

Strong development in
orders received continued
– profitability improvement
proceeding according to
plan

Interim Review,
January–June 2014

July 31, 2014

Pasi Laine, President and CEO

Markku Honkasalo, CFO

Agenda

Interim Review, January–June 2014

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- 2 Business lines' development
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Q2/2014 in brief

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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%	

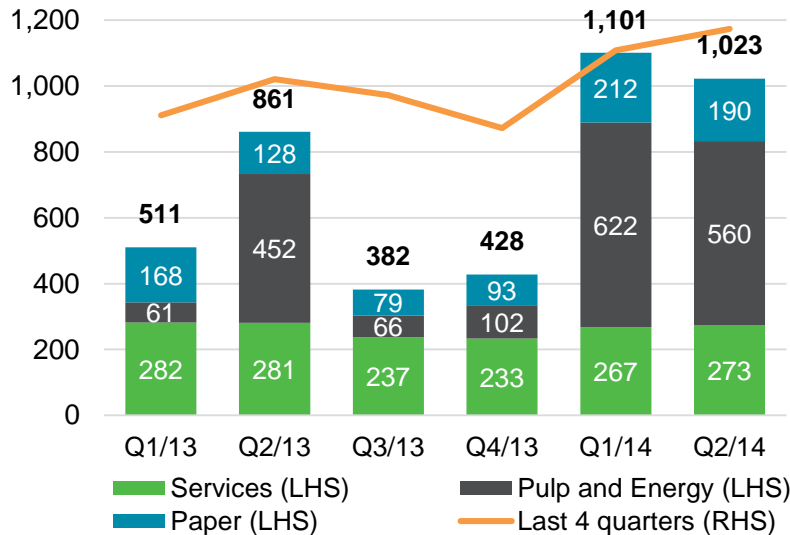
Non-recurring items: EUR 0 million in Q2/2014 (EUR -11 million in Q2/2013), EUR -6 million in Q1-Q2/2014 (EUR -11 million in Q1-Q2/2013)

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

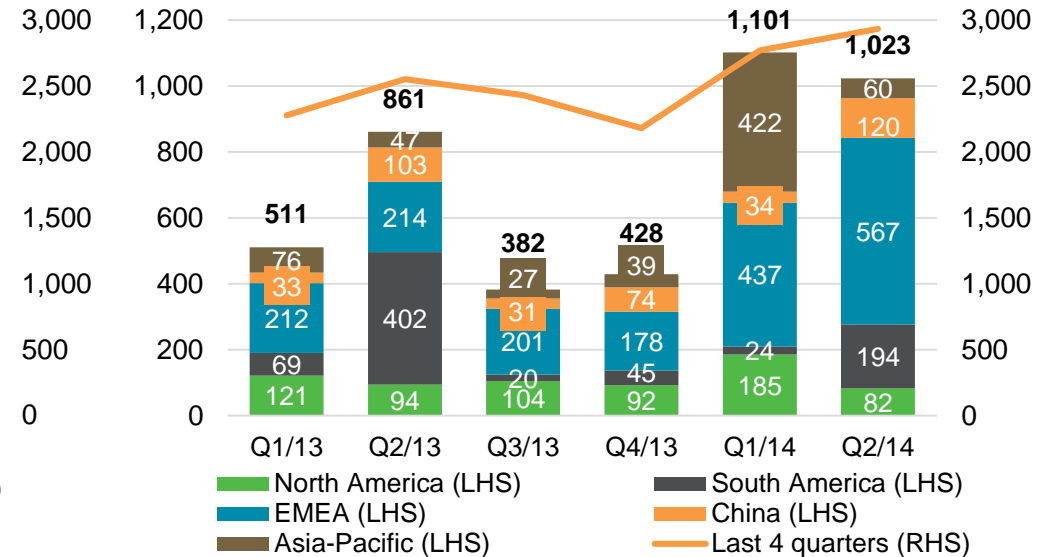
The comparison figures are based on financial carve-out data. The balance sheet and its related key figures as at December 31, 2013 are based on actual figures.

Continued strong development in orders received

Orders received (EUR million),
by business line



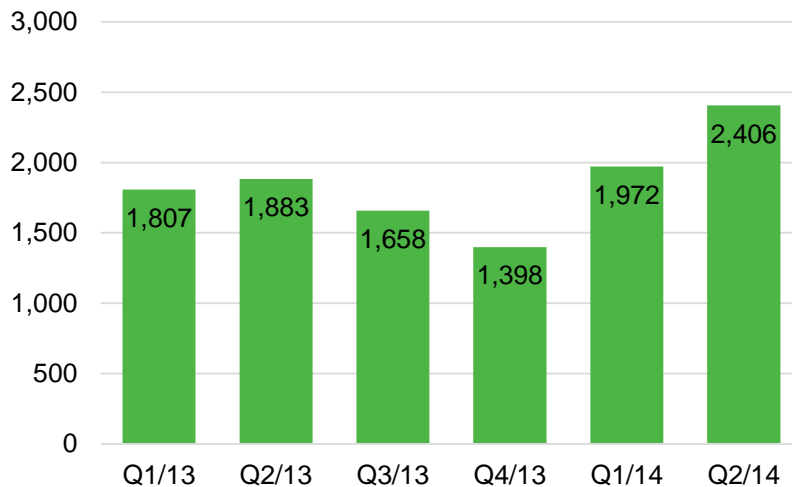
Orders received (EUR million),
by area



- 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

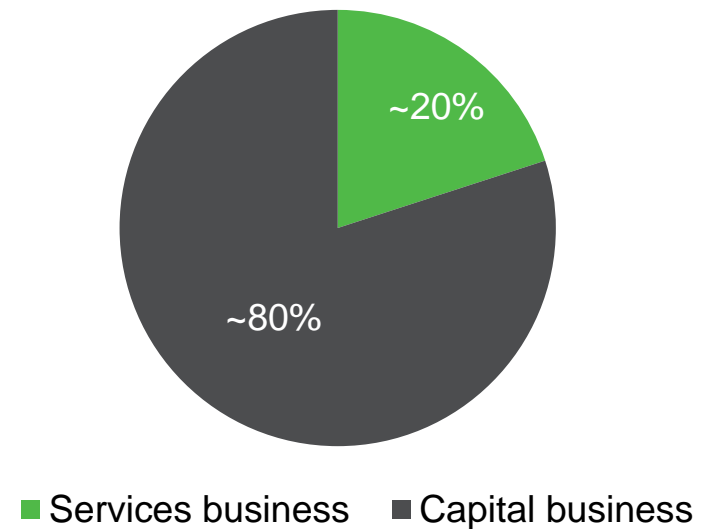
Order backlog increased by EUR 434 million compared with Q1/2014

Order backlog (EUR million)



