

Transcript for "Interim Review for January-March 2026"

00:00:02 - 00:00:54

Pekka Rouhiainen: Good morning, everyone, and welcome to Valmet's Q1 results webcast. Before we start, a short practical note: today's webcast is audio-only due to the flu in the team. Thanks for your understanding. I'm Pekka Rouhiainen from Investor Relations, and with me today are Valmet's President and CEO, Thomas Hinnerskov, as well as CFO, Katri Hokkanen. Today, Thomas will start with an overview of Valmet from the customer and investor viewpoints and go through the first-quarter performance. Katri will then discuss the financials in more detail. After that, Thomas will return to cover the guidance and short-term market outlook before we open the lines for the questions. You can submit written questions through the webcast platform at any time. With that, let's get started. Thomas, the floor is yours.

00:00:54 - 00:01:42 Thomas Hinnerskov: Thank you, Pekka, and good morning, everyone, from me as well. The headline message for this first quarter is that we continue to execute our strategy in an overall demanding market environment, while the sales mix had a clear impact on our profitability. Customer decision-making remained cautious, and the geopolitical situation decreased visibility. Against that backdrop, our process performance business continued to deliver strong margins, while the biomaterial business was impacted by project facing and the mix. Importantly, the benefits from the early and decisive operating model actions we took last year are clearly visible and continue to be clearly visible, supporting earnings quality also in a softer market.

00:01:45 - 00:02:54 Thomas Hinnerskov: Before we go into the quarter in detail, let me briefly remind you what Valmet is fundamentally about. Our strategy is built on improving the performance of industrial assets across their life cycle. We help customers run their operations reliably, produce more efficiently with fewer resources, and operate with less manual effort. We do this through services, upgrades, and automation, often in operation, that are critical to our customers every day, but also critical to a lot of us in society. For shareholders, this is important because it means recurring demand from our large global installed base and less dependency on capital projects. While quarterly results matter, the overall direction of the company is perhaps even more important. We are building a stronger, more resilient Valmet by creating measurable customer value every day. In short, Valmet today is far more than a project company.

00:02:54 - 00:03:54 Thomas Hinnerskov: We're a lifecycle performance partner for our customers. This case is a good example of how our strategy translates into real business opportunities beyond our traditional markets. Today, more than 500 advanced vessels globally rely on Valmet's Automation solutions in mission-critical operations every day. For customers, these systems help save costs, reduce risk, and support increasingly complex vessel operations. For Valmet, this expands our installed base into another attractive lifecycle market with long asset lives and recurring revenue potential over decades. It also demonstrates the strength and the scalability of our automation business. I think this is something we all as shareholders, but also we, here in Finland, can be truly proud of.

00:03:56 - 00:04:58 Thomas Hinnerskov: With that said, let me turn to the first quarter highlights. Orders received amounted to €1.1 billion. Orders decreased 15% organically, mainly due to the timing of large capital project orders, which can vary significantly between quarters. This also reflects the current overcapacity in the global pulp and paper markets, where customers remain selective with large investment decisions. At the same time, our business is supported by a large global installed base built over decades. Every day, customers rely on Valmet to improve reliability, efficiency, and performance through our services, our upgrades, and our automation. Large projects remain an important part of our offering, but they are only one part of many ways that we create value for our customers daily. Net sales increased to €1.2 billion, 9% up organically.

00:04:58 - 00:06:03 Thomas Hinnerskov: Growth was driven by a higher share of capital projects revenue. That sales mix towards capital projects and smaller mill improvement projects did impact our margins, so comparable EBITA declined to €114 million, with a margin of 9.2%. It's important to note that the negative FX impact was also visible in the comparable EBITA, and Katri will come back to this in more detail. At the same time, Process Performance Solutions performed strongly. The orders grew faster than the overall market, and comparable EBITA margin increased to 18.5%. Very strong execution by the team in the Process Performance Solutions. Our strategy is progressing. Last year, we renewed our operating model and made a number of difficult decisions early on, and I'm really pleased to see how these actions continue to deliver tangible benefits to us. Cost savings supported performance across both segments during the quarter.

