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PRESENTATION

Hanna-Maria Heikkinen - *Valmet Corporation - VP - IR*

Good afternoon, ladies and gentlemen, and welcome to this Valmet Q3 Results Briefing. My name is Hanna-Maria Heikkinen. I'm in charge of the Investor Relations. Today, our CEO, Pasi Laine will first review Q3 report in brief.

Then, he will go through business line development. Then, our CFO Markku Honkasalo will continue with the financial development. After that, Pasi will continue with the outlook. After the presentation, there is the possibility to ask questions.

We will start first from here, from Keilasatama and then there's a possibility also for international questions. But Pasi, please let's get started.

Pasi Laine - *Valmet Corporation - President, CEO*

OK. Thank you, Hanna-Maria. Welcome also on my behalf. It is now the third time Valmet is giving its quarterly results. Of course, it's interesting to see how the Company has been developing.

As in headline, we are saying that profitability continued to improve and it's moving towards the targeted level. It's not yet where it should be. But it's going towards the targeted level.

Like Hanna said, first we will go through the numbers. Then a little bit about business line development. Then Markku will go through the financial development. We'll go through the guidance and short-term outlook and then summary.

In brief, the third quarter, we can say that orders received in services was on par with last year's quarter. All in all, we are saying that the service has been developing in a stable way without growing, but without not decreasing either.

Our services orders are on par and net sales decreased compared to the third quarter in 2013. Orders received slowed in our capital business from the very high level in the first half of the year. Like we were a little bit guiding also after the second quarter. Part of comparing to last year's quarter orders increased in paper.

They increased also in Pulp and Energy. But, of course, comparing to the beginning of the year, the order intake was low. Net sales increased in our Pulp and Energy business and decreased in our Paper business comparing to last year.



The very important thing is how that our backlog is now at the level of EUR2.3 billion. It's about EUR900 million higher than it was in the beginning of the year. That's of course, a very important topic for us. Profitability continued to improve, and like I said, according to our plan.

EBITA margin improved compared to last year and compared to the second quarter as well. Our EBITA increased compared to with the second quarter. Our SG&As decreased compared to third quarter of last year. Gross profit increased EUR9 million compared to 2013.

All of the things and what we have been pushing have almost been developing to the correct direction. But then, of course, like I said in the opening statement, we are not yet at the level where we should be without profitability. We have a lot of actions still to continue to improve the profitability.

An example is we have in quality, procurement, and project management. I'll come back later to the more widening explanation of what everything we are doing. Then, we have a strong balance sheet and good cash flow. Our net debt was minus EUR158 million and gearing is minus 20.

We've provided cash flow from the operating activities with worth of EUR117 million. All in all, Valmet has been developing in the positive direction during the first three quarters of this year.

We'll go a little bit more detail in the figures, orders received, EUR466 million in the third quarter, up compared to last year. But like we have seen and been saying all of the time, it's good to look at the long-term trends.

The cumulative order intake is now almost EUR2.6 billion. It's up against last year, 48%. That's the important figure in our minds. Order intake cumulative is EUR2.6 billion now. Our backlog, and like I said EUR2.3 billion. It's up by EUR900 million compared to the beginning of the year.

Our net sales were about EUR1.7 billion. There's a decrease of minus 13% compared to last year. That's of course the impact of last year's low order intake. Our EBITA started to improve this year. The third quarter was at EUR32 million, and last year EUR31 million; a little bit better in euros.

And in EBITA margins we grew up to 5.5% compared to last year of 5.1%. The year to date numbers are EUR58 million in EBITA and in EBITA margin, 3.4%. We are below the target but last quarter, it started to be already quite close to the targeted minimum level. Cash flow, like I said, EUR117 million and the whole year, it has been EUR206 million, and gearing in the end of the period was minus 20%.

Our balance sheet starts to be quite strong. As a summary, I would say that picking has been good, the order intake has been good. The backlog has been developing favorably. Now the profitability has been improving as well. Here is the trend curve of the orders received.

There you see that after two very good quarters, we had a little bit more silent quarter. But all in all, the order intake is at as good -- as good a level. Like I said, services, it is on par with the last year's level. Pulp and Energy, it has been growing a lot. Paper has been growing.

