Metso-Outotec Q2 2022 / Interim report

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PRESENTATION

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Hello, everybody. This is Juha from Metso Investor Relations, and I want to welcome you all to this conference call where we discuss our second quarter 2022 results. Results will be presented by our President and CEO, Pekka Vauramo, and CFO, Eeva Sipilä, and after the presentation, we'll be taking your questions. And during the presentation, we'll be making forward-looking statements, and this is why we have the disclaimer in the presentation. And we also try and wrap up this call in 60 minutes or so. So, with these introductory words, I'll be handing over to Pekka. Please go ahead.

Pekka Vauramo

Thank you, Juha. Welcome to this call. I'll start with the results, then Eeva will go through financials, and I will then finish off with the strategy, sustainability, and outlook and followed then by Q&A.

But going into the second quarter results, really we see strong activity continuing in the mining market. This was the case in the second quarter, and right now, we don't see a change in that regard going forward, as well.

Aggregates market, Aggregates is more of a local business, therefore the markets are also behaving somewhat differently. Whereas North America is continuing very strong, we see softness in European market, which started from the war and now, of course, all the consequential things, including potential recession in Europe, so that's why we are a little cautious on Aggregates in Europe. But really strong order activities in sales growth during the quarter. And then the profitability which continues to improve. We do have a major currency impact on the results, Eeva will open those, altogether 34 million on Group level during the second quarter compared with last year and that, of course, colours the numbers somewhat.

Sustainability, we're taking good steps forward in that one, both booking orders for Planet Positive products and establishing, launching new products and technologies to that area. And as we announced in last week, we have booked a non-recurring charge now, or provision for Russian wind-down and restructuring costs, and that's now booked in the second quarter results as well.

But then looking at numbers, orders, really strong growth 18% on comparison, which was already very strong comparison a year ago as well. Solid sales growth as well, 28% altogether, and adjusted EBITDA155, 19% growth in that one as well. And this naturally includes now all the currency-related things, this 155 million. So that takes the EBITDA margin to 12% and operating profit negative. There, of course, the impact of the 150 million charge for Russian wind-down and restructuring is visible in that figure.

And the cash flow, as we have communicated earlier, we are ramping up our deliveries at this moment and supply chain naturally requires capital at this moment and therefore the cash flow is not as it has been during the previous ten or 12 quarters, very strong. But now we are returning to, I would say, seasonally typical numbers when the volumes are growing rapidly.

Looking at the segments, Aggregates delivered a strong segment. Altogether, orders remain flat. We have to remember that a year ago that was a rebound from the COVID lockdowns. We saw record level order bookings in last year. And if we booked that one against this year’s number, I would say that this is a very good performance, also from orders viewpoint in the Aggregates.
North America continues strong. We saw equipment orders declining 6%, services growing by 17%, which is a good result and the continuation of positive trend in that regard.

Sales grew nicely to 368 million. And this was naturally coming from the backlog more than from the orders, and services share now in Aggregates all together 35%. Adjusted EBITDA 48 million, margin of 13.1 and this is also including the negative currency impact. And then another area where we’re not yet through all the adjustments that we need to do because of the inflation consumables that’s contributing in a negative way to the margins. Well, that’s below the average margin levels in Aggregates, and a similar impact there is also in the mineral’s side. But work continues there in consumables as well.

Minerals. Orders very strong growth, equipment orders growing 44%, services growing nearly 30%. Sales growth in equipment are at 63%, services growing 14%. This absolutely does have a mixed impact there. Services share now is 59% while a year ago it was 67. Adjusted EBITDA 103 million, comes to a margin of 12.7. Here again, negative currency impact included in this one. And naturally, the margin was impacted by the mix in this quarter. But after all, it is positive that we can deliver equipment that's the future potential for services anyway. And similarly, the low performing area was really consumables. And we have discussed already before many times what the reason behind, and what the dynamics behind the consumables is, starting to be through all of that. But still in this quarter, that was a low performing area for us.

