

Transcription

# Valmet Q1 2022 interim results webcast

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# PRESENTATION

## Pekka Rouhiainen

Good afternoon, ladies and gentlemen, and welcome to Valmet's Q1 2022 result publication webcast. My name is Pekka Rouhiainen. I am the Head of Investor Relations here at Valmet, and the presenters today are Pasi Laine, President and CEO of Valmet, and Simo Sääskilahti, Business Line President of Flow Control. After the presentations, you will have the chance to ask questions over the phone lines. So, Pasi, please.

## Pasi Laine

Thank you, Pekka. Welcome. The headline of today is that orders received amounted to 1.3 billion, and comparable EBITA to EUR 79 million in the first quarter. I have a little bit of a longer agenda today than normally. First Q1 2022 in brief, then some words about our merger with Neles, and then some words about development of segments and business lines, financial development. Then, Simo will come to talk about Neles Q1 numbers, and then I will come back to the stage to talk about financial targets, guidance and short-term market outlook. I will be presenting many slides today.

First, Q1 in brief. Orders received totalled EUR 1.3 billion, net sales increased to EUR 960 million, the backlog is at record level, a little bit over EUR 4.4 billion, comparable EBITA was EUR 79 million and remained at last year's level, and margin was 8.3%. Gearing after the quarter was zero.

Here are the numbers more in detail: orders received EUR 1.3 billion, net sales EUR 960 million, comparable EBITA EUR 79 million and that was 8.3%. And like I said, the backlog at the end of the quarter was over EUR 4.4 billion and we employed about 14,400 people. In net sales the Process Technology segment, which I will explain later on, was 58%, Services 33%, and Automation segment, including now only the Automation Systems numbers, was 9% of the net sales.

In geographical participation or areas, Europe was about 39%, North America 18%, quite much on the traditional level, South America 13%, China 20%, and Asia-Pacific 10%. Compared to, let's say, one and a half years ago, the Chinese volumes have been going down, but still they are at high level. Orders received have been growing and was at EUR 1.3 billion level again, and the 12-months cumulative curve is now about EUR 4.7 billion. Then, stable business orders totalled about EUR 2 billion or EUR 2,040 million. I think this is a nice graph to show. We started at EUR 1 billion level, and we have been growing Services from EUR 1-billion-euro level to EUR 1,549 million in order intake in the last 12 months. And then, Automation, first full year was 337, and now the LTM is 490 - so, all together, over EUR 2 billion.

It's very nice that for the first time ever, our order intake in stable business is over 2 billion. It's a good achievement by Services and Automation. Backlog is at record level: EUR 4,459 million. 75% of the backlog relates to Process Technologies, 20% to Services, and 5% to Automation, including only the systems business, of course, currently. And we are saying that about 60% of the backlog is expected to be realised as net sales during 2022.

Then, some words on the reasoning for the merger with Neles. As you all know, now, Valmet and Neles have merged, and I will describe the company over the next two slides. Like you remember in 2020, we acquired about 29.5% of Neles shares, and paid EUR 456 million. Average share price was EUR 10.27. And now, the merger consideration amounted in Valmet shares, and the value was about EUR 978 million. The total cost of Neles shares acquired by Valmet amounted to EUR 1,434 million. That is the total cost of the acquisition.

We created a company with a unique competitive and balanced total offering for process industries. In Paper, of course, we are strong in paper machines, board machines, tissue machines. In Pulp, we can make a whole pulp mill. In Energy,

we have boilers and emission control. In Services, we have all the services for all the technologies. And now, in Automation, we have systems. But on top of systems, we have also the Flow Control offering, meaning valves, valve automation and valve controls. The core customers we can serve with a full offering. And then, of course, especially automation customers, with automation offering, we serve all the customers in processing industries. But now, the triangle is very strong in all the corners: in process technology corner, in services, and in automation.

One big change after the merger is that, even if I am very happy with this over EUR 2 billion LTM order intake in stable business, now, with Neles, it would have been even higher. Neles' order intake LTM is EUR 667 million, meaning that if Valmet had been as Valmet is today, last year's order intake in stable business would have been 2.7 billion. And that's, of course, a big change compared to the EUR 1 billion from where we started. So, this acquisition of systems business and the merger with Neles and organic growth have changed Valmet's performance and offering quite a lot.

