Pekka Rouhiainen

All right, ladies and gentlemen, welcome to Valmet's Q4 2020 result publication webcast. My name is Pekka Rouhiainen and I'm the Head of Investor Relations here at Valmet.

With me today are Pasi Laine, Valmet's President and CEO, as well as Kari Saarinen, CFO. Pasi will first go through the highlights of the quarter, Kari will then present financials in more detail, and after that we will be taking questions over the phone lines.

But without further ado, Pasi, please.

Pasi Laine

Thank you, Pekka. So, welcome also on my behalf. Net sales at Valmet amounted to 3.740 billion and comparable EBITA increased to 365 million in 2020.

So, I have the traditional agenda. First, 2020 in brief, then development of business lines, then, like Pekka said, Kari will go through the financial development and thereafter I'll go through financial proposal, guidance and short-term market outlook.

So first, 2020 in brief. So, our orders received decreased to 1.772 billion in stable business and orders received decreased to 1.962 billion in capital business. Net sales were 3.740 billion and backlog amounted to about 3.3 billion in the end of the year. And comparable EBITA, like we said in the heading, increased to 365 million and margin was 9.8%. And gearing was 13%.

So, here you have the same in numbers as well, like total orders received was 3.653 billion which, taking into account the challenges during 2020 because of COVID, was a good number.

Our net sales were 3.740 billion and comparable EBITA, like I said, 9.8% and backlog in exact numbers 3.257 billion. End of the year we employed about 14,000 people.

Business-wise it's remarkable that a big part of the business, about 58 - 54%, came in orders received from Pulp and energy and Paper, capital businesses, and the rest came from our stable businesses, including Services and Automation.

Geographically, biggest change was that China was very active. Like you see, 24% of our orders came from China. Traditionally it has been closer to 10%, 15%; so, 24% was a good achievement for us in China.

Here you see the development of Valmet since 2013. So, our orders received has been increasing from about €2.2 billion level to €3.6 billion level. Last year was a record, so this year we were a little bit lower.

Net sales has been growing nicely since 2014 and last year we ended up a little bit over 3.7 billion. Comparable EBITA has been increasing nicely as well. First, it was 50 million and this year we ended up at 365 million. And at the same time, we have been able to improve comparable EBITA margin every year. And now we ended up in record profitability in EBITA.
margin, being 9.5%. And that's close to the target we set a couple years ago to reach 10 to 12% EBITA percentage level. So, nice and consistent development in Valmet over the last seven years.

Like I said, our orders received decreased to €3.6 billion. And here you see the graph as well – the highest we were over 4 billion, 4.3 billion, roughly. And now we are at 3.65 billion.

And here you see the area-wise development as well. China orders were 885 million last year. So, China was a very important market for us. In all the businesses: in Services, Automation, Pulp and energy and Paper. And here you see also that order intake declined in North America comparing to earlier years. As well as in Europe, Middle East and Africa.

Our stable business, which includes Services and Automation, orders received totalled to 1.772 billion. And that's roughly 100 million down compared to last year. And this 100 million is coming like you will later see, from Services. Automation was holding the level of order intake of last year.

Then, our backlog is 3.257 billion. It's a little bit lower than in earlier quarters, but it's still at a good level. So, 3.2 billion means that we have very good workload in most of our units. It means also that in some units we have a little bit longer delivery times than normally we would have. So, 3.2 billion order intake, or backlog, is good backlog for us. We are saying that about 75% of the order backlog is currently expected to be realised as net sales during 2021. Last year the corresponding number was about 70%.

Then some words about the business lines. Here, first, Services. So, order intake ended up in 1.356 billion and it's down compared to last year, about 100 million. Net sales went down as well compared to last year, almost 50 million. But here one has to pay attention to one topic and it's that orders received was higher than net sales. So, our order intake was higher than net sales, and all in all, we are of course not talking about the profitability of the separate businesses. But we are happy with the profit development also in Services in 2020.

Why order intake declined compared to last year? We have been saying earlier as well that the utilisation of graphical paper mills has declined, and it has caused us a decline in order intake and then of course, it has been challenging to access customer site especially in mill improvement type of projects and that has been causing the other - or that's the other reason for declining order intake.