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

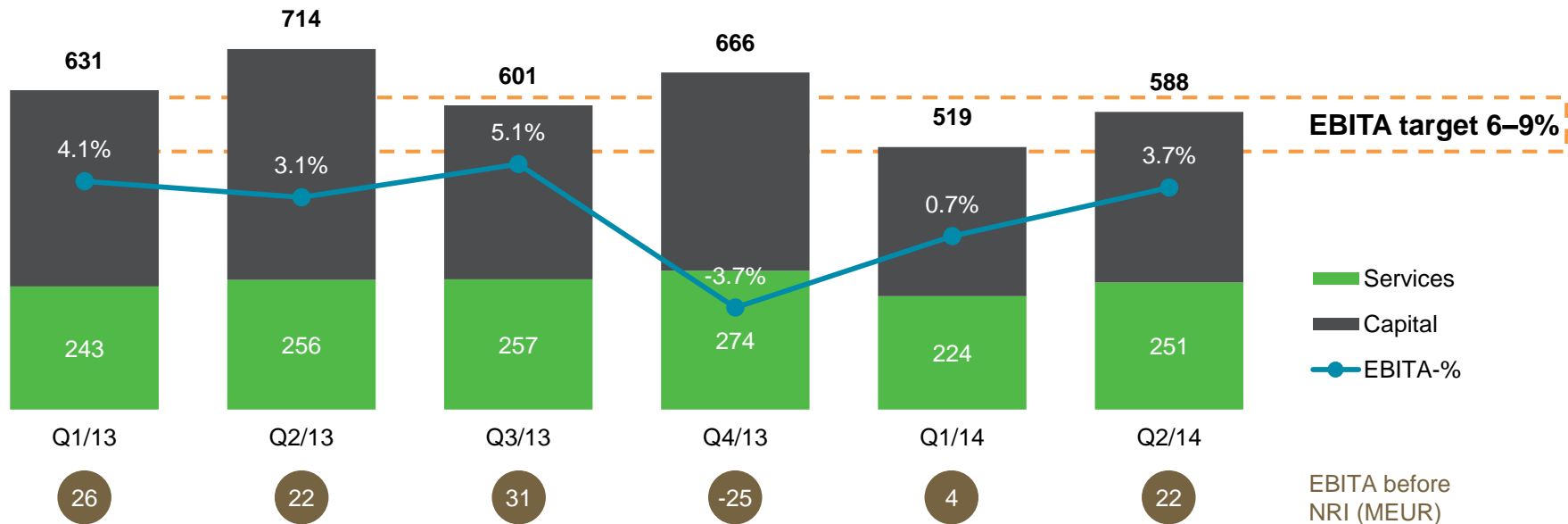
Structure of order backlog



- 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

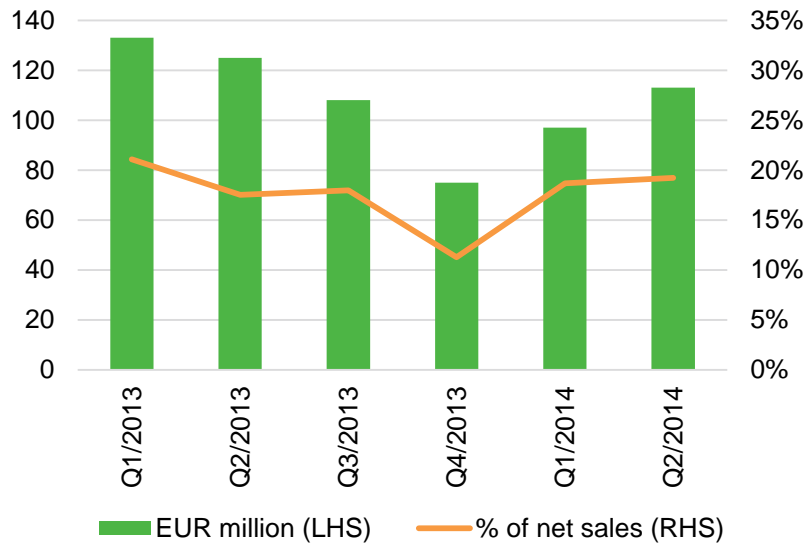
Net sales and EBITA before NRI (EUR million)



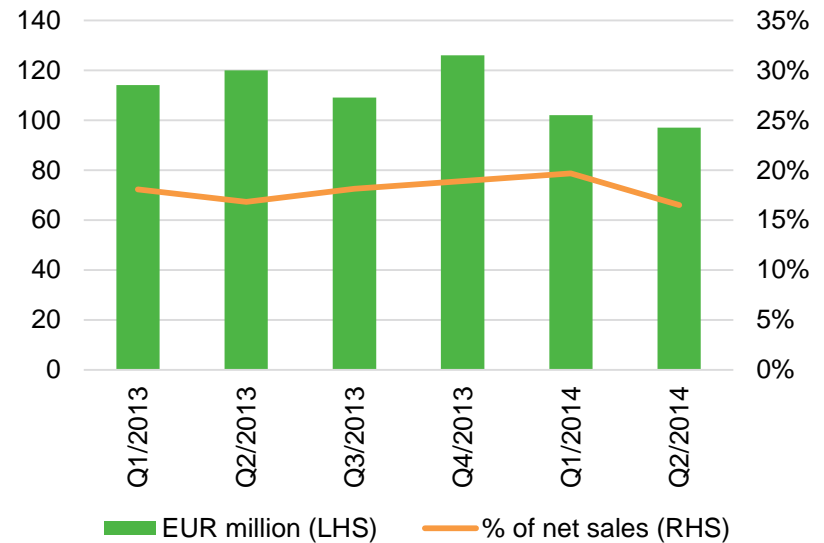
- Net sales declined compared with Q2/2013, but increased compared with Q1/2014
- Profitability improved compared with Q2/2013 and Q1/2014 due to cost savings

Profitability improvement continues to be 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

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

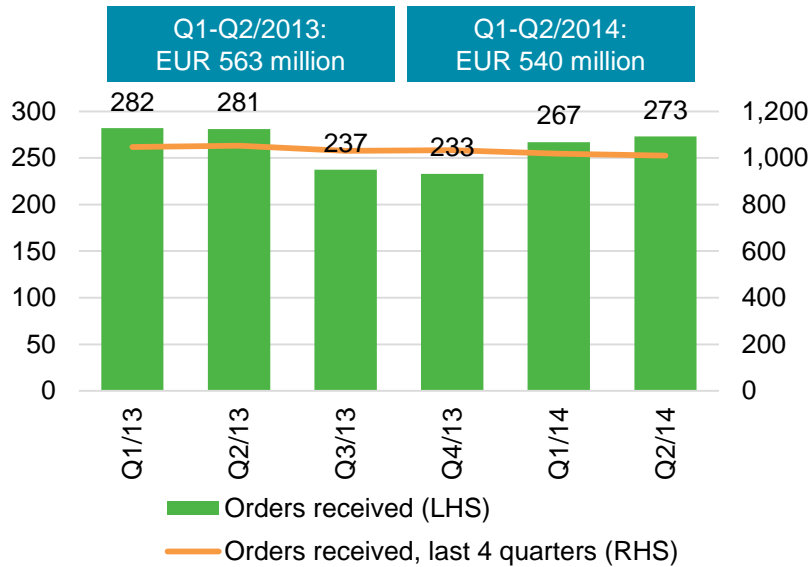
Improve project and service margin	Reduce quality costs and lead times	Savings in procurement	Continue to improve cost competitiveness	Improve product cost competitiveness to increase gross profit
<ul style="list-style-type: none">• Harmonization of processes• Localization of competencies• Better selection 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 



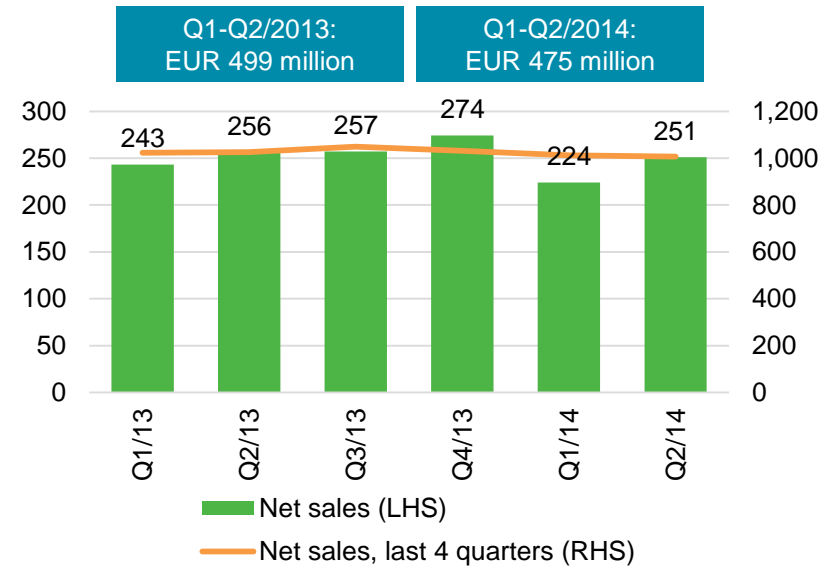
Business lines' development

Stable development in Services business line

Orders received (EUR million)



Net sales (EUR million)

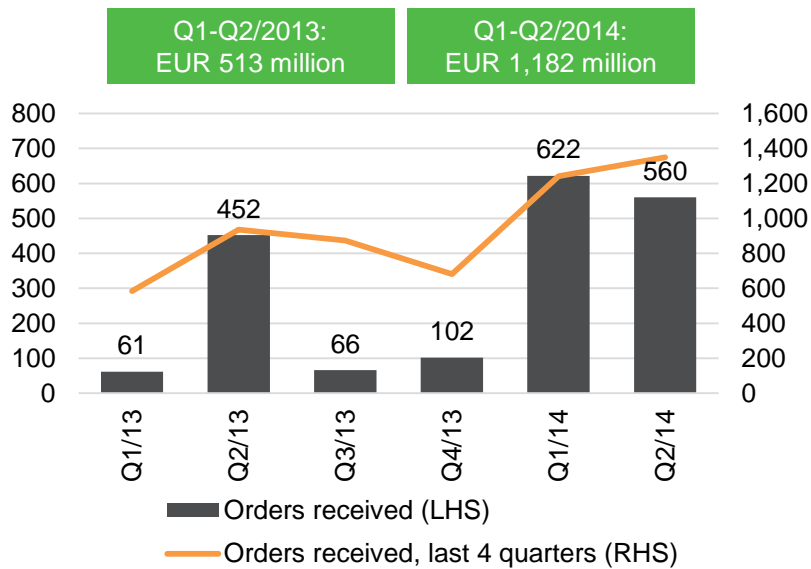


- Orders received on a par with Q2/2013
 - Orders received increased in EMEA and declined in South America and China
 - In the business units, orders received increased in Mill Improvements, and declined in Energy and Environmental, and in Fabrics
- Net sales stable compared with Q2/2013, and increased compared with Q1/2014