00:06:04 - 00:07:21 Thomas Hinnerskov: Our comparable SG&A costs are now €66 million lower than in 2024, reflecting the impact of these significant measures that we've taken. In parallel, we continue to advance strategic plans to optimize and simplify our footprint. These actions improve our speed and our responsiveness to customers, while also strengthening cost competitiveness and delivering reliability to our customers. As you can see on the graph, this one, it was one of the slower quarters in recent years in terms of orders received. The main driver was a low-capital project in tech. Furthermore, the comparison period included a large pulp mill rebuilt in North America last year. Biomaterial Services orders declined seven percent organically. The service market overall remains soft as customers continue to defer purchases, reduce inventories, and prioritize minimal maintenance. In contrast, Process Performance Solutions orders increased 4% organically, reflecting a return to low year-on-year growth after a weaker condition seen in late 2025.

00:07:22 - 00:08:32 Thomas Hinnerskov: This clearly demonstrates the strength of our life cycle offering and the value that we bring to customers. Next, let's take a closer look at the segments. Starting with Process Performance Solutions, this segment serves a broad global customer base across a range of industries. In the first quarter, around 63% of orders came from customers outside pulp and paper. A good example is marine automation, where more than 500 advanced vessels globally rely on Valmet solutions every day. Process performance is also a highly important earnings contributor, representing around half of Valmet's comparable EBITA in the quarter. This demonstrates both the diversification of our business model and the growing importance of automation and flow control within Valmet. First quarter orders increased four percent organically, with a similar development in flow and Automation solutions. This is a solid result in the current market environment and reflects growth above some of our key peers.

00:08:32 - 00:09:36 Thomas Hinnerskov: Net sales grew seven percent organically. Comparable EBITA increased to €63 million, and the margin improved to 18.5%. While the improvements were driven by cost savings from operating renewal and supported by elevated product margins during the quarter, it is nonetheless a very strong execution by the team. As communicated earlier, we do expect margins to ease somewhat from these record levels as we invest back into growth, but overall profitability remains very solid. Turning to Biomaterial Solutions and Services, orders decreased mainly due to capital projects timing, especially in pulp, where the comparison period included a large modernization order. Biomaterial Services orders declined seven percent organically as the soft market continues. Net sales increased 10% organically, driven by higher revenue recognition in large projects and smaller mill improvements.

00:09:37 - 00:10:16 Thomas Hinnerskov: The Arauco project is proceeding according to schedule and budget, and we're very pleased with the progress so far, with roughly 50% of the project's net sales already booked. This mix shift was reflected in the margins, and the comparable EBITA margin decreased to 7.1%. Importantly, execution on projects remains solid. Cost savings from the operating model renewal dip, but partially offset the mix impact. With that, I'll give the floor to Katri to hear more in detail about our finances for the quarter.

00:10:20 - 00:11:32 Katri Hokkanen: Thank you, Thomas, and good morning, everyone. I will cover the group-level development of key financials in my part, and let's start with the net sales and comparable EBITA. Net sales increased five percent year-on-year, or nine percent organically, and net sales grew in both of the segments. FX had a big negative impact of approximately €44 million, and the biggest factor was the weakening of the US dollar to the euro compared with the first quarter last year. Comparable EBITA was €114 million with a margin of 9.2%. Sales mix shifted towards large projects and smaller mill improvements. Despite higher net sales and cost savings, profitability declined due to a lower gross margin. Furthermore, FX had a significant negative impact on the comparable EBITA, and it is good to note that with current FX rates, we estimate that the impact will be smaller during the remainder of the year.

