

Valmet – focus on profitability improvement

SEB Finnish Blue Chip Seminar
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Agenda

- 1 Valmet in brief
- 2 Trends in pulp and paper market
- 3 Investment highlights
- 4 Financials
- 5 Conclusions



Valmet in brief

Capitalizing on the growing pulp, energy, tissue, and packaging board needs globally

Global market leader with #1-2 market positions in all markets served

Stable, growing and profitable EUR 1 billion services business

High barrier to entry capital business with good long-term growth potential in businesses such as board, tissue, pulp, and biotechnology

2013 figures¹

Net sales EUR 2,613 m

Profit² EUR 54 m

Employees 11,765

Position

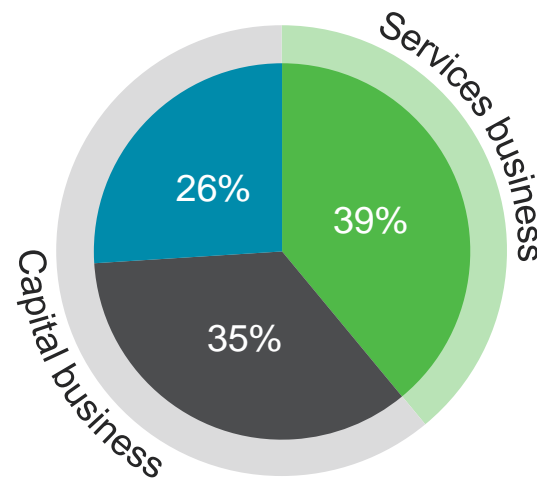
#1-2 Services

#1-2 Pulping

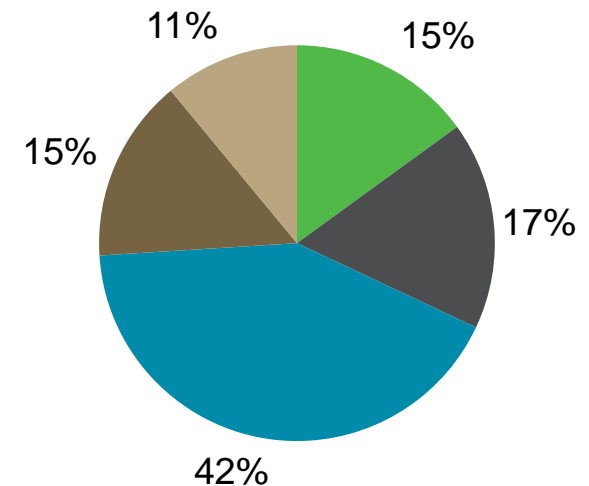
#1-2 Bioenergy generation

#1-2 Paper, board, tissue

Sales¹



■ Services
■ Pulp and Energy
■ Paper



■ North America
■ South America
■ EMEA
■ China
■ Asia-Pacific

1) Carve-out figures for the year of 2013

2) EBITA before non-recurring items

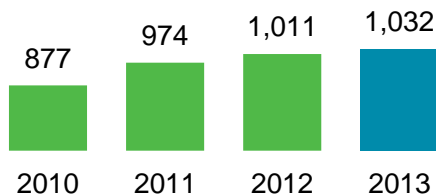
Our three business lines serve the same customer base



Services

Net sales¹ 1.0 bn, 39%

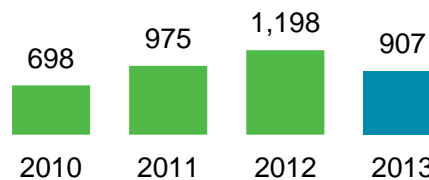
- Mill and plant improvements
- Roll and workshop services
- Parts and fabrics
- Life-cycle services



Pulp and Energy

Net sales¹ 0.9 bn, 35%

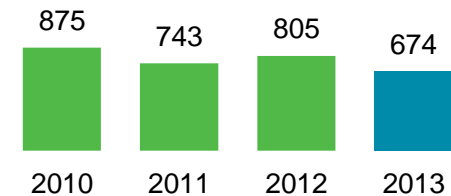
- Technologies and solutions for
- Pulp production
 - Power generation
 - Biomass conversion



Paper

Net sales¹ 0.7 bn, 26%

- Technologies and solutions for
- Board
 - Tissue
 - Paper



1) Net sales by business line on a carve-out basis for the periods indicated (excl. Intra-Metso net sales)

Strong global presence – good platform for growth

North America

- Large installed base to be serviced
- Growth opportunity in increased outsourcing
- Capital project opportunities in tissue and board

1,133 employees



Net sales¹⁾
EUR 401 m



South America

- Capital project opportunities in pulp, tissue and bioenergy
- Good services growth potential

427 employees



Net sales¹⁾
EUR 442 m



EMEA

- Large installed base to be serviced
- Growth opportunity in increased outsourcing
- Machine closures in printing and writing
- Capital project opportunities in pulp, tissue, and bioenergy

6,670 employees



Net sales¹⁾
EUR 1,096 m



China

- Capital project opportunities in board and tissue
- Good services market with growth potential

1,974 employees



Net sales¹⁾
EUR 389 m



Asia Pacific

- Capital project opportunities in pulp, tissue, and board
- Good services market with growth potential

597 employees



Net sales¹⁾
EUR 285 m



1) Net sales breakdown by area on a carve-out basis for 2013. Breakdown of employees by area as at June 30, 2014.

