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PRESENTATION

Hanna-Maria Heikkinen - ***Valmet - Head of IR***

Good afternoon, ladies and gentlemen, and welcome to Valmet's Q2 results briefing on this sunny Thursday. My name is Hanna-Maria Heikkinen and I'm in charge of Investor Relations.

In Q2 2016, we saw good development in services. Actually, the orders received in services increased all-time high for the second consecutive quarter.

Today, our CEO, Pasi Laine, will go through first the highlights of Q2 report then Pasi will go through business lines development and then he will also go through Valmet way to serve, new service concept which was launched in June.

Then our CFO, Kari Saarinen, will go through the financial development. After that, Pasi will come back and go through the guidance and short-term market outlook. After that, Pasi will also go through our new financial targets.

Please, Pasi?

Pasi Laine - ***Valmet - CEO***

Thank you, Hanna. Welcome also on my behalf on this sunny Thursday, at least here in Helsinki or Espoo the sun is shining. So, like Hanna said, we had good development in services and on top of that we also launched a new way how we are serving our customers today and in the future.

Like Hanna said, first, I will go through the figures briefly and then business lines development, then Valmet way to serve then Kari will continue and I will come back later on.

So first, the second quarter in brief. Our orders received and net sales remained at the previous year's level in stable business. I will come back more into details later. And orders received decreased and net sales remained at the previous year's level in our capital businesses.

Order backlog in the end of the quarter was at EUR2.1 billion. Our profitability increased, comparable EBITA margin was at 7.1%. And our net debt was at EUR231 million. So I would say reasonable, solid development in second quarter for Valmet.

Highlight of the figures in second quarter are following. So orders received was EUR692 million. I will come back more into details on that but maybe it's a little bit disappointment figure.

Net sales was at EUR800 million. Our comparable EBITA was EUR57 million and like I've said, comparable EBITA margin was 7.1%. And we employed about 12,500 people. So all in all, I would say solid development in Valmet.

Our stable businesses contributed to 47% of our net sales and 53% came from our capital businesses. Net sales continued to be strong in North America and Europe. So, like you maybe remember, traditionally, about 60% have been coming from these areas. Now it's 66% from these established markets. The rest was coming from South America, China, and Asia-Pacific. And all areas had reasonable development in net sales, also in this quarter.

Our orders received decreased on this quarter to EUR692 million and like you see on this trend curve, our 12 months cumulative orders received is about EUR3 billion which is, of course, good figure for us.

Orders received remained at previous year's level at Services and Automation and it decreased in Pulp and Energy and Paper business lines.

If you look geographically, orders received -- so 53% of the orders came from Europe. So, Europe continue to be strong. North America, 22%. So at the same level as in net sales and South America, Asia Pacific, and China were a little bit less compared to the other areas because Europe had so much activity.

Then if we look our development in these stable businesses where we count Services and Automation. When we started as Valmet, order intake in Services was around EUR1 billion. And now, during last two, three years, after the acquisition of automation, we can tell that now the net sales in our stable businesses totaled to EUR1.475 billion in four quarters, so almost EUR1.5 billion.

I think this is a big change in Valmet. We have been saying it many times but I think it's still worth to mention that it's good and big development to Valmet that our stable businesses accounts now to almost EUR1.5 billion.

And like Hanna said, we had all-time high orders received in Services business line, EUR321 million in a quarter. So good development in Automation and good development in Services. And all together, very important for Valmet that these stable businesses have been developing as favorably as it has been.

Our backlog is at EUR2.1 billion, it's a little bit less than last quarter but more than in the end of the year. So I would say that this EUR2.1 billion is good level for our order intake -- order backlog. It means that we have the capability to take new orders and it means also that most of our production units have good workload with this backlog.

Stable business counts to about 30 billion -- 30% of the backlog and capital business about 70%. And we are now saying that 50 -- at about 55% of the backlog is expecting to be realized as net sales during 2016. This should help you to calculate your estimate for our this year's net sales estimate.