00:11:35 - 00:12:45 Katri Hokkanen: The sequential decrease in both net sales and profits from Q4 follows a normal seasonal pattern and was as expected. Let's then look at how our cost base has developed in recent years. The operating model renewal implemented last year is clearly visible in the cost base, and on the last 12 months basis, comparable SG&A expenses are now €66 million lower than what they were in 2024, and that is almost 1 percentage point compared with net sales. While the operating model renewal brings savings, it is fundamentally aimed at improving the customer experience through a life cycle focus, which is particularly important in the current market environment. Order backlog stood at €4.2 billion at the end of the first quarter, and this provides good visibility for deliveries and net sales going forward, with around €2.8 billion expected to convert into revenue during 2026 based on current schedules.

00:12:46 - 00:14:05 Katri Hokkanen: While slightly lower than year-end, the backlog remains at a healthy level, and our focus is on disciplined execution, profitability, and cash flow. Let's now turn to cash flow development.

Cash flow from operating activities decreased to €35 million in the first quarter, and this decrease was mainly related to an increase in the net working capital. The reported net working capital of minus €131 million includes a €249 million dividend liability, which doesn't have a cash flow impact. Excluding the dividend liability, net working capital increased by €89 million from year-end, and this was mainly driven by project facing and timing effects. It is important to bear in mind that quarterly fluctuations in cash flow are typical for Valmet, and we continue to expect cash conversion this year to be in line with our historical average of over 90%. Balance sheet remains strong. Gearing was 37% at the end of the first quarter and well below our 50% target.

00:14:05 - 00:15:39 Katri Hokkanen: Net debt to EBITDA stood at 1.45, and liquidity remains healthy. We expect to close the Severn acquisition towards the end of the second quarter, and this will have an approximately 15 percentage point impact on gearing, and we are comfortable with that level given the strong cash conversion ratio our business inherently has. Comparable ROCE improved to 13.4%, and as shown in the graph, capital employed decreased by around €230 million compared with 2024, which supported the returns. Our long-term target is 20% by 2030 to be driven by profitable growth, higher comparable EBITA margins, and disciplined value creation, creating capital allocation. Adjusted EPS declined, and this was primarily due to items affecting comparability, which were related to planned strategic footprint measures. This slide gives you a snapshot of all of our figures at once, many of which we have already covered in detail. From this table, I would like to highlight the items affecting comparability, which amounted to minus €32 million, again related to strategic footprint measures in Sweden and in Poland.

00:15:40 - 00:16:36 Katri Hokkanen: The effective tax rate was 23.6%, and this is below our long-term average of 25%, which we expect to also go forward. The deviation in the tax rate in the first quarter from the 25% was due to timing effects. In summary, net sales increased, but the mix impacted our results. Furthermore, we had further headwinds from FX, which we do not expect to burden our Q2 results to the same extent, given the current FX rates. We expect the cash conversion rate ratio to remain at a solid level, also for the full year 2026, and look forward to starting the integration of Severn into Valmet towards the end of the second quarter. With that, I hand it over to Thomas to go over the guidance.

00:16:40 - 00:17:55 Thomas Hinnerskov: Thank you very much, Katri. We reiterate our guidance for 2026 issued on February 6 this year. Net sales are expected to remain at the previous year's level, and comparable EBITA is expected to remain at the previous year's level or increase. The guidance is supported by our further cost actions announced this morning, as well as a smaller negative impact from FX, assuming the rates remain at the current levels. In terms of the short-term market outlook, we were pleased that the Process Performance Solutions markets have returned to low year-on-year growth. This development was in line with our expectations communicated in the Q4 call as well. Biomaterial Solutions and Services should improve slightly as a whole. However, this reflects the very low project activities in Q1, which serve as the baseline for this outlook. The market for Biomaterial Services is expected to remain soft in the next two quarters, and customers are likely to remain selective in their investment decisions.