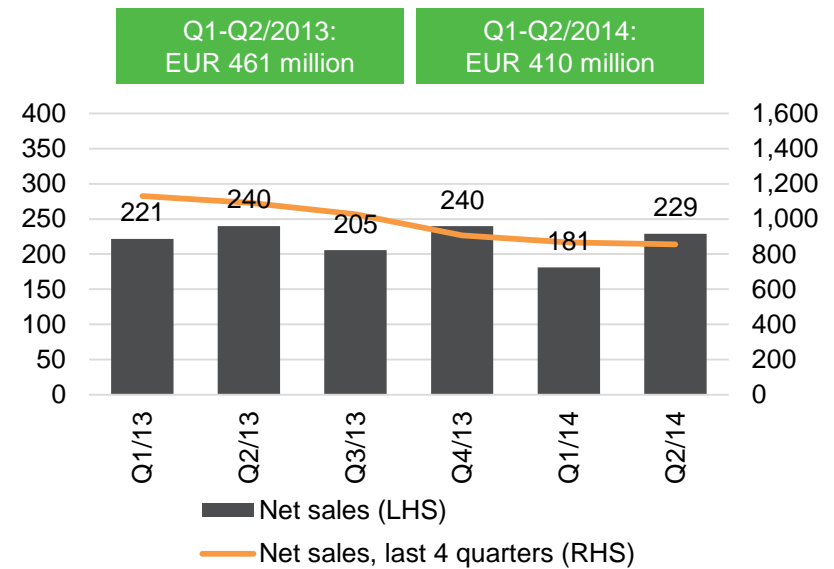


Orders received continued on a good level in Pulp and Energy

Orders received (EUR million)



Net sales (EUR million)

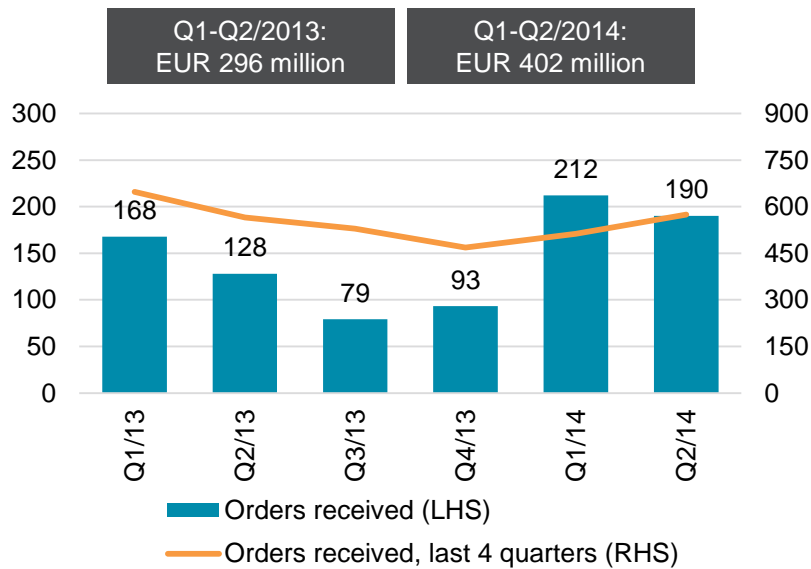


- Orders received increased 24%
 - Orders received increased especially in EMEA and Asia-Pacific and declined from the high level in Q2/2013 in South America
 - Orders received increased in Energy and remained on a good level in Pulp
- Sales remained on a par with Q2/2013, and increased compared to Q1/2014

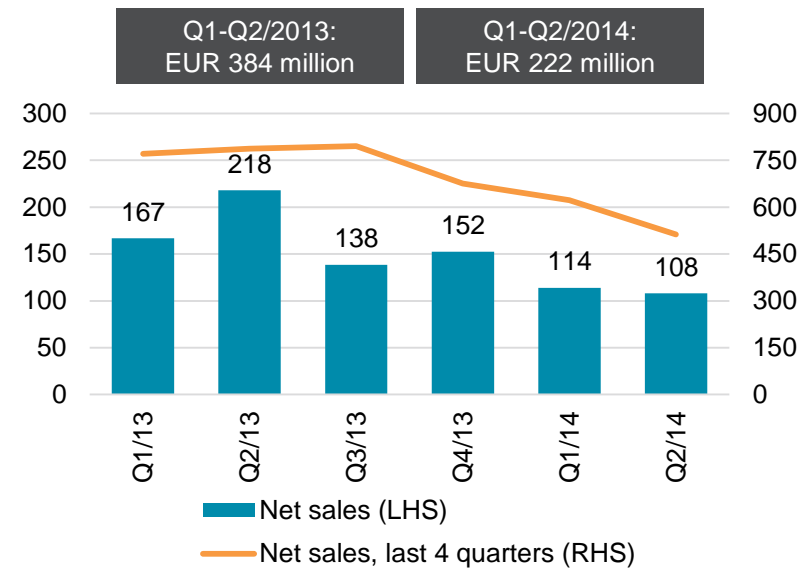


Strong development in orders received in Paper

Orders received (EUR million)



Net sales (EUR million)



- Orders received increased strongly, by 48%
 - Orders received increased in EMEA and China, and decreased in North America and Asia-Pacific
 - Orders received increased in both Board and Paper, and Tissue
- Sales declined from Q2/2013



Customer activity has increased in 2014

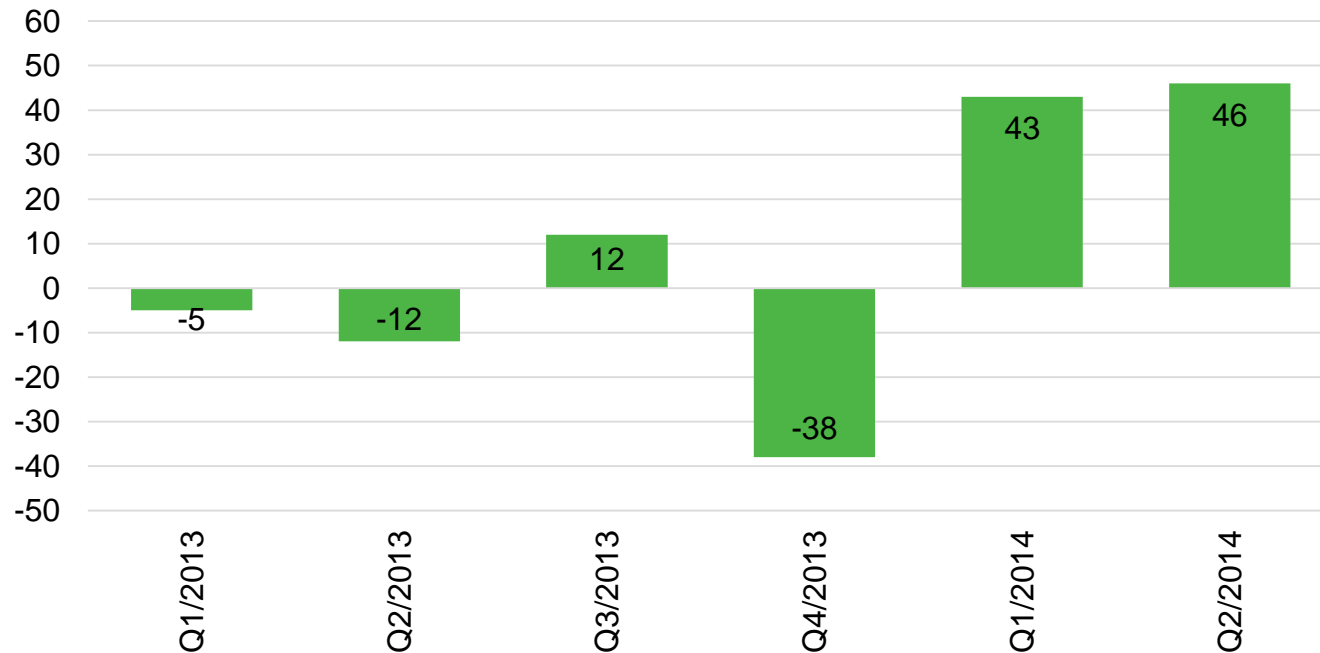
Date	Description	Business line	Country	Value
Jan 9	Prehydrolysis system (pilot scale)	Pulp and Energy	Netherlands	Not disclosed
Jan 27	Multi-fuel boiler	Pulp and Energy	Finland	Not disclosed
Jan 31	Upgrade of recovery boiler and power boiler	Pulp and Energy	Sweden and Bulgaria	Not disclosed
Feb 7	Key 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