The order intake in North America and in the Pacific and China have been increasing, if you look from the area perspective. All together, orders received is EUR2.6 billion. Our backlog is EUR2.3 billion. This time, we are not anymore telling how much is being planned to be recognized this year. Because it would be too much guiding the net sales.

We just tell the whole figure, EUR2.3 billion. Out of that, 20% is from services business and 80% is from capital businesses. Growth has been like I said about EUR900 million compared to last year. This, of course, gives long-term stability on the organization and a lot of work to our manufacturing and engineering units; so, a good development.

Then if you look, the trends chart and how our net sales has been developing. Since the first quarter, net sales has been going. It was first EUR519 million. Then it went to EUR588 million. Now it's at EUR590 million. At the same time from EBITA margin, it has been improving from 0.7 first to 3.7. Now it's at 5.5.

Three consecutive quarters, we, our EBITA has been improving. Net sales is still on, let's say moderate levels. We are actually reasonably satisfied with the profit improvement even with this net sales level.

Then, where from the profitability improvement is coming, well of course, two things there. First is that our gross profit, it has been improving. Percentage, it has been improving slightly compared to last year's carve out numbers. Our gross profit improved and gross margin has been improving; which of course, gives a proof that the actions and what we are doing in our profit improvement plans have an impact and effect.

SG&A has been going down. It was now the lowest quarter this year. It started a little bit above EUR100 million. Then it was somewhere -- I don't remember. Markku remembers, EUR90 million.

Markku Honkasalo - *Valmet Corporation - CFO*

EUR97 million.

Pasi Laine - *Valmet Corporation - President, CEO*

EUR97 million., and now it was EUR92 million. This, of course, is the impact of the actions and what we have been doing and to reduce our SG&A costs. Then to continue with the profitability improvement, we are not anymore expecting savings from SG&A.

From now on, we have to improve our gross-profit further. To do that, and like I said also last time, we have defined many Must-Wins, and objectives to improve the profitability. The first one is the profit and services margin, but we have a process ongoing to first of all develop our project management processes and sales management processes to harmonize the processes as much as it makes sense.

We want to localize our competencies to be close to the customer and by that way improve our project management and sales management. Then, of course, now when we have reasonably good backlog, we can be a little bit more selective with the [couple] sales cases than was in the end of the last year.

Then, of course, one important topic is to, how to develop our process management processes and practices so that we improve from as sold margin or at least keep at the level where the project has been sold. There's a lot of focus on improving our efficiency on that way. Then like I said, we have program to reduce our quality costs and lead times.

Quality costs are reasonably high still in Valmet. We have now process to improve the quality processes. We have measurements in places. Now we have decided also to start to become a lean enterprise and actions towards that will start the beginning of next year. We put a lot of emphasis currently in improving the quality and improving the internal processes.

We have a procurement program now ongoing from the starting of the year. This quarter we organized our first Supplier Days where we discussed with our suppliers the possibilities to further increase the competitiveness from their side, but also the competitiveness for total offering what Valmet is telling -- delivering to its customers. We got very positive feedback off that [Valmet Supplier Day] from all of the participants.

Then, of course, first of all we are now saying that this EUR100 million savings program, which we launched in the Spring 2013 is finalized. But, of course, we also in the future have to be careful that we are not losing the cost competitiveness, what we have achieved by the program. There will be also in the future, a strong focus on making sure that we continue to have a cost effective operations base.

Then, last but not least, we have possibilities to modularize and standardize our product offering. In R&D, and process engineering we have a lot of work ongoing to make sure that our product offering is as modular and as standardized as possible in our type of industry.

All in all, like we have been saying earlier, with the restructuring program, EUR100 million. We improved our profitability. But we will not reach 6 to 9%. To reach the targeted 6 to 9%, we have to do a lot of important internal improvement actions. All of those are ongoing.

We are working towards the profitability targets, what we have been setting to ourselves. Then, if we go through the business lines, first services. I think that a good and descriptive word is stable. We have been saying that we have about EUR1 billion euro services, and stable services business. That's how it's developing.

This quarter was the first quarter when we had -- this year, when we had a bigger order intake than last year. It's, of course, a positive thing. Net sales is still a little bit behind last year. We had now in South America -- Asia-Pacific and China, increase in our orders received in the quarter.

Then, we had also an increase in our order intake in Mill Improvement and Rolls business. We had a decline in, in fact, the Fabrics business. But all in all, a little bit improvement in order intake compared to last year. The whole year is roughly at the same level than last year, a little negative.