00:17:57 - 00:19:39 Thomas Hinnerskov: At the same time, geopolitical uncertainty has increased. Direct impacts on Valmet are limited. A bit over one percent of our net sales came from the affected Middle East region last year, and very little of our own footprint, personnel, or suppliers. The main impact relates to logistic costs and general economic sentiment, and how that impacts our customers' demand. These are industry-wide and managed also through commercial actions to mitigate the inflationary impact. To wrap up things before opening the lines for questions and answering, first of all, strategy execution progressed, and our early cost action continues to support our performance, also here in Q1. Sales mix did impact Q1 margins, but our guidance remains unchanged. The guidance is supported by further cost actions, including the €8 million additional short-term savings we announced today. Also, assuming the current FX rate, the impact from currencies during the rest of the year, as Katri alluded to, is expected to be smaller than during Q1. I do remain confident and also excited about the path that we are taking Valmet on, and have full confidence in the Valmet team to deliver the 5 plus 15 equals 20 by 2030, by bringing long-lasting life cycle value to our customers globally. With that, I will hand over to Pekka.

00:19:42 - 00:20:11 Pekka Rouhiainen: Thank you, Thomas. We'll now move to the Q&A, and as usual, you have the chance to ask questions in a written format through the online platform as well, or by telephone a little bit later. We have now received a few questions here on the platform, so I suggest we take them first. The first one is regarding the Middle East crisis. How does the Middle East crisis impact Valmet?

00:20:13 - 00:21:11 Thomas Hinnerskov: Yes. Thanks, Pekka. Clearly, you need to look at the Middle East crisis from two angles. There's the direct part, roughly one percent of sales last year, with similar levels on our OR. There aren't that many people there, fewer than 100, so that impact is relatively limited. However, the indirect impact, which is also hard to measure, is there. We see supply chain impacts in terms of the energy costs, the logistics costs, and overall inflationary pressure coming out of that conflict. Then, there's the whole economic uncertainty which drives both consumer confidence and therefore consumer spending, our customers' demand, or the demand for our customers' product, which then leads to some sort of deferred investments and also savings programs with some of our customers. The indirect impact is bigger than the direct impact, but harder to measure.

00:21:12 - 00:21:22 Pekka Rouhiainen: Thank you. Then there's a question on the Biomaterial Solutions and Services segment. Why did the margin in Q1 decrease?

00:21:24 - 00:21:58 Thomas Hinnerskov: As we said, there's a lot of mixed impact, both in terms of the split between projects, which we actually proceeded really well. We're very happy with the Arauco project and how that is progressing. More than 50% of the sales are recognized now. That also gave a bit of a spike in Q1. That mix between projects and service is off or has changed. Also, the mix within services towards more improvement projects has impacted them. As Katri alluded, there is also a little bit of FX impact.

00:22:00 - 00:22:12 Pekka Rouhiainen: All right. Good then. Those were the questions on my iPad so far, and you can also use that going forward if you want to use that platform. We'll now go to the telephone line, so please.

00:22:15 - 00:22:32 Operator: If you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Antti Kansanen from SEB. Please go ahead.

00:22:35 - 00:23:24 Antti Kansanen: Hi, guys. I have a few questions. I'll ask them one by one, and I will follow up on the margin questions on the Biomaterial side. I think looking sequentially versus Q4, there's a bit of a step down in terms of margins. I guess you guided that the Arauco contribution run rate would be fairly similar, let's say, start of this year versus last year, or at least on a full-year basis. Was there a big change in the revenue recognition from that project? Do I understand correctly that in a sense it's a normal profitability considering the mix, and from here onwards, the mix improvement would be the primary driver for any margin change? I would appreciate a little bit more color on that one.

