Strong start for Automation as part of Valmet – profitability reached the targeted range in Q2/2015

Interim Review,
January–June 2015

July 30, 2015

Pasi Laine, President and CEO

Markku Honkasalo, CFO

Valmet

Agenda

Interim Review, January–June 2015

1. Q2/2015 in brief
2. Business lines’ development
3. Financial development
4. Guidance and short-term market outlook
5. Summary of Interim Review Q2/2015
6. Appendix

Q2/2015 in brief

Q2/2015 in brief

Strong start for Automation as part of Valmet

- Acquisition of Process Automation Systems was completed on April 1, 2015
- Automation became Valmet's fourth business line – Q2/2015 the first reported quarter for Automation
- Positive feedback from customers and employees

Orders received and net sales increased in stable business

- Orders received increased in Services compared with Q2/2014, strong quarter in Automation
- Net sales increased in Services compared with Q2/2014, strong quarter in Automation

Orders received decreased and net sales increased in capital business

- Orders received decreased from the high level in Q2/2014 in Pulp and Energy, and Paper business lines
- Net sales increased in Paper and remained at the previous year's level in Pulp and Energy

Order backlog at EUR 2.2 billion

- Order backlog EUR 144 million higher than at the end of Q1/2015

Good development in profitability

- EBITA[1] more than doubled to EUR 54 million
- EBITA[1]-margin increased to 6.9 percent

Net debt increased due to Automation acquisition

- Net debt EUR 238 million, and gearing 29%
- Cash flow provided by operating activities EUR 17 million