But backlog is at healthy level, I would say. Then if I go through the business lines' development next. So Services, we put that also in the headlines of the announcement that Service has been developing well.

So, our order intake in Services is now EUR634 million and last year it was EUR600 million and last year we were also having growth. This year, we have actually negative impact -- small negative impact from the foreign exchange rates so we don't have any help from there either. So this growth about 6% has been -- has been coming from operational development in our Services and we are -- we are pleased with that development.

Net sales accounted to EUR561 million, so there was also growth compared to last year.

Then Automation orders received totally EUR88 million in second quarter. Last year first quarter was not included so I'm not talking about cumulative figures but EUR88 million, I think it was good quarter for Automation as well.

Net sales-wise, Automation made EUR81 million which was also a good quarter for Automation. So all in all, we continue to say that automation has been performing well now in as part of Valmet and we see that customers appreciate the offering what we have in this business line and it helps very well or supports the other parts in many way in capital business and services like you see internally, the order intake this year has been already now EUR21 million, so EUR15 million plus EUR6 million. So we have a lot of synergy now with Automation.

But Automation is also competitive on its own. So we are still happy with Automation development.

Pulp and Energy, cumulatively order intake is EUR417 million, last year it was EUR397 million, so a little bit improvement. But of course, 180 million is less as an average than last year. But cumulatively, we are still at reasonable level in order intake.

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Net sales cumulatively is EUR443 million, so quite close to the level where our order intake is as well. So nothing dramatic in Pulp and Energy.

In Paper, we got, in this quarter orders, worth of EUR109 million and I have to say that it's a small disappointment for us. We have been guiding and we are still guiding that market activity is good. There have been a lot of discussions with customers, a lot of negotiations. But in this quarter, the decision didn't materialize and we -- to be honest, we were expecting higher number in order intake for this quarter. But market - I'll come back to the market outlook later on but market is still active on paper -- in Paper, Board, and Tissue side.

Then if you look the whole year, in whole year, we are a little bit ahead of last year. So last year order intake was EUR278 million. This year, order intake has been EUR295 million. So there is some growth also in Paper when we take the six months' view on the business. And like we have been saying, it's better to take longer-term view in our order intake, in our capital businesses.

Then in Services, we launched new way how we are describing our offering to our customers. So after the acquisition of Automation, we started to work to combine the offering, what we have to offer in Services and Automation together to our customers. And we have concluded in that way that first of all, we talk about our core commitments to our customers then we talk about our services offering.

But our core commitments to our customers are that first of -- first of all, safety comes first. So whatever we do with our customers product wise or activity wise, we first have to think about the safety. And like you know, our safety record has been improving lately or the last two three years very well. And this safety is important topic to us and it's important topic to our customers and that's why we take it as a first commitment.

Then we want to be close to our customers. We have over 100 services locations close to our customers and for our customers, it matters that we are close to them and we are currently extending our services or closeness like currently investing in Indonesia to build up new services center. So, for our customers, it's important that we are close by to them physically and, of course, which remote connections as well.

Then we have huge offering and sometimes for customers, it might be challenging to know what everything we have to offer and that's why we have been building more solution packages to help our customers to improve their performance.

Then, of course, in Services, we are talking about people's business and we have people our customers can trust and we develop people to whom our customers can trust.

So these are the core commitments what we have to our customers. Then we -- when we talk more about the offering itself, so we tell -- we can improve our customers reliability, performance, and we can give them new technologies. So part of the offering goes to improve reliability that everyday mill or plant is running reliably.

And then the other part of the offering is that we have offering which can help our customers to improve their performance. And then, of course, on top of that, our customers need new solutions. We have R&D spending which is about EUR65 million a year and with that new technology, we can help our customers as well.

And we call this new way to serve with a name Shared Journey Forward and like I've said, we launched that in June to our customers. Before that, we had a lot of internal trainings and now we work more with our customers to continue the Shared Journey Forward.