Metal segment. Low orders compared with very strong orders last year. We, on the other hand, have a very strong backlog, and pipeline is strong in metals as it is in Minerals as well. So, we are not concerned about the order levels in this quarter. We really didn't have anything major that we booked in the Metals during the quarter. The biggest orders are in the range of 20 million or so.

Sales, 117 came from the order book. Mostly services share declining to 12% because we’re really so busy with the equipment side that service doesn't get now full attention as such. Adjusted EBITDA, 11 million, margin at 9.3. There's also a minor negative impact from the currencies. But since the EBITDA 11 million is so small, so we didn't calculate what the actual there is. But we're tracking very well with the turnaround target that we do have for Metals.

In Russia, we announced last week Monday the 150 million non-recurring charge to cover the wind-down costs and restructuring of Russian organisation. That restructuring is ongoing as we speak. We will complete it during this year, the rest of it as we wind down the businesses. Our deliveries to Russia in the second quarter were 67 million. And if you remember, we had end of first quarter, 215 million of order book left for non-sanctioned customers. And out of that 215, we delivered 67 in the second quarter. It was really slow start of deliveries because of sanctions coming in multiple waves within a few days coming further. And it was a very moving target before the situation calmed down somewhat. And that gave us windows to continue some of the shipments to Russia.

We, of course, wrote off the Russian backlog, which was the impact of that one, and the order backlog was 380 million at the end of the Q. And at this moment I'll hand it over to Eeva and then I'll come back after a few slides.

**Eeva Sipilä**

Good morning. Good afternoon, on my behalf, and apologies, I have a slightly lower voice today. Regarding the income statement, our CEO already commented on the operating performance. And as the negative currency impact in our adjusted EBITDA is so large in the quarter, I'll start with a few clarifying comments on it. Now, we are a global company operating with all possible currencies, so currency volatility is something we’re used to. We don't usually bring it up too much as there are positives and negatives from one quarter to another. We have for years had a prudent policy of hedging
the margin of all incoming orders. Only part of this is under IFRS hedge accounting. Most of the product business is non-
hedge accounted, resulting in a different treatment as per IFRS. This hasn’t changed, what has changed is that our backlog
is significantly up. So, any currency volatility in this environment comes with a multiplier. And we certainly had volatility in
the quarter.

The US dollar strengthening as such is a medium-term positive for Metso Outotec. But with the Euro falling to parity since
20 years in one quarter, it certainly creates a big market-to-market loss in the books. The interest rates between Europe
and the US jumping and diverging creates an additional negative impact.

Then we had high depreciation in many key mining market currencies due to both geopolitics and their local political
situation. South America leading this trend, which again hit the books. So, whilst I’m sure no one on the line expects FX
volatility to disappear, and it’s just perhaps good to appreciate that the impact in one given quarter was higher than we’ve
ever seen it and by a big margin, which is why we wanted to be very explicit about it.

But then coming back to issues closer to our business, so Pekka mentioned the preannounced charge of €150 million that
was booked as an adjustment item under Group items, so outside of our business segment reporting. This means it is
visible in Group EBIT and pulling basically the quarter to a loss of €13 million. And just to remind everyone of the size of
the Russian business, for us earlier, it represented some 10% of sales in 2021. Another illustration is perhaps that if our
published order intake growth year over year was 18%, excluding Russia out of the Q2 of last year to get better
comparability, considering the zero figure in this Q2, Metso Outotec quarter growth actually would have been 25%.

So, it does speak to the strength of the overall market and our ability to adapt to the new geopolitical situation and really
focus on business elsewhere.

The tax row shows a rather low ETR for the quarter. Please pay attention on the first half figure of 28%, which is more
relevant than indicative of what we expect for the full year. The big charge made the underlying figures so small, that very
small items swing the tax row in this quarter. And as we get back to more normal levels, this impact will disappear.

Moving to our balance sheet. Total assets are up almost 600 million from the beginning of the year, or 300 million from Q1.
Now, inflation is actually a pretty big impactor here. A significant part of the higher inventory values or accounts payable
is probably some effects. Volume growth impact is bigger due to work in progress, increasing with the mentioned very high
order backlog. But that alone will not explain this high of a [?] receivables or a similar reflecting higher sales on
prices. Not surprising as such, and we have been cautious on this year's cash flow, but still, I think seeing the impact on
our net debt on the right-hand side is visually quite strong. However, our balance sheet remains very strong. So, with the
tight focus, I'm comfortable we can weather the market dynamics.

