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PRESENTATION

Pekka Rouhiainen

Ladies and gentlemen, welcome to Valmet Q3 2020 result publication webcast. Valmet's orders during the third quarter decreased, but the comparable EBITA was one of the best for Valmet. My name is Pekka Rouhiainen. I'm the Head of Investor Relations here at Valmet. And with me today are Pasi Laine, Valmet's President and CEO, as well as Kari Saarinen, CFO.

We will start with presentations, and after the presentations you will have the chance to ask questions over the phone lines. But without further ado, Pasi, please go ahead.

Pasi Laine

Thank you, Pekka. So, Valmet's orders received decreased to €700 million and comparable EBITA increased to €91 million in the third quarter.

So, today, I will talk briefly about quarter three, then development of business lines, then some words about Neles and PMP Group. Financial development will be presented by Kari, and then I'll come back to guidance and short-term market outlook.

So, first, quarter three in brief. Our orders received decreased in stable business to €369 million. In capital business, orders received decreased to €347 million. Net sales remained at the previous level and were at €832 million. Order backlog amounted to €3.3 billion. Comparable EBITA increased to €91 million and margin was 10.9%. Gearing was 18%, and we agreed during the quarters to acquire PMP group and we acquired 29.5% of Neles shares and votes.

So, first, a couple of words about the numbers. Orders received, like I said were €700 million; net sales, €832 million; and comparable EBITA, €91 million; and comparable EBITA margin, 10.9%; and backlog were €3.3 billion; and we employed about 13,400 people.

Business wise by business line , by business type, stable business was roughly 50%, and capital was roughly 50%. Like I'll come back later on, Paper had a strong quarter, and Pulp and Energy had a weak quarter.

Geographically, order intake was strong again in China; 27% of new orders came from China. Europe was strong as well, and the rest of areas, average.

Orders received decreased to €700 million, and here you see that the 12 months curve is now somewhere at 3.7 billion. Last year, the total year was 4 billion, so we're below that speed. If you look at the orders received totally graphically, China has corresponded to 24% of orders received. So, Chinese market has been strong for Valmet, and Valmet has been successful in China as well.

North America, like you remember, normal year is 20%, so North America is less than a normal year. South America, because of the big project in the beginning of the year, is more than average. And Asia Pacific, close to the average numbers.

Then, our stable business, orders received total to €1,816 million. At the highest that was, if I remember correctly, about 1.95, so €1,950 million. And now, the total in 12 months is €1,816 million. So, the trend is not where we wanted to go. But that reflects now the current market situation, and I'll come back to that later in Automation slide and Services slide.

Our backlog is still €3.3 billion. It's at a good level, or more than a good level. So, when we were at €2.7 billion, we were saying as well that our backlog is at healthy level. So, 3.3 is a level where most of our units are well-loaded. They have long workload, and we have a situation that in some cases we have to say to customers that our delivery time is longer than what they would expect. So, 3.3 is a good number for us. We are also saying that stable business is about 30% of the backlog, and 70% is related to our capital business.

Then, some words about the business lines. Services: orders received and net sales decreased comparing to earlier year. So, now, if you look at the cumulative numbers, our orders received has been about €1,014 billion, and last year it was €50 million more. So, there is about 5% decline in orders received.

And then, of course, if you compare 288 against last year 335, there is decline. Last year, though, was quite active in the end of the year. So, I'm not trying to say that it was good number, but I just want to say that look at the bigger picture and the orders received has decreased by 5%.

In net sales, we are also behind last year, about €49 million. And that's due to the Covid restrictions. So, we have challenges in implementing some of the mill improvement projects where we need to have access to customer sites, and that hasn't been the case in all the places.

So, all in all, in Services we see the impact of, in order intake and net sales, impact of Covid in travel restrictions and utilisation of graphical paper machines, which have been decreasing. And both have had a negative impact, both in orders received and net sales of our services.

Automation, orders received last year: €304 million, and this year €295 million. So, we're €9 million behind, so about 3% behind last year’s order intake. Quarter three was a disappointment to Automation’s management. But, all in all, we are now, like I said, 3% behind last year's order intake number.