To the outlook, I’ll come back in the end of the presentation.

If we look at the business by business unit, the biggest change is that the mill improvement business is now 25% of the business and in earlier years has been quite much bigger percentage, so that's where the biggest hit has happened in our order intake.

Geographically, I would point out that China was active, like you see here, 10%, ending up somewhere to €135 million. The other area which was active was South America, but there we had currency headwind and that's why it was not growing in euros, but in local currencies we had very good development in South America.

The rest of the areas were impacted by COVID, like earlier explained.

In Automation, our orders received were 415 million, and last year 416 million. So, we had very good catch up in the last quarter. Last quarter, order intake was 120 which is the record order intake in Valmet years.

We were successful with package sales, so about 80 million of the order intake in Automation came from packages which we are selling together - - where we are selling together our capital equipment and automation. So that market was
developing well. And all in all, we are quite pleased at Automation, even if there was a COVID year, it was able to achieve last year's numbers in order intake.

Net sales grew to 402 million. So, good development. COVID was impacting our services business mainly in direct sales, exactly like in Services, but otherwise our team managed COVID impact very well in Automation. Business - - customer-wise, 71% of our order intake is coming from pulp and paper and 29% last year came from energy and processes.

Geographically, China was also stronger than it has been in previous years due to the package sales we have been getting together - - Automation has been getting together with the capital businesses.

In Pulp and Energy, third quarter was low in order intake and then we have bounced back in – or it's more a timing question, not a bounce back - a timing. Timing was more positive in Pulp and Energy in order intake and our order intake ended up in 291 million in the last quarter.

The whole year was 934 million, which is lower than a year ago but still at a good level. Net sales ended up in 1 billion and grew over 80 million compared to earlier years.

In Pulp and Energy, our organisation managed COVID well as well. So, of course, there are some delays in some of the projects but nothing material from our perspective and, all in all, our teams have focused a lot in making the best that our personnel is safe as well as customers' personnel are safe in the sites where we work. But good development in Pulp and Energy as well.

The big change is that 72% of order intake came from pulp and energy was 28%. Some years ago, energy was over 50%. Now, energy market hasn't been that active; pulp market has been active and the positive thing, of course, is that to a big extent we can use the same resources both in manufacturing and engineering in selling energy boilers and making recovery boilers for pulp sites. So, this flexibility in our organisation means that we have good workload utilisation for energy engineers and energy manufacturing capability because they are now used for pulp projects.

Geographically, again the same comment that China was more active than it usually is. And of course, we got in the beginning of the year a nice order in South America from Amadeus project and that's why the South American order intake was nice as well last year.

Paper business line continued with an order intake of 1 billion; so, 1.029 billion and it's the fourth year in a row that our order intake is over 1 billion. This year, or last year, our net sales were also 1 billion - 1.076 billion.

So, the market has been active in Paper business line again. And the same message what I had for Pulp and Energy, our organisation has managed COVID-19 exceptional situations well, trying to make sure that our people are safe and then also making sure that our deliveries are working on time.

Of course, in all our businesses, people have now learnt to work remotely a lot compared to earlier years. So, the way how we make start-up is different than it was two years ago and so our organisation has learned many new things and ways to work in 2020.

Paper business line by customers is an interesting one. So, 21%, or roughly 200 million, 210 million orders came from traditional paper machines, so printing and writing paper machines. Then, board was about 53%, so, maturity of our business. And then tissue came back in nice volumes; so, about 26%, which corresponds to €260 million order intake roughly. It was a good year for tissue, and you will see that there's a change in our market outlook as well. All parts of the business were performing well.
And like you remember from earlier years; we can use the same engineering manufacturing capacity for board and paper both. And here you see that 50% of the order intake came from China. So, we are very pleased with our market development and market position and market activity in China.

Good. That was my summary. Now it's Kari's turn to go through the financial numbers.

Kari Saarinen

All right, thank you Pasi. And also, good afternoon on my behalf as well. And first, I would like to thank all the Valmeteers who have been working restlessly on very difficult circumstances to deliver these excellent results for year 2020. And also, a big thanks to the finance team around the world for the quality that is second to none.