00:23:25 - 00:24:38 Thomas Hinnerskov: Great question, Antti. Yes, Arauco will continue as we said in Q4. However, we did fast-forward some of the things in order to also mitigate some of the impact from the Middle East crisis, to make sure that we actually have things on site. That was just sort of us speeding up certain things, which then led to a bit more revenue recognition than originally fully planned for Q1. You're absolutely right. If you think it really is back to two parts. On the buyer margin, we had more project sales with a lower margin. That means proportionally fewer service sales. In the service sales, there was a bigger proportion of improvement projects, which you also remember back in Q3 and Q4. That's actually where a lot of the orders were coming in on, which we talked about back then. That gave a bit of a mixed swing within the service side of things. What I'm very happy about is that the customers are coming to us. Given the whole situation, they actually continue to invest in these improvement projects to be more competitive in their markets. That's what we're trying to help them with, even though it impacts our margin negatively overall.

00:24:39 - 00:24:56 Katri Hokkanen: May I still have one comment regarding the Arauco? The revenue recognition for the first quarter was about €170 million. For the full year, we are expecting roughly €400 million, so there are no changes in that. It was a bit more tilted towards Q1.

00:24:57 - 00:24:57 Thomas Hinnerskov: Exactly.

00:24:58 - 00:24:59 Antti Kansanen: All right. That makes sense.

00:24:59 - 00:24:59 Thomas Hinnerskov: Yes.

00:24:59 - 00:25:24 Antti Kansanen: A bit of a follow-up on that one, and regarding kind of the Arauco deal and kind of where you would be exposed to any cost inflation regarding logistics or anything else, so kind of risks

going forward. How well do you think you are mitigated by those factors that are not necessarily covered by clauses or agreements with the customer or suppliers? Logistics comes to mind first.

00:25:24 - 00:25:55 Thomas Hinnerskov: Yes. We've been very upfront early on securing both the freight cost and the actual freight capacity as well, overall, doing all the procurement very early on in the project, and also what's going to be delivered later this year. I'm quite confident of the overall delivery of this and also that we should not see as we see now, any negative margin impact compared to plan.

00:25:57 - 00:26:20 Antti Kansanen: All right. Then the second follow-up was on the services side going forward. You kind of repeat the demand guidance that you had in the previous quarter. It remains soft. Is there any kind of incremental change that you see in the pace of recovery, and how should we then think about the mix within services going forward, regarding kind of these impacts that you had on Q1?

00:26:24 - 00:27:18 Thomas Hinnerskov: That's the little bit of, as we said, a softer market. Clearly, we've seen that a lot of our customers are struggling in this lower demand situation that the Middle East is impacting. They're taking short-term savings actions, which means they're reducing inventories. They do minimal maintenance. They're deferring investments unless there are very short payback times. That's what we're sort of trying to help them with to do the right things, given the difficult situation they're in. For us, there's a volume and mix impact. That also means that the mix impact we talked about, but also the volume, the last euro sold in the service business has already been covering all the costs and the fixed costs, so there's a high drop-down rate to the bottom line.

00:27:21 - 00:27:48 Antti Kansanen: Okay. Lastly, on the full-year sales guidance. If you look at the backlog, it's a little bit lower deliveries for this year versus where we were a year ago, and then a bit muted service market still, and low growth for automation. Where are the opportunities to grow sales and kind of offset the negative factors that you are facing for the full year?

00:27:51 - 00:28:07 Thomas Hinnerskov: There's a lot of focus on the wholesale side right now, making sure that we do deliver our book-to-bill so that we can actually invoice, particularly in the second half of this year.

00:28:09 - 00:28:09 Antti Kansanen: Okay.

00:28:10 - 00:28:24 Pekka Rouhiainen: Also, Antti, just to add, the kind of impact from the net sales that Q1 had, minus €44 million on the net sales side. If the FX rates stay at the current levels, then that impact will be smaller going forward.

00:28:24 - 00:28:27 Thomas Hinnerskov: True.

00:28:27 - 00:28:28 Antti Kansanen: Good point. Thank you.

00:28:28 - 00:28:34 Pekka Rouhiainen: Thanks, Antti.