In net sales, Automation has been performing better. It's easier to get access for automation persons in customer sites compared to the rest of the service personnel, and that's why we haven't seen same kind of restriction of the activities in automation services than we have seen in rest of the services. But, all in all, Covid has had an impact to order intake, and especially in capital business. Services business in Automation has been actually performing well, also in COVID-19 situation.

Pulp and Energy: Like I said, quarter three order intake was only €52 million. So, it's the lowest we have had in Valmet. There have been two similar kinds of – or three similar kind of quarter, so it happens in capital business that one quarter is lowish. Our order intake is now €643 million compared to last year at €805.

We have still good workload in our units. So, like you see, the order intake graph - - trend has been over €1 billion now for almost a year or a little bit more than a year. And that, of course, means that we have good backlog in that unit and we still have plenty of work to be done in Pulp and Energy.

Net sales were €717 million compared to €604 million. Here, I have to thank Pulp and Energy's organisation that they have been able to execute the projects very well even if there have been some challenges with Covid restriction in different parts of the world. So, a well-managed situation, all in all, in P&E.

Paper: orders received and net sales increased. So, quarterly order intake for Paper was €295 million. So, it's a strong quarter. And then, if you look at the total year, €818 million against €844 million. So there's decline, decrease, but both numbers are big. Of course, if our paper business is getting orders for €800 million in three quarters, it's a strong market and a good market, like we have been saying.

Net sales have been increasing as well. Last year, €646 million, and this year, €713 million. And the same comments here as on Pulp and Energy that our organisation has been managing COVID-19 very well, both in our own operations, but also at customer sites. So, good development from that perspective, both in Paper, and Pulp and Energy.

Then ownership in Neles and the acquisition of PMP Group. Like you all very well know, we have acquired 29.5% of Neles shares during quarter two and quarter three. We approached the Board of Directors of Neles with a proposal to start discussion on a potential statutory merger between the two companies. We were not invited to discuss further merger details with Neles' Board of Directors, but we still see that for Neles shareholders and Valmet shareholders, a merger between Valmet and Neles would be a very good solution. We would see that it would create a Nordic-based global leader in many of the segments where it operates, and we believe that in long term that solution would be very good also for long-term investors and long-term shareholders of both Valmet and Neles. And we continue to say that as a major shareholder of Neles, Valmet does not support the recommendation of the Board of Directors of Neles to accept Alfa Laval's tender offer. So, our position is like it has been the whole time.

Then, we announced a very important acquisition in quarter three as well. We told that we had signed an agreement to acquire PMP group. Later on, in October, we told that we have been finalising that acquisition as well and that it has started to operate as part of Valmet since beginning of October.

PMP is operating in a market where Valmet is not strong or not operating. So, they make small and medium-sized new tissue machines, they make rebuilds and machine sections for small to medium paper and board machines. And, of course, they have spare parts and services operation. So, it's focusing on small and medium-sized tissue machines and board machines and rebuilds. And that's the market where we haven't been active, so it's a very good addition to our offering and we are very happy to have now about 650 professionals from PMP Group joining us.

Last year's net sales were about €70 million, and the value of acquisition were about €64 million. So, this is very good addition to our Paper and services operation.

So, Kari, now it’s your turn to go through the financials.

Kari Saarinen

OK. Thank you, Pasi. And also, good afternoon on my behalf as well.

So, as said, our orders received reduced by 34%, so that's around €360 million. Pulp and Energy business line had a very strong quarter three last year, and orders alone reduced by €350 million as our Pulp and Energy customers did not make any major new decisions during the quarter. Paper business line increased by 22% to almost €300 million, and other business lines reduced: Services by 14%; Automation business line by 25%: and Pulp and Energy, 87%.

China increased, rest of the geographical areas reduced during the quarter.

Our order backlog, €3.3 billion, end of the quarter. So, this is around €100 million reduction from a year ago, and around a €200 million reduction from the end of the previous quarter in June. But as said, €3.3 billion is a high level for us as a backlog. Our net sales €832 million. This is 3% below last year's. Paper business line increased 13% during the quarter. Rest of the business lines reduced. South America, China and Asia Pacific increased compared to the last year. Our comparable EBITA, that increased to €91 million or to 10.9%. Last year, EBITA percent was 9.5.

Earnings per share for the quarter, €0.38 per share; and cash flow was €94 million; gearing, 18%. Cumulatively, our orders are now 9% below last year's. Paper business line the same as last year. Services business line was -5%, Automation reduced by 10%, and Pulp and Energy by 20%.