Cash flow for the quarter is impacted by a big charge. The final outcome of how much of the cash impact will be is still not
clear. We would expect to be able, for example, to resell some of the inventory, but we have not made any assumptions.
We have treated it as cash neutral in the cash flow, so it doesn't impact the 50 million you see in this table as the outcome
of cash flow from operating activities before financial items and taxes. Now that being neutral, it does mean that the
quarterly cash flow obviously wasn’t much to write home about. Now, we do want to continue to grow in the current active
market, and growth does tie working capital in our business. But naturally, we do need to be very focused on ensuring our
cash balance is not compromised.

On the financial position, a few elements to highlight. We extended the maturities of some roughly €100 million of debt by
drawing on the last year signed Nordic Investment Bank loan and then repaying private placements which reached their
maturity end. Then, the first part of our dividend for 2021 was paid in May, again, a similar almost 100-million-item there as well. But those are really the bigger swinging blocks. And here, I actually leave it and hand it back to you, Pekka.

Pekka Vauramo

Okay. Thank you, Eeva. A few slides about our development regarding strategy, sustainability, and then finally the outlook.

As you know, we do have the review of the Metals business underway. We are expecting to complete the review part within this year and then we will move on in the implementation, which of course, depends on the final outcome of the review. But as we saw, business has developed favourably and the outlook for Metals is good as it is and strong as it is for Minerals as well. So, I think we have many options and alternatives how to move on with the Metals. But we’ll come back to that one when we’re ready with our review.

The market is very active for M&A as well. For us, there’s nothing major in the pipeline but small M&A cases. We do have, we announced during the quarter, the acquisition of Tesab Engineering in Northern Ireland. And we acquired that at the end of April, and I think it closed at the same time when we signed it, and the integration work is ongoing. There are great synergies within Northern Ireland with the earlier-acquired McCloskey business out there, and we will continue to have both plants in there. But we do some product transfers between the plants both ways and that will simplify and streamline the production and then we get the cost synergies from that one.

We also completed the divestment of metals recycling during the quarter. And that was a lengthy process, but it’s done now. And now, we continue then with these three segments that we have left.

On sustainability, we continuously launch new things and promote our Planet Positive offering consisting of more than 100 different products or technologies. We’re also taking steps to reduce the CO2 footprint of our own operations. We are looking at our supply footprint as a part of our strategy work going forward. And there, of course, logistics and related CO2 is one of those things as well as availability of green energy in various regions and markets. And we also published the Sustainability-linked Finance Framework recently. The Planet Positive highlight really was a first full Planet Positive combination order that we booked during the quarter. This includes the high-pressure grinders and Vertimills. And with this kind of technology, the energy consumption in combination is reduced dramatically from the traditional crusher and horizontal mill solution.

We are also working actively to launch new products, new solutions in all of our areas, and we are tracking our Planet Positive sales. These are there on the right-hand side, bottom of the slide. These are all in 12-months numbers for last year for the situation at the end of February and situation at the end of May. And you can see that our Planet Positive sales is really growing at a rapid rate as we promote the products and as we launch new products to that area.

And then we already discussed the elements of the market outlook. We expect markets to remain at the current level with the Minerals market and the Aggregates market declining slightly. And this mainly comes from Europe, this cautiousness on Aggregates market.

With this one, we’re ready to Q&A.
Q&A

Operator

Thank you. If you'd like to ask a question, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask your question. If you find your question has been answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from the line of Klas Bergelind of Citi. Please go ahead. Your line is open.

Klas Bergelind

Thank you. Hi, Pekka and Eeva. Klas at Citi. So first, I want to start on the FX impact. I get the part with the hedges that basically varies as you invoice more out of the backlog. But I want to zoom in on the operational part, the other 17 million. Lots of mining currencies came down sharply this Q by, I think, half of that 34. It was a volatile quarter. I guess this part should normalize here into the third. Could you comment, Eeva, about how you see things now? To what extent we should add back this totally impacting? or if we see any negative results into the third. Thank you.

