Orders received decreased to EUR 826 million and Comparable EBITA increased to EUR 76 million in the second quarter

Half Year Financial Review, January–June 2020

July 23, 2020

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Kari Saarinen, CFO
Agenda

Half Year Financial Review, January–June 2020

1. Q2/2020 in brief
2. Development of the business lines
3. Share acquisition in Neles
4. Financial development
5. Guidance and short-term market outlook
Q2/2020 in brief
Q2/2020 in brief

Orders received decreased to EUR 426 million in stable business\(^1\)

Orders received decreased to EUR 416 million in capital business\(^2\)

Net sales remained at the previous year’s level at EUR 919 million

Order backlog amounted to EUR 3.5 billion

Comparable EBITA increased to EUR 76 million and margin was 8.3%

Gearing was -23%

Valmet agreed to acquire 14.9% of the shares in Neles

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1) Stable business = Services business line and Automation business line. For Automation, this figure includes internal orders received from other business lines.
2) Capital business = Pulp and Energy business line and Paper business line
Orders received
EUR 826 million

Net sales
EUR 919 million

Comparable EBITA
EUR 76 million

Comparable EBITA margin
8.3%

Order backlog
EUR 3,492 million

Employees
13,626

Orders received by business line
- Services: 40%
- Automation: 26%
- Pulp and Energy: 24%
- Paper: 10%

Orders received by area
- North America: 47%
- South America: 14%
- EMEA: 7%
- China: 7%
- Asia-Pacific: 10%
Orders received decreased to EUR 826 million in Q2/2020

- In stable business\textsuperscript{1}, orders received decreased to EUR 426 million in Q2/2020
- In capital business, orders received decreased to EUR 416 million in Q2/2020
- Orders received decreased in developed markets and increased in emerging markets during the first half of the year
  - South America, China and Asia-Pacific together accounted for 49% of orders received

\textsuperscript{1} Including internal orders received for the Automation business line.
Stable business orders received totaled EUR 1,880 million during the last four quarters.

Orders received (EUR million) in stable business†

- Total orders received in stable business decreased by EUR 49 million in Q2/2020

† Including internal orders received for the Automation business line.
Order backlog at EUR 3,492 million at the end of Q2/2020

- Order backlog was EUR 64 million lower than at the end of Q1/2020
- Approximately 45% of the order backlog is currently expected to be realized as net sales during 2020 (at the end of Q2/2019, ~50% during 2019)
- Approximately 30% of the order backlog relates to stable business (~30% at the end of Q2/2019)
Development of the business lines
Orders received and net sales decreased in Q2/2020

- Orders received decreased compared with Q2/2019
  - Orders received increased China, remained at the previous year’s level in Asia-Pacific, and decreased in South America, North America and EMEA
  - Orders received decreased in Mill Improvements, Energy and Environmental, Fabrics, Performance Parts and Rolls
- Net sales decreased compared with Q2/2019
- COVID-19 had a negative impact on orders received and net sales in all service businesses
Automation¹: Orders received decreased and net sales remained at the previous year’s level in Q2/2020

Orders received (EUR million)

|-----------------------------|-----------------------------|

Net sales (EUR million)

|-----------------------------|-----------------------------|

- Orders received decreased compared with Q2/2019
  - Orders received increased in China and Asia-Pacific, and decreased in South America, North America and EMEA
  - Orders received increased in Energy and Process, and decreased in Pulp and Paper
- Net sales remained at the previous year’s level compared with Q2/2019
- COVID-19 caused access restrictions to some customer sites

¹) Comments refer to orders received and net sales including also internal orders received and internal net sales.
Pulp and Energy: Orders received remained at the previous year’s level and net sales increased in Q2/2020

Orders received (EUR million)

- Orders received remained at the previous year’s level compared with Q2/2019
  - Orders received increased in EMEA, China and Asia-Pacific, and decreased in South America and North America
  - Orders received increased in Energy and decreased in Pulp

Net sales (EUR million)

- Net sales increased compared with Q2/2019
- COVID-19 caused progress delays in projects and led to some delays in the supply chain network
Orders received decreased compared with Q2/2019
- Orders received increased in China and decreased in all other areas
- Orders received increased in Tissue and decreased in Board and Paper

Net sales remained at the previous year’s level compared with Q2/2019

COVID-19 caused access restrictions to some customer sites and led to some delays in the supply chain network.
Valmet’s share acquisition in Neles
Valmet’s share acquisition in Neles

Valmet’s acquisition of 14.9% ownership in Neles

- Valmet agreed to acquire approximately 22.4 million shares in Neles Corporation from Solidium Oy, representing 14.88% of all Neles’ shares and votes
- Neles is a globally leading diversified valve, valve automation and service company
- Neles is a good quality global company with a large share of recurring business and a strong position in the pulp and paper industry
- Neles has demonstrated good growth and has potential to grow further
- Valmet’s target is to increase ownership when Neles’ share price supports additional purchases
- Valmet’s goal is to have an active long-term role in the development of Neles

Valmet’s comment on Alfa Laval’s tender offer for Neles’ shareholders

- Valmet and Neles have a common heritage, serve similar global industries and benefit from same global megatrends
- Valmet sees a good amount of value in Neles
- Valmet’s target is to participate in developing Neles further
- As a Neles shareholder, Valmet does not consider Alfa Laval’s tender offer to be beneficial for Neles

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1) Valmet Oyj’s stock exchange release on June 17, 2020
2) Valmet Oyj’s press release on July 13, 2020
Financial development
## Key figures