Covid-19, that has caused access restrictions. Also, mill maintenance projects are run with much more restricted scope, and also Pulp and Energy marine scrubber market is quite low at the moment.

Our cumulative net sales, those were 5% above last year's; Capital business had strong sales; Pulp and Energy, 19% above cumulatively; and Paper business line is 10% above cumulatively. Automation at last year's level; and Services, 5% below.

Cumulative EBITA was €208 million or 8.5%. Last year, we were at 8.1%. Cumulative cash flow €418 million, on an, actually, very good level, and clearly exceeding last year's.

Then, looking at gross profit and also SG&A development: so, quarter’s gross profit, 25%; this is the same as last year. Also, cumulatively, gross profit percentage stayed at the same level as last year’s. Split between stable and capital sales, that was 46% stable, 54% capital. Last year, it was 48%/52%. We are quite happy with the quality of our order backlog at the moment.

SG&As, those reduced 6% and were 16% of net sales. Our comparable SG&As reduced by 8%. Travel costs were lower than last year. And we also had some impact of the headcount reductions that were announced during quarter two, both permanent and also temporary. And at the moment, we also have multiple development activities ongoing, impacting SG&As, for instance ERP project as well as data harmonisation and Industrial Internet projects.

Our comparable EBITA: Rolling 12-months EBITA increased to 9.1% and is €336 million.

This is the second time that we have reached this 9.1%. This is high EBITA for us, and we, of course, are very happy at this development.

Our cash flow: cash flow actually continued now for fifth quarter in a row being strong.

Our EBITDA and cash flow were almost equal, so that means that actually our cash conversion was quite good for the quarter. CapExes were €21 million, and networking capital did not change very much and stayed at a low level, as we can see here. So, our networking capital it was -17% of rolling 12-month orders, which is actually an all-time low level. A normal good level is between -10 to -12%.

Trade receivables reduced, and we also have a very small number of overdues over 60 days.

Project portfolio, that was strong, and our projects typically have positive cash flow through the whole lifetime of the project.

Net debt increased 184 million and gearing was 18%.

The acquisition of Neles's shares. the close to 30%, showed here, and it's quite visible at the balance sheet as well that we have used a bit more than €450 million for the shares.

Equity to asset ratio was 38%. That's the same as a year ago.

And then, return on capital employed: capital employed increased around €250 million compared to the end of the previous quarter. We had some new loans, and also equity increased as well. And then if you look at the return on capital employed, so that's 22%, which is within our target range.

So, back to you, Pasi.

Pasi Laine

So, guidance and short-term market outlook.

Our guidance: Valmet estimates that net sales in 2020 will remain at previous level in comparison with 2019, and comparable EBITA in 2020 will increase in comparison with 2019.

Short-term market outlook: In Services, we keep the same outlook: satisfactory and weak. So, one can think of it geographically or business unit-wise. And I would say that in the mill improvement, the market is weak and the rest is actually satisfactory.

Geographically, the most challenging area is North America, and the best is China.

In Automation, it is good and satisfactory, and here we can say that services in Automation is good and capital is satisfactory.

In Pulp, like I said, we have had good quarters, many good quarters behind us, and our backlog is good, and we still have sales activity, including, of course, one big letter of intent. That's why we're saying that the Pulp outlook is good, but the outlook is not depending only on one project I just mentioned.

Energy: we have had satisfactory situation. The big impact has been on the marine market; in the marine business, we don't see any activity currently. Last year, orders received totalled €90 million, if I remember correctly, and now there is very little activity in the marine market.

Board and Paper: like you saw, order intake was good, and we still have a good pipeline of sales cases in Board and Paper. And Tissue, satisfactory continues. So, we have won projects, and there are still projects in the pipeline as well, so that is maybe in borderline between good and satisfactory, but we decided still to keep it at satisfactory level.

So, no change in short-term market outlook in any of the businesses.

Pekka Rouhiainen

OK. Thank you for the presentations, and now we will continue with the questions. And as we don't have a physical audience here at Keilasatama today, we will go directly to the questions on the phone lines. So, operator I hand over to you.