Now, as we have been saying, we have a good offering in automation. From Neles, today's Flow Control business line, we have valves, we have valve automation, valve controls, so total offering for valve customers. And then, systems side, we have distributed control systems, we have quality management systems, and we have analysers and measurement. So, the automation product offering is now twice what it was before the merger with Neles.

Then, some words about development of segments and business lines. Starting from today, and of course, including the first quarter, Valmet has changed the financial reporting structure. We now have three segments of Services, Automation and Process Technologies. And from those segments, we tell orders received, net sales, comparable EBITA, comparable EBITA percentage, items affecting comparability, EBITA, EBITA percentage, and amortisation. You will have a lot of better visibility to Valmet's performance. We will continue to report the business lines, with orders received and net sales. In Services, the numbers are the same. In Automation Systems business line, we tell orders received and net sales, and the same from Flow Controls. And these two together are the Automation segment. Pulp and Energy, we tell separately; Paper business line separately; and then, these two business lines together are the Process Technology segment. And then, on top of that, we report in Comparable EBITA other and items affecting comparability, meaning that they are mainly the head office costs which are not allocated to business lines.

So, I hope this change helps you to analyse Valmet's performance and helps, also, us to explain Valmet's performance. And I hope you see this as a positive move from Valmet's side.

I'm not going through this page because we have the same numbers later on. In Services business line and segment, the numbers are the same. Orders received were EUR 451 million, and order intake grew by 18% compared to last year – good growth. Last year was still, of course, affected by COVID, but we are very happy with the performance in Services order intake. Net sales grew also from EUR 288 million to EUR 317 million, and that is also important because of costs. Once Services order intake grows, of course, net sales grows as well.

To profitability. Last year, our EBITA was EUR 36 million, and this year it's EUR 30 million. So, even if we had higher net sales, our profitability went down, and I will come back to the percentage later on.

In Automation, order intake was strong as well - EUR 147 million, against last year's 123 million. Net sales grew also, to 88 million, compared to last year's 37 million, and EBITA improved from 5 million to 11 million. Last year, we had ERP project ongoing in Automation, so that affected the numbers a little bit. But in any case, we are now happy that Automation had a good start for the year.

In Process Technologies, segment numbers are such that orders received for process technologies were EUR 727 against last year's EUR 807, and I'll explain the difference from business lines. In net sales, we grew from EUR 503 million to EUR 555 million. And EBITA last year was EUR 43 million, and this year, EUR 41 million.

In Pulp and Energy, last year we had a very big order booked in orders received in the first quarter. The order was Metsä Kemi. And order intake was very good. So, this year, order intake was EUR 327. And of course, we see that as a quarter -- even if it was small, it was a good quarter for Pulp and Energy. Net sales were developing as planned as well and ended up at EUR 276 million, an improvement of almost EUR 40 million compared to last year.

In the Paper business line, we had again a strong quarter - EUR 400 million is, of course, a very strong quarter. And order intake grew by EUR 51 million compared to last year, even if last year's Q1 was strong as well. Net sales haven't been developing that quickly. Our net sales were EUR 279 million - EUR 4 million more than a year ago.

There is, of course, quite a lot of discussion about the situation in Russia. We, of course, are all very upset about the war in Ukraine, and we have been supporting our employees and partners in the crisis area in every possible way. About 2% of our net sales in 2021 came from Russia. We are, of course, making sure we comply with all the sanctions and export regulations which are impacting either the products, of course, country, product, customer and financing. We are very careful that we comply with all the rules. In practice, this means that it is very difficult to do any business any more in Russia.

We made a reversal of about EUR 70 million in our backlog. This didn't affect the order intake in Q1; it was taken out of the backlog. This 70 million has now been removed from our backlog, so we estimate that it will be difficult for that backlog to materialise as net sales.

To simplify, the Russian business is not the big issue. The big issue is what kind of impact all this will have on material prices, energy prices, and logistics once companies start to source everything from other origins than Russian. And this, of course, will cause big changes in the logistics chains. For us, it's not a very big issue because our procurement from Russia was very small. But of course, there are customers who are buying e.g. energy from Russia, and it will have an impact on their thinking.