Financial development

Positive cash flow

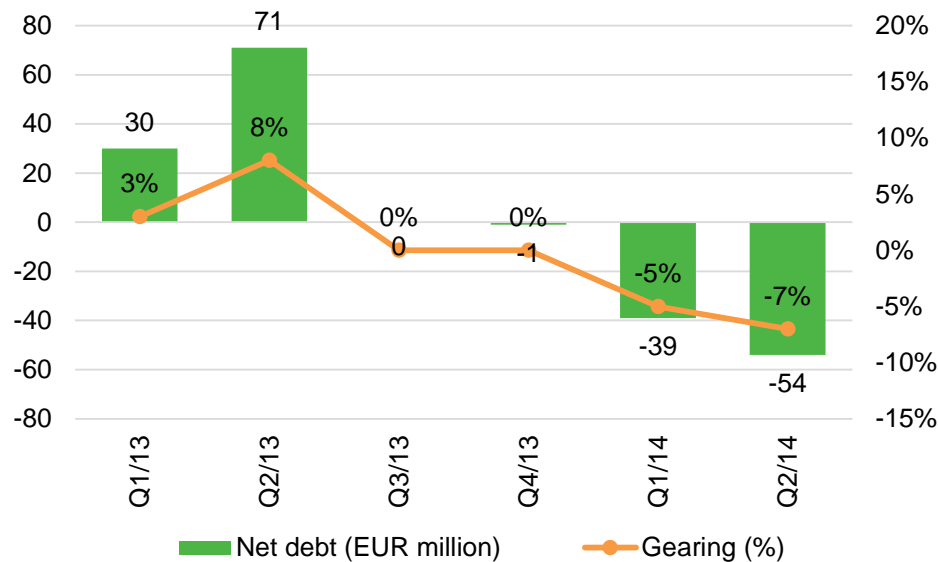
Cash flow provided by operating activities (EUR million)



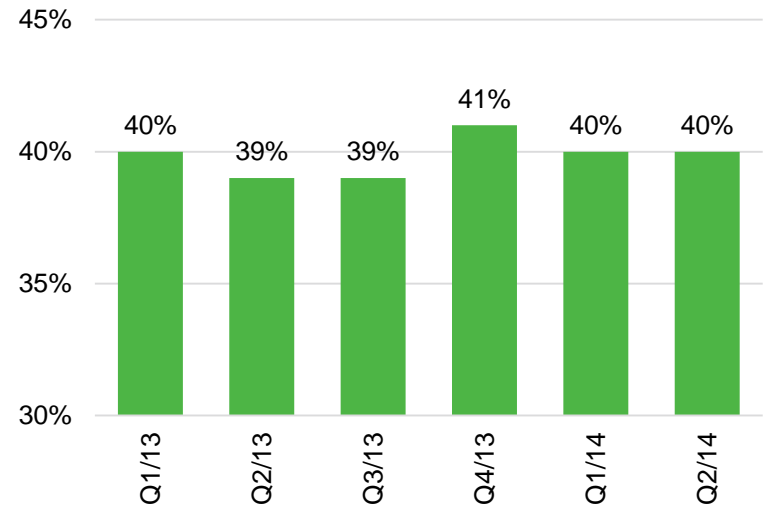
- At the end of June 2014, net working capital was EUR -249 million
- CAPEX less than depreciation

Net debt, gearing and equity ratio

Net debt (EUR million) and gearing (%)



Equity ratio (%)

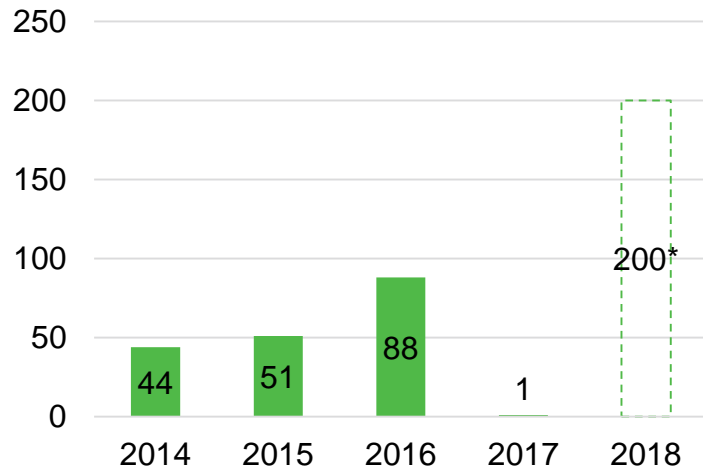


- Negative gearing (-7%) and net debt EUR -54 million

Structure of loans and borrowings

Amount of outstanding interest-bearing debt: EUR 185 million (Jun 30, 2014)

Maturity profile of interest-bearing debt (EUR millions)



*) EUR 200 million syndicated revolving credit facility, of which none is outstanding as of June 30, 2014.

- Average maturity of long-term loans is 2.7 years

Main financing sources

EUR 89 million EIB loan

- Maturing in: H2/2016

EUR 72 million bank loan

- Maturing in: H1/2016

EUR 24 million other financing sources

Back-up facilities

EUR 200 million domestic commercial paper program

- EUR 195 million undrawn

EUR 200 million syndicated revolving credit facility

- None outstanding
- Maturity: December 2018



Guidance and short-term market outlook

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



Summary of Interim Review Q2/2014

Q2/2014 in brief

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Appendix

Largest shareholders on June 30, 2014

Based on the information given by Euroclear Finland Ltd.

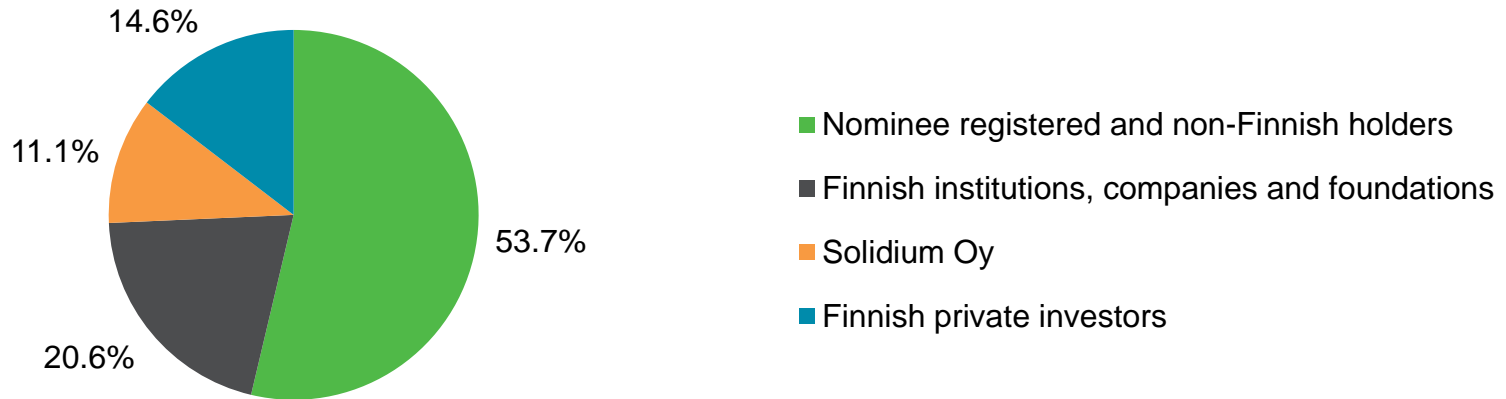
Largest shareholders

#	Shareholder name	Number of shares	% of shares and votes
1	Solidium Oy ¹	16,695,287	11.14%
2	Ilmarinen Mutual Pension Insurance Company	4,292,126	2.86%
3	Nordea Nordenfonden	3,327,700	2.22%
4	Varma Mutual Pension Insurance Company	2,908,465	1.94%
5	Nordea Funds	2,281,050	1.52%
6	The State Pension Fund	1,720,000	1.15%
7	Keva	1,543,015	1.03%
8	Mandatum Life Insurance Company Limited	1,400,307	0.93%
9	Skagen Global Verdipapirfond	882,429	0.59%
10	OP Funds	789,950	0.53%
	10 largest shareholders, total	35,840,329	23.92%
	Other shareholders	114,024,290	76.08%
	Total	149,864,619	100.00%

Cevian Capital II Master Fund L.P. has announced that as of March 10, Cevian Capital Partners Ltd. holds a total of 20,813,714 shares which corresponds to 13.89% of Valmet shares.