We will explain the services concept more in detail in our Capital Markets Days and, of course, I wish that many of you will join there. But this is the most -- just a short overview what our new services concept means.

Good. Then I invite Kari to continue to talk about financial development.

Kari Saarinen ***- Valmet - CFO***

Okay. Thank you, Pasi, and also good afternoon from the CFO as well.

So about key figures for quarter two. So, actually, our orders received -- so they were EUR90 million below last year's and that's minus 11% compared to last year's and actually all these decline is coming from our capital business, we're actually declined EUR100 million.

And then if we look at the stable business, so that actually increased around EUR10 million and worth to notice here that actually our Services order intake increased by 4.6% in quarter two.

And as Pasi said, order backlog was EUR2.1 billion, that is EUR100 million lower than the year ago. It's also EUR100 million lower than end of quarter one. But then on the other hand, that was higher than once we started the year and 55% or around EUR1.2 billion will be recognized as revenue still during this year.

Net sales, EUR804 million. That's 3% higher than last year and then comparable EBITA. So that 7.1% or EUR57 million and that's actually beating our last year's by EUR3 million or 0.2% points.

And then also EBITA. So EBITA was EUR55 million. So we didn't book any major or items affecting comparability there and a year ago actually, our EBITA was EUR42 million and increase there was 32%.

And then EBIT, EUR47 million, 5.8% and a year ago, EUR32 million, so -- or 4.1%. So good increase with EBIT as well.

Our earnings per share are EUR0.21, so that's 50% higher than what we did year ago with EUR0.14.

And then looking at cash flow, our cash flow was EUR33 million, that was double than we did a year ago. And then looking the cumulative figure, so once more the year-to-date orders increased 10%. So all the business lines increased there and they're looking at the year-to-date net sales, 9% increase and they actually are Automation and Paper increased and Services and Pulp and Energy were flat.

Year-to-date comparable EBITA was 6.1%, so increased from last year's 5.5%.

And then just to bridge that how the net sales developed. So as we can see that the major increase in net sales actually is coming from Pulp and Energy, quarter two Automation with EUR5 million increase as well and then Services being flat and Paper business line slight decline.

Gross profit, so gross profit compared to last year was flattish at 23%. Our SG&As were also quite flat, slightly lower than what we had a year ago.

And then actually, looking at EBITA, so the 7.1% that we did this quarter two now, so that is now the sixth consecutive quarter when we have increased our EBITA. So meaning that since the beginning or every comparable quarter has been higher than the previous one. So there, we've actually had quite good development.

Our cash flow, cash flow was EUR33 million compared to the EUR17 million year ago. And then looking at the first half, first half EUR36 million compared to minus EUR3 million what we had on first half of last year.

Our CapEx is -- we're a bit higher than normal, EUR18 million. We actually invested now the first investments for our new ERP went out as well as some investment to IT security.

Net working capital, minus 6%. So that's actually increasing and that's higher than our normal. And there, this is coming from a bit lower down -- advanced payments what we have received from our customers and as well, we received slightly lower amount of payments in June, what we expected and actually those payments came in in July.

And also worth to notice here with networking capital is that our overdues are actually way lower than what we -- what they were in the end of last year. So we've had good development with the ODs.

Net debt increased compared to quarter one but looking at the development from last year, last year's 29%, now gearing is 27% so we had reasonable development there and then looking at the equity to assets ratio, so it's been quite flat and 1% point above what we -- better what we had a year ago there.

And dividends, we paid dividends out in April worth of EUR52 million.

Capital employed, so capital employed is actually exactly the same -- or return on capital employed is actually exactly the same as the year ago, 12% and the target there remains 15% until the end of the year and after that, actually the new target is between 15% and 20%.

Back to you, Pasi.

Pasi Laine - ***Valmet - CEO***

Okay. So guidance. So we still keep the same guidance. Valmet estimates that net sales in 2016 will remain at the same level of 2015 and comparable EBITA in 2016 will increase in comparison with 2015, so the same guidance than earlier.