Then, I will talk about financial numbers as well. And later on, when we have the question-and-answer session, Pekka will join me so that we can be sure that we can answer your questions from this perspective.

If I first go through the key figures. As I said, orders received were roughly at last year's level, the backlog has grown by 20% compared to last year, net sales grew by 12% since last year, and comparable EBITA decreased by 1%. Comparable EBITA percentage last year was 9.4%, and is now 8.3%, so has declined by 1.1%. Operating profit, 63; and last year, 76. Our earnings per share was 30 cents - a return on capital of 15%, and cashflow provided by operating activities, EUR 19 million. Last year, it was EUR 148 million, and I will say some words about that later on. Gearing was 0% compared to last year's 3%.

The segment figures are in the table, and you may have noticed that you have also received the quarterly numbers for last year, so it is easier for you to compare this year's numbers to last year's numbers. I have gone through all the other numbers so I focus on profitability. In Services, last year we made EUR 36 million, and it was 12.6%. This year, we made EUR 30 million and 9.6%. Last year's total number was EUR 204 million and 15%, so it is clear to see that our services didn't start as strong as they started last year. And of course, that's now the focus area, to make sure that performance in Services will be adequate in 2022 as well.

Automation: last year, EUR 5 million; this year, EUR 11 million; and last year, total year, 79 million. We started reasonably well with 12.1%. The first quarter in Automation is usually a little bit slow, so 12.1% is a good achievement compared to last years 7.2%. And last year's total profitability was 19.2%.

In Process Technologies, total year last year was 8.1%; last year, first quarter was 8.5%; and now, 7.3%. So, we had a little bit of lower profitability in the first quarter, and there continues to be a lot of work to ensure that profitability in Process Technologies continues on a favourable trend as well.

All in all, I hope that these segment figures help you in analysing the current performance and estimating the future performance of Valmet.

Our SG&A - - gross profit was 23%, and that was, of course, not at a level where it has been. LTM is now 25% - 2% down. Mainly, this decline was caused by increasing cost levels, both in products, but also in indirect procurement, indirect costs. We had negative variations in both.

SG&A were about EUR 20 million higher than a year ago. Of course, we have been growing. So, we have a bigger amount of SG&A personnel, we have SG&A personnel salary increases, LTI and STI increases, and then, of course, travelling has started as well. Last year, first quarter was still quite moderate when one thinks about the travelling amounts. But all in all, one can, of course, not be happy that gross profit was 23%, and SG&A, 17%. The gap between them is not big enough.

Looking at the graph and how we have been developing, the target now is officially to make 12 to 14 points of comparable EBITA, and now, the LTM is 10.6%.

Cash flow was 19 million, and of course, it is a lot lower than a year ago. If we look at the graph which shows the net working capital against the orders received during the last 12 months, now we are close to 12%, where we have seen that the average is. Last year, we were also saying all the time that the net working capital is now more negative than usual, and now we're roughly at the level where it normally is. This has caused cash flow to be only 19 million. So, until now, I haven't seen any big changes that would have caused this change. It's just that net working capital has come to the level where it traditionally has been.

Our net debt is EUR 3 million, and gearing is zero. So, the balance sheet is still strong.

Our equity to asset ratio has increased compared to last year, and is now at 40%.

Capital employed, comparable ROCE, is 24%, and earnings per share, if I remember now correctly, was 30 cents. So, LTM is now EUR 1.90.

That was a quick overview of our business performance and the numbers, and now I will let the Head of Flow Control, and the ex-CEO of Neles, Simo, present his results.

## **Simo Säaskilahti**

Thank you, Pasi. Q1 orders EUR 196 million versus EUR 154 million a year ago, and sales EUR 166 million versus EUR 129 million a year ago. So, I would say, volume-wise, a good start to the year. We saw growth throughout the market areas, and also in Neles, people are commenting about how we are progressing in certain business types. We saw good development throughout the business types. Our pulp paper project orders stayed on a good level. We also saw good development in oil and gas project orders. It's still not at the levels that it used to be in 2019, but clearly moving ahead from a slow 2021. Then, our more stable recurring business, or services and MRO-driven business developing positively.