Eeva Sipilä

Sure, Klas. So, well, I think there's really many moving elements, but maybe it's a good to understand that there is an operative loss element in those FX hedges coming from the forward points. And obviously, as we saw such a big jump in interest rates, that element is what we were partially referring to. But then, of course, the main point of the FX hedging is really that it does create a timing hedging when it's not hedge accounting as per IFRS. And certainly that, we expect to see in the coming quarters reversing. Now then, obviously, the key mining markets currency volatility, when it is apparently really reflecting their own political environment, not only the general risk aversion of investors from out of more emerging market currencies, it's, of course, hard to predict which way it goes. But I think we've certainly seen changes in growth rate in South America for a decade. So, we're certainly seeing very big changes now in the quarter. So, in that sense, I'm perhaps a bit more optimistic that we don't see a similar quarter. But again, your guess is as good as mine, obviously, on which route those currencies take.

Klas Bergelind

Yes, but just to confirm, half of it was basically backlog hedges. So, as you're invoicing, that half should at least normalize with higher deliveries.

Eeva Sipilä

Yes, it's a rough 50/50, but just to make it rather easy for you. So certainly, we're comfortable that half is absolutely timing, but then just to indicate that there is a real loss element, obviously, from those forward points that is... We've lived in a zero-interest rate environment for so long that I think most of us have forgotten how things work when we have inflation and interest rates.
Klas Bergelind

My second one is on aggregate and the outlook, Pekka, pretty clear that Europe construction is softening down. I think the messaging has been clear from you here at various investor conferences and at the pre-close calls. Can we talk about the forward guide in relation to other regions? I just want to make sure that you’re not seeing any weaker demand at the exit of the quarter, also in North America into the third and elsewhere.

Pekka Vauramo

We’ve got a very strong finish of the quarter in Aggregates orders, so no weakness in that regard out there. China has been slowest all along this year, starting already last year. Last year, the quarter segment active, but all the others less active in China. India has remained the same as it is, but North America continues probably stronger than ever before.

Klas Bergelind

Okay. No, that’s good. My final one is on the cash flow. You didn’t have— if I understood correctly, a big impact from the China lockdown. But despite this, the working cap hit is quite big. We know demand is strong, but we’re also hearing of lead times easing. If you could comment, Eeva, on how we should think about networking cap into the second half, where do you see bottlenecks easing which should perhaps free up some cash flow?

Eeva Sipilä

Well, I wouldn’t perhaps celebrate on things getting better. I would agree with you that they’re not getting worse, and hopefully, we don’t have any other external shocks impacting the supply chain. Partly, the EBITDA, working capital is this inflationary element in it. And, of course, we do see some of that settling down as well. So, we are more optimistic on the net working capital development that it wouldn’t tie us as much in the second half really as both from that volume and price point of view. But we’re still cautious because you see our backlog there, the rate of orders that we took in, obviously, there will be a lot of work in progress going and we do need to work around availability and ensuring our customers are decent lead times. And that is unfortunately requiring some additional inventory just to make sure that we don’t have a stoppage for a very small something missing. So, it’s really about all the time between these two.

Pekka Vauramo

Our net working capital is naturally also dependent on large orders and down payments relating to those. And we in fact, booked only one larger order during this quarter. So, it really depends then on timing of the future major orders as well.

Klas Bergelind

Thank you.
Operator

Thank you. Our next question comes from the line of Magnus Gruber at UBS. Please go ahead. Your line is open.

Magnus Kruber

Hi, Pekka, Eeva, Juha. Magnus here. A couple of questions from me. Minerals saw a decent margin progression year-over-year adjusting for the FX impact despite cost inflation and adverse mix. Could you add a little bit of colour on what you saw specifically on price, cost, and mix respectively on a year-over-year basis? How does that bridge look on the margin side and what do you expect into the second half?

Pekka Vauramo

Eeva, can you take that one as well?