Net sales due to the timing of some mill improvement programs is still smaller than last year. But all in all, one can say that we have stable about EUR1 billion services business.

Then, Pulp and Energy, the headline is that we have been receiving orders worth of about EUR1.3 billion.

I think that's the important thing here. Of course, the quarter, third quarter was not at the level earlier. It was EUR96 million only. But the beginning of the year was so big that we couldn't anymore think of the market activity to continue on that level. Even so, it was EUR96 million. It was an improvement compared to last year.

We had an increase in Europe and Asia-Pacific. We had more orders in Pulp. We stayed about the same level in Energy as last year. Net sales has started to increase now compared to the third quarter in 2013.

Then, Paper, our orders received exceeded by EUR500 million in the first three quarters. That's, of course, positive development.

Orders received increased also in the third quarter compared to last year. It increased in North America. It increased in Asia-Pacific, China. It declined in Europe and the Middle East, and Africa. It increased in Board and Paper, and declined in Tissue.

All in all, of course, order intake, it has increased in the first three quarters compared to last year. But due to the low order intake in the end of last year, our net sales is still lower, on the lower level than last year. But I think the development in the Paper business has been also good.

I think I would like to thank the Paper business line especially because of the improvement of the order intake, but also in profitability. I think they have been doing good work in both terms.

Then, as we stating in our strategy that Valmet's mission is to convert renewable resources into sustainable results. Of course, we, in Valmet, we have to take seriously sustainability issue in, also in our own operation. In this quarter, we have been getting three or two nice awards about the work and what we have been doing in earlier years but continued also in independent Valmet.

First of all, we were selected in Dow Jones Sustainability Index Global Index, and among -- I think this is among four other Finnish companies. But we will check; but I think it's among four other Finnish companies. Of course, it's a great honor.

We are very proud that we were included in that index. That, of course, encourages us to continue with the sustainability work. We also had very good points in Nordic Climate Disclosure Leadership Index. We're included in the index as well. That was also seen as a very positive thing and reaction to our sustainability work.

We also have developed our sustainability agenda. We'll continue to do so. We have also discussed in a website where all of you investors and analysts can join us in developing and thinking how Valmet could continue to improve its sustainability agenda. I welcome you all to join us in that discussion.

Now it's time for Markku to go through the financial development.



Markku Honkasalo - Valmet Corporation - CFO

OK, thank you Pasi and good afternoon on my behalf as well. First, as a reminder, please note that year 2014 figures are actual. Then, all of the comparison figures are carve-out figures. Please remember this one.

In Q3, the good cash flow generation continued. Cash flow from the operations was EUR117 million. Our capital expenditure was EUR10 million. Cash flow after investment was EUR107 million. Cumulatively, we have generated from the operations EUR206 million and after the investments, EUR179 million.

At the end of the September, our net working capital was negative EUR345 million; which is minus 14.5% of our rolling, the last 12 months net sales. Our capital expenditure in three quarters of this year has been EUR30 million and our depreciation, it has been EUR38 million. The CapEx is less than our depreciation.

At the end of the September, we had cash and cash equivalents, EUR158 million more than we have interest bearing debt. It means that our gearing was minus 20%. Our Group equity was EUR802 million; which turns into the equity ratio of 41%. Capital employed was EUR902 million. Return on capital employed since the beginning of the year has been 6%.

Then, our debt portfolio, so the average maturity of our long-term loan is 2.8 years. Due to our very strong cash flow generation, we actually repaid EUR172 million term loan in Q3.

Therefore, our interest bearing debt at the end of September was EUR100 million consisting of one loan from European investment bank; and then, some of smaller, all in all EUR18 million of different financing sources. Then, we have back-up facilities; so, undrawn EUR200 million domestic commercial paper program, and then EUR200 million syndicated revolving credit facility. Pasi, please --

Pasi Laine - Valmet Corporation - President, CEO

OK. Then guidance, and short-term market outlook; so, guidance, we continue with the same guidance as given in February for Valmet. It estimates that net sales in 2014 will decline from 2013 level. EBITA before non-recurring items will increase in comparison with 2013, exactly the same guidance as earlier.