In addition to the good organic development, we are now also reporting for the first time a full quarter of the Flowrox business that we acquired in November of last year. The integration of that business is moving very well, the orders were contributing to the growth, and the funnel that our teams have been able to develop is developing well. So, I'm quite

pleased with that development also. That gives us a very good growth position in the growing metals and mining industry as a new area to grow in.

Order backlog is at a level of EUR 331 million, clearly up from a situation a year ago, and also compared to the situation at the end of the year. As I said, good sales volumes and also stable sales margins and, as you can see, improved gross profit are contributing to our adjusted EBITA which is on a good level at 16.1%. There were no adjustment items in the first quarter of the year or the previous year, so this also corresponds to the full EBITA.

Cash flow was the weak point; it was not satisfactory. The main reason is that our net working capital grew, and in particular, inventories. As we have been discussing earlier, there continue to be issues in global logistics and electronic components. That is impacting both margins, but in particular, net working capital, as we want to be prepared.

So, that was Neles in Q1, in a nutshell, and now we are the Flow Control business line. In addition to good results, during the first quarter, the team did a lot of work to plan for the integration, and I can say that there is a good level of excitement about the merger and the opportunities that it will create for us now as part of Valmet.

Back to you, Pasi. Thank you.

## Pasi Laine

I'm very happy that Neles' performance has been so good in Q1. We believed in Neles, and they are already showing that Flow Control will be a good business.

The next topic is financial targets, guidance, and short-term market outlook. On financial targets, we were saying that after the merger, we change the targets on two topics: the profitability target is that comparable EBITA should be between 12% and 14%. And then, because of the goodwill which will be created in the merger, the comparable return on capital employed target will be reduced from 20% to 15%. Otherwise, targets will continue as they are. So, these are the new targets.

Then, guidance and short-term market outlook, we keep the same guidance that we published on April 1<sup>st</sup>. Valmet estimates that, including the merger with Neles, net sales for 2022 will increase in comparison with 2021, and comparable EBITA in 2022 will increase in comparison with 2021. So, there is no change there.

Then, if we talk a little bit about short-term market outlook. In services, order intake has been good in the first quarter, and we still see a lot of activity, so we keep that outlook at 'Good'.

Automation now has two business lines. Flow control we keep at 'Good' level. As you saw, Flow Control's first quarter had very good order intake. Of course, we have to remember that there is some seasonality in order intake. Usually, the first quarter is the highest quarter for Flow Control. Simo is nodding yes.

And then, Automation Systems had a good order intake, and sales activity continues at a good level as well.

Pulp continues to be 'Good'. There aren't any major developments and big pulp mill projects, but there are still a good amount of small to medium sized projects where our teams are active.

In energy, we still keep our outlook at 'Satisfactory'. But of course, the situation in Europe might lead to a situation that the demand for biomass boilers will increase and waste-to-energy boilers will increase.

Board and paper: order intake has been good, and business activity continues at a good level. Tissue order intake has been reasonable in the first quarter, but we keep the outlook as 'Satisfactory'. The issue from our customers' perspective

is that increasing cash prices are affecting European tissue producers and limiting their investment willingness in that segment.

That is the summary of guidance and short-term market outlook. And now, I assume that it is time for questions and answers. Pekka and Simo, please join me here.

## Q&A

### Moderator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question is from Antti Kansanen of SEB. Please go ahead.

### Antti Kansanen

Hi, Pasi, Pekka and Simo. Thanks for taking my questions. Firstly, on the profitability and cost inflation, both for Services and the capital businesses. Could you Pasi talk about how locked in you are with your pricing regarding 2022 deliveries and sales versus unseen cost increases? You have quite a long backlog, so do we need to wait until you get through that, and the pricing action will be on new orders? Or can you do something regarding your existing backlog as it is?