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

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Net sales split in Q2/2015

Stable business net sales EUR 371 million

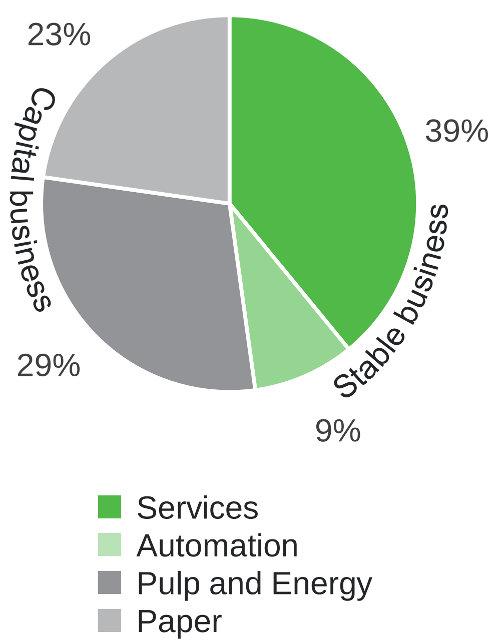
Orders received
EUR 781 million

Net sales
EUR 779 million

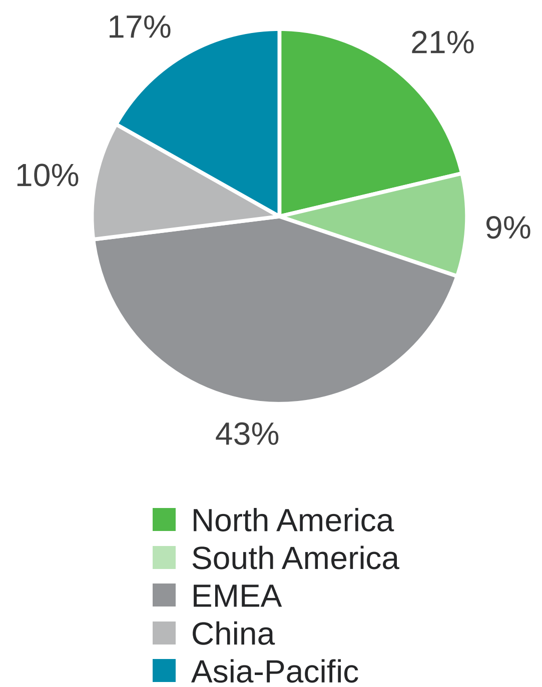
EBITA before NRI[1]
EUR 54 million

Employees
12,524

Net sales split by business line



Net sales split by geographic area



1) NRI = non-recurring items

Key figures Q2/2015

EUR million	**Q2/2015**	Q2/2014	Change	**Q1–Q2/2015**	Q1–Q2/2014	Change
Orders received	**781**	1,023	-24%	**1,360**	2,124	-36%
Order backlog[1]	**2,208**	2,406	-8%	**2,208**	2,406	-8%
Net sales	**779**	588	33%	**1,340**	1,107	21%
EBITA[2]	**54**	22	>100%	**73**	26	>100%
% of net sales	**6.9%**	3.7%		**5.5%**	2.3%	
EBIT[3]	**32**	16	96%	**46**	9	>100%
% of net sales	**4.1%**	2.8%		**3.4%**	0.8%	
Earnings per share, EUR	**0.14**	0.07	97%	**0.19**	0.03	>100%
Return on capital employed (ROCE), before taxes[4]				**9%**	3%	
Cash flow provided by operating activities	**17**	46	-63%	**-3**	89	
Gearing[1]	**29%**	-7%		**29%**	-7%	

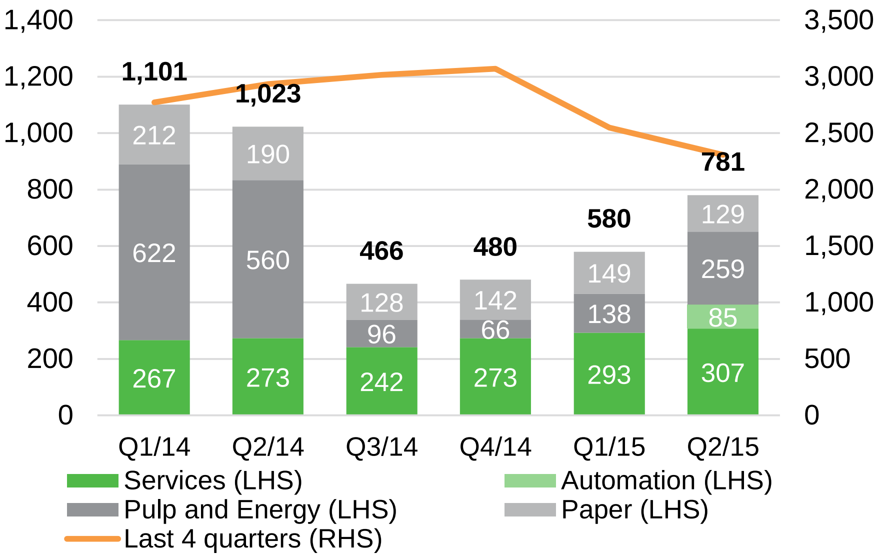
Non-recurring items: EUR -12 million in Q2/2015 (EUR 0 million in Q2/2014), EUR -12 million in Q1–Q2/2015 (EUR -6 million in Q1–Q2/2014). Costs related to acquisition of Automation amounted to approximately EUR 10 million in Q2/2015.

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

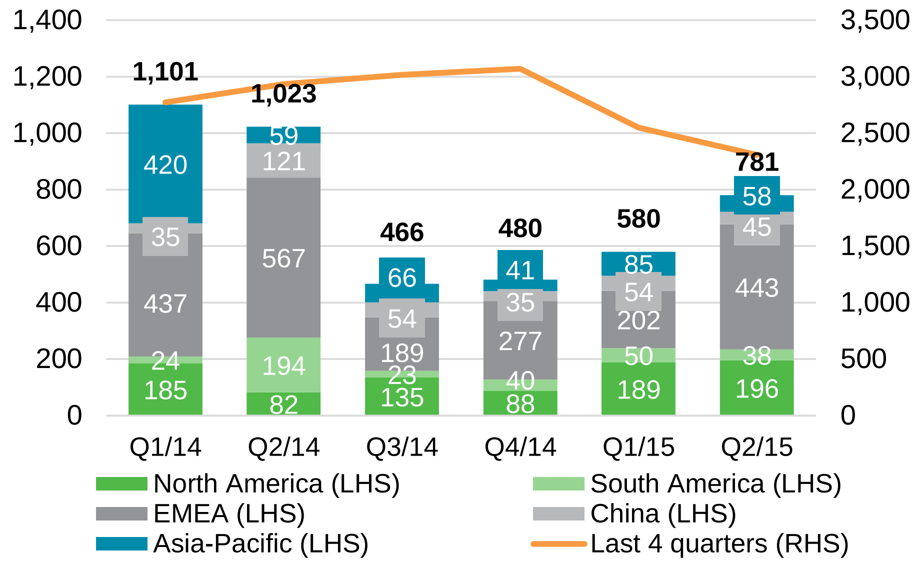
Valmet

Growing trend in orders received – stable business orders received EUR 392 million