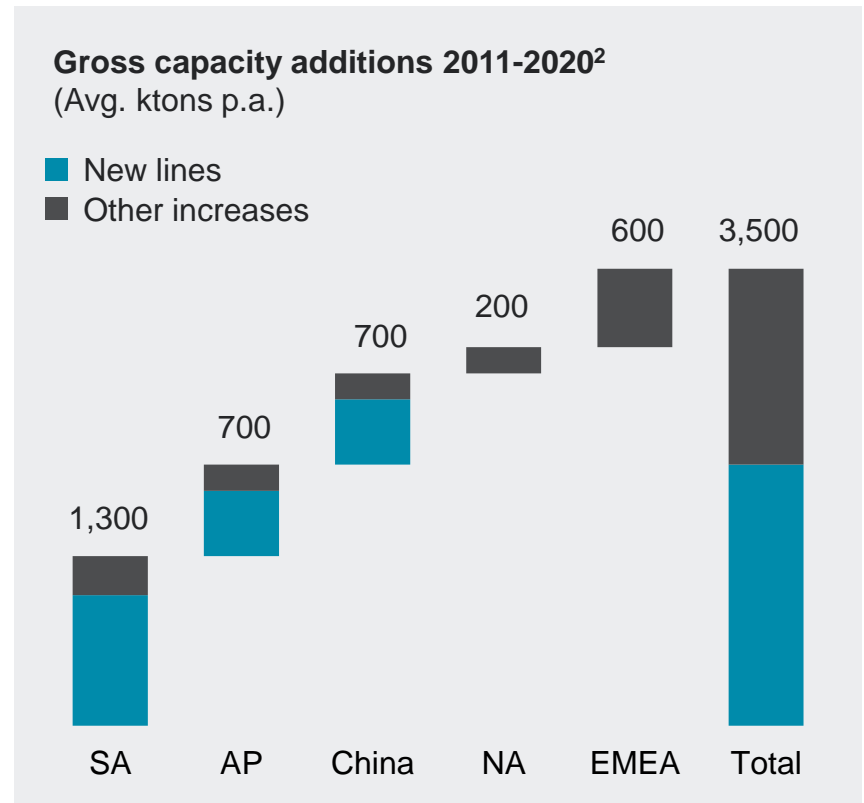
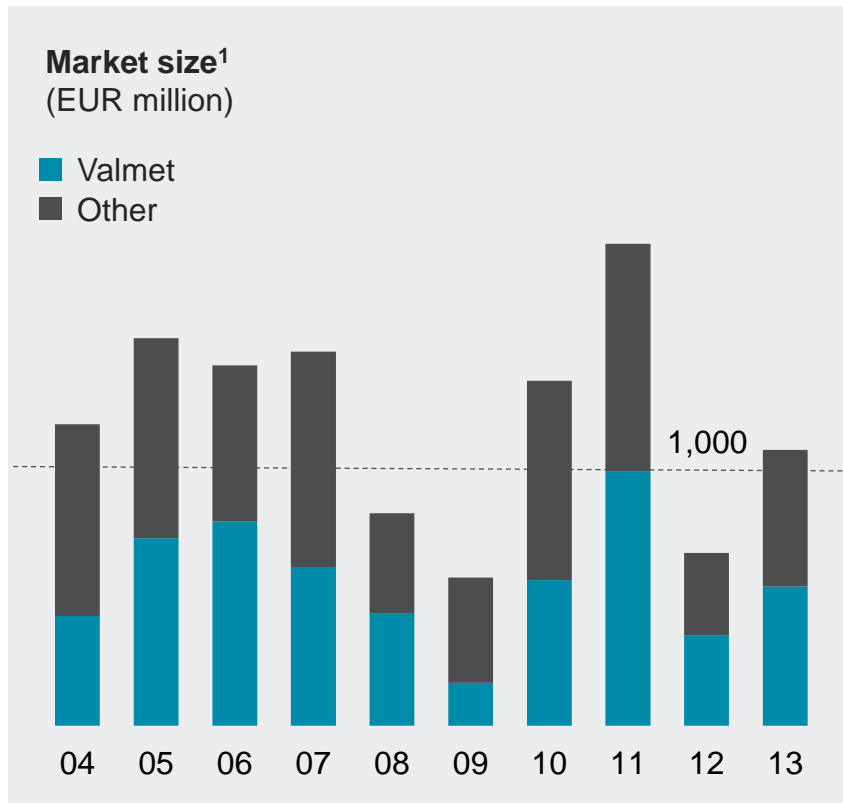


Trends in pulp and paper market

The majority of new pulp lines are being built in South America and Asia

Market fluctuates from year to year

New chemical pulp lines in SA and Asia

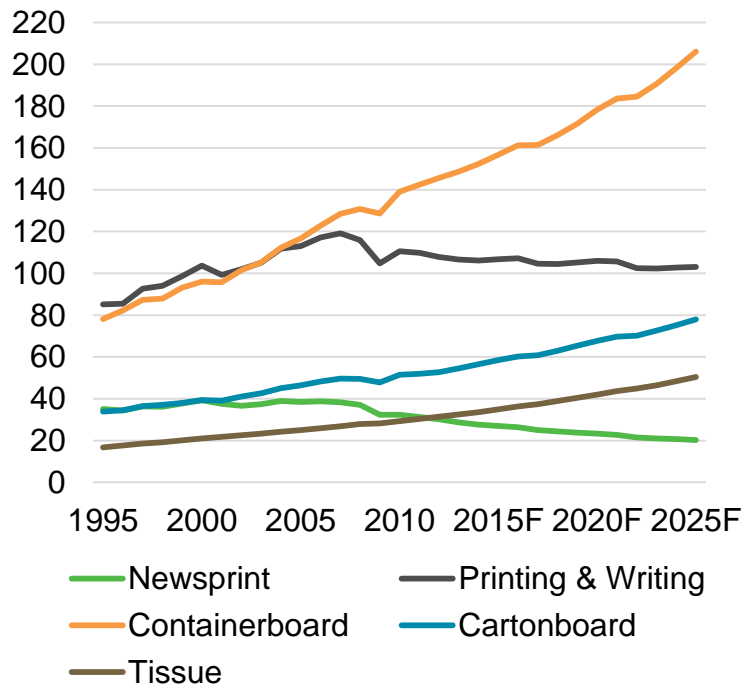


1) Market size based on orders received. Includes all pulp business units, recovery boilers, and evaporation plants
 2) Average capacity additions p.a. 2011-2020. Only positive capacity changes included, not shutdowns
 Source: Valmet, Pöyry

Consumption development

Growth in board and tissue consumption is expected to continue while newsprint is declining

Paper consumption¹ (Mton)



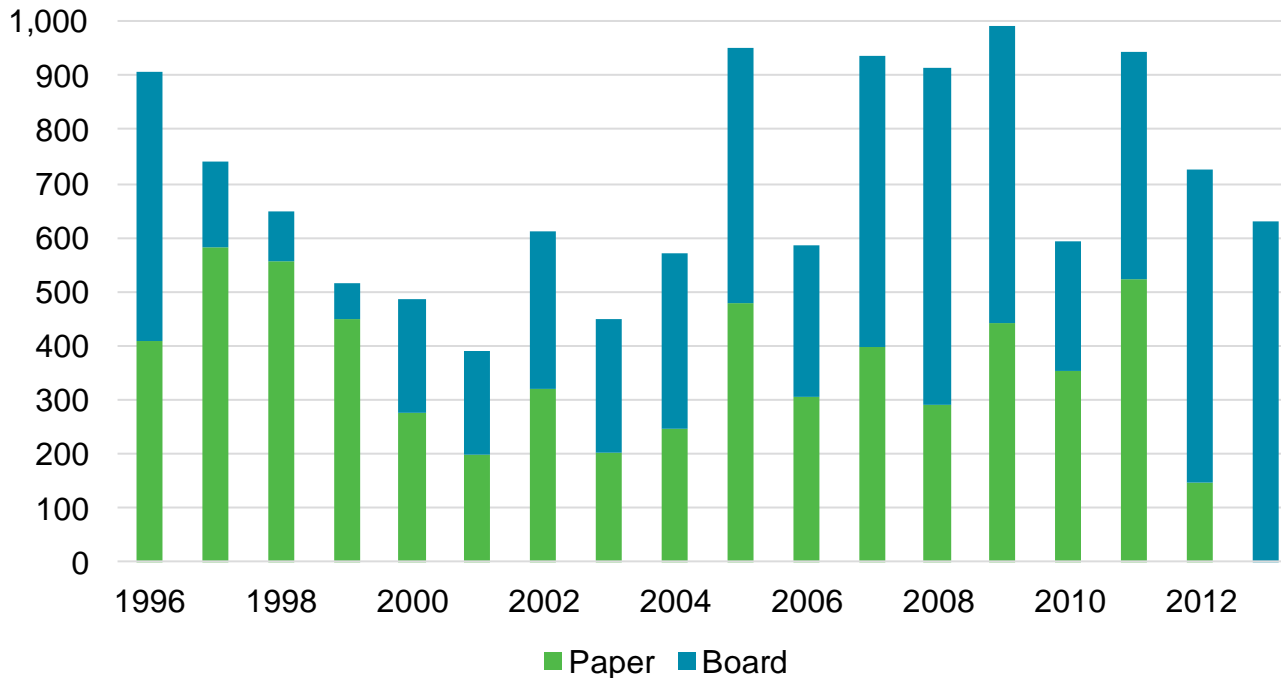
CAGR	2001-2013	2013-2025F
Containerboard	+3.4%	+2.5%
Printing & Writing	+0.5%	-0.3%
Cartonboard	+2.6%	+2.8%
Tissue	+3.1%	+3.5%
Newsprint	-2.1%	-2.6%