### Pasi Laine

If we talk about Process Technologies - Paper and Pulp and Energy - first. In Paper, when we make the contract, then we know quite much in detail what kind of machine we are delivering, because the engineering is well-advanced when we make the deal. A big part of the manufacturing happens in our factories, meaning that actually we are not that dependent on the raw material changes. So, there the risk is limited. Then, of course, when we have the contract, we are open for cost increases. Cost increases will affect the Paper business as well, but at the same time, we have actions ongoing to improve efficiency and increase procurement savings on other topics. So, I am worried, but I know that our organisation is doing quite good work on this topic.

In Pulp and Energy, we have a situation where, in Pulp and Energy projects, the engineering is finalised six to nine months after the deal is done. And then we are open for cost changes during that time. We are also now trying to have contracts where we have different clauses to try to save us from material savings. In both businesses, we include, where possible, some kind of indexes in our cost calculation to take into account the raw material cost changes.

In Services, the backlog is rotating quicker. We have longer contracts, for example, in paper machine clothing, where we have to make contracts for two years with customers. And that kind of contracts are of course delaying the possibility to push prices up for the customers. We are trying to ensure that when costs increase for us, we have to transmit these costs to our customers, and not pay for it ourselves.

### Antti Kansanen

I know that you don't guide for the margin for this year, but I suppose it's overly optimistic to assume that on a gross margin level you can obtain the level that you were at last year, given the cost inflation that is now very visible in Q1.

### Pasi Laine

We are not guiding for that accuracy, but I hope the segment figures can help you analyse and estimate our future profitability.



## Antti Kansanen

The second question was actually on that. Thank you for the granularity for last year, but if you look more on the longer-term, is there something extraordinary on last year's figures? I know that you've been improving profitability on Group level over the years, but is there something extraordinarily good or extraordinarily weak on last year's profitability? And then, reflecting on the margin targets of 12 to 14%, any comments on what that would look like on a divisional level?

## Pasi Laine

Of course, we have been improving all the time. So, profitability numbers are good from a historical perspective, but nothing extraordinary on the profitability of any of the segments. And the same answer will now be valid as earlier, that, for Valmet to improve 1%, then, if only one part has to improve, then it's 0.5%. And then, if everybody is improving, then 1% is enough. Of course, we continue to push the profitability up in all the segments. But nothing extraordinary in last year's numbers, except that, of course, there were record numbers, all in all, in Valmet.

## Antti Kansanen

Ok. And the last one from me is on demand. Your outlook is mostly good, and orders were strong in Q1, but have you seen any softness or hesitancy in Europe among your clients after the war? And also the situation in China with the lockdowns, has that impacted any longer-term discussions or your pipeline?

## Pasi Laine

Not yet. Customer discussions have continued normally. In China, I am more worried about the consequences of the lockdown on delivery capability and delivery accuracy. I haven't seen that it would be a challenge to our customers to invest, but more, can we keep delivery time promises that we have made - that is our big worry, currently. And then, of course, one could think that there may be some slowdown and hesitancy in some decision-making in Europe because of the increasing cost level and increasing delivery times, but we haven't seen that happening yet.

## Antti Kansanen

All right. Thanks, guys.

## Moderator

Thank you. Our next question is from Johan Eliason from Kepler Cheuvreux. Please go ahead.

## Johan Eliason

Hi. This is Johan from Kepler Cheuvreux. Thank you for taking my question. Coming back to these restated, historical margin numbers, which I obviously appreciate finally getting to see, one thing stood out in my eyes, and that was the 19% margin in Automation. I remember when you acquired it from Metso, it was around 11%, if I remember correctly. So, there's been a dramatic margin improvement in the Automation division. What is behind that? Are there any specific changes that have happened these years since you made that acquisition? And once again, is it sustainable? Obviously, this implies that Flow Control is dilutive to the divisional margins going forward.

## Pasi Laine

That's exactly what we've been saying to Simo as well, so thank you for increasing the pressure, Johan. Thank you for making my job easier. To this automation, Sakari, who was running it earlier, and Sami now, and the management team there, has been doing good work over the years - nothing special, just improving the sales capabilities. Of course, growing the business in Automation, it means a lot if you can grow the business. Then, improving the product competitiveness, introducing new products, and ensuring the project execution, service execution is good. So, nothing spectacular, but improvement year after year. And I think we have always been saying that we are happy with the performance of our systems business. Then is it sustainable. Let's see how it goes, but good work by the Automation team. Now, I have to learn to say, 'Automation Systems team.'