Q&A

Operator

Thank you. If you would like to ask a question, please press 01 on your telephone keypad. If you wish to withdraw a question, you may do so by pressing 02 to cancel. That's 01, if you would like to ask a question.

Our first question is from Antti Kansanen from SEB. Please go ahead.

Antti Kansanen

Hi. Thanks for taking my questions. The first one would be on Service. If we're looking at the year-on-year declines that we see in orders and sales, how much would you put it on the graphical paper side, and how much of this is permanent closure, something that is not expected to come back in '21 and '22? So, any numbers on this would be highly appreciated. And also, then, on the mill improvement side. Is it just a function of Covid impacts, or are you seeing something else in that market?

Pasi Laine

First, this mill. I think it's Covid impact. We haven't seen any other reason. Now, customers are, of course, very careful with the extra personnel getting to their sites and mills, and then it's difficult to execute any projects. So, that's the main reason why the market is not active.

In graphical paper, I don't have the number there, but internally and now externally, I would say that it is nothing unexpected for us that graphical paper demand is decreasing. We have had that development going on for several years or one decade already. Maybe the exception has been last year that there weren't actually too many closures in the graphical papers, and now we are, in a way, jumping to the future somewhere in year '23/'24.

So, we assume that there's a small bounce back from the lowest level in the services and consumption of graphical papers. But then it will not come back to the levels where it was earlier, and we have been living with this kind of development earlier. Earlier, we were saying that roughly 10 to 20 million of our orders received is disappearing because of the closures of the graphical paper machines, and that's now the case as well. Maybe a little bit more this year than in an average year, but then how big part of this 5% decline is coming directly from graphical papers? I don't have the number.

Antti Kansanen

OK. Thanks. And then, secondly, on the profitability, the gross margin was quite strong in the quarter, so is there's something specific that you would want to highlight within, especially in the capital divisions. Extraordinary good project execution? Or is it just a favourable pricing from the backlog, or anything specific around there?

Kari Saarinen

Of course, this is a good margin. If we talk about the margin, it's a mixture of multiple things, but we have relatively good order backlogs and project backlog at the moment. Then, also Pasi was already saying that the capital business both Pulp and Energy and Paper, they have actually managed their business now well, and we haven't had any major interruptions, and work has performed as normal as possible.

Pasi Laine

On top of that, we have been pushing gross profit up for many years, and that has continued. So, Covid hasn't been any reason why not to push gross profit up. And then, of course, like Kari was saying in his part of the presentation that now SG&As are down because of Covid, because people are not traveling. But then, we have taken also actions to reduce our cost level, and those are starting to show impact in our profitability as well.

Antti Kansanen

OK. Thanks. And then, lastly from me on the backlog, can you provide a figure on how much you expect to book as revenues before the end of ’21, and how much is stretching for ‘22 and beyond?

Pasi Laine

We haven't published that number but our tradition has been that we tell that number in Q4 session.

Antti Kansanen

OK. Let’s wait for that. That's all from me.

Operator

And our next question is from Sven Weier from UBS. Please go ahead.

Sven Weier

Yes, good afternoon. The first one is on [inaudible 00:34:41] I've seen a lot of the pulp and paper companies have delayed the maintenance shutdowns to Q4. So, wouldn’t that actually benefit you guys in terms of your service activity? That's the first one. Thanks.

Pasi Laine

Maybe the best model is that shutdowns which were planned to take place in quarter two took partly place in quarter three and four. So, in quarter four, there will be shut downs as well, but not extraordinarily much because customers are, of course, now trying to shift shutdowns, and then there are limited resources as well. So, we don't see that there will be one boom quarter when a lot of shutdowns will take place.

Sven Weier

OK. Understood. And the [? 00:35:42] on that one. And the other question I had was just on Neles. I was just wondering [inaudible 00:35:49] by the end of the week. And if I understand you correctly, there are currently no more talks between Neles and yourself, and you said you're not going to tender your shares to Alfa, which I guess is a statement towards the current tender, but is that statement also holding true that, let's say, Alfa succeeds with the 50%, is that also a statement you would make for after the tender; that you will also not sell or tender your shares to Alfa afterwards?

Pasi Laine

So, we are saying what we have been saying all the time that Valmet is here long-term. We have now 29.5%. We see that for Neles shareholders where 71% are the same, or out of Neles shareholders, 71%, including ourselves are such that they are Valmet shareholders as well. And we see that this merger is staying long-term financially the best solution for both companies. And we hope that many shareholders take this into account when thinking about their actions during this week.