1) Source: RISI

Major changes in the paper and board market

Estimated net sales¹ (EUR millions)



Board machines:

Narrow, slow, and lower technology

Paper machines:

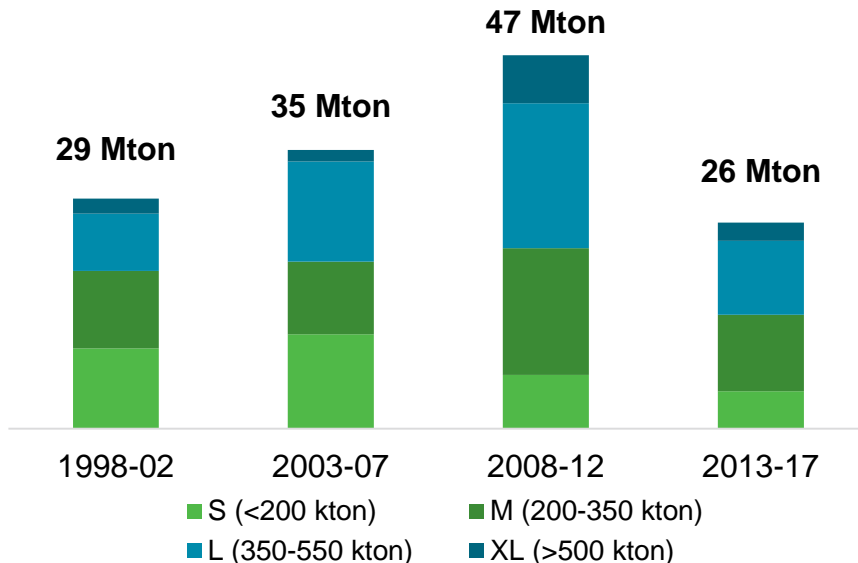
Wide, fast, and high technology

1) Company estimate based on estimated capacity by start-up year and estimated average price per ton (constant value of EUR180/ton used over time)

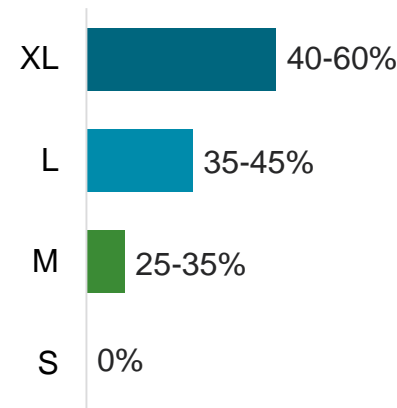
Demand has shifted more towards smaller paper and board machines

- We are focusing more on modularized and standardized solutions
- Competition is higher in smaller machines

Capacity of start-ups¹, by machine size



Valmet's market share¹, by machine size



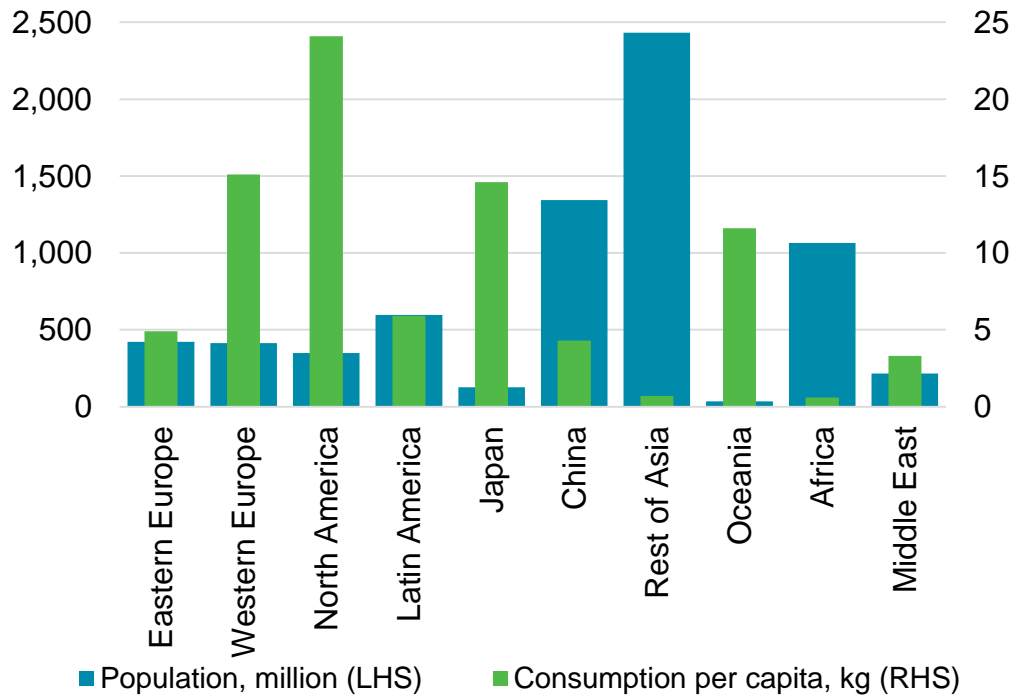
Competition is lower in larger machine sizes.

Higher number of players in smaller machines.

1) Source: Pöyry, Valmet

Tissue consumption growth trends

Tissue consumption per capita vs. population¹



Average global consumption: 4.5 kg per capita

New products and consumption models based on tissue are helping increase consumption in developed markets

Consumption in emerging markets is still low, but growing

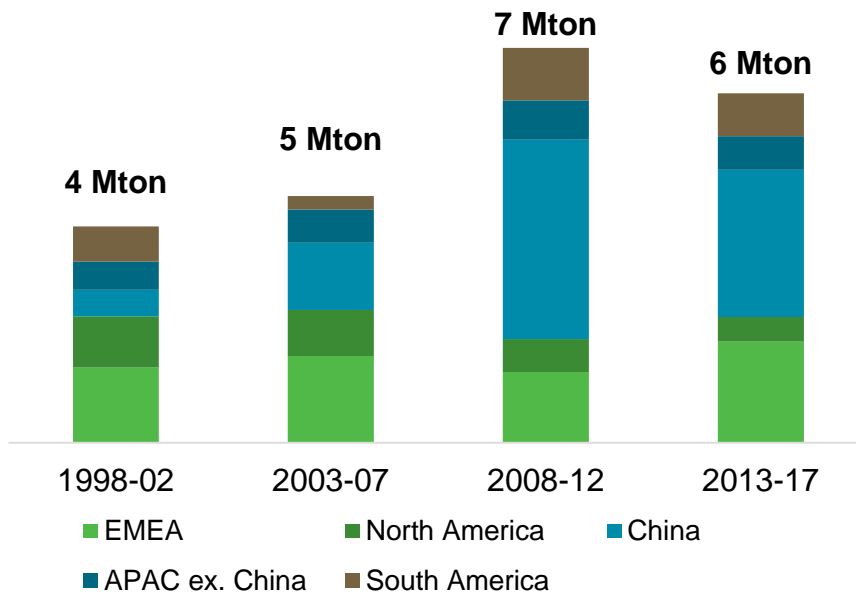
Offers us long-term growth potential in both developed and emerging markets

1) Source: PPI Annual Review 2013 (2012 figures)

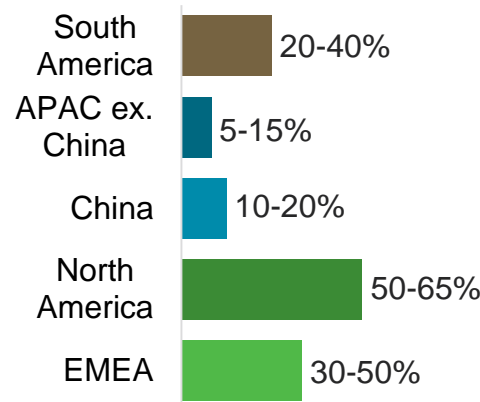
Tissue market growing long term

- Competition is high in all areas, Valmet is strongest in North America

Capacity of start-ups¹, by area



Valmet's market share¹, by area



Number of competitors is low in the Americas and EMEA.