Eeva Sipilä

Sure. So, Magnus, obviously, the mix, if one speaks of the share of services versus equipment, is going from a margin point of view into a negative direction still in the share of services in Minerals was only 59 in the quarter. But, of course, now we're seeing good growth in the orders. So, it will be a better balance going forward, but what we've seen so far. Then I would say that on the price element certainly is significant and we've been working very hard on that also to really balance the increase in cost. And I would say that overall, we're quite happy with where we are when we have quick spikes. And certainly, the war caused a lot of very big turbulence, then it is very hard to be prepared for that type of volatility, and you end up being a bit late in pricing. And clearly, in some of the areas where we have longer lead times, it has an impact. But we're certainly happy with how we've been able to push. Overall, I would say, be it productivity or margin development on the equipment side, because some years back with this heavy equipment mix, I think the margin would have looked different. So, I think there's been a tremendous, good amount of good work from the team on that.

Magnus Kruber

Okay. So, as it stands now, we shouldn't expect any broad-based difference from what we've seen in Q2 into the second half from this point of view?

Eeva Sipilä

Yeah, I think, again sort of your guess is as good as mine on sort of what happens on the inflationary front. I mean, we've seen some settling down, but of course, it's still--I would say, it's quite jittery. So, it's difficult to sort of call it, but that's kind of the sense. And of course, if that eases that's the kind of I would say, the base case we would assume and then as I said, somewhat sort of stronger growth coming through then in the aftermarket going forward.
Magnus Kruber

Okay. Got it. Thank you. And then also with respect to the outlook for mining at the moment. Of course, you reiterated a solid activity in the market. But I mean, typically you start to see a weakening in orders when raw material prices come down. But I mean, of course, the past couple of years hasn't been normal either. So, is there anything specific that you would like to call out that suggest that order activity will remain high in the face of weaker pricing?

Pekka Vauramo

Not really yet in this price levels that we see currently. There's of course, another side that we need to look at. This is also the inflation and that at one moment point in time might take some of the projects or postpone some of the projects. But metal prices are still very supportive of investments. And maybe if they remain roughly on this level where they are today, they are still on higher than pre-pandemic levels and maybe the war in Ukraine will be seen as a sort of short-lived price peak in price, after which the prices return to roughly on the same, still relatively high level. So, this is currently how we look at the things and our proposal pipeline is very much supporting this one as well.

Magnus Kruber

Got it. Thank you. And just one final bookkeeping question with respect to the geographic exposure of aggregates. Could you sort of give us some broad-based help on how that stands now?

Pekka Vauramo

North America, number one. Europe, number two. India, China, three and four in that one and Europe and North America, they represent some 70% of the business altogether.

Magnus Kruber

Perfect. Thank you so much.

Operator

Thank you. Our next question comes from the line of Will Turner, at Goldman Sachs. Please go ahead. Your line is open.

Will Turner

Hi, everyone. So, I've got a handful of questions. My first one is on the aftermarket order intake. Obviously, it was another quarter of very strong growth. And yet this is despite obviously a period where most of the large, listed miners have disappointed on their production growth. So, I was wondering what's been the driver behind the order intake growth in the aftermarket? Is it customers stocking still on spares and parts, or they're using this production downtime to do servicing? And could we expect a slowdown at some point for the aftermarket business?
Pekka Vauramo

I wouldn't sort of say that customers would be stocking. Of course, supply chain is an issue for everyone, and customers possibly would like to do more stocking, but the capabilities to deliver into customers stock are also limited, so that's not the reason. I'm sure that we are seeing some demand coming from the pandemic lockdown times. So, some pent-up demand coming from there. Then, very high brownfield activity in mining in general. And in our cases, some of this brownfield activity is visible in our service numbers. We have the modifications and upgrades as a part of our service business. They very often include major labour component in addition to engineering component and the supply part, and it's been always part of our service and that's possibly driving the demand as well.

Then of course, pricing does have an impact in service top line growth as well. Mostly, through our consumables because there the price pressures have been the highest, but also in the rest of the services.

Will Turner

Great. Is it possible to kind of quantify how much of it is the pricing? Is it high single digits, low double digits?