Then, short-term market outlook like you remember. In short-term market outlook we take into account the capacity utilization what we see, and the market activity, and what we see in our service pipeline. We see that our services will continue to be at a satisfactory level.

Pulp will continue to be at a satisfactory level. Energy continues to be at the satisfactory level. Paper was increased to good level on last quarter. It will continue to pay at the current level. There we see activity in the sales front.

Then the utilization of the organization is at the good level. Tissue will continue at the satisfactory level. All in all, we keep the short-term market outlook, what we have had it in after the second [world] quarter, and also for the third quarter.

A summary of our third quarter is that we have a stable services business and orders received is stable. We have a slowed down capital business from the high level of the first half. Like you remember, it's the all in all order intake is already at EUR2.6 billion level.

Net sales was on the previous year's level. Our backlog is good, EUR2.3 billion level. Profitability has improved according to plan. We have a strong balance sheet and good cash flow. All in all, Valmet's third quarter was a continuation of the development of the year.



QUESTIONS AND ANSWERS

Hanna-Maria Heikkinen - Valmet Corporation - VP - IR

Thank you Pasi and Markku. Could you both kindly please come here. Then there's a possibility to ask questions. We will start from here at Keilasatama.

Elina Riutta - Evli Bank - Analyst

Hello, Elina Riutta from Evli Bank; about the cost savings. Now that you say the program has been finalized and SG&A costs are EUR50 million down year-on-year. Can you say how much costs are visible already in costs of goods sold?

Markku Honkasalo - Valmet Corporation - CFO

OK. We have not actually disclosed the effect of the full program. But when we started this program, we said that two-thirds of these savings will be targeted to reduce our costs of goods sold. Then, one-third to our SG&A. We said that this program is finalized. There's a full run rate in Q4 this year. This is just giving an indication that -- and we said that it's finalized. It means that the targets what we have set, we have met.

Elina Riutta - Evli Bank - Analyst

Just, well, I understood earlier that now that there are EUR50 million savings in SG&A that doesn't come on top of the kind of EUR100 million. But rather that their sources of the savings have changed. Is that correct? Or, will it be kind of more savings in SG&A than what you estimated originally? I'll end there.

Markku Honkasalo - Valmet Corporation - CFO

OK. Just to maybe first of all I wanted to remind that 2013 figures are carve-out figures. If you take the SG&A 2013, all in all it was EUR469 million. In order to make a bridge between the carve-out and the reported numbers.

There is some EUR50 million additional item; which is so-called our share of when we used to be part of the Metso. It was our share of Metso's head office cost. You have to actually deduct that one and then you get the right comparison figure, roughly.

Then, if you divide that one into three quarters, or actually four quarters; then, they're multiplied by three. You will get the number of 11.25. That's roughly the right figure to compare. (Multiple speakers) It means that, yes, we have a little bit exceeded the target. But we said that our target is EUR100 million and we have met it.

Pasi Laine - Valmet Corporation - President, CEO

That roughly, it's one-third, two-thirds. We didn't say that --

Markku Honkasalo - Valmet Corporation - CFO

Yes.

Pasi Laine - Valmet Corporation - President, CEO

-- It's exactly one, one-third and two-third.



Elina Riutta - *Evli Bank - Analyst*

OK, thank you. Then, one more question, are there layoffs still ongoing during this quarter? Or, is it already?

Pasi Laine - *Valmet Corporation - President, CEO*

The ones which were included in this EUR100 savings programs are basically all done. There might be some individuals who are still affected. But then, of course, we have situation normally in our business that all of the factories or departments are not having full loads all of the time.

We have some temporary adjustment to our working capacity. But they are not related to this EUR100 million program anymore. Most of the people are back.

Elina Riutta - *Evli Bank - Analyst*

Thank you.

Hanna-Maria Heikkinen - *Valmet Corporation - VP - IR*

Any further questions from Keilasatama? Then we will continue with our international questions.

Operator

This telephone question comes from the line of Johan Eliason from Kepler Cheuvreux. Please ask your question.

Johan Eliason - *Kepler Cheuvreux - Analyst*

Yes, hi. Just a question on the Service business. It's been sort of partitioned down a little bit. I guess partly you have, if I remember it correctly, you had divested some minor operations. That also impacted the Service business. But is it also so that the currency impact may be a bit bigger in the Services than in the other parts of the business?