Smaller Chinese companies present in China and Asia.

1) Source: Pöyry, Valmet



Investment highlights

Investment highlight summary

1

Established market leader with #1-2 market positions in all markets served

2

Stable, growing, and profitable **services business** with **over EUR 1 billion sales** provides good visibility and resilience

3

Long-term growth potential in capital business from increase in pulp, energy, board and tissue consumption and from substitution of fossil fuels

4

Global diversified footprint with large exposure to growing emerging markets

5

Strong **focus on profitability** improvement



Established market leader with #1-2 market positions in all markets served

Services (>EUR 1 bn)¹



Market position

Services #1-2

Large installed base

- 3,800 pulp and paper mills in the world
- Over 50% purchase services from Valmet

Capital (~EUR 1.6 bn)¹



Pulp

Pulping #1-2

- 200 wood-handling systems
- 470 cooking systems
- 300 complete fiber lines
- 400 evaporation systems
- 350 recovery islands
- 200 mechanical pulping lines



Energy

Bioenergy generation #1-2

- 270 fluidized bed boilers
- 120 BioGrate boilers
- 400 environmental protection systems



Paper

Machines

Board #1-2
Tissue #1
Paper #1-2

- 700 board machines
- 180 tissue machines
- 900 paper machines

Superior technological know-how

Consistent investments in R&D

2013: EUR 65 m (2.2% of sales)

Extensive IP portfolio

~1,800 protected inventions

>70 new products launched per year

1) Net sales in 2013 on a carve-out basis

EUR 1 billion of net sales from stable and growing services

Strong trends driving services market expansion

- Customers outsource non-core operations
- Capacity increases in China, South America and Asia-Pacific
- Customer cost pressure and efficiency requirements increase demand for process improvements and maintenance services
- Machine closures in EMEA region and North America

Large target market¹

➤ EUR 7.0 bn

- 1) Management estimate based on the size of Valmet's services markets using an average services cost per volume produced, based on Valmet's existing customers and estimates of current and forecasted growth in total production volumes
 2) Annual growth between 2010 and 2013 based on available carve-out financials

Comprehensive offering



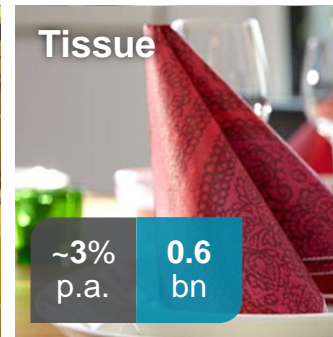
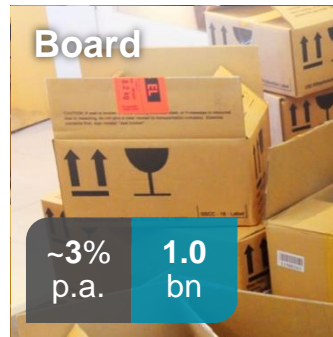
>5.6%
2010-2013
p.a.²

Valmet services
business line growth

Pulp, energy, board, and tissue capital business on long-term growth trajectory

Pulp and Energy

Paper



Demand drivers

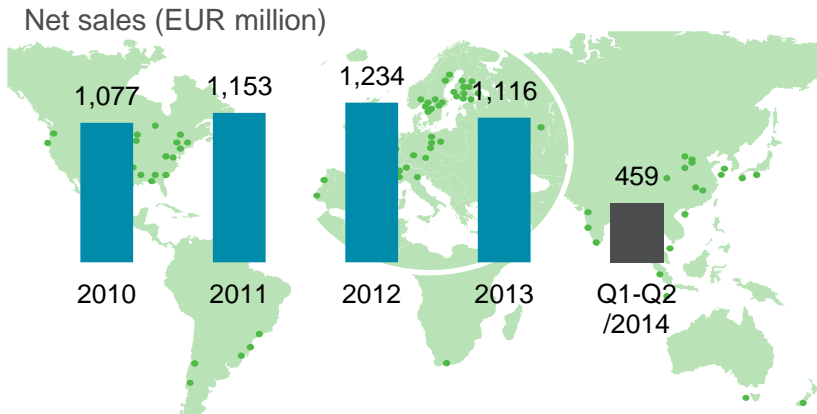
- Growth in energy consumption
- Demand for sustainable energy
- Modernization of aging plants
- Incentives and regulation
- Shale gas in North America and the recession in Europe reducing demand
- Growth in paper, board, and tissue consumption in Asia
- Need for virgin wood pulp, as recycling rates can not grow infinitely
- Increased size of pulp lines and mills
- Growth in pulping in Asia and South America
- World trade, e-commerce and emerging markets growth drive packaging
- Shift from plastic packaging to renewable materials
- Growth in emerging markets
- Rise in purchasing power and living standards in emerging markets
- Increasing role of digital media decreases demand for printing and writing papers
- Some growth in emerging markets

- Anticipated long-term market growth
- Estimated market size for current offering in 2012 (EUR)

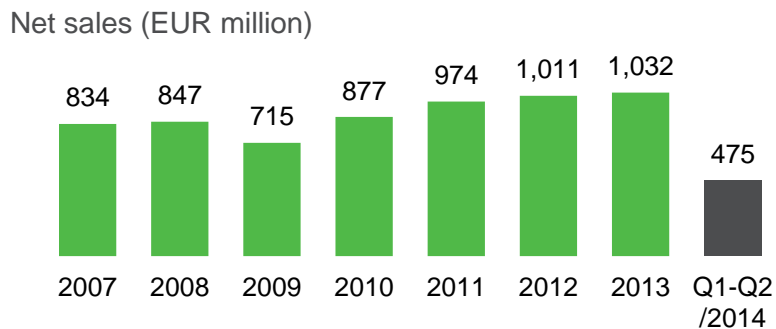
Source: Leading consulting firms, RISI, management estimates

