make sure that we can address the opportunities from the market in a very good way.

So that is the presentation from today. Now I think we open for the Q&A session.

Q&A

Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers please press zero one on your telephone keypad. Please hold until we have the first question. The first question comes from Antti Suttelin, Danske Bank. Your line is now open.

Antti Suttelin

Yes, thank you. I would like to ask about your cost-cutting plans and then the cost overruns that you had in Q2, and let me start with cost overruns. How much did you incur cost overruns in Q2, please?

Jari Ålgars

Obviously, the number you were looking at, what we showed, there was not absolute numbers, what we were showing. And obviously we have also improved projects at the same time. So the reasons

July 27, 2017

5 (15)

we were showing up for the cost overruns was, as we said, Metals, Energy and Water having lower sales which you could clearly see from the numbers, and also that obviously gives a double hit because you also have lower absorption at the same time when you don't get new orders. One of the bigger ones though is the cost overruns from the new technologies, so out of these things that are listed here, that was the one which had most impact. But we have not given out this number .

Antti Suttelin

Yeah, I can see that these four items in total were about €20 million, just visually looking at the picture. Is it fair to say that cost overrun was maybe half of that?

Jari Ålgars

We have not given any guidance, but I would say the cost overruns is the biggest of these. The second biggest one is due to Metals, Energy and Water, low sales and workload. And then more or less the sales mix and effects is about equal size. And obviously as said there are things also affecting the other way around. So this is the net of the changes.

Antti Suttelin

Okay. And then looking at your EBIT margin guidance. Any assumption about cost overruns also in the second half? Not just Q2. But also second half.

Jari Ålgars

Obviously, we always have certain assumptions on how things go forward. We are always analysing the projects and we have done quite a very deep analysis now here in the summer, which is also the reason why you see these margin changes here. Obviously when we are looking at the projects, we know where they are going, and then we have assumed the cost in those, what we think will be the impact for them for the rest of the year.

Antti Suttelin

So does this mean that there is some assumption of further cost overruns in the new guidance, beyond Q2?

Jari Ålgars

We are in a project business, so we always have to assume some. Of course.

Antti Suttelin

Okay. And then on the personal numbers, your optional reduction based on the already announced actions in the second half, so if we compare end of the year likely number versus the end of first half number, what would be your best estimate of reduction?

July 27, 2017

6 (15)

Markku Teräsvasara

We do not give guidance on the number of employees we will have at the end of the year. But I think what two things is good to keep in mind when looking at numbers. In the summer time, these numbers include summer trainees, as an extra, and also the number will go a little bit up and down based on our projects, for example, our shutdown projects, the temporary employees that we take in for those projects will be reported in our head count. And when you get the projects you can easily employ 50 to 100 people more which are there for a couple of months and then disappearing again. So our head count will always fluctuate a bit going forward.

Antti Suttelin

And is there any underlying downward trend in number of employees? Beyond these temporary employees going away?

Markku Teräsvasara

I think that's already visible in our reporting that the trend has been declining. If you take away summer training, and take away the impact from fluctuating temporary resources, the turn is downwards.

Jari Ålgars

And the cost savings obviously will also include persons.

Antti Suttelin

Okay, that's all from me, thank you.

Operator

Thank you, we have received another question from Magnus Kruber from UBS. Your line is now open.

Magnus Kruber

Hi, thank you. Hi Markku, hi Jari, hi Rita. A couple of questions from my side. On the continued actions in Metal, Energy and Water, what will you focus on here?

Markku Teräsvasara

I think we will focus on reviewing our business, the product line, the opportunities we have ongoing, negotiations and utilisation of the workload in different departments, and obviously if we see that the workload is not good enough, and then we need to address our cost savings accordingly.

Magnus Kruber

Okay good. And could you just remind me what was the savings realised from the years-closed programme? Is it around €12 million? Is that fair?

July 27, 2017

7 (15)

Jari Ålgars

No, we have not guided for the number. What we said, the previous restructuring we did where we were reducing 650 people, impacted us by roughly €70 million. And we said in the last restructuring it was about 200 people. So that would give some rough guidelines on impact.

Magnus Kruber

Okay good, thank you. And is redundancy payments included in the salaries and other employee benefits in the report?

Jari Ålgars

It is, yes.

Magnus Kruber

Okay good. And is there anything you can say about fixed cost reduction to the end of the year, apart from head count? I think that's €6 million so far this year.