1) A holding company that is wholly owned by the Finnish State

Ownership structure on June 30, 2014

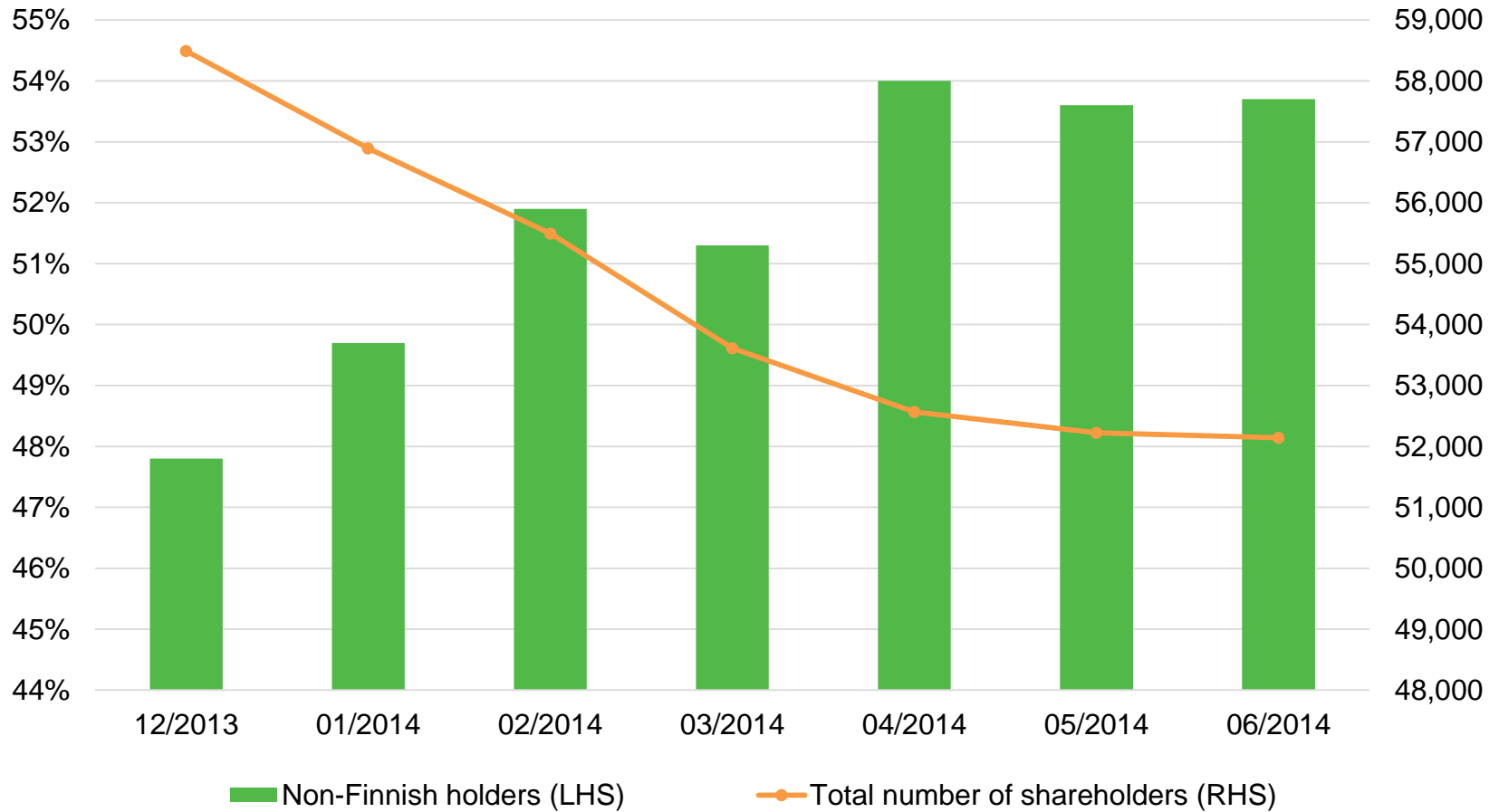


Sector	Number of shareholders	% of total shareholders	Number of shares	% of shares
Nominee registered and non-Finnish holders	328	0.6%	80,480,738	53.7%
Finnish institutions, companies and foundations	3,137	6.0%	30,817,477	20.6%
Solidium Oy ¹	0	0.0%	16,695,287	11.1%
Finnish private investors	48,678	93.4%	21,871,117	14.6%
Total	52,143	100.00%	149,864,619	100.0%

The ownership structure is based on the classification of sectors determined by Statistics Finland.

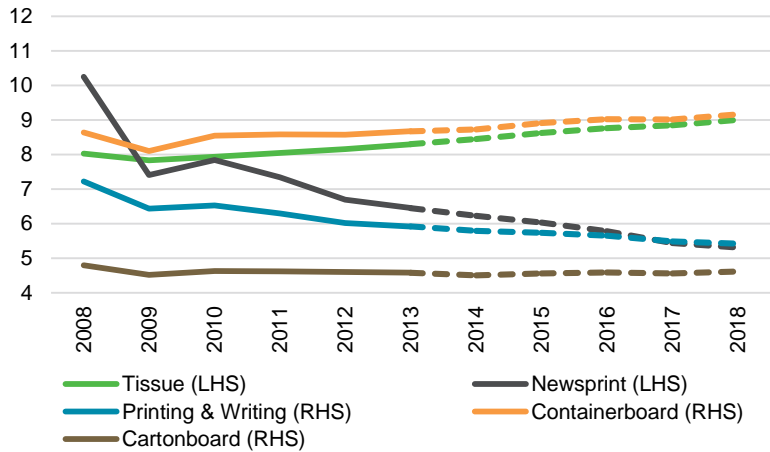
1) A holding company that is wholly owned by the Finnish State

Share of non-Finnish holders and number of shareholders

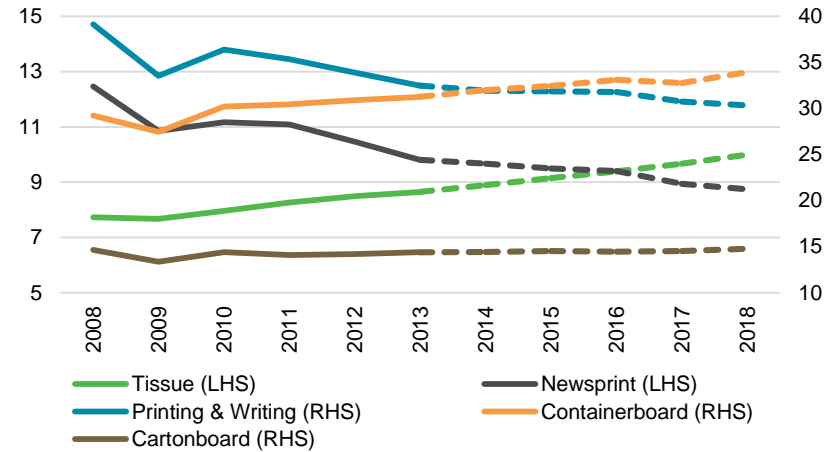


Paper, board, and tissue production trends

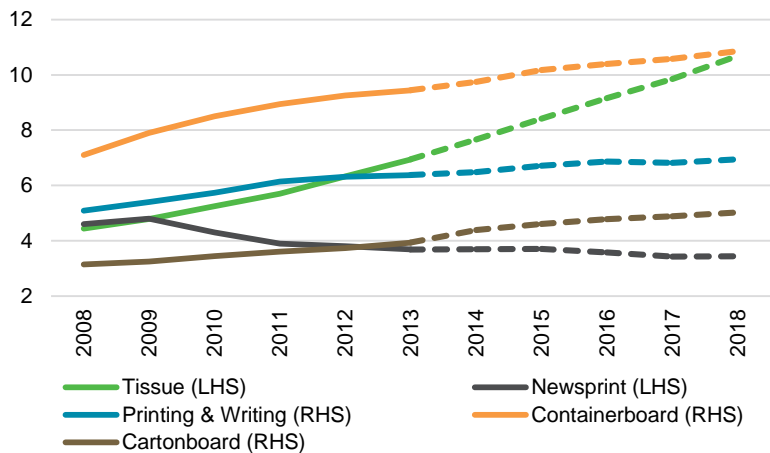
North America (million tonnes)



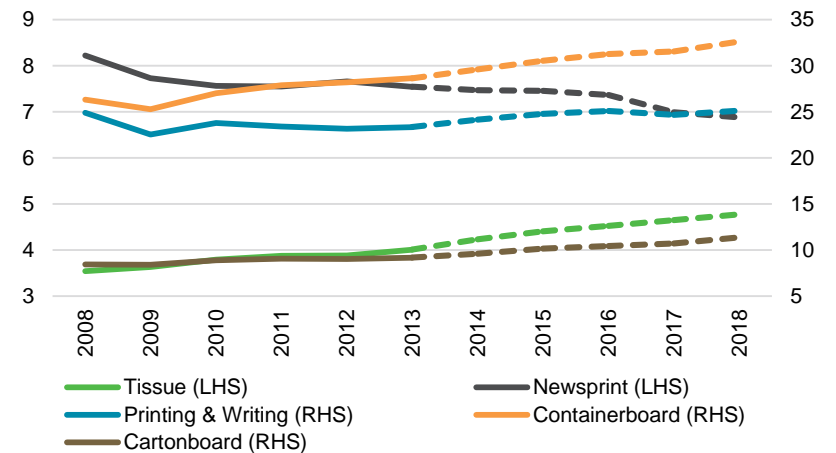
Europe (million tonnes)