Then short-term market outlook, in Services, we keep the same. So satisfactory. Automation is the same, satisfactory, and like earlier, Pulp and Paper is more active in Process and Energy less active. And as a combination, we keep it as satisfactory.

Pulp, we keep the satisfactory level like we have been saying, we don't see that there will be very big pulp mill investment coming into decision this year but we see quite a lot of modernization and upgrades and extension activities in Pulp side.

In Energy, we keep satisfactory market outlook. In Board and Paper, we keep good satisfactory. We have good workload and there are quite a lot of active discussions with the customers. But like I've said -- like I earlier said, there has been delays in decision makings. But still, we have reasons to keep Paper at good level.

Tissue, we keep at satisfactory level. So we have -- we have reasonably good workload in Tissue and a reasonable amount of customer activities as well. So we are not changing the market outlook at current point.

Then a couple words about the new financial targets which we launched in June after strategy round. First, a little bit background. So the first financial targets were set when Valmet started to operate or before Valmet started to operate as independent company.

And then, our EBITA was 2% and we set the target between 6% to 9% and a lot of things have happened thereafter. And now, we thought that it's time to refresh our target setting and little bit increase the challenges what we have set to ourselves.

So first of all, in growth perspective, we want to now talk about two separate growth numbers. So first of all, we say that for stable business, we want to grow over two times the market growth. So Automation and Services, we target the growth twice the growth of the market. And last years, we have been able to do it and now, of course, we target to continue with the same.

Then in capital business, we want to exceed the market growth which means that we have to increase our market share. But there, we, of course, have to be careful that Valmet is not going to increase market share by price fight. So we have to have good reasons to increase that customers are -- that customers are willing to buy more from us and not the price only. So we want to be price disciplined but we want to exceed our market share as well or improve our market share as well.

Then for profitability, we increased our long-term target setting to be between 8 to 10. So instead of 6 to 9, we are saying now 8 to 10. The reason is that, first of all, the share of the stable business has increased, we have reached the minimum target we have set earlier, 6 to 9 and we want to challenge ourselves to develop the company further so that we target now in long-term to reach 8% to 10%.

And we can reach that by several actions and we will come back to those actions more in details in our capital market days. But most of the actions are pretty much in the line with the same actions what we already have been doing. So, improve quality, improve sales, improve project management, improve procurement. So we feel that current development work has been bringing some results and we want to continue with the current work what we have been doing.

Then comparable or return on capital in play -- in capital employed, we increased our target setting to be between 15% to 20%. And like Kari was mentioning, the earlier target setting was 15.

And then we increased the dividend policy so that the payout is now at least 50% of the net profit. Earlier, it was 40%.

So we have increased the target setting in all aspects, in growth, in profitability, in return of capital employed and dividend policy and that has to be the target for Valmet and Valmet management in the future.

So as a summary, second quarter orders received and net sales remained in stable business at previous year's level. In capital businesses, orders received decrease and net sales remained at the previous year's level. Our backlog is EUR2.1 billion which is at the healthy level. Profitability increased to 7.1% and our net debt is EUR231 million. So that's in brief and now Hanna says something.

QUESTION AND ANSWER

Hanna-Maria Heikkinen - ***Valmet - Head of IR***

Yes. I would say something. Thank you, Pasi. Thank you, Kari. Now, it's time for questions. We will start with the potential questions from Keilasatama. Are there any questions here in Keilasatama?

If not, then we will continue with the international questions. Yes. Do we have any questions from the lines?

Operator

You do indeed. Three questions on the line.

Hanna-Maria Heikkinen - ***Valmet - Head of IR***

Okay. Good.

Operator

Okay. Your first question comes from the line of Manu Rimpela from Nordea. Please go ahead.

Manu Rimpela - ***Nordea - Analyst***

Good afternoon. It's Manu from Nordea. My first question would be would you be able to help us with the -- how should we think about the second of the half year and especially given that your guidance such as based on what you already delivered in sales for the first half of the year that sales would decline in the second half of the year?