## Johan Eliason

Now, I was wondering about your equipment customers. You mentioned that the price of energy might impact them as well going forward, but isn't there also a sourcing of wood material from Russia, for example, into the Finnish paper industry that might impact your local customers negatively? What does that look like?

## Pasi Laine

I don't remember by heart the amount of wood that's coming from Russia to Finland. And of course, it's no longer coming, and I'm sure that our customers are finding ways of sourcing more from Finland. There is some potential in Finland and, of course, importing some. I'm quite confident that our customers will manage that.

## Johan Eliason

OK. Thank you very much.

## Moderator

Thank you, our next question is from Sven Weier of UBS. Please go ahead.

## Sven Weier

Good afternoon. Thanks for taking my questions. The first one is going back to the cost impact on margins in Q1. I was just wondering, would you think that Q1 was the worst in terms of year-on-year impact on the margins, and that it starts to improve because your backlog starts to improve, higher prices? Should we think along these lines?

## Pasi Laine

Of course we're not giving quarterly estimates. But if you look at the total numbers, if we are now saying that EBITA will increase, with 8.3%, the volume should be very high for us to say that.

## Sven Weier

Understood.

## Pasi Laine

We're not giving any quarterly guidance. But of course, our target is to improve from this 8.3% level. I'm not promising that we will reach that, but the target has been to improve EBITA percentage every year. So, let's see what happens this year.

## Sven Weier

Understood. And then, when I think about the new divisional structure and the additional disclosure, which I also find quite helpful - we appreciate that - I was just wondering, inside Process Technologies should we still assume that there is a big difference between Pulp and Energy on the one hand and Paper on the other hand, or are they not so far apart?

## Pasi Laine

That's now the total profitability that we are giving, and we are not commenting on how profitable each business unit is. Under Pulp and Energy, there are still four business units, and then, also, under Paper. So, there are variations between those business units.

## Sven Weier

Yes. And as I said, in Paper, you have much more value added internally. So, I suppose that is something to keep in mind.

## Pasi Laine

There is more value add in Paper, yes. But I'm not commenting on profitability.

## Sven Weier

Yes, that's fine. And then, technically, in terms of Flow Control and the former Neles business. Is the former Neles entirely in Flow Control and in Automation, or is the service bit in the Services business?

## Pasi Laine

It will be entirely in Flow Control. There might be one little thing that changes, but all the services are in Flow Control, and all the products are in Flow Control. The change would only be within automation, and very minor.

## Sven Weier

OK, makes sense. And the final question I had was on the CFO announcement from Katri. You said it's an interim solution. I was just wondering why it's not a permanent solution.

## Pasi Laine

That's good because I forgot to mention this very important news. Thanks for that question. As you know, Kari has resigned, and that's why he is not here today. We have to find a solution how to go forward. We have good internal candidates, many. Katri is one of them. Katri has been nominated for the intermediate position. Of course, a big company like Valmet has to look at the total market. So, we are looking also what kind of capabilities and people there are available from external markets, and because we want to ensure this process is thorough, we needed to find an intermediate solution. We asked Katri, and Katri has a long background in Valmet. She started in 2006, has a Master of Economics degree from Jyväskylä University, has been working in our Rautpohja unit, has been working in our Services, in Asia-Pacific as Head of Asia Pacific controlling, and currently is working as the Head of Finance and Controlling in the Pulp and Energy business line. So, she has a very good and versatile background of many businesses in Valmet. That is why we asked Katri to take this challenge as intermediate CFO, and she accepted it, and I'm very happy that Katri accepted our wish for her to be the intermediate CFO. She's not here today as she is now in Brazil. And physically, it is difficult to be in Brazil and Finland at the same time.

## Sven Weier

So, when I summarise what you just said it doesn't rule out that she could also become the permanent CFO?

## Pasi Laine

We have internal and external candidates.

## Sven Weier

OK. Good for you. That's it from my side. Thank you.

## Moderator

Thank you. Our next question is from Peter Testa of One Investments. Please go ahead.