So, quarter four in brief. So, stable business orders reduced by 9% to 463 million. Our capital business orders received remained at previous year's level – at 502 million at the quarter. The quarter’s net sales, those increased by 6% to almost 1.2 billion. Capital business increased here 11%, whereas stable business was flat. Sales mix, 44% of net sales was stable, 56% capital. Last year we were at 47% stable and 53% for capital. So, some change there.

The order backlog, 3.3 billion. This is pretty much the same level as last year. And then our comparable EBITA for the quarter, that was record high of 12.5%.

Then looking at the key figures in a bit more detail. So, orders received reduced by 7%. Paper business line increased. Automation total, including the package sales, those remained at the previous year's level. And Pulp and Energy as well as Services business line reduced.

Orders to China and orders to Asia-Pacific increased. The other geographical areas reduced during Q4.

Order backlog, last year's level. We estimate that around 75% of our order backlog will be recognised as revenue during this year. Last year this figure was 70%.

Net sales were plus 6% – an increase during the quarter in Paper business line. Services and Automation were flat and Pulp and Energy reduced. Net sales in China increased. The rest of the world was at the previous year's level.

Our comparable EBITA, 146 million, which equals to 12.5%. And as said, this is record high, key drivers for strong EBITA were good sales, also successful project execution, also prudence with the costs.

Please note that the comparable EBITA here does not include Valmet's share of Neles's profits.

Our quarter's order cash flow, 114 million. That's a bit below than last year's, but on a relatively good level.

And then about full year. So, order received for the full year, those reduced by 8%. Paper business line and Automation business line total, including package orders, were at previous year's level and then Services business line and also Pulp and Energy business lines reduced.

And Pasi already elaborated the impact of COVID-19 pandemic specifically on Services here.

Orders received in China area, those increased and were 3.5 times higher than year 2019 and that highlights our strong position in China.
Foreign exchange impact to orders received was negative. So, calculating with a comparable currency, it was -101 million. The impact and the majority of that is coming from Brazilian reals.

Net sales for the year, a bit over 3.7 billion. Paper business line and also Pulp and Energy business lines increased. So capital business increased, and Automation and Services business lines were at the previous year’s level.

We had a big increase in South America. Over 60% at full year’s net sales.

Full year comparable EBITA, that increased to 9.8% of net sales, or to 365 million. And here, important thing to notice is that we have been able to improve both EBITA percent as well as EBITA euros every year since the beginning of Valmet year 2014. We are also getting close to our target range of 10 to 12%.

Operating profit, 8.5%. An EPS, that was 1.54 euros. Cash flow for the year, 532 million and gearing was 13%.

Absolute gross profit. That was the highest ever, gross profit percent that was 23.4%, almost the same as last year. And I said earlier, the stable business sales were 44% of the quarter’s net sales. Last year we were at 47%. Full year stable business net sales also 44%. Last year it was 48%. So, our organisation has been successful in maintaining gross profit levels even though the sales mix has changed during the year.

SG&A's were lower than last year for the quarter, as well for the full year. The pandemic has reduced travel and also personnel has found new remote ways to serve our customers and also perform in both external and internal projects. During last year there were also permanent and temporary layoffs at some functions and locations.

And then going further, of course there will be some pressure on SG&A's once the pandemic is over and business activity returns.

Our internal improvement projects such as ERP and digitalization continued pretty much at the same level as earlier. R&D costs were 2% of net sales.

Our EBITA target, that's 10 to 12% and this was set a year ago. We got very close to the target already within one year, even with the changed sales mix. And then the highest ever EBITA shows that our stable business were able to perform well even though the net sales were flat, and their relative share reduced, and that our capital businesses had very good project progress to ensure strong revenue. And they also had resilient project management and execution during the challenging year as well.

Cash flow. So, we have had now six good quarters with cash flow. Quarter’s cash flow 140 million and full year 532 million. Favourable development of profitability as well as new capital orders were the key contributors to the record high cash flow.