So what should we think about the margin potential in the second half of the year compared with the first half declining sales, obviously, giving you a drag but then you have some cost savings in the Services business and order ratio will probably accelerate a bit in terms of growth. So do you expect to be able to improve the EBIT in the second half of the year compared to the previous year or is it that most of the improvements for the full year coming from the first half of what you already achieved?

Pasi Laine - ***Valmet - CEO***

I had little bit difficulties to follow but now it's -- okay. Yes. So if I understood correctly, the question was that how we see the profit development in the second quarter -- in second half.

And then we are, of course, guiding only for the whole year. We have had profit improvement in first half and we are guiding like -- we are guiding that profit will improve compared to last year or EBITA will improve. We are not guiding exactly how it's developing in second half compared to first half like you -- if I heard correctly, you were mentioning that we have stable business order intake increasing in Services and Automation and then we have -- we still have, actually, order intake increasing in capital businesses compared to last year and we keep our guidance for this year to improve our EBITA in 2016 compared to 2015.

Manu Rimpela - ***Nordea - Analyst***

Okay. And my second question would be on the Pulp and Energy sales seasonality. I mean Q2 had some very strong sales numbers. Was there some sort of milestone payments in Q2 which led to a very strong number and do you think -- how should we think about the second half of the year in terms of that but this would mean that there will be less sales in Q3?

Kari Saarinen - ***Valmet - CFO***

So you were asking about the P&E's quarter two. So, yes, quarter two was strong but also than the comparison -- comparison quarter was not so great. And they have a certain milestones that came in during quarter two and we actually see quite solid development with Pulp and Energy also going forward.

Manu Rimpela - ***Nordea - Analyst***

What is the normalized level of sales? Is it the average of the most quarters that you're running at the moment or how should we think about it?

Kari Saarinen - ***Valmet - CFO***

Hold on. So we are now at the --

Pasi Laine - ***Valmet - CEO***

Was it about orders?

(Multiple speakers)

Kari Saarinen - ***Valmet - CFO***

So, Manu, you're asking about orders or sales?

Manu Rimpela - ***Nordea - Analyst***

No, no. I'm sorry. I was asking about the sales in Pulp and Energy which were in Q2 clearly higher than in the first quarter that -- was there some milestone payment which meant that you received so high sales?

Pasi Laine - ***Valmet - CEO***

There were project-related milestones which happened more in second quarter and less on first quarter but there were planed. So, no delays in any respect on first quarter. I think we have --

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Manu Rimpela - ***Nordea - Analyst***

And how do you see that developing for the rest of the year?

Pasi Laine - ***Valmet - CEO***

Pardon?

Manu Rimpela - ***Nordea - Analyst***

How is the development for the rest of the year? Will there still be some milestone payments or have those been taken out?

Pasi Laine - ***Valmet - CEO***

So we have to now a little bit clarify. So our revenue recognition is not based on milestone payments. It's based on milestones which happen in the projects. So, of course, we have normal development for Pulp and Energy. So we have projects where we have milestones coming all the time. We have tens of projects in that business.

And then, of course, it can cause that there is variation between the quarters and between the months but we don't have anything special now in Pulp and Energy from that perspective.

Manu Rimpela - *Nordea - Analyst*

Okay. And my final question would be on the Services business. So you launched this new Services concept. Did you see any benefit from that in your orders already or did you expect -- you're kind of expecting that some Q3 onwards and that doesn't mean that you still have potential to accelerate growth even further?

Pasi Laine - *Valmet - CEO*

I think the Services concept cannot bring in short-term growth in Services. I think it's a long-term development. So, first, we have to remember that Valmet has been developing services since beginning of '90s and Automation the same. So now, when we launched the concept, we put all the offering together, made it easier for our sales to sell and customers to understand. And then, of course, we won't see sudden jump on the order intake because of that.

So it will be long term development where we -- where we develop the cooperation with our customers and develop our offering further. So the concept is to help us and customers to improve the operations in long-term, so we should not expect something radical to happen in one quarter. But in long-term, it helps us to develop the services.