Sven Weier

OK, Thank you.

Operator

And our next question is from Antti Suttelin from Danske Bank. Please go ahead.

Antti Suttelin

Hello. Thank you. Just on the profitability which was the beating item in this report. If we look it by segment, I understood from your previous comments that it would be Pulp and Energy, and Paper that stand for the improvement versus a year ago. Is that correct? And how has the profitability development been in Services and Automation if we compare year-over-year?

Pasi Laine

Antti, of course, one thing that we need to remember here that we are one reporting segment. But then, if we just look some ingredients here. So, we've been saying now sometime that we are quite happy with the order backlog that we are having. So, that refers to the capital business. And then, also, we were happy with the performance there. And regardless that the share of the capital business of net sales has increased.

So, of course, that means that if the capital business's share of the net sales increases and we improve the profitability. So, that means that there's positive development there. But it doesn't mean that there was no positive development at stable business lines as well. So, I think that overall, there was a lot of good performance at the organisation this time.

Antti Suttelin

OK. Good to hear. And then, the temporary cost impact. How much would you assess that would be? Meaning that, if Covid went away, how much would your cost base increase?

Pasi Laine

One thing, of course, is that once Covid is around, so the business activity, like, from the travel point of view, has reduced. And, of course, we have had some reduction in travel costs, and there's one way is that our personnel and also customers have changed their way of working, but then business is still done face-to-face meetings. And then, also, our people would need to travel to customer sites in order to perform the sales. So, some of this cost also has a relation to sales increase, and then some of the costs are just related to other business activities, sales costs. And so, I think it's fair to say that there would be some permanent reduction out of this because the ways of working have changed. But at the moment, it's quite difficult to evaluate how much that is. And then, if we look at the temporary cost reductions and lay-offs that we have done. So, of course, we hope that that cost comes back because that means that then we go back to the normal business levels.

Antti Suttelin

Yes. Fair. Thank you.

Operator

And our next question is from Robert Davis from Morgan Stanley. Please go ahead.

Robert Davis

Thank you for taking my questions. My first one was just around the outlook for the larger project business. I know, in the past, you've mentioned a couple of times the number of larger set of projects you're expecting to come in any one year. Just looking into 2021, do you have any feel at the moment for number of projects out in the pipeline, and how that compares to 2020? That was my first question, please.

Pasi Laine

The guidance we give, or the outlook we give is for six months, and in that six months in capital business, like I said, in pulp, we see that activity is good. Then, if I go into more detail, then, of course, we had now one and half years' time when there have been a lot of big pulp decisions. And usually after that kind of very active pulp market, there will be a while where there are no big pulp decisions. And I think that's maybe the time after coming six months. But we see already some – we don't see, we participate already in some active discussions about next big pulp mill projects. So, will they start to materialise in '21 or more in '22? I don't know yet, but there are discussions already with customers.

In Paper, decisions are coming a little bit faster. And there, we still see, like I said, in the six months outlook, we see good sales activity, and in Tissue, satisfactory, where I said that it could turn to good as well. But that's maybe what I have to add to that. Kari, do you want to add something more?

Kari Saarinen

Not very much to add. I think that was the point there.

Robert Davis

And then my second question was just on the Automation business. I just wondered if you could give us a little bit more colour in terms of where you are seeing the strongest or weakest areas of interest in your products. Once, if and when we get through the Covid disruption, which bits of that business are showing the strongest growth segments or the biggest uptake from customers?

Pasi Laine

Let's put it a little bit the other way around. We are a small player in DCS – distributed control system market, but in pulp and paper and the segments where we are, we are a strong player. And now, we have introduced new features and totally new technologies in our DCS. We announced this year, or was it the end of last year, the new user interface for DCS. So, in the long run, I'm sure that we will start to gain market share in DCS because of our new technology.

Then, I think, in quality control systems, which are the systems which are measuring quality in the end of paper machine or pulp dryer or tissue machines, we have been developing the offering all the time and services, and I would be quite confident that we continue to increase market share there as well.