Global diversified footprint with large exposure to growing emerging markets

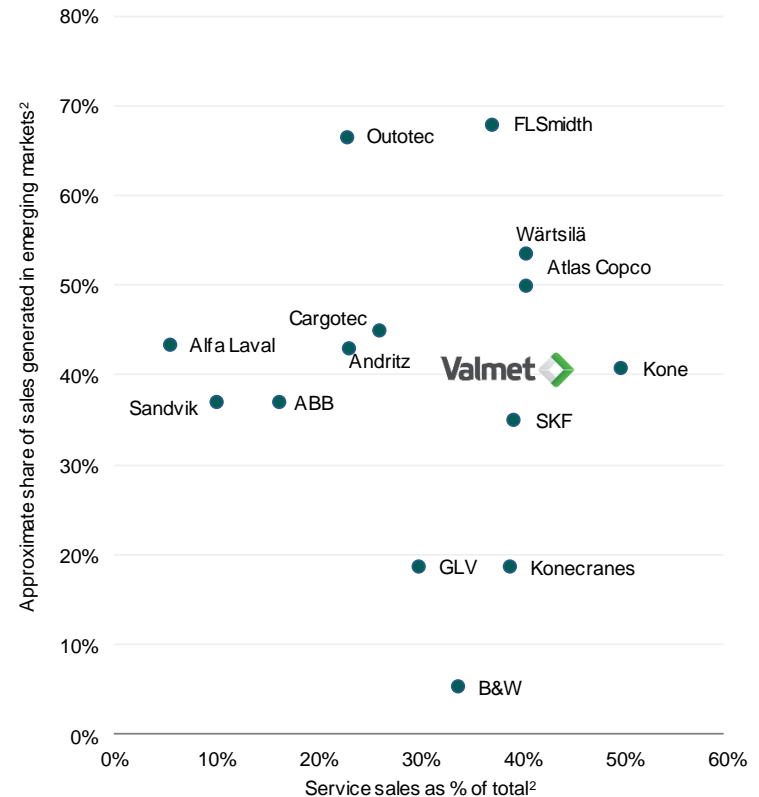
Emerging markets expansion¹



Services expansion³



Exposure to emerging markets²



- 1) Illustrative exposure to emerging markets calculated by combining net sales in following areas: Asia Pacific, China and South America. Q1-Q2/2014 figure is actual, while others are on a carve-out basis
- 2) Estimate based on latest reported annual financials and other investor relations material where geographic split and service sales / service order data is available. Estimated emerging market exposure based on company announcement (e.g. Outotec) or otherwise incl. Africa, Asia, Asia Pacific, Latin America, Middle East, South America, and depending on the reporting structure of the companies parts of 'Rest of the world' or 'Other' (the method applied may lead to potential biases in the estimate, which are thus only indicative)
- 3) Q1-Q2/2014 figure is actual. Carve-out figures for Services business line for 2010-2013; as reported for Metso Pulp, Paper and Power -segment services sales for 2007-2009

Strong focus on profitability improvement

We are addressing the current decline in the capital business



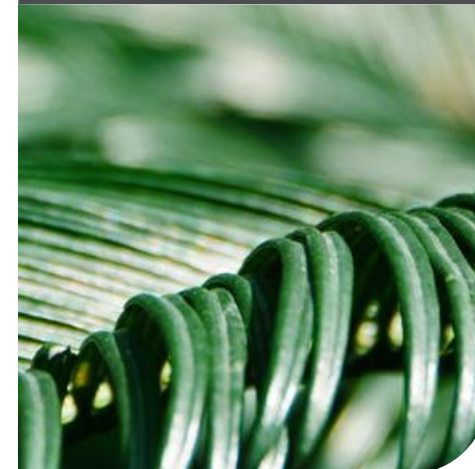
- Cost-savings program EUR 100 million by the end of 2014

Valmet is re-shaping its operations to become leaner, more flexible, and agile



- Capacity being adjusted to meet the new level of demand
- Current level of SG&A expense base to be lowered
- Additional actions to increase operational efficiency
- Target to reach historical gross margin levels

Short- to mid-term profitability improvement through cost-reduction program with clearly defined steps that take profitability towards the targeted level



Financial targets

Growth



Net sales growth to exceed market growth

Profitability



EBITA¹ before non-recurring items: 6-9%

ROCE

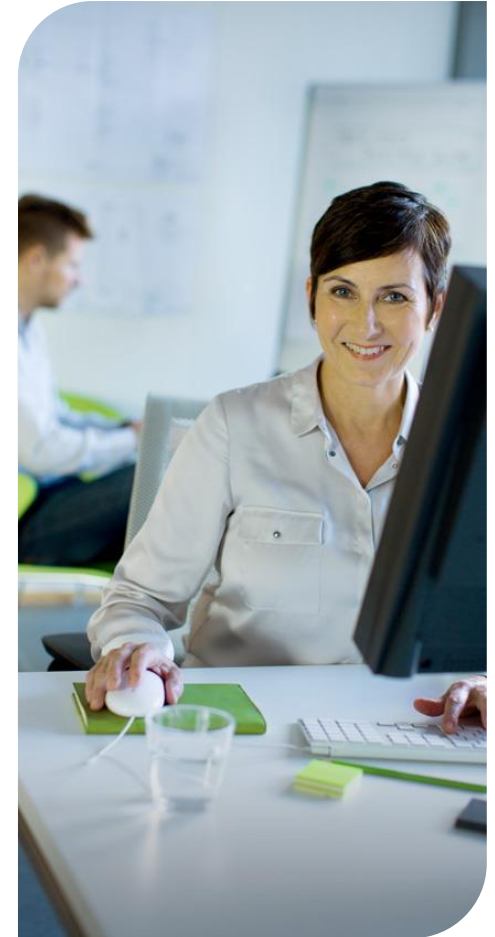


Return on capital employed (pre-tax),
ROCE²: minimum of 15%

Dividend policy



Dividend payout at least 40% of net profit



- 1) EBITA before non-recurring items = operating profit + amortization + non-recurring items
- 2) ROCE (pre-tax) = (profit before taxes + interests and other financial expenses) / (balance sheet total - non-interest-bearing liabilities)

Key Must-Win objectives to improve profitability to the targeted level of 6–9%

Improve project and service margin	Reduce quality costs and lead times	Savings in procurement	Continue to improve cost competitiveness	Improve product cost competitiveness to increase gross profit
<ul style="list-style-type: none">• Harmonization of processes• Localization of competencies• Better selection of sales cases• Development in project management	<ul style="list-style-type: none">• Common quality development approach• Quality tools and processes• Highlight the importance of quality initiatives and accountability	<ul style="list-style-type: none">• Increase sourcing from cost competitive countries• Increase use of sub-contracting• Consolidation of shipment and warehouse network	<ul style="list-style-type: none">• Focus on cost competitiveness also after the EUR 100 million program	<ul style="list-style-type: none">• Focus on cost efficient design• Modularity and standardization 



Financials

Q2/2014 in brief

Stable development in services

- Services orders received on a par with Q2/2013
- Net sales stable compared with Q2/2013

Success in orders received continued in capital business

- Orders received increased in the Paper, and Pulp and Energy business lines
- Net sales remained on a par with Q2/2013 in Pulp and Energy
- Net sales declined in Paper compared with Q2/2013

Order backlog continued to increase

- Order backlog at the end of June EUR 2,406 million – 28% higher than in Q2/2013, 22% higher than in Q1/2014, and approximately EUR 1 billion higher than at the end of 2013

Profitability improved according to plan

- EBITA margin improved compared with Q2/2013 and Q1/2014, but is still below the targeted level of 6–9%
- EBITA at last year's level, but increased compared with Q1/2014
- Profitability improvement program, targeting EUR 100 million in savings by the end of 2014, proceeding according to plan
- Operational excellence: further savings potential in procurement and quality

Strong balance sheet and good cash flow

- Net debt EUR -54 million, and gearing -7%
- Cash flow provided by operating activities EUR 46 million

1) EBITA = Earnings before interest, taxes and amortization and non-recurring items