Pasi Laine - *Valmet Corporation - President, CEO*

Yes. We divested something in the beginning of this year. It will have a small impact to the Services number. The beginning of the year, we said that we are not explaining the changes because of the currencies.

Now, there might be some positive impact coming because of currency fluctuations. But we haven't been commenting too much on that, either. Yes, and you are right that the same services is a global business. Their impact of currency fluctuations is bigger than in our capital business. It has a bigger impact to services if the currencies are changing.

Johan Eliason - *Kepler Cheuvreux - Analyst*

Yes. And continuing on services, I mean, one worry is that it is not as stable as one would expect if we see capacity closures coming through in Europe and North America. Is there a mix in this revenue or order development where you're seeing an impact from capacity closures, but sort of gaining in other shares? Could you say anything about that?

Pasi Laine - Valmet Corporation - President, CEO

Yes. Capacity closures have been a continuing trend over many years in North America and in Europe as well. The history of our numbers includes a lot of capacity closures already. It's nothing new for us.

We have to count all of that - all of the years that there might be small and negative impact to our Services business because of the closures. Then we have to grow back to compensate that. That has been the history already. I don't see currently any increasing of that speed compared to earlier years.

Johan Eliason - Kepler Cheuvreux - Analyst

OK, great.

Pasi Laine - Valmet Corporation - President, CEO

Geographically, our service has been strong in Europe. It has been like we said, a little bit declining compared to last year and to North America. But Europe, it has been strong even if there have been closures in capacity.

Johan Eliason - Kepler Cheuvreux - Analyst

Then going on to profitability, are both equipment divisions profitable today?

Pasi Laine - Valmet Corporation - President, CEO

We are one reporting segment. We are not commenting on profitability of different business lines.

Johan Eliason - Kepler Cheuvreux - Analyst

OK. Approaching on a different way then; on services you say that you have these must wins. You have potential of the service margin. Are the service margins not where they used to be today? Or, is it just that you see further improvement potential from a level already at historical levels?

Pasi Laine - Valmet Corporation - President, CEO

We have Must-Wins to improve our gross profit in services and capital both. Of course, a company has to work all of the time to improve its profitability in gross profit and gross margins.

There is no difference between the capital and services. We've done nothing special compared to last year either.

Johan Eliason - Kepler Cheuvreux - Analyst

OK, great, many thanks.

Pasi Laine - Valmet Corporation - President, CEO

Thank you.

Operator

The next question comes from the line of Antti Suttelin from Danske Bank. Please ask your question.

Antti Suttelin - Danske Markets Equities - Analyst

Hello, this is Antti. I'm just looking at your gross margin. I can see that it's improved year over year, third quarter versus the third quarter year ago. Despite the fact that your sales mix developed into weaker in the sense that we started to see Pulp sales come through.

The share of services sales compared to what it was a year ago. I just, I would like to understand what drove gross margin up? Was it because of this cost cutting actions that drove gross margin up despite the weakening of sales mix, please?

Pasi Laine - Valmet Corporation - President, CEO

Yes, comparing to the third quarter last year or this year. If I, it's easier.

Antti Suttelin - Danske Markets Equities - Analyst

Yes, (inaudible -- multiple speakers) third quarter.

Pasi Laine - Valmet Corporation - President, CEO

Easier this year, easier to comment this year because then you are comparing the development. Our utilization has started to improve. The second quarter, we still had under absorption in some of the manufacturing units. Now the utilization has started to improve. It's, of course, helping our profitability.

Antti Suttelin - Danske Markets Equities - Analyst

Yes. What I'm trying to find out is that, I mean. If you didn't have cost cuttings, would the change in the sales mix, would it have improved? Or, would it have increased gross margins even if you didn't have any cost cutting in place at all?

Pasi Laine - Valmet Corporation - President, CEO

Last year, when we explained the cost cutting; then, we said that we will take roughly one-third away from SG&A. That you will see. Then we said that two-thirds we look, it will come from a cost of goods sold.

There you will not see the whole impact. Because partly, we are cutting because the volumes have been going down. Of course, it's obvious that if we hadn't done the cost cutting in COGS, then our profitability and gross profit would have been totally different now than it was.

Antti Suttelin - Danske Markets Equities - Analyst

Yes. OK. Let me ask in another way. On gross margin level is the Pulp business weaker than other parts of the Group?