Jari Ålgars

Yes, obviously we are aiming to continue on that trend. And as Markku already pointed out, we clearly have to continue on the cost saving action. Which obviously, going forward, will be a benefit when the market will turn. But obviously we are not there yet. So we will have to make ourselves more trimmed and while waiting for Metals, Energy and Water to turn.

Magnus Kruber

Good, and does this mean that you expected the run rate to increase from Q2 into Q3 and not just the current tailwind that we see at the moment?

Jari Ålgars

Sorry with run rate you mean, could you rephrase your question?

Magnus Kruber

Yeah, I think you already, from current actions, you have a certain run rate. Certain tailwind from fixed cost reduction. Will you step up that into Q3 and take out even more cost incrementally?

Jari Ålgars

This is the same yes. We already have plans in place and we have already made some decisions. So things are moving ahead.

July 27, 2017

8 (15)

Magnus Kruber

Okay got it, thank you. And on Metals, Energy and Water sales, I think they were on the lowest level, at least since Q1 2014, on equipment side; is there any timing issues and project milestones within there that we should be aware of?

Jari Ålgars

No, things are going forward. Obviously we expect, as you can see from the sales guidance, an increase towards the second half of the year in sales. And our main problem is in Metals, Energy and Water and new orders. That is really where our issue is. And for that we have to look for more savings.

Magnus Kruber

Okay good, so no milestone issues with Q2 in particular on the Metals, Energy and Water?

Markku Teräsvasara

No, but if you look at the page number six in our presentation, we briefly show that our order intake is already higher than the sales. So we expect that to start translating into sales and invoicing going forward.

Magnus Kruber

Yeah, okay. And just the final one. I think you're talking about the mix impact, within service and equipment; is that a Q1 commentary because it seems to sort of improved into Q2 from Q1 and also year over year?

Jari Ålgars

It's more when we looked at the half year comment. It has not significantly changed in Q2, but yes you're right. It was more a Q1 comment; we were looking at the full first half year on that comment, yes.

Magnus Kruber

Brilliant, got it. Thank you so much.

Operator

Thank you. There are no further questions at the moment. As a reminder, if you want to ask a question you will have to press zero one on your telephone keypad now.

We have another question from Tom Skogman, Carnegie. Your line is now open.

July 27, 2017

9 (15)

Tom Skogman

Yes hi, I'm wondering about your confidence in booking orders in Metals, Energy and Water when you start this new cost cutting, you know, now and not one quarter ago. Has something changed in your visibility for new orders or, you know, just feel that things can slip, you know, further and even beyond this year on the order side when it comes to larger projects?

Markku Terasvasara

Yeah, what we see still is that we have the same projects in the negotiation. We have many of them at final stage, but as we have said, when exactly customers are ready to put the ink on the paper, it is very difficult to foresee. But definitely there is more in the pipeline than there was one year ago.

Jari Ålgars

Very important thing for us obviously when we look at this year is, when you look at the order intake for Metals, Energy and Water last year and where we were at this time, is obviously where we will end up when this year ends. And then obviously that translates to the right size we should have going forward. So this is obviously something still which is hard to foresee, because these big projects are not very easy to decide. And obviously the decision is not on our side, but nothing negative as such. We saw the market improving from 2016 and we still see more activities. But unfortunately the decision making is still very slow.

Tom Skogman

Do you still believe that this lag of one year kind of stays firm that you said earlier? That one year's lag from Minerals Processing orders until MEW orders should resume?

Markku Terasvasara

I think what we have said is that there is roughly 18 months delay based on our experience. So we talked about one and a half. One and a half years, so of course that exact timing is difficult to know.

Jari Ålgars

And obviously which impacts as well is that the, let's say the speed with which the new orders turn into to revenue is faster in Minerals Processing than they are in Metals, Energy and Water, because they are bigger and take longer.

Tom Skogman

And then what about provisions? Have you, you know, could you open up, you know, you have not taken any new cost provisions really, but still comment that you have cost overruns. I mean, is it just a line drawn in the water or how should we see things?

Jari Ålgars

With cost provisions, do you mean projects or...

July 27, 2017

10 (15)

Tom Skogman

Yeah.

Jari Ålgars

Restructuring projects. Yeah, obviously we are always month by month analysing the projects and how they are progressing and kind of project by project doing it. And in some there might be improvement and in some there might be deteriorations. And where we see risk, or that there might be cost overruns, we make provisions for it. And obviously this is part of what you see here, this red bar, which is called margin deterioration.