Net working capital. So, net working capital was -16% of rolling 12 months orders received, and it was -588 million. And that means that in case the net working capital would increase 5% to a bit more normal level to -11/-12% of rolling 12 months orders, so net working capital would increase 180/200 million. So, that's important to notice here.

And then looking at the net debt. Net debt. So, our gearing increased to 13% from last year's -22%. We need to notice here that we took some loans now because of the acquisition of Neles’s shares as well as the PMP Poland. Our Equity to Assets ratio, 39%. So, our Equity to Asset ratio actually has remained quite stable, around 40%, over the years.
And then Return on Capital Employed. So, capital employed increased because we took that 230 million loans to finance the acquisitions, but with good financial performance, our Return on Capital Employed was 22% and that remained over our target level of 20%.

Thank you, and back to you, Pasi.

Pasi Laine

Good. Then it's time for dividend proposal, guidance and short-term market outlook. So, our dividend policy is saying that we should pay dividend – the dividend pay-out should be at least 60% of net profit. And our Board of Directors is proposing to Annual General Meeting that we would pay 90 cents per share, which represents about 58% pay-out ratio. And if that will be approved by the AGM, then we would have a nice history of growing our dividend constantly year after year and now the increase would be 10 cents per share comparing to last year. So, 90 cents per share is now the proposal. And we are, of course, happy that we have been able to increase our dividend year after year since Valmet has been demerged.

Then guidance and short-term market outlook. So, guidance is that Valmet estimates that net sales in 2021 remain at the previous year’s level in comparison with 2020 and comparable EBITA in 2021 will remain at the previous year’s level in comparison with 2020. So, we’re saying flat-flat for net sales and EBITA.

Then market outlook, which is for coming six months and we are saying that 50% roughly is coming from capacity utilisation and 50 from market activity. In services, we are still saying satisfactory and weak. And if I a little bit describe the areas, then we have good activity in China; I would say Asia Pacific is becoming more active. Then in Europe, it's very difficult to know how things are developing. North America the same, and then South America will continue to be active. So, that’s geographically. Then business type-wise, we will have still challenges to access customer sites in mill-type projects, ENE type of projects, and then rest of the Services should be more coming to the normal level.

Then how we see a little bit longer term the future is such that the first half, because the vaccination hasn't been proceeding further, there are some implications to our Services business. And then during the latter part of the year we start to see more activity in mill type of projects as well with our customers. That's our current thinking in the long run.

In automation, we change the market outlook to good, or the outlook to good. And like you saw; our order intake was at last year’s level. We have good capacity utilisation in almost all the units and there is good market activity in automation still. So, all the reasons to say that the market is good.

In pulp, you saw the order intake was good in 2020 and there are still several projects in development phase and negotiation phase, so we have all the reasons to say that pulp continues to be good.

In energy, market was not active last year and currently we are saying that the outlook is weak. And there, like I said, of course it would be nice to have satisfactory and good in energy as well, but capacity utilisation point of view, we can use almost all the people in recovery side and in other parts of the Pulp and Energy business, so we don't have a challenge with the capacity utilisation at all in that business.

Paper and board, good order intake, like you saw, and market activity continues as good. Tissue, order intake improved in latter part of the year, which means that now we have good utilisation, and the market activity is good as well. So, this is the outlook we have now for coming six months.

So, Pekka.
Pekka Rouhiainen

All right, thank you, Pasi and Kari, and we will then move to the Q&A session, and we don't have a physical audience here at Keilasatama, we will be taking questions over the phone lines; so, Operator, I hand over to you now.
**Q&A**

**Operator**

Thank you. If you wish to ask a question, please dial 01 on your telephone keypad now to enter the queue. As soon as 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 at 02 to cancel. Once again, that 01 to ask a question or 02 if you need to cancel.

Our first question comes from the line of Robert Davies at Morgan Stanley. Please go ahead. Your line is open.

**Robert Davies**

Yes, thank you for taking my question. My first one is just around Neles and just in terms of the accounting. When you provided your guidance for flat EBITA for 21 on 20, is that including or excluding the Neles contribution? Just to be clear.