China (million tonnes)



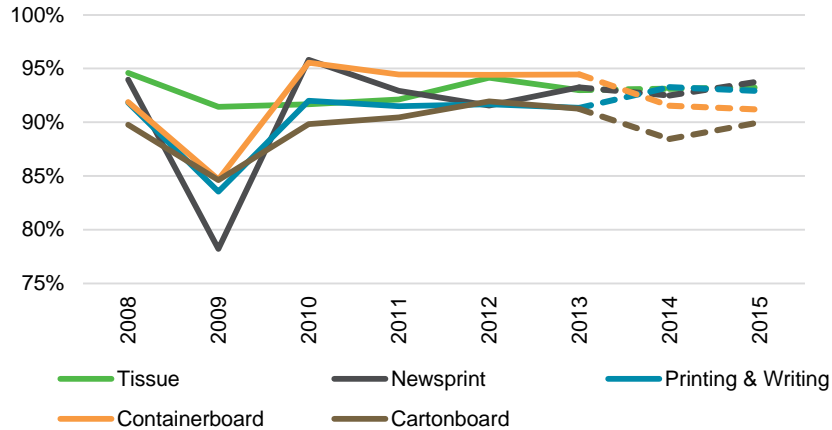
Asia-Pacific (million tonnes)



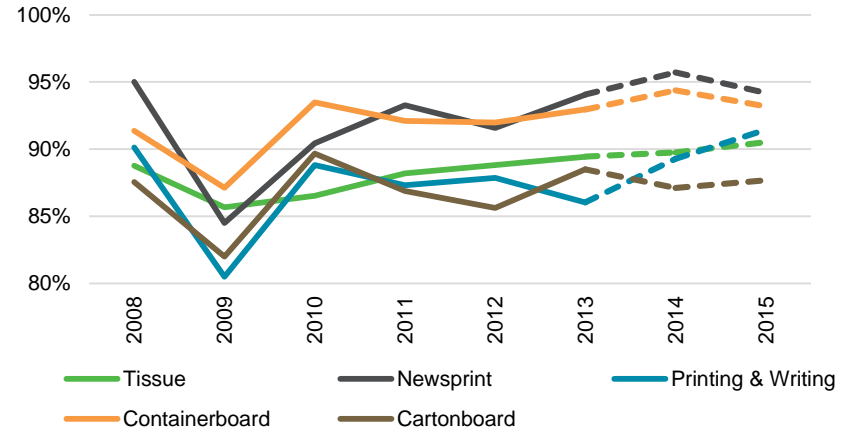
Source: RISI

Paper, board, and tissue operating rates

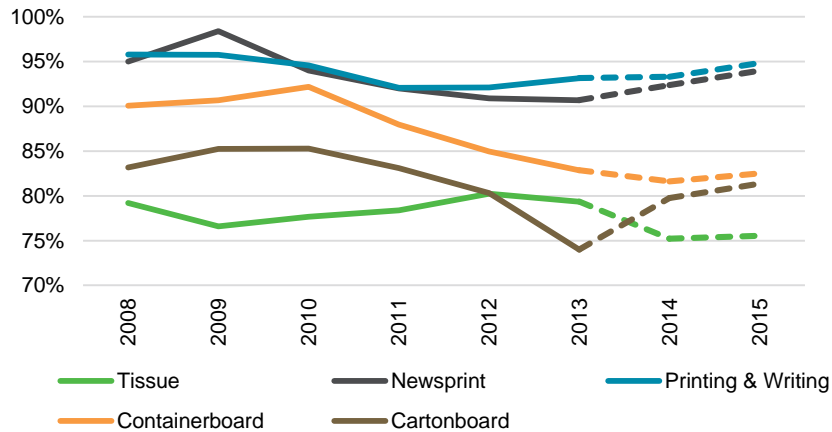
North America



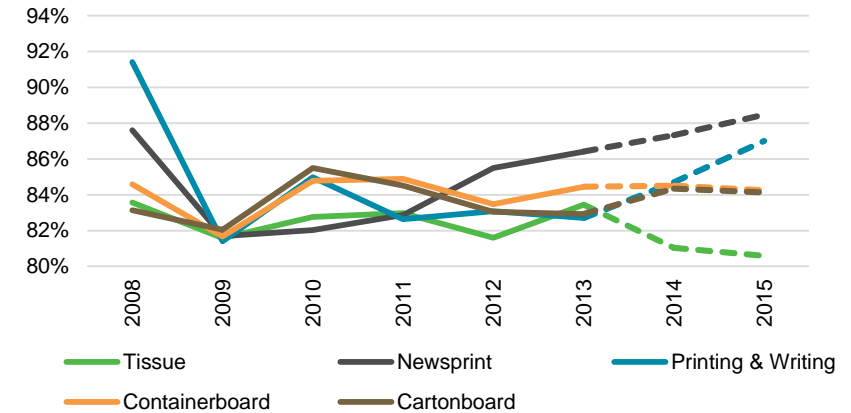
Europe



China



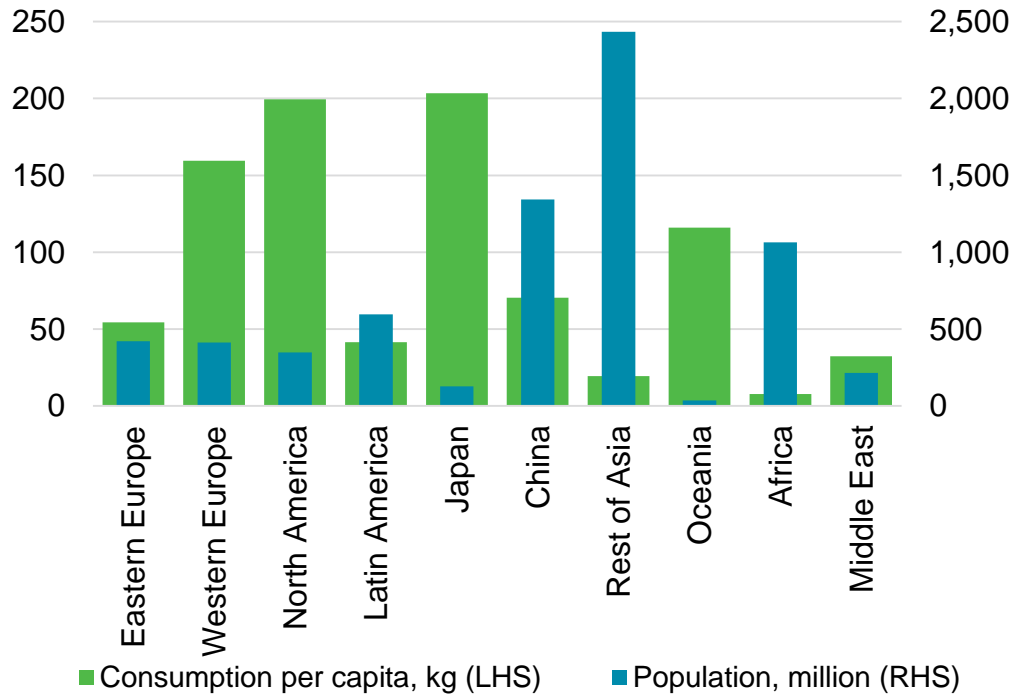
Asia-Pacific



Source: RISI

Paper and board consumption growth trends

Paper and board consumption per capita vs. population



Population growth in emerging markets is larger than in developed markets

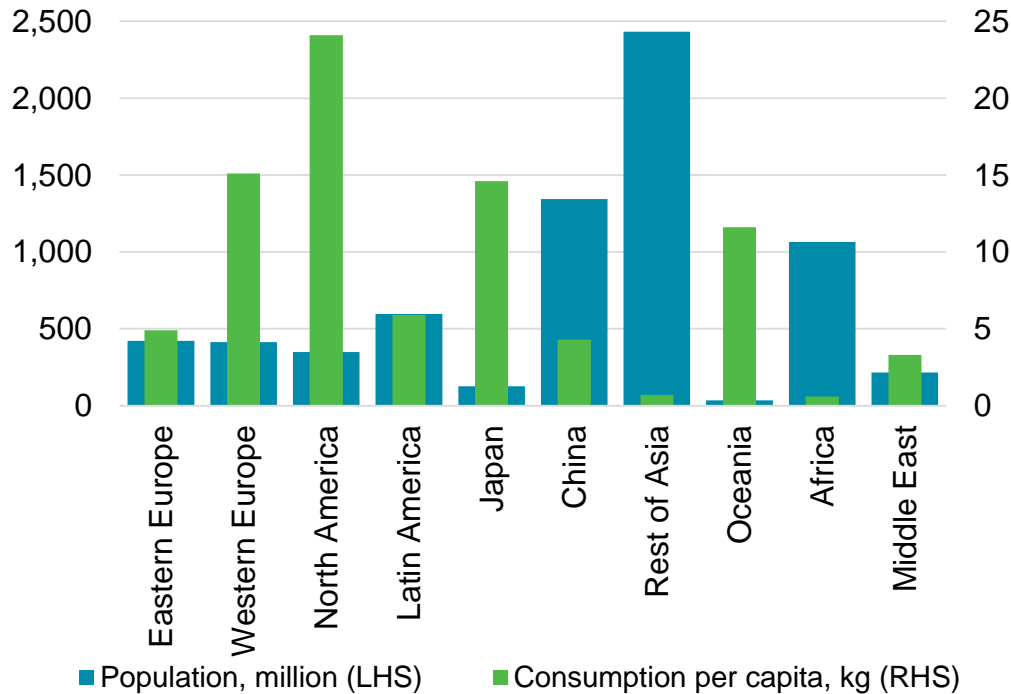
Level of consumption per capita in emerging markets clearly below that in developed markets