Then, in analysers, we are so strong that it's difficult to increase the market share. But, of course, we try to influence customers as much as possible that they would increase or upgrade their fleet of analysers, and then increase the fleet of analysers in places they need. So, I actually see that there’s growth potential in all the segments where we operate in Automation.

Robert Davis

Thank you. And then, my final one is just around the Service opportunities. When you look across your suite of installed base globally, where do you see the biggest prospects for growth over the next few years coming from? And within that, how would you contextualise the age of your install base over time? Are there any particular regions or product lines that are particularly old relative to anything else? Is there any potential kicker from an upgrade or replacement cycle coming? Or is it just more steady-as-she-goes?

Pasi Laine

First of all, the new installed base has been growing during last years in all geographies, not only in Asia or Latin America and China. So, geographically, I see that there is opportunity to grow in all regions. Of course, growth should be higher in China, Asia Pacific and Latin America than in Europe and North America, but Europe and North America have to grow as well.

And then how to grow? We have still quite many customers who are buying one product of our services offering, two products, but not a total offering. So, I think the growth will come from us penetrating more and more, with the total offering, bigger and bigger part of our installed base. And then, of course, competition’s installed base as well. And then as a new interesting market with the acquisition we just made in Poland, we will get access also to the markets of medium and small machines where we haven't been earlier at all, practically at all. So, that adds one new market segment where the grow in services.

Robert Davis

Thank you very much.

Operator

OK. And just as a final reminder, if you do wish to ask a question, please press 01 on your telephone keypad.

Our next question is from Tom Skogman from Carnegie.

Tom Skogman

Hello. Thank you for taking my question. I just wonder first about the order trend. It's quite easy to understand that you need to have people out travelling and seeing clients to book orders, and now Q2 orders were smaller than Q1, and Q3 are smaller than Q2. Should we be afraid of the same in Q4, if you exclude the large Metsä project that can be booked in Q4? Is it just so that the sales funnel is getting weaker based on less travelling lately?

Pasi Laine

Thanks, Tom. That was a good question. We have been building our regional and area organisation now last eight years. And that's now paying off. So, we have actually quite strong teams in most of the markets. And now, the practice has started to develop in that direction that earlier quite many of us were travelling and visiting customers and closing the deals. And now, the local teams are playing a more important role, and local teams are then supported from here, either from head office or offices from the business lines or business units.

So, we have all the time active sales negotiations, even if we can't travel from here to see our customers. It's something new that we have to learn to live with, but that's the same for customers. But now everybody who wants to make a decision, the only option is that we all work in a new way and that has been actually working reasonably well.

Then, of course, some of the customers have been saying that it's different than when we are talking over Teams or Zoom meetings compared to the situation that we can stay together for a longer time in same meeting room and discuss in a longer term. So, it's not the same. But sales is not stopping because of us from Nordic not traveling.

Tom Skogman

All right. And then a bit about the synergies between your Automation business and Neles. I think this is in the interest of all shareholders to really understand what this is about. Would this be at risk if Alfa Laval gets control of Neles? Could you lose a lot of sales in your automation business as a consequence of that?

Pasi Laine

So, first answer to the last question. No, we will not lose. We will lose an opportunity, but it's not a threat to us in Automation business. Then, synergy. In Automation, the synergy would be, first of all, in R&D. So, Neles has an intelligent positioner called ND 9000, and then we have DCS. And they communicate with each other. And then then there's different kind of software by which to utilise the features of both systems. That would be very straightforward development action we could just continue with Neles if we were in the same company. Then, of course, sales together for energy and hydrocarbon customers, or sales together to energy customers would be an opportunity. And then, of course, for pulp and paper customers. So, selling the total automation package, including the control valves and systems. So, that could be one synergy source. And then, like earlier on, we have been saying then, big part of the synergy would be coming also from including Neles valves in our board machine offering and tissue machine offering. Numbers I can't unfortunately tell.

Tom Skogman

I think it's also in the interest of all shareholders to understand what you can do to protect shareholder value in Valmet if Alfa Laval will get an acceptance exceeding 50%. Does the law protect you? And what can you do in that scenario?

Pasi Laine

We are saying now that we see that there is more value in Valmet and Neles together, and we hope that shareholders are taking that into account when making their decisions.

Tom Skogman

And what is the reason that you don't come out now with a merger proposal with some numbers, then, that people could compare?