## Peter Testa

Thank you for taking my questions. I have a couple. I will go through them one at a time. Just on the Service margin, I'm trying to understand how the components factor works through the intake and the forward margin just conceptually. If you look at the speed of turnover, you have some contracts which are longer in the Paper business, but most of the business and including also some significant short-term business that comes in as well. Can you just give us some understanding as to how quickly the repricing of this Service backlog can or should happen in aggregate?

## Pasi Laine

Roughly, we are saying now that 20% of our backlog is coming from Services, and then, roughly 20% is, in rough terms, EUR 900 million. And then, if the Services revenue is 1.4 to 1.6, then you can start to calculate how quickly that turns. Then in business units, if you take spare parts, there, of course, the rotation is the quickest. Then comes roll services. Then comes fabrics - that's difficult because there you have long-term contracts and short-term purchases. And then a

little bit more project-type businesses, pulp and energy solutions, and paper and tissue solutions have a bit of a longer backlog. So, it varies a little bit, business to business, but if you calculate 900 out of 1.4, then you get somewhere to seven months. And then, part of the backlog is turning quicker, part is turning slower.

### **Peter Testa**

You have been talking about the inflation environment for some time. So, when you look at intake in Services in Q4 or maybe even before, were you already moving prices on Service intake at that stage to take a view of what you'd been saying generally, that there'd be inflation?

### **Pasi Laine**

We started some actions in Q3 already in some of the units, but then one has to accept that not good enough actions and not in all of the units. So, some of our areas started to react to inflation already in Q3, but unluckily, not all.

### **Peter Testa**

And your longer term contracts in Services, do they tend to re-price on a rolling basis, or do they really stay at a similar price for the whole period?

### **Pasi Laine**

We have some fixed prices for paper machine clothing. And of course, we try to talk with our customers to see if there's some flexibility in pricing. So, we do everything possible to increase the prices where necessary.

### **Peter Testa**

And just on the Process Tech part, you have some of the larger capital projects and some smaller ones. I was wondering, on the larger capital projects, if you were just taking a general view on the cost to deliver these projects, and therefore, if this is going to be through the delivery margin adjustment starting in Q1. Or is there something more nuanced than that?

### **Pasi Laine**

We are not guiding the profitability of Process Technology. But last year, the total year - I remember now correctly - was 8.1, and this year, the first quarter was 7.3. So, once you start to see more quarters, you will be used to the situation that there are quarterly variations in our Process Technology profitability.

### **Peter Testa**

I didn't know if you were just taking a view that the cost inflation and the way that you can book through the life of the project is based on total project profitability. And I didn't know if there was an over-the-project adjustment, or whether it depends on phasing and timing of how much is booked, and some quarters are up and down, so you'll see that on the cost basis, on the different booking levels.

## **Pasi Laine**

Of course, if we see that there's a cost increase in a project, then we reduce the margin. And then, we are booking that with the lower margin, and then it has also impact to the past, so then we have to correct that project. But all our projects are booked according to current costs and cost-level understanding.

## **Peter Testa**

And then, the last question is just on the intake margin. If you look at the intake margin on the Process Technology business, to what extent, given your comment earlier about some of these, you still have some engineering phases to do before you finalise, to what extent does the intake margin we're seeing reflect the current situation, or is there still some adjustment to make as you finalise some of the Pulp and Energy orders, for example?

## **Pasi Laine**

The current order intake after the war started has been quite small. Even if the orders were booked in Q1, some in January and some in February, in March we saw a cost increase, so the projects we have practically negotiated and booked are all pre-war orders.

## **Peter Testa**

OK. Thank you very much for the answers.

## **Moderator**

Thank you. Just as a reminder, if you'd like to ask a question, please press 01 on your telephone keypad. There will be a brief pause while we register any further questions.

Our next question is from Johan Eliason from Kepler Cheuvreux. Please go ahead.

## **Moderator**

I believe that Johan has accidentally hung up, so there are no further questions at this time. I will hand back over to our speakers.

## **Pasi Laine**

Thank you for listening. And Pekka and Simo, thank you for supporting me. Thank you. Now you can close.

## **Pekka Rouhiainen**

This closes the event now, and we will have the second quarter report out on the 27<sup>th</sup> of July. So, see everybody again then.