**Kari Saarinen**

Well, thanks for the question and so our comparable EBITA does not include anything from Neles. So, it's without any impact on Neles.

**Robert Davies**

Right. Okay, thank you. And then just on -- some of this sort of changes in views in the short-term outlooks, maybe you could just kind of walk us through there. What was the kind of key driver behind the change in energy in particular?

**Pasi Laine**

Energy, like you saw, last year order intake was quite low compared to earlier years, so the market activity hasn’t been good and there the biggest contribution to the change is the marine scrubber business, which was not active last year. Two years ago, our order intake was roughly 190, the year after 120/130 million, and last year the order intake was very low. So, that’s maybe it the biggest contributor to the low order intake. And we don’t see that that market will bounce, in a big way, back in 21. It will be more active than 20, but not the level where it was in 2019.

**Robert Davies**

And then my final one was just around the medium-term outlook for margins. You’ve obviously had a number of years you’ve made very good progress on the margins and the guide for 21 is sort of flattish. What's the kind of thinking over the next two to three years in terms of the kind of evolution of the sort of margin profile over that period? Is mix going to be the biggest impact on the sort of margin outcome? Is it going to be kind of cost actions? What is going to be the biggest swing factors in your view now, over the next one to two years, for you to come in that range?
Pasi Laine

Like you know, our target is to reach EBITA of 10 to 12% and we are now close by. And since the acquisition of Automation, we have been saying that margin improvement comes with operational improvement in all the topics, trying to push the sales prices up, try to develop new, more cost-competitive products, reduce costs in existing products by R&D, improving project delivery by project management, improving quality, improving procurement savings. And we continue to drive all those actions forward. So, we're not saying that we are ready with any of those.

And then the other thing we have been saying that once we have been increasing the target setting by 2%, then it's not possible to achieve the improvement if only the other side of the business, or one side of the business, is developing profitability. So if half is coming from stable, half is coming from capital roughly, then, if you want to develop it by 2%, then if the development is coming only from one side then the other part has to improve by 4%.

So, we have been pushing profitability up in all our businesses and Kari can now comment on the mix issue which was interesting in 2020.

Kari Saarinen

Yes. So, still to continue so that our stable business and capital business mix typically is 50/50. So that's a normal year, if we look at past years, and now it was 56/44, and so even with that mix we were able to reach 9.8%. So, that of course shows that our capital business is strong, and we are executing our projects well.

And then also to elaborate a bit on what Pasi was saying. So, not to forget the ERP project that one day is going to bring us efficiencies as well as the internal digitalization as well.

Robert Davies

That's great, thank you.

Operator

Thank you, our next question comes from the line of Manu Rimpelä of Nordea Markets. Please go ahead. Your line is open.

Manu Rimpelä

Thank you. My question would be on the margins of the different business units. I know you don't talk about the absolute margins, but maybe you could help us to understand that how did they evolve during the year. Did we see margin improvement across all of the business lines or was there some that didn't improve margins, for example Services?

Pasi Laine

All our businesses were developing favourably.
Manu Rimpelä

Okay. That is clear then. And then if you talk about these bigger Pulp projects that you mentioned that you have in the pipeline, so can you comment a bit about how do you see them being geographically spread across the globe?

Pasi Laine

Bigger, medium and smaller. So, South America will become active either this year or next year again with capacity extensions or even there are discussions about new mills. Then Asia has potential, and then one interesting area is China as well. Some of the Chinese customers are planning to build a virgin fibre pulp mills in China, so China will be an active market. So, at least these three will be active.

Manu Rimpelä

Thank you, and maybe to follow up on that topic. So, would you say that the current backlog, which is at a pretty good level, would carry you through 2021 with good utilisation rates? Or do you still have backlog left in the equipment business for the start of 2022? So, what I'm trying to understand is that when do you think that you will need to start getting new orders from these bigger projects in order to kind of ensure the backlog continuation or utilisation continuation in the equipment business?