Key figures Q2/2014

EUR million	Q2/2014	Q2/2013	Change	Q1-Q2/2014	Q1-Q2/2013	Change
Orders received	1,023	861	19%	2,124	1,372	55%
Order backlog ¹	2,406	1,883	28%	2,406	1,883	28%
Net sales	588	714	-18%	1,107	1,345	-18%
EBITA ²	22	22	-3%	26	48	-47%
% of net sales	3.7%	3.1%		2.3%	3.4%	
EBIT ³	16	5	>100%	9	24	-63%
% of net sales	2.8%	0.7%		0.8%	1.8%	
Earnings per share, EUR	0.07	0.01	>100%	0.03	0.09	-67%
Return on capital employed (ROCE), before taxes ⁴				3%	5%	
Cash flow provided by operating activities	46	-12		89	-17	
Gearing ¹				-7%	8%	

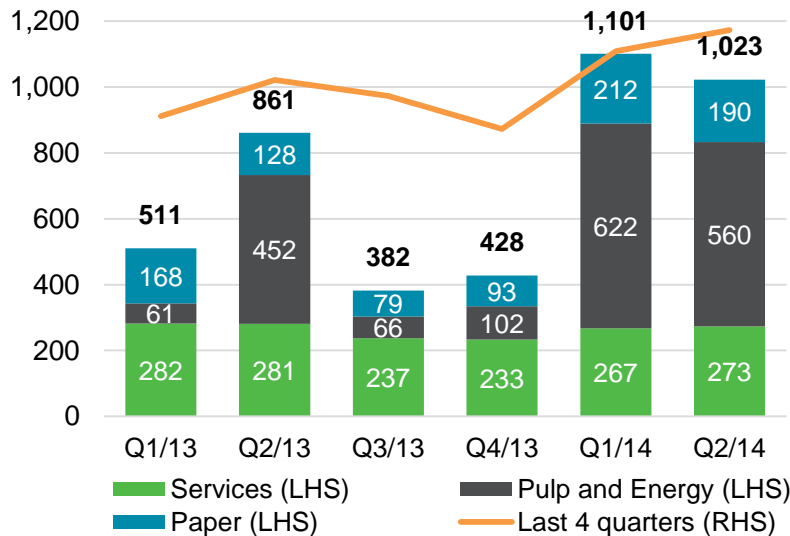
Non-recurring items: EUR 0 million in Q2/2014 (EUR -11 million in Q2/2013), EUR -6 million in Q1-Q2/2014 (EUR -11 million in Q1-Q2/2013)

- 1) At the end of period
- 2) Before non-recurring items
- 3) After non-recurring items
- 4) Annualized

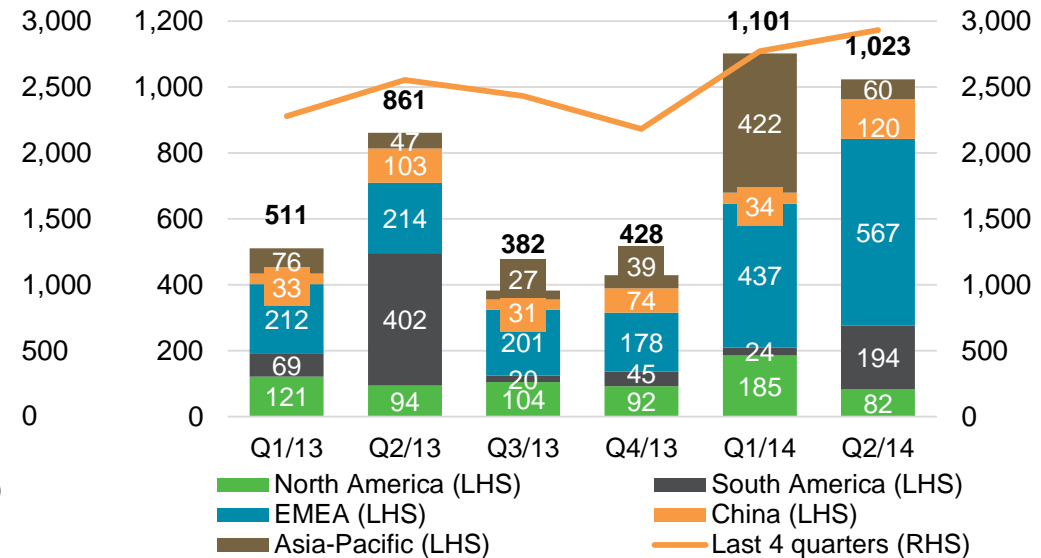
The comparison figures are based on financial carve-out data. The balance sheet and its related key figures as at December 31, 2013 are based on actual figures.

Continued strong development in orders received

Orders received (EUR million),
by business line



Orders received (EUR million),
by area



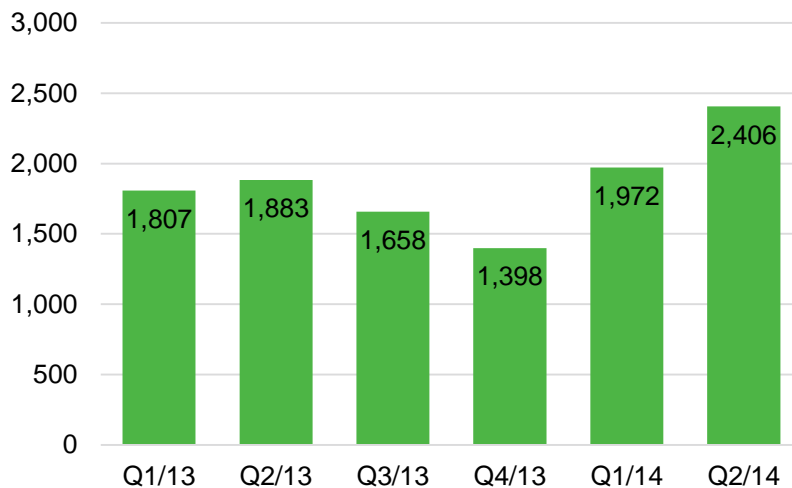
- Stable development in orders received in Services
- Good development in Pulp and Energy
- Good development in Paper
- Approximately EUR 1 billion of orders received in EMEA during the first half of 2014