Orders received (EUR million), by business line



Orders received (EUR million), by area

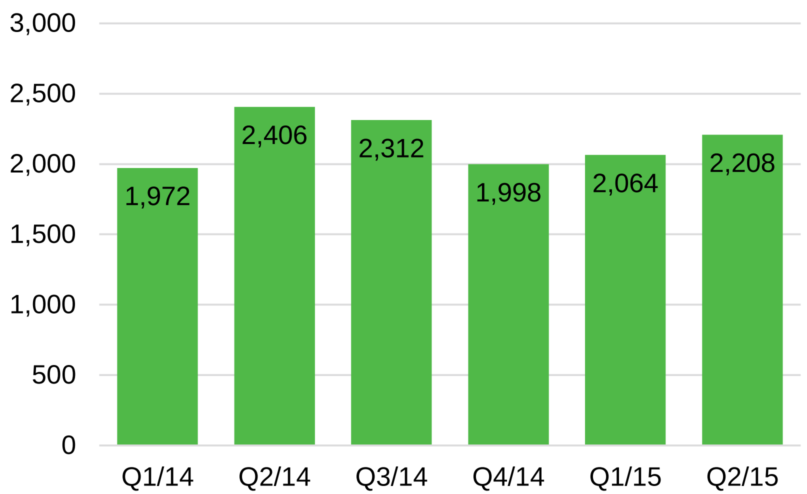


- Orders received increased in Services: The increased focus is showing results
- Orders received EUR 85 million in Automation
- Orders received decreased in Pulp and Energy: One large pulp order in Q2/2015
- Orders received decreased in Paper: Increase in Tissue, decrease in Board and Paper
- Orders received increased in North America

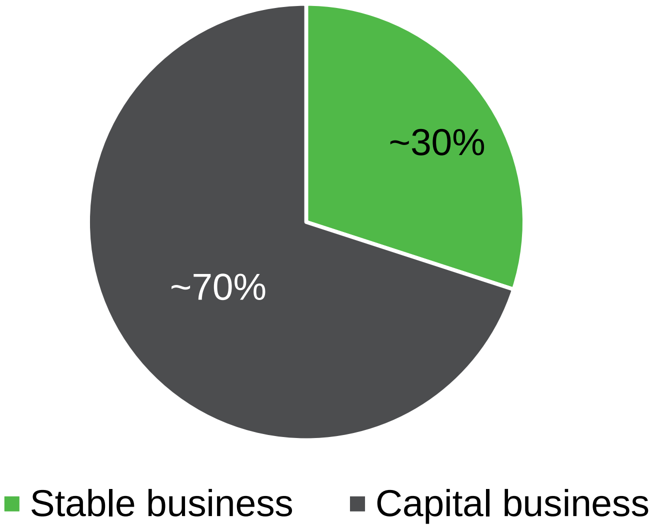
Valmet

Order backlog at EUR 2.2 billion

Order backlog (EUR million)