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<thead>
<tr>
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<tbody>
<tr>
<td>Orders received</td>
<td>826</td>
<td>1,083</td>
<td>-24%</td>
<td>2,013</td>
<td>1,918</td>
<td>5%</td>
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<td>Order backlog(^1)</td>
<td>3,492</td>
<td>3,216</td>
<td>9%</td>
<td>3,492</td>
<td>3,216</td>
<td>9%</td>
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<tr>
<td>Net sales</td>
<td>919</td>
<td>901</td>
<td>2%</td>
<td>1,740</td>
<td>1,587</td>
<td>10%</td>
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<td>Comparable EBITA</td>
<td>76</td>
<td>69</td>
<td>10%</td>
<td>128</td>
<td>117</td>
<td>10%</td>
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<tr>
<td>% of net sales</td>
<td>8.3%</td>
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<td>10%</td>
<td>7.4%</td>
<td>7.3%</td>
<td>10%</td>
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<tr>
<td>EBITA</td>
<td>70</td>
<td>64</td>
<td>9%</td>
<td>121</td>
<td>113</td>
<td>6%</td>
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<tr>
<td>Operating profit (EBIT)</td>
<td>62</td>
<td>56</td>
<td>11%</td>
<td>104</td>
<td>99</td>
<td>6%</td>
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<tr>
<td>% of net sales</td>
<td>6.8%</td>
<td>6.2%</td>
<td>10%</td>
<td>6.0%</td>
<td>6.2%</td>
<td>10%</td>
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<td>Earnings per share, EUR</td>
<td>0.29</td>
<td>0.26</td>
<td>15%</td>
<td>0.49</td>
<td>0.47</td>
<td>6%</td>
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<tr>
<td>Return on capital employed (ROCE) before taxes(^2)</td>
<td></td>
<td></td>
<td></td>
<td>16%</td>
<td>17%</td>
<td></td>
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<tr>
<td>Cash flow provided by operating activities</td>
<td>151</td>
<td>-44</td>
<td>10%</td>
<td>324</td>
<td>-14</td>
<td>10%</td>
</tr>
<tr>
<td>Gearing(^1)</td>
<td>-23%</td>
<td>-23%</td>
<td>-23%</td>
<td>-23%</td>
<td>-23%</td>
<td>-23%</td>
</tr>
</tbody>
</table>


1) At end of period
2) Annualized
Gross profit and SG&A development

Gross profit (EUR million and % of net sales)

- Gross profit was 23% of net sales (23% in Q2/2019)
- Selling, general & administrative (SG&A) expenses decreased
  - SG&A was 16% of net sales (17% in Q2/2019)
• In Q2/2020, Comparable EBITA increased compared with Q2/2019
  - Comparable EBITA increased due to lower selling, general & administrative (SG&A) expenses

1) Rolling 12 months. Carve-out figures for 2013 have been used in the calculation of Q1–Q3/2014 figures. Valmet implemented IFRS 15 – Revenue from Contracts with Customers as of January 1, 2018 by applying full retrospective method. Thus, figures presented are not fully comparable.
Cash flow provided by operating activities

Cash flow provided by operating activities (EUR million)

- Change in net working capital\(^1\) EUR 57 million in Q2/2020
- Cash flow provided by operating activities EUR 151 million in Q2/2020
- CAPEX\(^2\) EUR 27 million in Q2/2020

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

1) Change in net working capital in the consolidated statement of cash flows.
2) Excluding business combinations and leased assets.
Net working capital at -16% of rolling 12 months orders received

Net working capital¹ and orders received (EUR million)

• Net working capital EUR -644 million, which equals -16% of rolling 12 months orders received

¹) Net working capital excluding non-cash net working capital impact from dividend liability.
Net debt and gearing decreased compared with Q2/2019

Net debt (EUR million) and gearing (%)

- Gearing (-23%) and net debt (EUR -223 million) decreased compared with Q2/2019
- Equity to assets ratio remained at the previous year’s level compared with Q2/2019
- Valmet paid out 105 million in dividends in Q2/2020

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

1) The dividends paid do not include the cash flow impact from withholding tax of EUR 15 million, which will be paid in the third quarter 2020.
Capital employed and Comparable ROCE

Capital employed (EUR million) and Comparable return on capital employed (ROCE), before taxes\(^1\) (%)

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method, and IFRS 15 – Revenue from Contracts with Customers as of January 1, 2018 by applying full retrospective method. Thus, figures presented are not fully comparable.

\(^1\) Rolling 12 months. Carve-out figures for 2013 have been used in the calculation of Q1–Q3/2014 figures.
Guidance and short-term market outlook
Guidance and short-term market outlook

Guidance for 2020

Valmet announced on April 16, 2020 that the company withdraws its guidance for 2020 due to increased uncertainty related to the COVID-19 pandemic.

Short-term market outlook

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<tbody>
<tr>
<td>Automation</td>
<td>Good</td>
<td>Good</td>
<td>Good / Satisfactory / Weak</td>
<td>Good / Satisfactory</td>
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</table>

<table>
<thead>
<tr>
<th>Pulp and Energy</th>
<th>Pulp</th>
<th>Energy</th>
<th>Q1/2020</th>
<th>Q2/2020</th>
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</thead>
<tbody>
<tr>
<td>Good</td>
<td>Satisfactory</td>
<td>Good</td>
<td></td>
<td>Satisfactory</td>
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<table>
<thead>
<tr>
<th>Paper</th>
<th>Board and Paper</th>
<th>Tissue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
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</table>

The short-term market outlook is based on customer activity (50%) and Valmet’s capacity utilization (50%) and is given for the next six months from the end of the respective quarter. The scale is ‘weak–satisfactory–good’.
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