Pasi Laine

I answer a little bit the other way around. Like last year, Pulp and Energy order intake was somewhere 940 million, and it's a good enough level for us to keep everybody busy. And to get to that level, we needed one bigger order in, and it came in South America. So, with this €900 million level we have good utilisation and when it goes over, then we have of course even better utilisation. And currently we are only giving market outlook for coming six months, but if I give more general answer, it seems that all our customers are pretty confident that the long-term development of pulp demand is good. And also, that long-term board and packaging grade demands as well as tissue demand are good.

So, then of course there are variations between the quarters and half years, but I think all our customers are pretty confident with the long-term development currently.

Manu Rimpelä

Okay, thank you. I'll get back in the queue.

Operator

Thank you. Our next question comes from the line of Tom Skogman of Carnegie. Please go ahead. Your line is open.
Tom Skogman

Yes, this is Tom from Carnegie. A bit of kind of technicality, so I understand you don't book Neles now as part of EBITA adjusted, but is it booked as EU items and is that the line where we will find it in the future or where will it be found?

Kari Saarinen

Well, the share of Neles’s profit is part of EBITA and also EBIT. So, it is there, but it's not part of the Comparable EBITA. Because we treat that as an item that management can’t really impact on the level of the profit there.

Tom Skogman

And that explains—

Pasi Laine

Can we say that we think about it how to make sure that everybody understands how much is coming from Neles?

Kari Saarinen

Yeah, it is there. So, maybe to continue still, so we have our share of Neles's quarterly profit from Q3/2020 and that is around 3 million in EBITA.

Tom Skogman

Yeah, I notice there was like plus one between EBITA adjusted and EBITA reported. So, there are then EU items and then it's plus three from this. It makes it a bit complicated. You don’t find the numbers.

Kari Saarinen

It gets a bit complicated, but there’s also then items between comparable - - other items between comparable EBITA and EBITA as well.

Tom Skogman

I hope you can clarify that in some tables in coming reports. Then, I wonder how much sales came from the acquired PMP company in 2020.

Kari Saarinen

It was around 27 million that came from PMP Poland.
**Tom Skogman**

And that's the full-year figure, right?

**Kari Saarinen**

Yeah, that's all in quarter four, because we started to consolidate beginning of October.

**Tom Skogman**

Yeah, and then the FX impact on top line last year. I heard you said it was quite a big number, but I couldn't catch it during your presentation.

**Kari Saarinen**

Yes, so it was 101 million, the conversion for orders. So, 101 million, and for net sales it was 100 million negative and a big piece coming from Brazilian reals.

**Tom Skogman**

Yeah. And then finally, I have to ask of course again about Neles. Now we saw that Alfa Laval’s CEO yesterday stated that he is still very interested in buying Neles. So, I mean what should we expect? Without perhaps talking about your [? 00:42:55]. But is it so that this really remains unclear situation most likely throughout this year? Or what do you expect?

**Pasi Laine**

We have been saying that we are long term in Neles. We have now 29.5% of the shares and we say that we are long term, and we are also saying that it would be good to create a very strong Nordic engineering company merging by Valmet and Neles and that's still our thinking. But currently there is nothing new to say about it.

**Tom Skogman**

I just noticed yesterday when Neles reported that customer satisfaction was record high. The first year the company was independent despite difficulties in the pandemic. To me that signals that the company will perhaps do its best as a standalone company, but with a strong owner. That is not like any real alternative for you just to remain a big owner there?

**Pasi Laine**

So, you're referring to customer satisfaction in Neles?
Tom Skogman

It jumped remarkably compared to when it was part of Metso. This really signals that employees and customers really like that Neles is an independent company, apparently.

Pasi Laine

Customers like Neles products and have been liking Neles products last 60 years.

Tom Skogman

It was just remarkable how big jump it was in customer satisfaction when it was an independent company compared to being part of a conglomerate.

Pasi Laine

I can’t comment on that; you have to ask that from Olli.

Tom Skogman

All right, thank you.

Operator

Thank you. Our next question comes from the line of Johan Eliason of Kepler Cheuvreux. Please go ahead. Your line is open.

Johan Eliason

Hi, it’s Johan here. Just a short question on the graphical mill closures. Do you think you’ve seen the negative impact fully on sort of the service order intake in the fourth quarter or is there further downside, potentially offsetting the recovery post the pandemic for the Services business? Or how should we think about it?