Customer activity has increased in 2014

Date	Description	Business line	Country	Value
Jan 9	Prehydrolysis system (pilot scale)	Pulp and Energy	Netherlands	Not disclosed
Jan 27	Multi-fuel boiler	Pulp and Energy	Finland	Not disclosed
Jan 31	Upgrade of recovery boiler and power boiler	Pulp and Energy	Sweden and Bulgaria	Not disclosed
Feb 7	Key technology for pulp mill	Pulp and Energy	Indonesia	Approximately EUR 340 million
Feb 10	Paper machine rebuild	Paper	Austria	Not disclosed (typically above EUR 20 million)
Feb 13	Heat recovery steam generator	Pulp and Energy	Sweden	Nearly EUR 10 million
Feb 17	Bleach plant rebuild	Pulp and Energy	Portugal	Not disclosed (typically above EUR 20 million)
Feb 27	Wood-chip-fired heating plant	Pulp and Energy	Finland	Around EUR 27 million
Mar 7	Containerboard line	Paper	Vietnam	Not disclosed
Mar 19	Tissue production line	Paper	Mexico	Not disclosed (typically EUR 20-40 million)
Mar 27	CompactCooking G2 cooking plant	Pulp and Energy	Sweden	About EUR 30 million
Mar 27	Waste to energy boiler	Pulp and Energy	Sweden	Not disclosed
Apr 3	Advantage tissue production line	Paper	Turkey	Not disclosed
Apr 28	Large-scale boiler plant	Pulp and Energy	Finland	Typically one third of the total investment of EUR 260 million.
May 5	Pulp and board production lines	Paper, and Pulp and Energy	China	Around EUR 115 million
May 6	Finalized order agreement for pulp dryers	Pulp and Energy	Brazil	A project of this size and scope is typically valued at EUR 150-200 million.
May 13	Paper machine grade conversion rebuild	Paper	Finland	Around EUR 30 million
May 20	Complete boiler plant	Pulp and Energy	Hungary	About EUR 50 million
May 20	Complete boiler plant	Pulp and Energy	Czech Republic	About EUR 50 million
May 21	Part of a major pulp mill rebuild	Pulp and Energy	Thailand	Around EUR 30 million
May 21	A boiler plant	Pulp and Energy	Finland	Around EUR 30 million
Jun 3	Major rebuild and new equipment for pulp mill	Pulp and Energy	Sweden	Around EUR 200 million
Jun 16	Part of a pulp mill upgrade	Pulp and Energy	Portugal	Not disclosed
Jun 24	New sizing technology	Paper	Germany	Not disclosed
Jun 27	Complete Advantage ThruAir tissue line	Paper	USA	Not disclosed
Jul 2	Advantage DCT 200 tissue line	Paper	Middle East	Not disclosed
Jul 8	Wood chipping plant	Pulp and Energy	Sweden	Around EUR 20 million
Aug 4	Advantage NTT line	Paper	USA	Not disclosed
Aug 15	Paper machine grade conversion rebuild	Paper	Thailand	Typically valued at around EUR 20 million
Aug 18	OptiConcept M board production line	Paper	USA	Not disclosed
Aug 20	Tissue production line	Paper	Turkey	Not disclosed

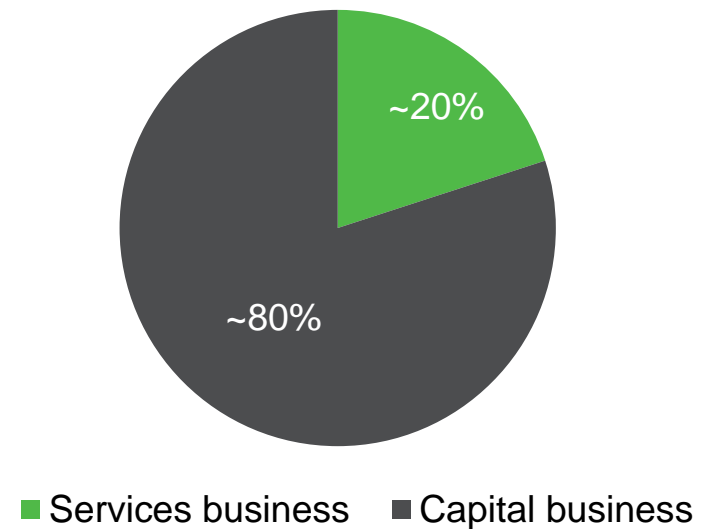
Order backlog increased by EUR 434 million compared with Q1/2014

Order backlog (EUR million)



Cancelled Fibria order of EUR 331 million excluded from Q1/2013 figures

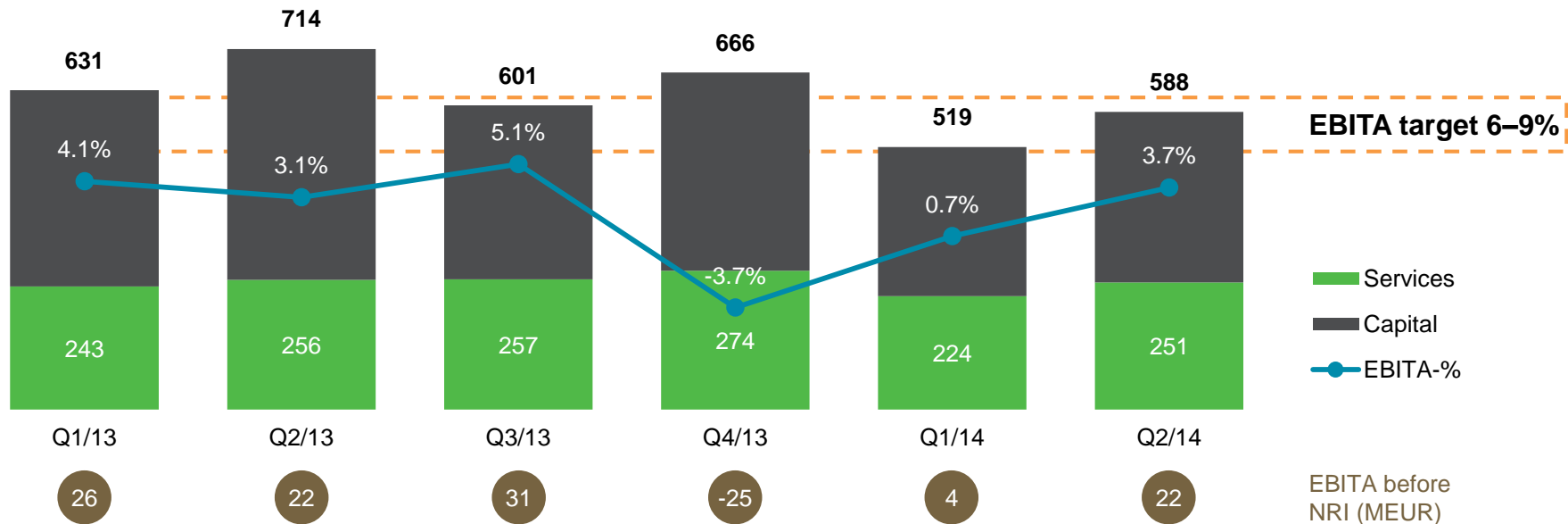
Structure of order backlog



- About 40-50% of the order backlog is currently expected to be realized as sales during 2014
- Approximately 20% of the order backlog relates to the Services business line

Net sales and profitability development

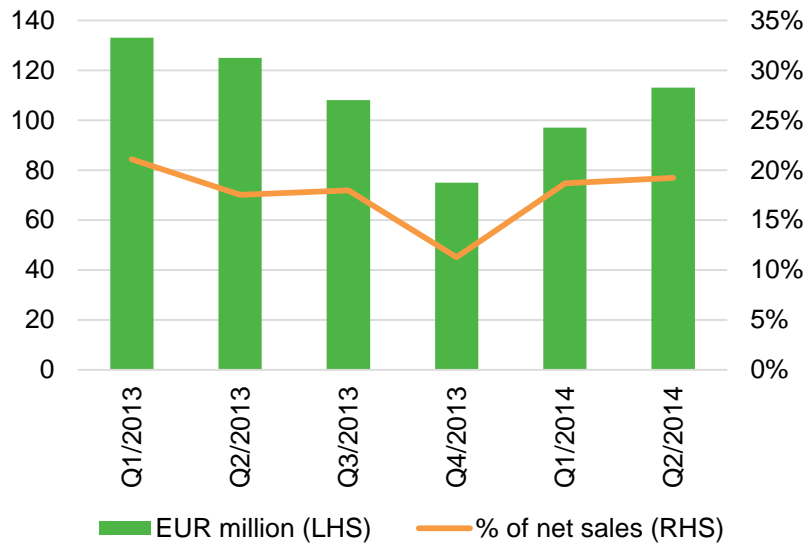
Net sales and EBITA before NRI (EUR million)