This offers us long-term growth potential

Average global consumption: 53 kg per capita

Tissue consumption growth trends

Tissue consumption per capita vs. population



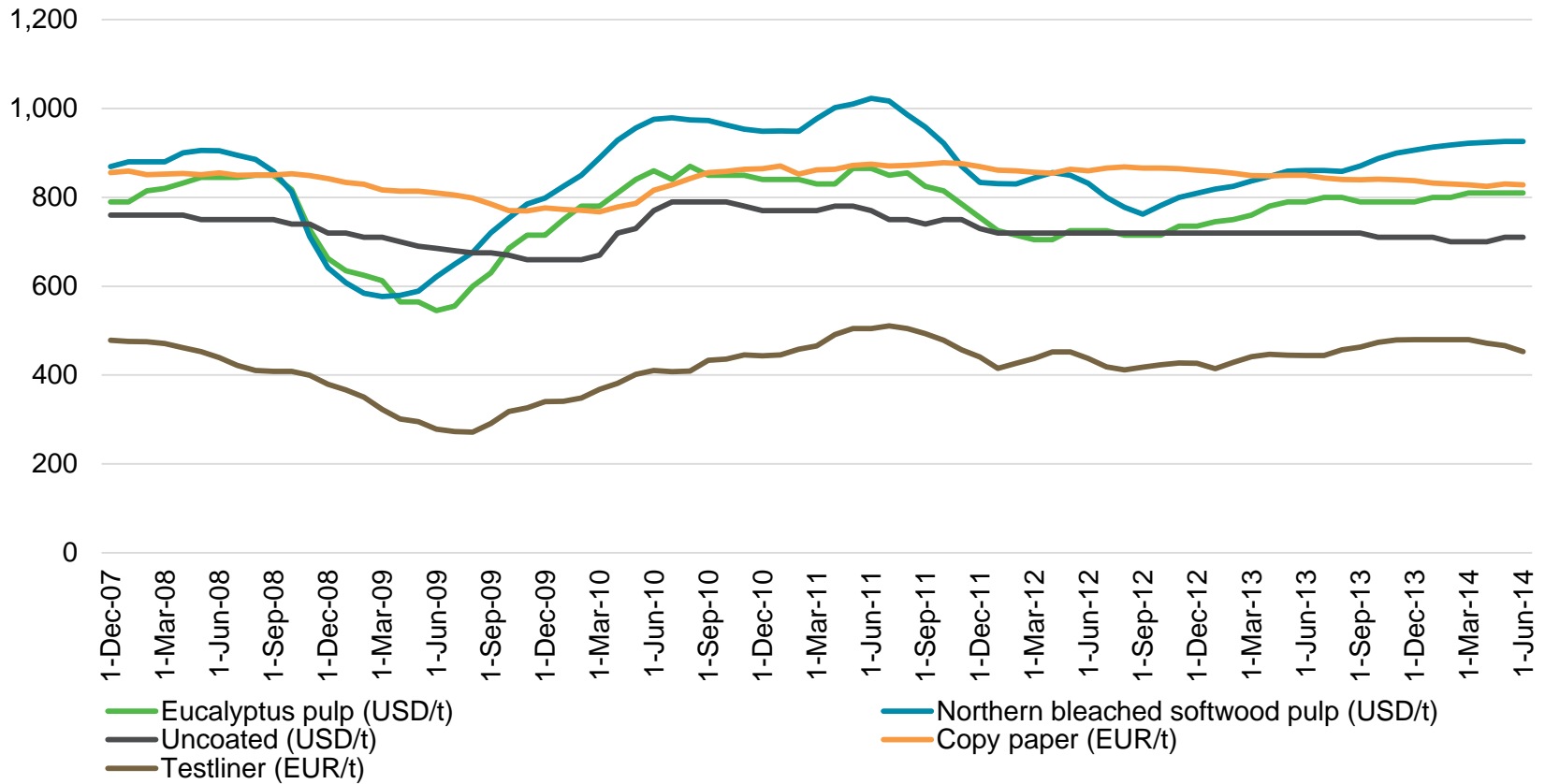
Average global consumption: 4.5 kg per capita

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

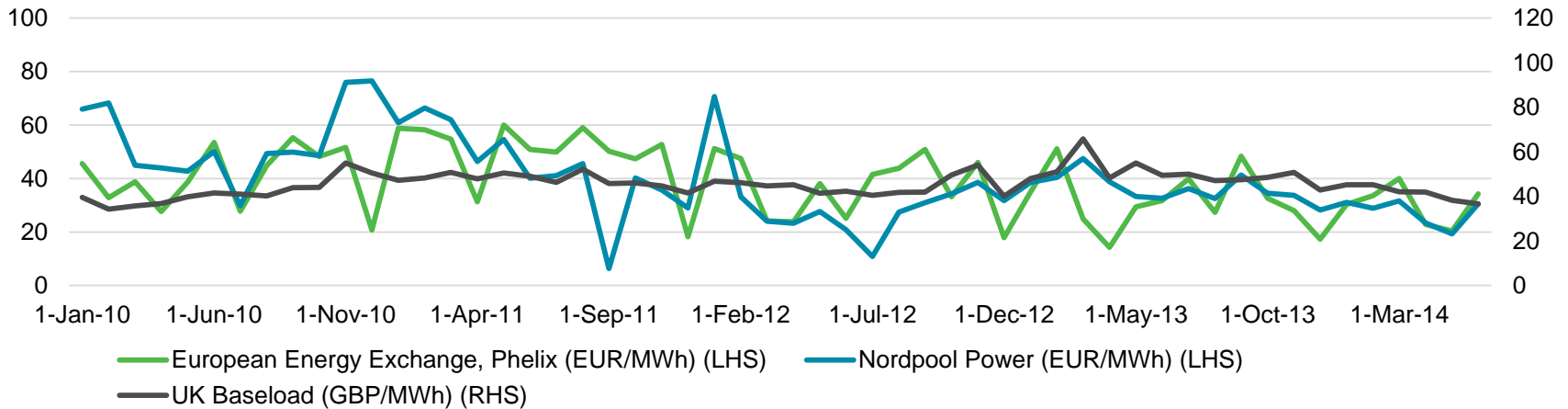
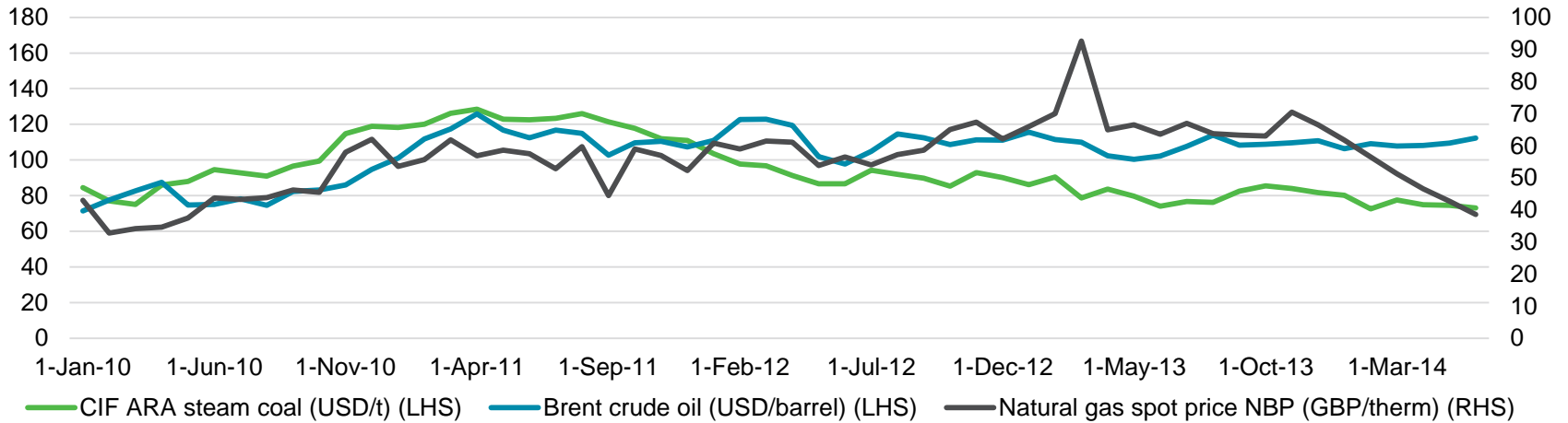
Pulp and paper price trends