00:28:34 - 00:28:38 Operator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:28:41 - 00:29:21 Mikael Doepel: Thank you. Maybe I could just start with a brief follow-up on the question about the service or the aftermarket business for pulp and paper. If you could get a bit more granularity in terms of the region that you see out there, I think the operating rates are in the US looking a bit stronger than Europe. What about Asia? You could talk a bit about that. If you look at this business historically and in the historic cycles, it doesn't tend to decline for that many quarters in a row, usually. I'm just wondering if there's anything in this cycle that you would point to that should make us think differently this time around. Thank you.

00:29:21 - 00:30:41 Thomas Hinnerskov: Thanks, Mikael. Yes, clearly there are regional differences, as you alluded to, also coming a bit from the operating rates. North America is actually not doing too badly. Of course, we have the FX impact in Q1 from the US dollar there, but that market is progressing quite well, with high operating rates as well. There is a strong focus on improving the relatively old asset base that is there, and also on the improvement project, which is an important market where we help our customers a lot. Then, clearly, low operating rates in China, where the overcapacity is mainly to be found. That's on the other end of the spectrum in terms of demand. Regarding the future, it is clear that this Middle East crisis is throwing a cloud over the economic development in the world, how consumers are buying or spending, and how that then impacts the

packaging market, and therefore our customers there. It is a little bit hard to really sort of predict the future going forward.

00:30:45 - 00:31:27 Mikael Doepel: Okay. That's clear. If I can just ask about the project business going forward, yes, you mentioned that Q1 was fairly thin on the project overall. You expect to see a bit of a pickup there. Maybe you could talk a bit about the pipeline you see out there, and in particular, if there's anything you can say about the bigger greenfield projects, especially in Latin America, but also what you're seeing in China. I think you mentioned, for example, in China, having multiple projects in the pipeline previously. Are those still there? Are they being postponed? Maybe you could talk a bit about the project pipeline. That would be great. Thank you.

00:31:28 - 00:32:50 Thomas Hinnerskov: Yes. As we also allude to when we reiterated our guidance and the short-term market outlook, we do expect the project business to pick up a little bit after this quite slow quarter. Of course, as you know, China is one of the markets where this is happening, despite the fact that it's also where the biggest overcapacity actually is. There is some room for more efficient capacity, and therefore also taking less efficient local capacity out of the Chinese market. I think the important part here is how we are also using that project resource, that capability, technical capability, both in bio but also in our PPS business, to really help our customers in their old installed base to be more effective and more efficient in that, and therefore more competitive in their market. We saw that also in the PPS, there was more service than project, this quarter, which also helped improve or positively impacted our margin in that segment. A lot of effort is shifting from the greenfield to the brownfield, small or larger modernization or improvement projects. That's also why we're sort of looking into that.

00:32:51 - 00:32:51 Mikael Doepel: Okay. Maybe just a brief follow-up on that?

00:32:52 - 00:32:53 Thomas Hinnerskov: Yes. Go ahead, Mikael.

00:32:56 - 00:33:27 Mikael Doepel: Just conceptually, how do you look at the market currently? What we have seen here is that there's been a lot of investment in China. They continue to invest. It's a more integrated capacity on the pulp side of things. Do you see that sustained going forward as well, discussing with your customers and their plans? How do you see that impacting the planned investments in Latin America? Should we expect those to kind of fade now, given the trend here? Maybe just the thoughts around that.

00:33:29 - 00:34:38 Thomas Hinnerskov: Clearly, I think, this year we'll see a lot of integrated or new projects that develop integrated mills in China, where it really is about driving that integration efficiency out of an overall mill in production within the Chinese market. That will continue throughout this year, and that's also what we say a little bit about this improved capital business. Then, when it comes to Latin America, it's clear that they are still the lowest-cost producer of pulp. They still have a competitive advantage there across all markets. However, the world is not as predictable as it used to be. That's putting a little bit of additional decision-making time on the individual projects. It's very hard to predict whether a project will be decided or not decided. I think it goes back to the fact that Latin America is still the lowest-cost producer of pulp, or at least Brazil is. That will give them an advantage also going forward.