Pasi Laine - Valmet Corporation - President, CEO

How should I answer? Referring to my earlier answer, Valmet is one reporting segment. We are not commenting on profitability of this different business lines. Sorry, Antti, but I can't give a better answer to you, either.

Antti Suttelin - Danske Markets Equities - Analyst

OK. Then on Pulp order prospects, what is your current thinking? I mean, we are probably ending this year approximately EUR1 billion order intake for Pulp and Energy.

Do you think this is a good level as an average year going forward? Or, is it so that this year is actually better than one should expect for the future? Because you have so many good orders in the beginning of the year.

Pasi Laine - Valmet Corporation - President, CEO

First of all, I think the current figure is EUR1.3 billion. It's a little bit above EUR1 billion so in the three first quarters. But I think in Pulp --

Antti Suttelin - Danske Markets Equities - Analyst

Yes, OK.

Pasi Laine - Valmet Corporation - President, CEO

Pulp, of course, the beginning of the year was a little bit exceptional that so many big Pulp projects were decided at the same time. Then for coming years, we know that some of the customers have plans to invest. But I have been saying also that the investors that don't get too excited.

We are not seeing that there will be any bigger boom in Pulp. But we see that it continues so that maybe as an average, 1.5 pulp mills are decided a year. There are differences between the years. Sometimes it's two pulp mills once and sometimes it's one year. But we see that in the long run, the market continues roughly like it has been in the long run in the last five years.

Antti Suttelin - Danske Markets Equities - Analyst

Yes, OK, yes, sorry. The EUR1.5 billion which is probably the order intake volume for this year.

Pasi Laine - Valmet Corporation - President, CEO

Yes.

Antti Suttelin - Danske Markets Equities - Analyst

Did you think that may be a little bit too high an estimate for two or three years?

Pasi Laine - Valmet Corporation - President, CEO

I didn't say that. But I said that if you'd take an average, then roughly 1.5 pulp mills have been decided a year. Then how and to which year they end up, it's a little bit of the question mark.

Antti Suttelin - *Danske Markets Equities - Analyst*

All right, thank you.

Pasi Laine - *Valmet Corporation - President, CEO*

Thank you.

Operator

The next question comes from the line of Johannes Grunselius from ABG. Please ask your questions.

Johannes Grunselius - *ABG Sundal Collier - Analyst*

Yes, hello, this is Johannes Grunselius. A few questions, my first question is on the Service business. It's sort of robust year-over-year.

But if you look at it sequentially, it's quite down a bit like 11% or something, if I look at service orders. Can you help me to understand what and why it's so much down sequentially?

Pasi Laine - *Valmet Corporation - President, CEO*

Excuse me, down?

Markku Honkasalo - *Valmet Corporation - CFO*

Cumulatively it's one --

Johannes Grunselius - *ABG Sundal Collier - Analyst*

(Inaudible -- multiple speakers) Q2.

Pasi Laine - *Valmet Corporation - President, CEO*

Yes.

Markku Honkasalo - *Valmet Corporation - CFO*

It's probably 1% down.

Johannes Grunselius - *ABG Sundal Collier - Analyst*

I think you're --



Pasi Laine - Valmet Corporation - President, CEO

Yes.

Pasi Laine - Valmet Corporation - President, CEO

1% down, so of course, it's down compared to last year. The first two quarters were even more so. Now we have caught up a little bit in the third quarter. We have some reasons for the first quarter that U.S. market a year ago was very active.

This year the U.S. was not active because of the climate. The customers had a lot of other things to do than to maintain their or to continue with their maintenance programs in the beginning of the year. Then we had one very big outsourcing case booked in last year where we had some big impact in one quarter.

Those are the couple of explanations. But, of course, all in all our target is to get services to grow so we are not happy with that line or with this minus 1% development in Services year to date. I think the question is, of course, in our management team is how to make the services to grow in the long run. That has to be the goal even if we have closures and then closures of the capacity in the market.

Johannes Grunselius - ABG Sundal Collier - Analyst

Yes, sure. But when I look at it, if I look at the Q1, you did 267 -- you did over 270 in order, service orders. Now you did 242. To me, it seems to be down more than 10% for the quarter.

Pasi Laine - Valmet Corporation - President, CEO

OK. We have seasonality in the Services order intake. In a normal year, we get more orders in the first half of the year than the second half of the year. Now, we tried to reverse that.