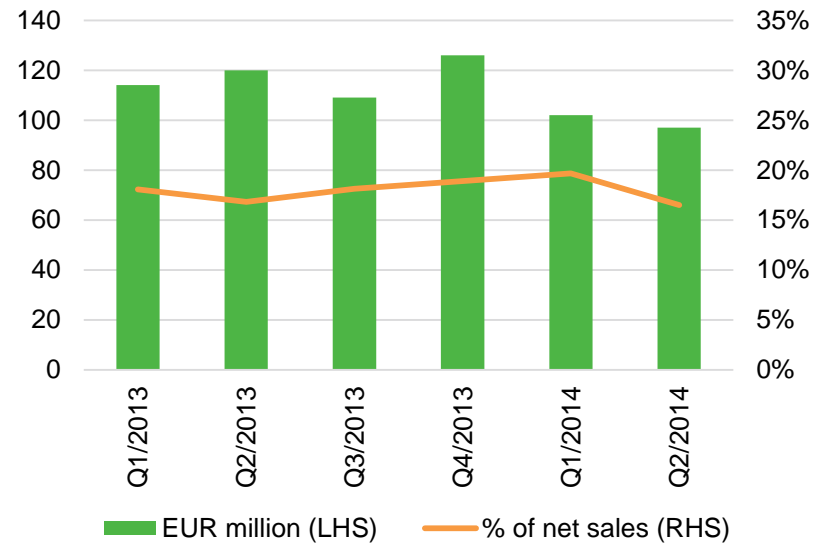
- Net sales declined compared with Q2/2013, but increased compared with Q1/2014
- Profitability improved compared with Q2/2013 and Q1/2014 due to cost savings

Profitability improvement continues to be a focus area for Valmet

Gross profit (EUR million and % of net sales)



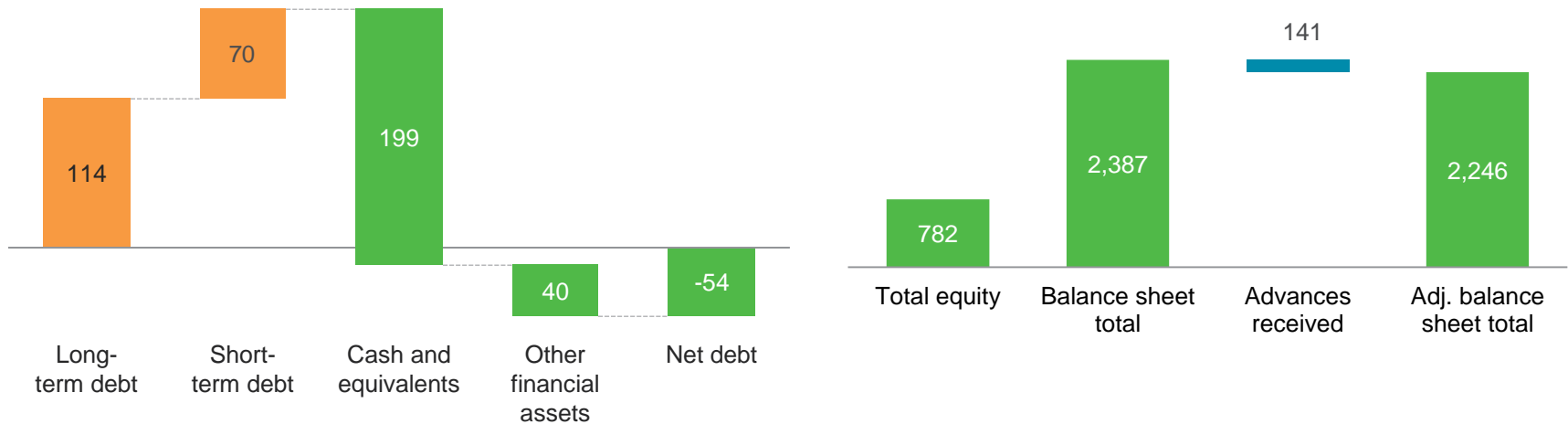
SG&A (EUR million and % of net sales)



- Full impact of savings program visible in selling, general and administrative expenses (SG&A)
- Further actions to improve gross profit through quality and procurement

Strong balance sheet to support large orders

Financial position as of June 30, 2014 (EUR million)



Net debt



EUR -54 million

Gearing



-7%

Equity ratio¹



40%

- Valmet has a strong balance sheet that enables it to participate in large projects
- Valmet has long-term liquidity in place

1) Total equity / (Balance sheet total - advances received - billings in excess of cost and earnings of projects under construction)

Guidance and short-term market outlook

Guidance for 2014 (as given on February 6, 2014)

Guidance for
2014



Valmet estimates that net sales in 2014 will decline from the 2013 level and EBITA before non-recurring items will increase in comparison with 2013

Short-term market outlook

		Q3/2013	Q4/2013	Q1/2014	Q2/2014
Services		Satisfactory	Satisfactory	Satisfactory	Satisfactory
Pulp and Energy	Pulp	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	Energy	Weak	Satisfactory	Satisfactory	Satisfactory
Paper	Board and Paper	Weak	Satisfactory	Satisfactory	Good
	Tissue	Satisfactory	Satisfactory	Satisfactory	Satisfactory



Conclusion

Summary of key messages

1

Established market leader with #1-2 market positions in all markets served

2

Stable, growing, and profitable **services business** with **over EUR 1 billion sales** provides good visibility and resilience

3

Long-term growth potential in capital business from increase in pulp, energy, board and tissue consumption and from substitution of fossil fuels

4

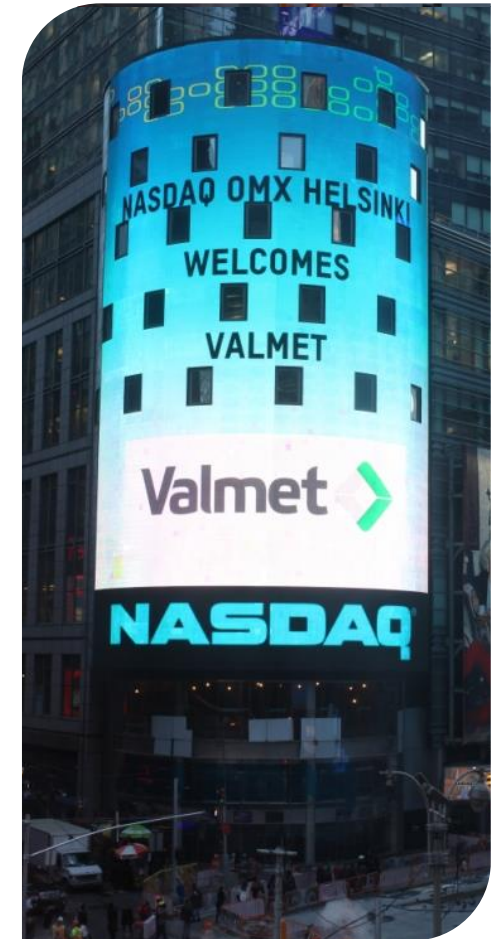
Global diversified footprint with large exposure to growing emerging markets

5

Strong **focus on profitability** improvement

6

Strong orders received in H1/2014, **profitability improved according to plan** in Q2/2014



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