Markku Teräsvasara

So basically cost overruns include both provisions and actual cost that we are coping and taking.

Tom Skogman

And how is this problematic projects proceeding? Are the new cost overruns again coming from these ones where you took €40 million of provisions in Q4 last year? Is it the same projects that are causing headaches still and even increased headache, or... How is it...

Jari Ålgars

No, let's say there are some, it's not the same projects and there are some projects now where we have new technology. Where we have maybe, as you know, we are aiming to be the leading in the technology field, having the kind of maybe the technology there where you really can have the best yield and let's say the biggest capacity, etc. Sometimes it means we are stretching the limits of technology boundaries a little bit. And sometimes we end up where it does not work out the first time. And we have to do some rework. And this is what has happened, in a few projects. I think we have to just learn from this and see what we can do better going forward.

Markku Teräsvasara

But this is normal that we have included in our business, so I think I want to correct, well that's the point now that at the moment we don't foresee anything in the magnitude that you experienced last quarter last year, this €40 million provision that we made, and then there is nothing with that magnitude.

Jari Ålgars

Correct.

Tom Skogman

And then finally I would like to know, what kind of changes have you really implemented so far in Service?

Markku Terasvasara

In where?

July 27, 2017

11 (15)

Tom Skogman

In service. You know, you are leading yourself the service business, Markku, so what changes have you implemented so far?

Markku Terasvasara

We have basically carved out the organisation, so that there is a focused team. We are resourcing it, as per need, in different market areas and centrally. We are just about to finalise our portfolio or work with the service offering, and of course with the dedicated organisation you get a lot of focus, and I think good activity, so basically you can say that we are more systematically approaching our customers and the market when it comes to service offering. And more focused as well. Concentrating, focusing us on areas where we see that our services are needed and where we can add value rather than trying to do exactly everything for everyone.

Tom Skogman

Okay, thank you.

Operator

Thank you. The next question is from Mr Andrew Wilson, JP Morgan. Your line is now open.

Andrew Wilson

Hi, good afternoon, everyone. Just a few questions for me please. I just wanted to try and get a general feel for what you're seeing in pricing, both in terms of any kind of equipment work that's out there, but also the shutdown in technical services work that obviously seems like it's improving. Just trying to get a sense of kind of where the pricing dynamic is at the moment versus the pricing in the backlog. And if there's an issue with any of the projects which are in the backlog with regards to the pricing. I appreciate it's quite a broad question, but just some sort of general sense please on kind of where pricing is.

Markku Terasvasara

For pricing, for the bigger projects when we get them, we make a forced back-to-back agreement with our suppliers so that we will not be impacted by pricing raises other than what can be transferred to our customers. When it comes to the service business, of course we need to see what hours are cost developing, and then compensating that with price increases. Which we have done already once this year for the service side. So I think this adjusting price according to your cost and according to your portfolio is a normal work that we do.

Jari Ålgars

I think it's fair still to say that the competition remains hard, it's still a buyer's market, and only when most of the competitors have a decent backlog will we be able to start to look for price increases on the capex side.

July 27, 2017

12 (15)

Andrew Wilson

And just to kind of follow up on that, do you feel like the pricing dynamic is dramatically different at the moment than it was 12 months ago or is it just, it's hard and it's been hard for some time?

Jari Ålgars

The second one. It's hard, and it's been hard for some time.

Markku Teräsvasara

But I think also, you cannot generalise this so simply because actually every single project is individually considered, and that's why there's definitely no indication that our pricing has lowered, but as there is heavy competition, I think in case by case, the margins can vary a little bit going forward. And also in the result.

Andrew Wilson

That makes sense. I appreciate it's a difficult question to answer with just one answer. In terms of the customer part, a question for Jari, just, you made a comment around working capital improving in the second half and I appreciate, this obviously depends a little bit on orders. I mean, do you think you're going to be able to get to a position where you're sort of working capital neutral, sort of year on year to the cash flow? Or is it given the first half you're expecting that to be an outflow? Just trying to get a sense of sort of how you see that developing.