Johannes Grunselius - ABG Sundal Collier - Analyst

OK.

Pasi Laine - Valmet Corporation - President, CEO

But in normal year customers get their budgets. They have some improvement programs. They are ordering it at the beginning of the year and delivering it in the end of the year. OK, now I understand, yes.

Johannes Grunselius - ABG Sundal Collier - Analyst

OK. When I look at it, in 2013, it appears that it was sort of flat sequentially in the fourth quarter versus Q3. Is that how we should see it? I mean, you're obviously talking in growth. But could that come already in Q4 sequentially?

Pasi Laine - Valmet Corporation - President, CEO

No. We cannot, of course, not comment on the order intake for Q4.

Johannes Grunselius - *ABG Sundal Collier - Analyst*

OK, fair enough. You have very low CapEx as well in the third quarter, only EUR10 million. How should we see that? Is this a signal that the CapEx level is slightly lower than what you indicated previously, or?

Pasi Laine - *Valmet Corporation - President, CEO*

We try to keep the normal CapEx under the depreciation.

Johannes Grunselius - *ABG Sundal Collier - Analyst*

Sure, but it's still fair to assume EUR40 or EUR50 million in run rate CapEx here? Or, what do you think about that number?

Markku Honkasalo - *Valmet Corporation - CFO*

The gross CapEx, yes. (Multiple speakers)

Johannes Grunselius - *ABG Sundal Collier - Analyst*

-- On an annual basis?

Markku Honkasalo - *Valmet Corporation - CFO*

Yes. The gross CapEx has been over EUR30 million for three first quarters. Yes, the run rate, and you maybe can add a little bit. But as Pasi said, we will stay below the depreciation for the full year.

Pasi Laine - *Valmet Corporation - President, CEO*

Yes. Maybe this year is a little bit under the normal year, yes. If you estimate a little bit more, then it's maybe fair.

Markku Honkasalo - *Valmet Corporation - CFO*

Yes.

Johannes Grunselius - *ABG Sundal Collier - Analyst*

Is that number on the overall activity and let's say for the first nine months and also for the third quarter? What's your feeling about you versus competition, are you thinking you're gaining market share here, or being in line with the market? Or, what's your feeling about that?

Pasi Laine - *Valmet Corporation - President, CEO*

I, of course, haven't seen that number from our friends yet for the third quarter. It's a little bit difficult to say. But I think at the beginning of the year, we gained market share. The market was active as well. Our friends in Austria and Germany could also, could order. I think the market position maybe have stayed quite much the same that we are as strong as our friends.



Johannes Grunselius - *ABG Sundal Collier - Analyst*

OK, thanks a lot.

Operator

The next question comes from the line of Tomi Railo from SEB. Please ask your questions.

Tomi Railo - *SEB - Analyst*

Good afternoon, and I'm also coming back a little bit on the profitability. If you could just comment then and help where did you see the profitability improvement from business to business? Was it equal development or was something more flatish? What's driving the profitability improvement just at the good [level for the last quarter]?

Pasi Laine - *Valmet Corporation - President, CEO*

No. We are not commenting. But like I said already, Paper business line has been doing good [business] and good work in developing its profitability. Maybe that's what I can say. But Markku, do we want to --?

Markku Honkasalo - *Valmet Corporation - CFO*

Well, actually you already answered. I mean, Pasi in his presentation said that we have a stable services. Basically, so the improvement has come from the capital businesses. Pasi a little bit hinted that [where we'd have] improvement. It has been a little bit better than the other without being too specific.

Tomi Railo - *SEB - Analyst*

OK. Then on the backlog, can you just split that a little bit for the different businesses? Of course, we can see the order intake and make the assumptions. But since you don't open up the sort of deliberate timings, if you just indicate the profit levels for the different businesses.

Pasi Laine - *Valmet Corporation - President, CEO*

We haven't disclosed that either. We are telling the services. Then we are telling the whole for capital. Then I will assume that the beginning of next year, we will tell again that how much is of the backlog for 2015. Now it was not possible. But business lines -- we have to think about it. If you can add that. But currently we don't have it. But I, and we'll think about your comment.

There is a negative side on that. Then we will tell too directly to our friends that what's our workload in different businesses. That might impact the contract negotiations negatively. I'm not totally sure that would be the interest of shareholders.