Manu Rimpela - *Nordea - Analyst*

Okay. Thank you. No further questions.

Operator

Thank you very much. And your next question comes from the line of Tom Skogman from Handelsbanken. Please go ahead.

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

Thank you. It's Tom here from Handelsbanken. And I was wondering a bit about your new financial targets. I have two questions there. First of all, I hope you could elaborate a bit about why the EBITA margin range target is smaller than it used to be. I mean, what makes you so certain that the volatility will be smaller than earlier?

And then secondly, I wonder about acquisitions in the new strategy. I have not written anything in the kind of target setting but I just wonder what you think about acquisitions now where we have consolidated fully the Automation business and you have a strong balance sheet and you want to grow the stable business much faster? Will you do acquisitions there?

Pasi Laine - *Valmet - CEO*

Yes. First is volatility. I think when we set up the target to be between 6% to 9%, we were at 2%. And then share of our stable business was 35% to 40%. Now the share of our stable business starts to be or then let's say it the other way around. It was about EUR1 billion and now it's EUR1.5 billion.

And because we have bigger stable business, we feel that we can be more accurate with the profitability target setting as well. So that's the -- that's the reason why we -- why we changed the range to be only 2%.

And the target is like it has been with 6% to 9% to get first to the 8% and then improve the company so that in all the market conditions, we should be between 8% to 10%. And of course, it takes some time. So that was the thinking.

And then acquisitions, I think, one has to -- like you said yourself as well, we made big acquisition one year ago. We still have debts. Our gearing was 27% and in our type of business, I think the company should have quite strong balance sheet.

So we currently focus on improving Automation, improving Services, improving Paper and Pulp and Energy and we are not very actively targeting to grow with acquisitions. More to grow organically.

Tom Skogman - ***Handelsbanken Capital Markets - Analyst***

Okay. Thank you. And then final question about the outlook for 2017, let's forget about the order outlook and top line, I just wonder what cost items will change the most in 2017 based on what you know at the moment?

Pasi Laine - ***Valmet - CEO***

That was a surprising question. So I think first of all, if we take salaries, we have 4,500 people in Finland. And now, after the negotiations which took place in spring in Finland, I think there will be quite stable salary situation in Finland. So I don't see that there will be cost increases. Then of course, we will have salary increases in other countries. But they are normal so I don't see that there will be any big ones.

Then raw materials. Usually, when we make big quotations, we ask for quotations and estimate the costs when we quote. So then we are not that much dependent or taking risks on the material prices.

So currently, I can't see any big changes in our cost items which would have big impact to our profitability. Do you agree?

Kari Saarinen - ***Valmet - CFO***

Yes, maybe possibly to continue it, of course, so that we continue procurement, quality, project management, and sales management. So, of course, we continue progress that we have done with these programs.

And maybe one thing, Tom, about your question about why it's 8% to 10%, so of course, it doesn't mean that we are capped to that 10% in the future. So even though we are saying it's not between 8% and 10%.

Pasi Laine - ***Valmet - CEO***

That was bold.

Tom Skogman - ***Handelsbanken Capital Markets - Analyst***

And this is really what I'm looking for is quality cost, procurement cost, project cost, and sales management. I mean, you must have some insight into, you know, what will be the key drivers for next year? I understand that you factor in salary inflations and raw material price cost into your customer contracts, but what will happen to this that you have some kind of control over yourselves? What will be the main earnings driver out of these four items you mentioned next year?

Pasi Laine - ***Valmet - CEO***

I think we can -- we try to open it little bit up in Capital Market Days. But on that level that you will continue to have questions thereafter as well. But we'll continue to improve the profitability with Must-Wins what we have.

So developing things like services concept, developing new products which are more cost competitive or which are otherwise competitive to develop like Kari said, our procurement, quality, project management and sales processes. So we'll continue to use the same tools what we have been using to develop the profitability from, let's say, 4% up to 6%.