Pekka Vauramo

A great variety between the different business lines, and it's a rather complicated to come up with an average for the entire scope of services that we have. We have not published that number.

Will Turner

Okay. And you mentioned only one large order in 2Q, but the pipeline is still supportive of good activity. How are you seeing the outlook for large orders? Are there many on the pipeline for the second half? And where do you see those orders coming from?

Pekka Vauramo

We have, I would say typically for this type of cycle, typical amount of larger packages. But I would be very cautious with timing because some of these orders we forecast every quarter to come in and then they just happen to come when they come. There's a lot of guesswork relating to that one. But we are in the final negotiations in several bigger ones.

Will Turner

Okay. Great. And then--

Eeva Sipilä

But maybe just to add on that. So, I think it's maybe to underline that the strength of the minerals order intake is really from the sort of small and medium sized. I mean, because it was just that one and it is a very strong number indeed, especially if you sort of take into account the comparison I mentioned, that one would take sort of without Russia from last year's
number. So, I think that’s kind of the type of business we’re seeing and maybe something that’s also good for you to sort of assume continuing as well.

Will Turner

Understood. Great. And then just my final question. When we read through the risks in the interim report, you highlight uncertainty around suppliers’ ability to deliver. And that obviously, under this scenario, you may have some contractual penalties if obviously this impacts your ability to deliver. And then also, obviously within inventories, a lot of the inventory build-up is from price increases, as mentioned earlier on in the call. Is there a risk at all with your current order backlog, especially the ones where you have a fixed price that you struggle to deliver in the second half because of a supplier or because of suppliers having to push through extraordinary prices, which you weren’t originally agreed to when you first won an order?

Eeva Sipilä

Well, I think we’re more highlighting the risk from an availability point of view. I mean, basically, we do have contractual agreements with suppliers. So, it’s not a one-way street on starting them sort of mid delivery to raise prices. I think everybody is just so tight that you’re sort of hoping every morning that you don’t wake up to somebody having a fire or another sort of COVID stoppage of transportation, because that’s the type of things which are obviously difficult to prepare for. And that’s maybe more where we really talk a bit about ability to deliver. Obviously, when we talk about big packages, everything is needed for final assembly and whilst in this type of environment does try to put some sort of leeway and buffer time in a way to get things on site. Obviously, things can happen and that’s something really also very continuous monitoring from our delivery teams on a day-by-day basis that everybody is up to speed and there is no sort of external sort of shocks.

Will Turner

Okay. Great. And there isn’t anything that’s particularly concerning at the moment or deterioration versus the first quarter?

Eeva Sipilä

No. I think for having sort of survived the sort of immediate impacts of the war and then obviously the China recent lockdowns. I think things do look a bit a bit better now. But obviously, as we all know, there’s sort of no certainty on that. There wouldn’t be new lockdowns in China, for example. So, I think it’s just – and sort of very sort of continuous monitoring required.

Will Turner

Great. Thank you both.
Operator

Thank you. Our next question comes from the line of Andreas Koski, of BNP Paribas Exane. Please go ahead. Your line is open.

Andreas Koski

Thank you. Hi, Pekka and Eeva. First, on your adjusted EBITDA growth from €131 million to €155 million year over year, despite you had this FX loss of 34 million, that implied that your organic EBITDA contribution is 58 million, which corresponds to an organic operating leverage of 27%, which I think is quite good given the supply chain issues and cost inflation. So, does this mean that you are now able to more than offset cost inflation with cost savings, sales growth, and synergies? And is there any reason why your organic drop-through should not stay strong also in the coming quarters?

Pekka Vauramo

Yeah. Obviously, I think that what comes to my mind first is the mixed development. The mixed development that is something we need to pay attention to. But our service volumes are growing nicely, and it's almost like a progressive growth as we have seen. Maybe they are levelling off now on a level where we currently are and understand, but it depends very much on mix where we end up with that one. Any other views, Eeva?