Tomi Railo - *SEB - Analyst*

OK, thank you.

Operator

The next question comes from the line of Tom Skogman from SEB. Please ask your question.

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

Yes, hello. I have three questions, one short-term; one midterm, and one long-term. That could take, one by one. If I first start by prepayment. How do you see them developing in Q4? Because they're up against the strong Q3 figure.

It was relating to the strong orders in the first half. But it's a bit hard to understand the time frame of this. I expect this question first and then we'll continue.

Markku Honkasalo - *Valmet Corporation - CFO*

OK. Yes, it's clear that the development of our net working capital is very much following the orders received development. We had a very good, a very good orders received development in the first half of the -- half of the year.

Now, we have seen the consequence at the end of the September in our net working capital. But now, that the orders received level has come down; and it will have an impact on our net working capital to going forward.

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

OK. If I then continue about the cost savings, I'm curious just as an update about the incremental cost savings from next year and from this EUR100 million cost cutting program. Then, how do you see the cost inflation progressing when we talk about salaries especially? How much will you lose on the planned savings just from technicalities?

Pasi Laine - *Valmet Corporation - President, CEO*

Yes, like Markku said, cost savings programs is now visible in the Q3 results. Then it's --

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

Yes, but half of them are giving benefit. Next year they're going to give benefits this year. I just wonder how big is the incremental benefit, 2015 compared to 2014?

Pasi Laine - *Valmet Corporation - President, CEO*

I don't have that figure in my head. But I would roughly say that there is no that kind of carryover anymore for next year.

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

But I guess the cost cuttings have increased throughout the year. That means that you would start next year with the lower cost base than it started this year. That means you have incremental savings next year [from that].

Pasi Laine - *Valmet Corporation - President, CEO*

Yes, but then we have been using also temporary layoffs here in Finland during the year; which has reduced the -- and costs more than what we have been -- what will be the run rate. I think the correct answer is roughly no carryover.

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

We should assume and kind of the flat cost structure 2015 to '14?

Pasi Laine - *Valmet Corporation - President, CEO*

Yes.

Markku Honkasalo - *Valmet Corporation - CFO*

Flattish.

Pasi Laine - *Valmet Corporation - President, CEO*

Flattish and then the salary increase, we have participated in every country based on the country's salary inflation. It varies from close to zero up to some percentages. All in all, we haven't said out how much that is. But I think it's the same for the whole global company, so.

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

All right, thank you. Then my final question is about service. I'm very curious about how big part of your service sales is going to so-called the bad paper segments like newsprint and other ones where you see a lot of closures? How big a part of the service sales is relating to this one?

Pasi Laine - *Valmet Corporation - President, CEO*

Paper. Bad paper..

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

A big part [is running to] depression.

Pasi Laine - *Valmet Corporation - President, CEO*

There is also good paper. I think it's more -- first of all I think we haven't split out that how much is going to Tissue, how much Board, and how much to Paper. But it's more complex because in the future, there will be also demand for this bad paper; so, graphical paper and newspaper.

There will be a demand. It will not disappear. Then, customers who are producing that grade actually are currently investing already to make sure that their assets, which they will keep will be in good condition.

I think there will be a good capacity -- good mills to make news print and other graphical papers. Those are typically big machines, and modern machines where our market share and services market share is higher. Of course, we follow that development. But I'm not very worried about that.

Tom Skogman - *Handelsbanken Capital Markets - Analyst*

OK, thank you.

Operator

There are no further telephone questions at this time. Please continue.

Hanna-Maria Heikkinen - Valmet Corporation - VP - IR

Do we have further questions from Keilasatama? If not, then I'd like to thank you, my colleagues from Valmet and all of the active participants. I wish you all a happy weekend. Then hopefully we will meet on February 6th when we publish our financial statements bulletin. Then we will continue the discussion about our fascinating paper.

Pasi Laine - Valmet Corporation - President, CEO

You have also ad for the Capital Markets Day?

Hanna-Maria Heikkinen - Valmet Corporation - VP - IR

Yes. That's a good reminder. Our Capital Markets Day, it will be in March 19th, in London. Hopefully, many of you will be there. Thank you.

Pasi Laine - Valmet Corporation - President, CEO

OK, thanks.

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