Pasi Laine

I think we have seen the full in fourth quarter.

Johan Eliason

And that means basically – I mean if you get access to clients et cetera, Q4 next year should probably rather show a positive sign – if you can access customers in a more normal way with modernisations and stuff.
Pasi Laine

Yeah. Now, of course, we were serving some of the printing and graphical paper companies like with our paper machine clothing and then the capacity was reserved for those customers and now when they have closed, then we start to sell the same capacity to board customers and it will take a while before we can sell it, but that's what we're planning. And then, graphical paper, those machines which are closed for ever, that market of course will not come back. And earlier we have been saying that the year, or yearly 10 to 20 million of our order intake is disappearing because of closures of paper machines. Last year it was little bit bigger, and that market partly will not come back. But we can sell the capacity then to other customers, board customers and tissue customers.

Johan Eliason

And why would they change? Has the market share in fabrics been restricted by your capacity rather than strong competitors, or—?

Pasi Laine

The last years we have been also capacity limited, so then we can sell that extra capacity to board and packaging grades.

Johan Eliason

Okay, understood. Thank you very much.

Operator

Thank you. Once again, if there are any further questions, please dial 01 on your telephone keypad now.

Add we have one further question just come through; that's from the line of Manu Rimpelä of Nordea. Please go ahead, your line is open.

Manu, if you have your line muted, you'll need to unmute.

Manu Rimpelä

Thank you. A follow-up question from me. Could you please talk about the self-help measures that you have? You mentioned this ERP programme and you also have some other measures that you're working on to improve the execution and other parts of your business. So, could you just help us to understand a bit more what are the kind of main tailwinds that you expect from these into 2021, and which are the measures that you are working on?

Kari Saarinen

Well, we already mentioned this ERP and digitalisation which are like internal efficiencies for us. Then, of course, we are working a lot on the quality costs from the project management and project execution side. We are also working on the
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sales management side as well. So, continuing with the same kind of activities that we have done over the years, and some of those are closed, some of them we continue with the add-on topics as well, like for instance procurement. So, we started procurement all the way since the year 2013 and we are not yet finished. Some of these things take like - - we need to continuously improve many things. The ERP project, it will still take some time before we are getting like any major benefits out of that. This year we are going to have 21 roll-outs and we still work full speed ahead there.

Manu Rimpelä

Okay, thank you. When will you have this ERP roll-out completed and starting to generate savings? I guess it's generating costs at the moment.

Pasi Laine

I would think that most likely it will still take two years before we are on the savings side here.

Manu Rimpelä

Thank you.

Operator

Thank you. Once again, if there are any further questions, please dial 01 on your telephone keypads now. And we've had one further question just come through; that's from the line Tom Skogman of Carnegie. Please go ahead, your line is open.

Tom Skogman

Yes, hi, this is Tom from Carnegie again. I would just like to discuss your guidance for flat sales a bit. Based on your comments, 75% of the order book will be delivered this year which means that the order book for this year is up by 5%. You will likely in Q1 book this 350 to 400 million Metsä pulp mill order implying the order book will be up a lot after Q1, especially for this year's deliveries. And then, if you talk about service sales coming back in the second half, your guidance seems extremely cautious on the top line. Do you see anything negative that I don't see?

Pasi Laine

If I remember correctly, last year we were saying 70%, but the backlog was a little bit bigger and now we are saying that the 75% from smaller amount of backlog, if I remember correctly. So, you can't say that it's 5% higher. Guidance is done now based on the current situation. We all know that there are reasons to be positive, and then there are reasons to be cautious because of COVID and COVID spreading and actions getting tougher in Europe. Our guidance is based on the current facts and some cautiousness.
Tom Skogman

And you expect the Metsä order now to be booked in Q1?

Pasi Laine

I can't comment on the timing of Metsä’s decision making. So, it's better that you, we all wait, and I'm sure that they will let us know when they are ready to make the decision. I can't comment on that.

Tom Skogman

But you have earlier said that only the environmental permit is missing, and that was received already last year.