Pasi Laine

When we came out with the merger proposal, we said that the PTO would only trigger a bidding war where the ones who would be benefiting would be the shareholders of Neles who want to just get the money and invest somewhere else, and the ones who would be losing would be Neles shareholders and Valmet shareholders who would stay in the system.

Then, to give a number for a merger needs discussion with the board of Neles. It's impossible to give the number just on our own. And, as you know, Neles's board has made that kind of contract. And that's public knowledge that they can't discuss with other parties without the bankers' approval, lawyer approval and Alfa Laval's approval. So, it's very difficult for us to have a meaningful discussion with Neles and think about Neles's board, and think about a good solution for the merger. So, we would like to discuss that, but in practice it's very difficult.

Now, then, can we tell alone what would be the best solution? Of course, we could tell something, but then, that wouldn't be supported by anybody else, and I'm not sure that it's in the interests of Valmet or Neles shareholders that there would be a proposal without pre-approval of Neles's board for that proposal.

Tom Skogman

But the risk of Alfa Laval bidding against you two years down the road is as high as bidding today. So, the situation might just continue, as I see it. And what was the answer on how you protect shareholders in the scenario that Alfa Laval could gain majority. You have invested a huge amount of money into this. Is it only about negotiating with Alfa Laval and hoping for a good deal basically then?

Pasi Laine

Like I said, we are in long term in Neles. And I just said what is our opinion of Neles's future.

Tom Skogman

OK. Thank you.

Operator

And our next question is from Antti Kansanen from SEB. Please go ahead.

Antti Kansanen

Hi. Thanks for taking my follow-up. Just returning to the backlog and workload situation. You mentioned that new orders are stretching the delivery times. How should we think about the revenue bookings going forward? Is it possible to achieve on the paper side, substantially higher revenues that you are doing now? Or is it the capacity sealed? And the same with the pulp side. If you now add the Metsä project going for the next years and then you have a couple of bigger ones, how would that impact the annual revenues that you book from these projects? Any colour on that?

Pasi Laine

Of course. OK. Not going into the revenue of any particular project, but if you take the graphs, what we have here for the different business lines, then you see that the Pulp and Energy revenue has been varying between €800 million and little bit more than €1,050 million, maybe?

Is that our maximum? No it's not, but that has been the volume which has been needed to deliver the projects. In Pulp and Energy, we have quite much outsourced model and we can increase the revenue if needed from that level that we have had.

Then, on the Paper side, you see that the net sales trend is going upward. So, we are now somewhere between €900-- starts to be close to €1 billion, close to €1 billion now. So, two years ago, I would have said that we can't reach €1 billion net sales, and now we have it. And now, of course, our organisation has learned to be more effective. And then, we have, of course, PMP Group on top of what we had earlier as capacity. So, from that perspective, €1 billion is not the maximum, but, of course, it can be that €1 billion is the maximum from market perspective.

Antti Kansanen

OK. And then, the other side of the coin. If we now see a bit of potentially weaker orders going forward. What type of kind of annual run rate of orders or backlog levels would you be comfortable regarding reaching your financial targets and improving profitability? Or is it more about the Services coming back to normal growth?

Pasi Laine

In Capital Markets Days, Jari and Bertel both have showed what has been the capacity cost against net sales in both capital businesses. And I don't remember now the numbers by heart, but in practice, in paper, without the acquisition we just made, we haven't been increasing our capacity cost at all even if the volume has gone up. And that's to make sure that, if and when the volume goes down, that we don't have immediately a profitability challenge. And the same applies to Pulp and Energy as well, that Pulp and Energy has been very, very careful not to increase our own costs now when the business has been active.

Kari Saarinen

Maybe to elaborate on that. We actually cut down a lot of capacity in 2013 and '14, and since that we haven't really increased our own capacity. It's been done in some other ways.

Antti Kansanen

OK. Thanks.

Operator

And we currently have no further audio questions. So, I will hand the word back to the speakers.

Pekka Rouhiainen

Thank you for the questions, and thank you for the presentations. And we will then continue on the 4th of February with our Q4 results. But before that, we will have an interesting webinar relating to our Pulp and Energy business. That would be on November 19. Hope to see many of you there, but thank you, everybody.

Pasi Laine

OK, thank you. Thank you all.