Jari Ålgars

No, we have obviously been somewhat – most obviously, the business is impacting this that when we get the turnaround and start to see more positive results, we will also see a better cash flow, obviously. But on top of that, we have been expecting and anticipating that there will be more payments, progress payments and advance payments towards the year end. We still have a situation now where we have quite a, let's say, mature backlog which is pressing us because we have gotten already all the let's say advances we can get, and now we are just finalising the projects. And the more we get in new business, the better the balance gets. We have less, proportionally less of this mature backlog and then the situation will ease up. So anticipation still is that things will start to improve. But with which speed, it's harder to say. And we still might see quarterly changes due to projects, payments side or being on one or the other side of the quarter.

Andrew Wilson

Okay, so if we expect that the cash flow for working capital will start to improve more meaningfully in 2018, that's probably a reasonable best case?

Jari Ålgars

At some point yes, with this improving situation we have with increasing order intake and that will start to leave with down and progress payment, yes. We can assume that it will start to improve.

July 27, 2017

13 (15)

Andrew Wilson

That makes sense, thanks. And just a final one. Perhaps kind of I guess more positively, in the last six months, you've managed to win a couple of pieces of work in lithium, and just sort of thinking around the whole electric vehicle space and just if you're seeing I guess kind of more interest from potential projects, if you think that's going to be a big driver for you. Just try and give us a sense as well of kind of what the competitive landscape looks like there. It seems as though you've got, well certainly very competitive technology and also it feels like an area that might be quite exciting over the next, I guess two to three years. Can you just try and help us think about that a little bit more please?

Markku Terasvasara

Okay. Lithium is of course very hot metal in the press, of course, at least with big boom and discussion on electric vehicles. At the end of the day I think you should not over exaggerate that in the volume, it is important, and I think also that as an advantage of being, in a way, having the right competence to separate lithium from the ore in a very cost efficient way, and that competence we have actually throughout the whole range. So that is fitting very well together with our core competence in the company. Yes, it will have an impact because these projects are still sizeable. It will not be a big impact but if you get projects, €20 to €30 million, once or twice a year, of course it will have an impact to our both order intake and sales and results.

Andrew Wilson

That's very helpful. Thanks for your time.

Operator

Thank you. We have a follow-up question from Mr Magnus Kruber, UBS. Your line is now open.

Magnus Kruber

Hi everyone, thank you for taking another question from me. When you're talking about this new technology, which particular technology or metal is that referring to? The one with the provisions of cost overruns?

Markku Teräsvasara

No I think it came from some new projects where we are introducing new products. Not extraordinary, not big, but we don't normally open up for the individual projects to tell what exactly was the application. But it's a normal technology where we have developed some new applications, new solutions. And when selling them first time, there has been a small cost overrun in those projects. But as I said, nothing in the magnitude of what we were witnessing last year fourth quarter.

Magnus Kruber

Okay, that's fair enough. But that doesn't have anything to do with a specific metal or anything like that?

July 27, 2017

14 (15)

Markku Teräsvasara

No, nothing to do with any special metal.

Magnus Kruber

Okay, that's good. And just one final one. On salary inflation, what underlying salary inflation do you see at the moment on your permanent staff?

Markku Teräsvasara

I think we have been in the countries where we're very restrictive with the salary increases this year. So I think we don't expect too much inflation from that. Of course, there are markets where we are obliged to increase salaries somewhat, but I think in general Outotec has been very restrictive with that this year.

Magnus Kruber

Got it, perfect. Thank you so much.

Operator

Thank you. We have another question from Erkki Vesola, Inderes. Erkki your line is now open.

Erkki Vesola

Thank you, good afternoon. Erkki from Inderes. I have just one question regarding the potential cost saving items that you have in front of you. You guys have done pretty good job in regarding admin costs in relation to sales. But what catches my eye is that the sales and marketing costs still hover between 10% to 11% of sales on a rolling 12-month basis. Do you feel that this level is sustainable considering gross margin around 25%?

Markku Terasvasara

Of course, it's always optimising your sales resources with the opportunities on the market. And trying to be as efficient as possible. So what we see and what we can sort of specifically say is that we can handle more revenue through this organisation, and the discussion rather goes that when do we have the volume that where we need to start employing more people, I think we are not there yet. We can squeeze more volume out of the existing sales organisation.

Erkki Vesola

Okay, thank you.

Operator

Thank you. There are no further questions. Please go ahead, speakers.

July 27, 2017

15 (15)

Rita Uotila

Thank you for participating. There's no more questions, so thank you very much for participation and presentation and your questions. Thank you.

Markku Terasvasara

Thank you very much.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded, you may disconnect.