00:34:40 - 00:34:42 Mikael Doepel: Okay. That's clear. Thank you very much.

00:34:46 - 00:34:59 Operator: As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad. The next question comes from Tomas Skogman from DNB Carnegie. Please go ahead.

00:35:01 - 00:35:18 Tom Skogman: Yes. Hi, this is Tom from DNB Carnegie. I would like to focus a bit on your profitability guidance. Does this kind of include a pickup in the service business? As you know, we've had three slow quarters in orders there.

00:35:23 - 00:36:38 Thomas Hinnerskov: Thanks, Tom. I'm not sure, but I think it's just on the guidance, if we get back to that. As we said, we continue to expect that the service market will be soft for the next two quarters. We also said the outlook is more cloudy than it was when we actually gave out the original guidance back on February 6. Hence, we are taking actions to further support that guidance, and a lot of that impact will come in the third quarter. It really is about making sure that we take the right actions to create a stronger Valmet going forward, making sure that we balance the cost savings, but also making sure that we continuously have the capabilities that can actually deliver the demand that our customers are coming out with, also a little bit on the

longer scale. Clearly, we do expect that the second half will be better and a stronger second half than what we saw last year.

00:36:40 - 00:36:47 Tom Skogman: Yes, I understand that because customers cannot take production breaks forever, of course.

00:36:48 - 00:36:50 Thomas Hinnerkov: Of course, they cannot reduce inventories forever either.

00:36:51 - 00:37:44 Tom Skogman: Yes. Then, if you look at the biomaterials margin, I'm still a bit puzzled here because equipment deliveries were very strong, which should mean good operating leverage. Service used to be quite stable in a report. It could go down one or two percentage points when it was bad times. Now it looks like either the equipment margins and the orders you have taken in the last few years are on a very, very low margin, even loss-making or badly loss-making, or the service margin has collapsed. I just wonder what's going on. You should be able to take out costs in service as well, if they're just related to low sales in service.

00:37:49 - 00:39:03 Thomas Hinnerkov: I understand your question, Tom. There are three parts you need to think about. One is that we're happy with how the projects are performing. A lot of it comes from Arauco. Katri also just alluded to how much sales are actually coming from that project as well. That's tracking very well, but that also means that the project's part of the overall Biomaterial business has increased. Then the overall service, or when you look at the mix within the service, and then improvement projects are a much higher part of that, which also impacts the margins negatively as well. That overall gives this low biomaterials margin. On top of that, there's a volume impact, and that's back to what you alluded to a little bit. We still want to have the sales force out there talking to the customers. We don't want to cut those because then we're sort of shooting ourselves in the foot, so we want to keep that. That also means that if you get the volumes up, then the drop-down rate of that additional volume is pretty big. The swing factor of the last €50 million of service sales is pretty big on that one.

00:39:05 - 00:39:23 Tom Skogman: Yes, I understand. Perhaps just a bit more short-term about the Biomaterial equipment sales funnel. What do you see? You have a funnel, but how do you see things moving ahead?

00:39:27 - 00:40:40 Thomas Hinnerkov: We see the funnel. Some of that has also been a little bit delayed, which we expected to happen here in Q1, but now it's being pushed into Q2. As Mikael also alluded to, from there, clearly, there's quite some activity in the Chinese market, as well. I think we do, as we said, expect a better next six months versus what we saw in Q1. However, I think we also need to see this as the really important part is and that's why we should not be sad about even though it impacts the margin, the service mix, that we have more improvement approaches. It is super important that we do help our customers improve the efficiency of their older assets, so that they can compete in the market and also have better margins themselves, and therefore they have better cash flow to invest as well. It really is important. That's also why we're keeping the capabilities on the engineering and so on to be able to support our customers with the improvements, the rebuilds, the modernizations.