Tom Skogman - ***Handelsbanken Capital Markets - Analyst***

Okay. I'll wait until the Capital Market Days, I think.

Pasi Laine - ***Valmet - CEO***

Okay.

Tom Skogman - ***Handelsbanken Capital Markets - Analyst***

Thanks.

Pasi Laine - ***Valmet - CEO***

Thank you.

Operator

Thank you very much. Your next question is from Antti Suttelin from Danske Bank. Please go ahead.

Antti Suttelin - ***Danske Markets Equities - Analyst***

Hi. Yes, this is Antti. I have two questions. First one on Q2 and then on the drivers behind the new targets. You said that starting with Q2, I can see that your gross margin was lower year-over-year in Q2. Why was this and would you expect gross margin to improve again year-over-year in the second half?

Kari Saarinen - ***Valmet - CFO***

Well, there was one single reason on the gross margin being at the same level and that's the reason that actually our Automation was very, very good -- had a very, very quarter two last year. So that's the -- that's the one solid reason for the -- or single reason for the quarter two last year's very strong gross profit.

Antti Suttelin - ***Danske Markets Equities - Analyst***

All right. All right. And would you expect gross margin to improve on a year-on-year basis in the second half?

Kari Saarinen - ***Valmet - CFO***

Well, I think that that's a bit of a continuation of the question, what Tom Skogman was also asking earlier that, of course, we are working on that with the programs that we have. And that's, of course, our aim.

Antti Suttelin - ***Danske Markets Equities - Analyst***

Yes. That's exactly what I'm asking. Did you get all the benefits from the programs already in the first half or is there still new savings for the second half?

Kari Saarinen - ***Valmet - CFO***

Well, I would say so that these programs continue.

Antti Suttelin - ***Danske Markets Equities - Analyst***

Yes. All right. And then you increased the targets. Does this mean that you have identified new or new actions or you have expanded the scale of quality cost reduction programs and procurement programs?

Pasi Laine - ***Valmet - CEO***

I think both. So we continue to improve the ones where we have started already. And of course, all the programs are a little bit in different phase, quality and procurement and then project management and developing the sales management as well, so and developing new products. So we are most advanced in safety and quality and procurement and we still have work to do with sales management, project management, and new products as well. So we continue to work with all these ones with new target settings.

Antti Suttelin - ***Danske Markets Equities - Analyst***

All right. Thank you.

Operator

Thank you very much. And your next question is from Tomi Railo from SEB. Please go ahead.

Tomi Railo - ***SEB - Analyst***

Hi, good afternoon. It's Tomi. Can you talk a little bit about the delays. Are these coming from which specific projects or businesses and anything on timing. Would you expect the delays to continue in the third quarter and possibly these to move to the fourth quarter?

Pasi Laine - ***Valmet - CEO***

No, I think all the projects are different. So there is not one single reason for delays and then it's very difficult to estimate how long decision processes will take with customers. But we have, of course, tried to think about it and we haven't found any one single reason that this would be the reason for the delays in the decision making.

So all the projects are individual projects. Sometimes it's more about technical matter, sometimes it's more about financing. Sometimes it's more about strategic decision, what kind of grade customer is doing. So all different kind of reasons, not a single one.

Tomi Railo - ***SEB - Analyst***

And then on the Service. Second half revenues typically 55% of the -- of the annual level, that's after the first half figures calculated indicating substantial revenue growth, something like double digit revenue growth in the second half. Is that the indication of extraordinary strong second half for the services or what sort of -- how should we read that comment?

Kari Saarinen - ***Valmet - CFO***

Well, we've been saying that in many cases, the order intake for Services is higher at the first half and then a bit lower in the second half and then the sales going vice versa. So in many years, it has been like that and -- but these kind of things for the future are sometimes very difficult to say.

Pasi Laine - ***Valmet - CEO***

And maybe so that if we push all the time, the revenue recognition every quarter then might be that delta between first half and second half is less than it has been. So don't overestimate it, I would propose. Do you agree?