Pasi Laine

No, but it is Metsä’s decision, it's not our decision. I can't comment on that. Sorry.

Tom Skogman

I understand.

Operator

Thank you. And we've had one further question come through. That's from the line of Antti Kansanen of SEB. Please go ahead, your line is open.

Antti Kansanen

Hi guys, it's Antti from SEB. Sorry, I might have missed this if you said it earlier on the call but coming back to the sales guidance notably on the Services side, and you mentioned tighter restrictions right now, so could you repeat a little bit what do you expect from Services from different types of activities regarding recovery and taking into account the impact from the graphical paper decline what we are seeing.

Pasi Laine

So, first six months we are thinking that the COVID restrictions will impact our services. And then currently we believe that in latter part of the year the vaccination has been so widely used that the societies are opening and services is opening.

Graphical paper dropped a lot this year; might be that some of the capacity will bounce back a little bit, but then longer term there is a decline in graphical paper.

Part of the capacity what we have been using for graphical paper we can sell now to packaging grades, and that of course will take some while. Then, our mill business where we make field services and mill improvement projects, that has been
mostly affected by COVID – I think Kari was saying 16% order intake drop. And it’s because we have challenges to get customer access and then the other thing is that customers don’t want to have unnecessary personnel or disturbances in the processes, and we think that that market will bounce back once the societies are open.

Currently we think that that will happen in the second quarter.

**Antti Kansanen**

Okay, and I think earlier you’ve been pretty cautious on talking about the recovery in Services. I mean the comparison figures are weaker from last year when we go to second half, but should we kind of expect return to trend growth? Or should we expect kind of pent-up demand driven stronger year on year growth in the second half? Is there a lot of actions that haven’t been done and now customers are just waiting for you guys to get into the sites?

**Pasi Laine**

First of all, I think it’s good to remind that in quarter one last year we had an all-time record quarter. So, of course, that’s a challenging figure. But I think it goes so like I said that there will be still COVID limitations and then latter part of the year, the limitations will be getting smaller. Traditionally, we have been saying that 55% of the order intake happens in the first part and 45% of the order intake in second part, and if our current thinking is correct, then this year it might not be the case. I can’t say whether it’s the other way round, but we will not see a normal distribution of the order intake, most probably, in Services in ’21. Kari, do you agree with that?

**Kari Saarinen**

Yeah, I do. And also, what Pasi was saying, that quarter one last year for Services, order intake, that was record high. So, it would be difficult to beat even with good circumstances. So now it’s a bit unclear. And then I may still, to elaborate a bit what Tom Skogman asked earlier, and of course, we fight hard so that we increase the net sales and so. But there’s also certain uncertainties that may be here beyond management control. Even tough a lot of good ingredients here.

**Antti Kansanen**

Okay, thanks. Could you still remind, a basic question on the modernisation or the mill improvement business. When you get an order, what’s typically the lead time when you book sales from that?

**Pasi Laine**

In that business we have field services also included, so it can be weeks. And then typical process is, let’s say, six months.

**Antti Kansanen**

Okay, thanks so much. That’s all from me.
Operator

Thank you. Once again, if there are any final questions, please dial 01 on your telephone keypads now. And we have a follow up from Tom Skogman at Carnegie. Please go ahead. Your line is open.

If your phone is on mute, Tom, you will need to unmute.

Okay, since we’re getting no answer from Tom, so I believe there are no further questions then on the line, so I’ll hand—

Tom’s put himself back in the queue. Once again, Tom, your line is open. If your phone’s on mute, you will need to unmute.

Hi Tom, can you hear us?

Okay. I think Tom’s having some phone issues, therefore there are no further questions in the queue at this time, so I’ll hand back to our speakers for the closing comments.

Pekka Rouhiainen

All right, thank you for the presentations, Pasi and Kari, and of course for the good discussions. And the next events for us will be the Capital Markets Day. That will be held on the 10th of March starting at 1:00 PM Finnish time, so it would be a virtual event and hopefully everybody will participate actively to that one as well. And then on April 22nd, we will have the Q1 result publications. So, those are the next Valmet events. Mark them down to your calendars.

This now concludes this event. Thank you everybody.