Eeva Sipilä

Yes, I think, Andreas, your analysis is correct, but I think the challenge in really what we've seen in the past three quarters, I would say, is really on kind of being quick enough with pricing to react to the sort of changes in the cost environment. And of course, the environment really having had more volatility than in a long time for these very many exogenous shocks. And so, I think as such, we're quite happy with our ability to sort of run behind or be at the speed of that moving train, and I would think it would get a bit easier. I think we are in certain areas that the limits were not in all industries. The customer demand will continue and maybe will ease some of the inflationary pressure then for those of us working in environments where we are still sort of obviously the environment is more benign.

Andreas Koski

Yeah. Okay. Thank you.

Pekka Vauramo

The business that we need to clearly improve is our consumables business, we've spoken about it so many times in this one as well. And if you remember, end of last year the fourth quarter performance, we were hit really surprisingly high and rapid cost increases, freight charges, energy, raw materials, all came in like a major tsunami at that moment. And then if we look at our sort of supply chain throughput time, we should be now through those most difficult times and current costing and pricing is based on new normal levels and we work at the same time with our life-cycle contracts where there's always a delay even though there's price review points negotiated and more frequent ones negotiated, but there is always a slight delay. But we should be through the most difficult time in that one and that, of course, I think translates into organic drop-through as well.
Andreas Koski

Sounds good. And then as you cancel your Russian order book, could you please help us to better understand how sales will develop in the second half of this year? Maybe give us a number on how much of your backlog is expected to be delivered in H2 this year compared to the corresponding number last year? Or how will the cancellation of the Russian backlog impact your sales level in H2?

Eeva Sipilä

Sure, Andreas. At this point of year, one has only six months to go. So, of course, most of the backlog is well into 2023 and 2024. I think the best indication perhaps is kind of looking at the sequential development we've been able to demonstrate now between Q1 and Q2. And obviously, we as our service or aftermarket order intake has improved for the past couple of quarters that's slightly sort of more shorter lead time, so that kind of helps. So, I would expect us to be able to show some growth, but really partly limited by the availability of components. So, I'm not expecting sort of dramatic changes in the sequential development.

Andreas Koski

Yeah. Okay. Thanks. And then lastly, a straightforward question on FX. Based on today's spot rates, what should we expect the FX impact to be on EBITDA in Q3?

Eeva Sipilä

So, now I haven't looked at what they are today. Sorry, I've been a bit busy with other things, but I think if things kind of hold and we don't see sort of further appreciation of the dollar or further depreciation, then obviously things should be kind of net zero. And of course, again some reversal, i.e., positive if they would move back. But that's sort of by large, but as I said now, compared to yesterday's rates with the quarter and close directly.

Andreas Koski

Yeah. And the net zero comment, that includes the operational losses that we saw in there. It wasn't just on the hedging side? It's including the operational side?

Eeva Sipilä

Well, yeah, yeah, I think that's maybe the trickier part as I said, for a couple of years, we didn't really have to worry so much about interest rates and forward points and hence the modelling obviously needs some brushing up. We have now seen obviously ECB move on the interest rates as well and I guess that is that helps if everything moves in the same direction. It's a divergence that makes those losses typically sort of become bigger, and that divergence obviously was there in Q2 and different central banks taking different type of action at different times.
Andreas Koski

Okay, that's great. Thank you very much. Have a good summer.

Operator

Thank you. Our next question comes from the line of Vlad Sergievskii, of Bank of America. Please go ahead. Your line is open.

Vlad Sergievskii

Good afternoon and thank you for taking my set of questions. I'll start with the one, on one of the working capital components. I mean, the biggest sizable 100 million increase in contract assets or under receivables. Would you be able to comment on the nature of this increase? And this is specifically linked to some Russian projects where you book revenues but basically can't invoice the clients. That's the first one.

Eeva Sipilä

Yeah, I think that item is now impacted by the 150 million charge. So, basically, in order to make it net neutral, so it's visible in the net working capital number and specifically in that element. So, I think I would have nothing more to state on Russian business today other than we're sort of winding it down as much as we can and have sort of made the charge on what we assume this is the final outcome. But obviously, we'll be a bit wiser in the coming months.