00:40:44 - 00:41:53 Tom Skogman: Perhaps you could just continue a bit about kind of the strategy for Biomaterials. I think just from our kind of financial perspective, you can start to question whether it makes sense to book large pulp mill orders. Of course, long-term is good for service, but it's just that when you look at the valuation, it really seems to hold down the valuation of Valmet, that you still try to win orders in a very, very slow market. Could we see Valmet making more radical changes to its strategy somehow, just telling customers that yes, we can perhaps deliver some board machines and some pulp mills in the future, but the scope will be smaller, and we will have a very limited capacity for the foreseeable future? Could you divest some parts, do business differently in pulp mills to just deliver core components, and not take EPC responsibility? Are there things you are working on to change the scope to get up your valuation multiples?

00:41:55 - 00:43:22 Thomas Hinnerkov: I don't really think we have a scope issue as such, Tom. We see the Arauco, that's an EPC, goes really well. We're progressing well with that project. Of course, it is about making sure that we have a supply chain that is geared towards or has a capacity that is leveraged more towards doing more improvement projects, more rebuilds, more brownfields, and fewer greenfields. The important part, as you alluded to, really is about how we help our customers optimize their installed base. That's where we bring value to the table, but that's also where the valuation is. Clearly, a more aftermarket focus is where we are taking the company. That's also why you see that we took these supply chain actions of actually closing some capacity in Sweden and Poland. Of course, it takes a little bit of time to ramp it down and also the existing production that is actually there, potentially move some equipment to other places, so that we can continue performing certain

tasks. I think that's where you can see part of the strategy, making sure we have a much more resilient supply chain that is also more geared towards service, including improvements and modernization, brownfield stuff. I like your thinking.

00:43:23 - 00:43:30 Tom Skogman: Yes. Okay. Thank you. [silence 00:43:24-00:43:30]

00:43:30 - 00:43:35 Operator: There are no more questions at this time, so I hand the conference back to the speakers.

00:43:39 - 00:43:45 Pekka Rouhiainen: They're indicating there is one more question, so we'll take that question still, please.

00:43:45 - 00:43:49 Operator: The next question comes from Mikael Doepel from Nordea. Please go ahead.

00:43:52 - 00:44:07 Mikael Doepel: Yes. Thank you. It's Mikael here again. Just a brief follow-up. I was just wondering, in terms of the Severn acquisition, I think you said back in Q4, it's not included in the guidance. Is that still the case, just to make sure?

00:44:07 - 00:44:12 Thomas Hinnerkov: Yes. That's the short answer. It's not included in the guidance.

00:44:12 - 00:44:13 Mikael Doepel: Okay. Thank you very much.

00:44:13 - 00:44:13 Thomas Hinnerkov: Yes.

00:44:13 - 00:44:20 Mikael Doepel: All right. That's clear. Thank you. [silence 00:44:15-00:44:20]

00:44:20 - 00:44:36 Pekka Rouhiainen: Okay. Thank you. I guess it's now time to conclude today's event. Valmet's Q2 report will be published on July 24. Now I'm handing over to Thomas for the closing remarks.

00:44:38 - 00:45:20 Thomas Hinnerkov: Thank you, Pekka, and thank you, everyone, for joining us today for a good discussion. I do actually really want to also thank our customers and shareholders for your continued trust. At Valmet, we remain focused on improving the performance of our customers' initial assets across the life cycle, which we just talked a lot about, especially in the Q&A. We are also taking decisive action to build a stronger and more resilient company. We believe we're well-positioned despite the current market backdrop and the sort of overall challenging situation. Thank you all again, and I'm looking forward to speaking with many of you over the coming weeks. Have a very good day. Thanks. [silence 00:45:20-00:45:29]