Tomi Railo - ***SEB - Analyst***

Thank you.

Kari Saarinen - ***Valmet - CFO***

Yes. Yes, but I would say that there's -- of course, we are working as hard as we can with the services sales and revenue there.

Tomi Railo - ***SEB - Analyst***

That's fine. Thank you.

Operator

Thank you very much. And your last question comes from the line of Horace Tam from Berenberg. Please go ahead.

Horace Tam - ***Berenberg - Analyst***

Hi, this is Horace Tam from Berenberg. Thank you for taking my questions. I have two questions on the margin. First of all, you look at this quarter, the contribution from your -- there's a higher contribution from the capital business. So I would assume there's a negative mix impact on the margin and the underlying business should have increased more than 20 basis points for this quarter. Can you roughly quantify the main components in your margin bridge?

And the second question is on your long-term margin targets, can you tell us a little bit more about the embedded assumptions. Do you think the pricing in Valmet is going to change and how are you expecting in terms of the mix? Are you expecting the stable business going to grow much faster and you have much more contribution from the stable business? Thank you.

Kari Saarinen - ***Valmet - CFO***

Yes, maybe something about the quarter two's margins. So I said earlier, so the Automation at last year quarter two, extraordinarily good margin and then on the other hand like the improvement now for these quarters, quarter two 2016 actually, that came big time from Pulp and Energy business line where, actually, the margin development particularly at this quarter was good.

Horace Tam - ***Berenberg - Analyst***

Okay. And how about the long-term margin target and the assumptions behind it?

Pasi Laine - ***Valmet - CEO***

I think we have tried to now a little bit say that we have this Must-Wins but we continue and with those ones we target to grow, to increase the profitability to the targeted level and that's the long-term target and we feel that it's right direction to develop Valmet towards higher profitability and we still have room to improve. So we are not that perfect yet with our operations. So there's still a lot of room for improvement.

Do you want, Kari, to add something?

Kari Saarinen - ***Valmet - CFO***

Well, I think that's pretty much it.

Horace Tam - ***Berenberg - Analyst***

So basically, you are seeing the same pricing situation and the mix as well? You're not expecting something would change dramatically, right?

Pasi Laine - ***Valmet - CEO***

We can't expect that there's big change in pricing situation. I think the old truth is that when backlog is getting thin, then all the companies are more aggressive with pricing and when you have good backlog, then you have more discipline on pricing and that will continue in the future as well. In services We have competition seen from several fronts and that will continue, so to improve our EBITA we have to improve internally. We can't expect the help to come externally.

Horace Tam - ***Berenberg - Analyst***

I see. Thank you very much. It's very clear. Thank you.

Pasi Laine - ***Valmet - CEO***

Thank you.

Operator

Thank you very much. And we appear to have a follow-up question from the line of Manu Rimpela from Nordea. Please go ahead.

Manu Rimpela - ***Nordea - Analyst***

Hi, just a quick follow-up question. Is there a normal seasonality between the second and the third quarter especially for the equipment business or the Services business? As I can understand it, is there any reason why there should be some seasonality in the equipment business?

Pasi Laine - ***Valmet - CEO***

If you take the whole capital business, there's no seasonality in it's -- in power generation. So in our Energy part, it used to be so that decisions were made before Christmas so that ready power plants would be ready before the heating seasons in one and a half years. But that [phenomenon] is not any more there. So otherwise, I don't see any big seasonality on the decision making on the capital side.

Manu Rimpela - ***Nordea - Analyst***

Okay. Thank you.

Operator

Thank you very much. There's no further questions on the telephone line at the moment.

Hanna-Maria Heikkinen - ***Valmet - Head of IR***

Thank you. Thank you for active participation in this conference call. Hopefully we will meet as many of you as possible on our Capital Markets Day on September 20. Capital Markets Day will be here in Helsinki.

And then the interim review for January-September will be published on October 27. I wish all of you warm summer.