Vlad Sergievskii

That's great. Yeah, but if I could clarify them with regards to this. The bridge between your unadjusted and adjusted earnings, would it be fair to say then if unbilled receivables related to Russia going up, that you're booking some of the Russian revenues in your recurring earnings and then effectively taking out the provisions and treating it as non-recurring? Would it be a fair kind of statement or I'm missing something here?

Eeva Sipilä

Well, with the charge, we have basically sort of written down operative assets and that really was the impact that we wouldn't have them. So, we're looking at the total outcome. Obviously, there is in each project, there's different elements, but that's been the approach. So, a more gross level at this point and we will be going through that in the coming months on where we exactly land.

Vlad Sergievskii

Understood. And then two very quick housekeeping ones if I may. One, is on FX. I mean, the net hedging liability, I think, increased a little bit by about 15 million over the quarter. Is it an indication that there is some more unrealized hedging loss which will cash out later on? And then if you can provide a quick update on where you are on the Saudi project ramp-up. Thank you so much.
Eeva Sipilä

If I take the first one and, Pekka, you comment on Saudi where you are-- I mean, what I think the answer is that, I mean, a hedge accounting obviously, well, a project business is made a hedge accounting and that volatility doesn't go through the P&L. This is really the product side of business where we're not able to fulfil the hedge accounting requirements by IFRS and that is then mark to market. So, as my definition, they are mark to market as of the rates of end of June. So, there is no additional sort of losses anyway. It is mark to market and then just sort of very clear sort of math as such. But Pekka, on the Saudi.

Pekka Vauramo

The ramp-up continues there. The customer needed to change the feed material, the ilmenite concentrates and also the anthracite that they feed into the furnace, and we've stalled the increase of power supply to several weeks to the same level, constant level in order to learn the operating parameters for the new quality feed. So, this is really something which is not dependent on us at all. It's clearly an issue that the customer needed to do because they run out of the material that we originally used. But no major issues during the ramp-up, lots of learnings and I would say relatively good teamwork at the site between customers operating personnel and our experts there. And so far, everything looks good with the ramp-up.

Vlad Sergievskii

That's great. Thank you so much.

Operator

Thank you. And we have one further person in the queue at this time. That's Antti Kansanen, of SEB. Please go ahead. Your line is open.

Antti Kansanen

Yeah. Good afternoon, Pekka and Eeva. Just two questions from my side regarding Minerals Services. Firstly, on the consumable side, could you comment what has been the size of the business during the first half and how much do you think your margins have been held back by the negative impact from input costs and pricing?

Pekka Vauramo

Yeah. Our volume is slightly below 1 billion in consumables altogether. So, that's for the volume wise and then if I do look at the margin side, we are several percentage points below our sort of last two years' performance in consumables at this moment.

Eeva Sipilä

And Antti, the 1 billion is an annual figure?
Antti Kansanen

Yeah. Sure. The second one was kind of on the discrepancy between order growth and sales growth in Minerals Services. So, is this kind of a difference being driven by pricing, but that has a different impact on orders and sales? Is it delivery bottlenecks or has the kind of the order growth come from a longer lead time items regarding modernizations or upgrades? Or how should we think about the backlog build in services if you may?

Pekka Vauramo

I think it’s a mix of all that you said. We have five or six business lines within our services that behave in this regard differences. There’s very short cycle business, there’s really book-to-build business. But then there is business which does have a lead time of even more than a year. Yes, so, it is a mixed bag in that regard.

Antti Kansanen

Would it be fair to assume that those kind of longer lead time types of businesses have led the growth in the past couple of quarters as we've seen some of the lockdowns fading and so forth?

Pekka Vauramo

That is true. Yes.

Antti Kansanen

All right. That's all from me. Thank you.

Operator

Thank you. And as there are no further questions at this time, I'll hand back to our speakers for the closing comments.

Juha Rouhiainen

All right. Perfect. Thanks everybody for joining us. This is it for the second quarter results. Just a reminder that we'll be having our Capital Markets Day on the 15th of September, and more information and registration will be sent in due course after we have had a bit of a break now in early August, but we'll come back to that and in the meantime, thanks again and goodbye.