Source: Bloomberg

Crude oil, steam coal, natural gas and electricity

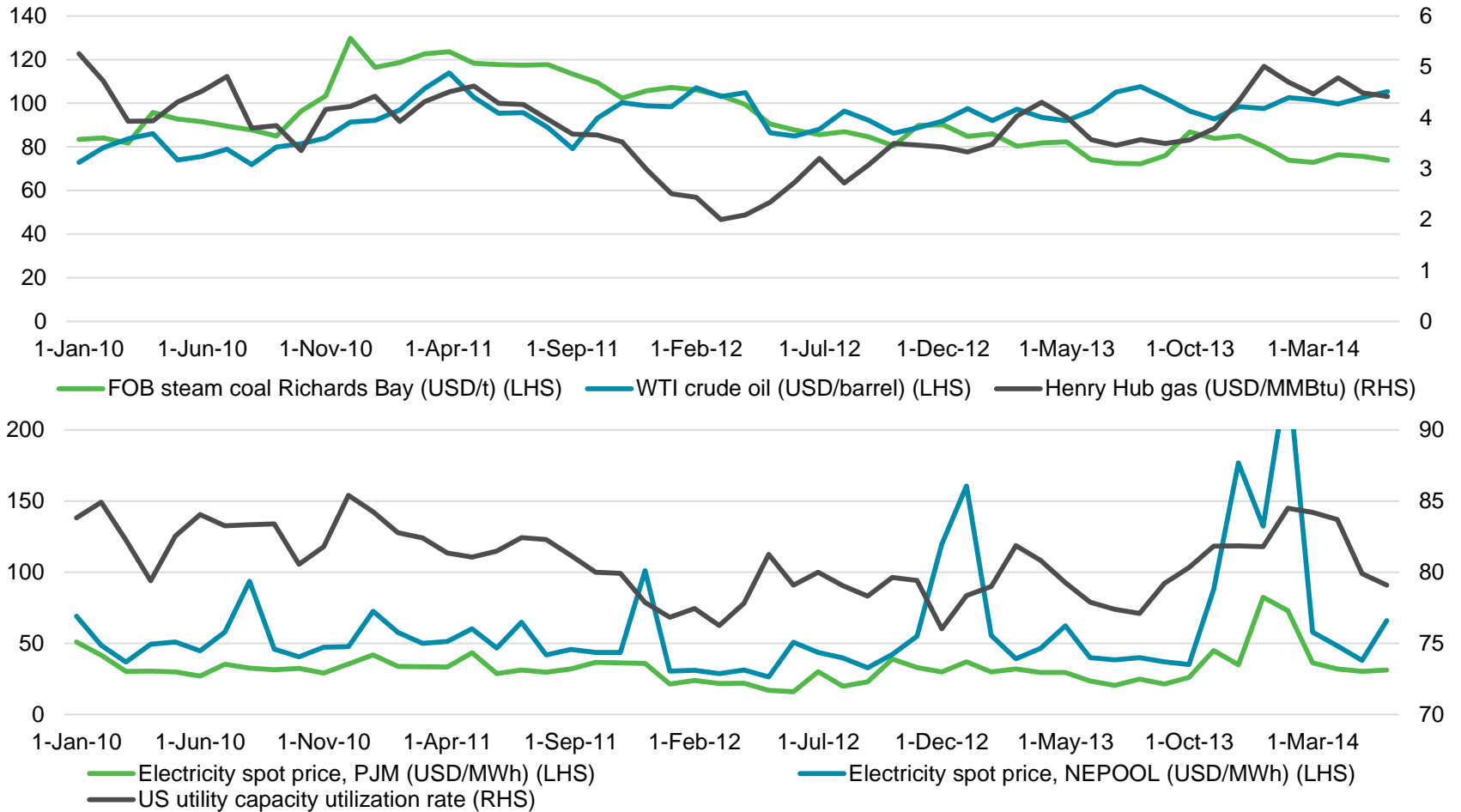
Europe



Source: Bloomberg

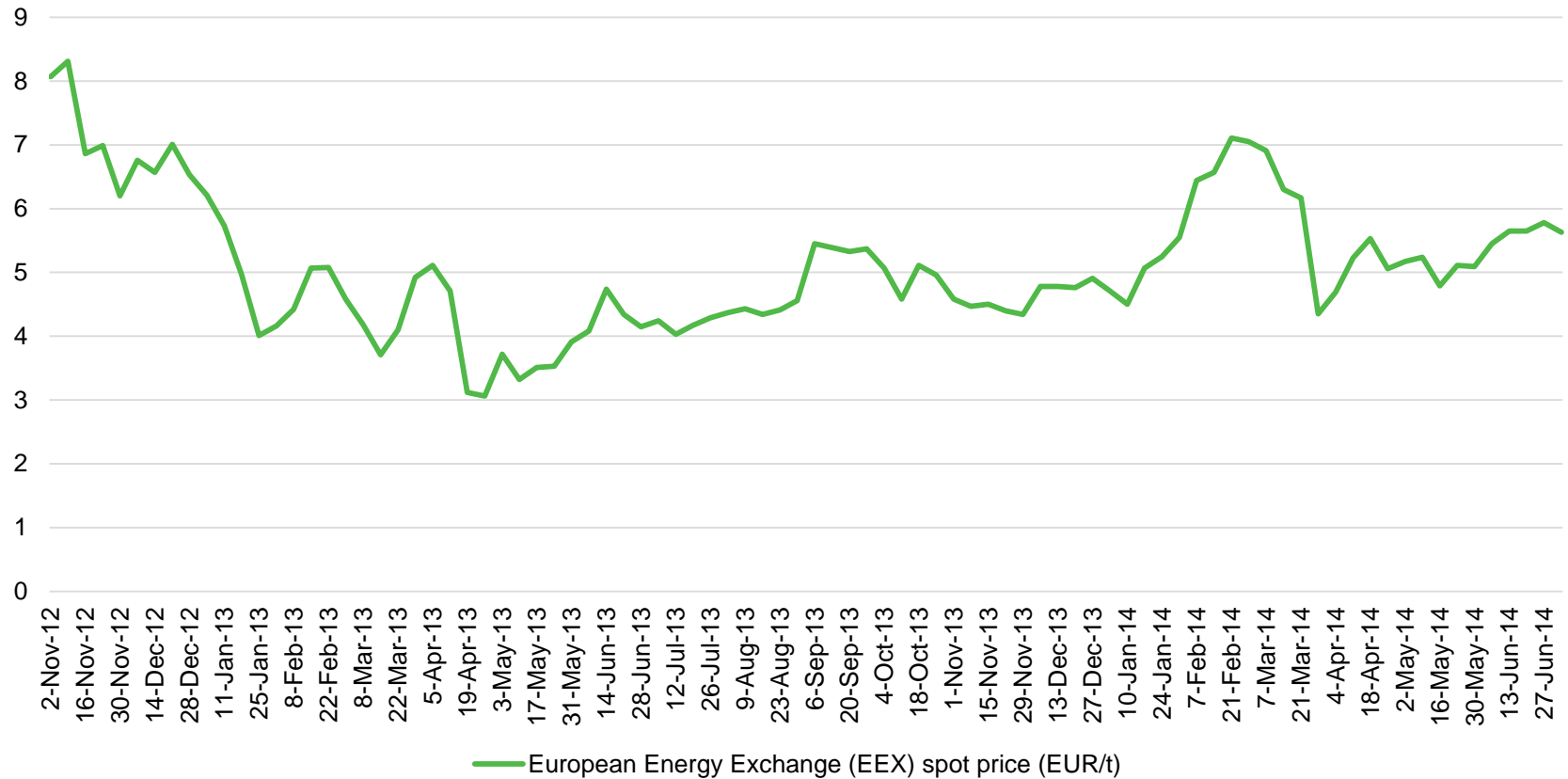
Crude oil, steam coal, natural gas and electricity

United States



Source: Bloomberg

European Carbon Emission Allowance



Source: Bloomberg

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