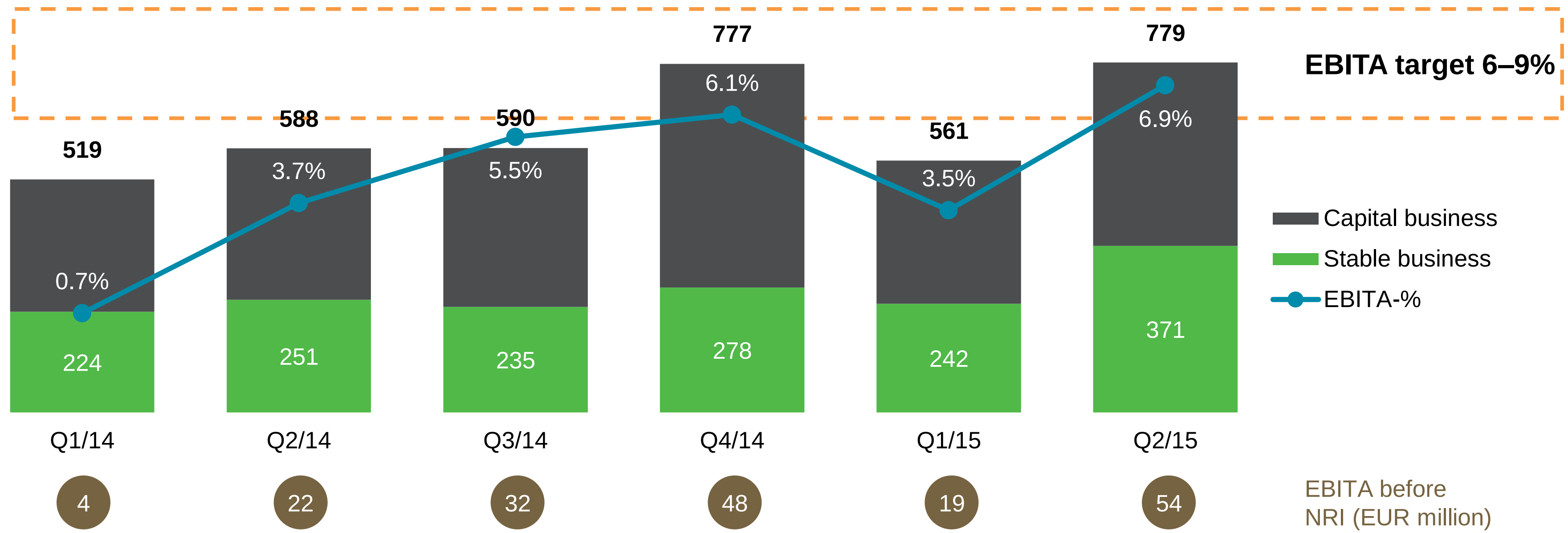
Structure of order backlog



- About 60% of the order backlog is currently expected to be realized as sales during 2015
- Approximately 30% of the order backlog relates to stable business

EBITA-margin reached the targeted range

Net sales and EBITA before NRI (EUR million)

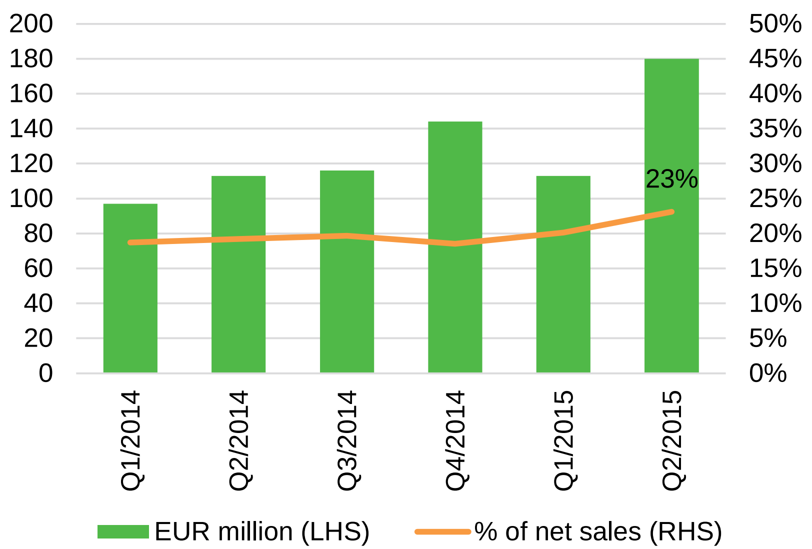


- Net sales and profitability increased compared with both Q2/2014 and Q1/2015
  - Profitability improved due to the higher level of net sales, improved gross profit, and the acquisition of the automation business
  - Changes in foreign exchange rates[1] increased net sales by EUR 31 million and EBITA by EUR 2 million

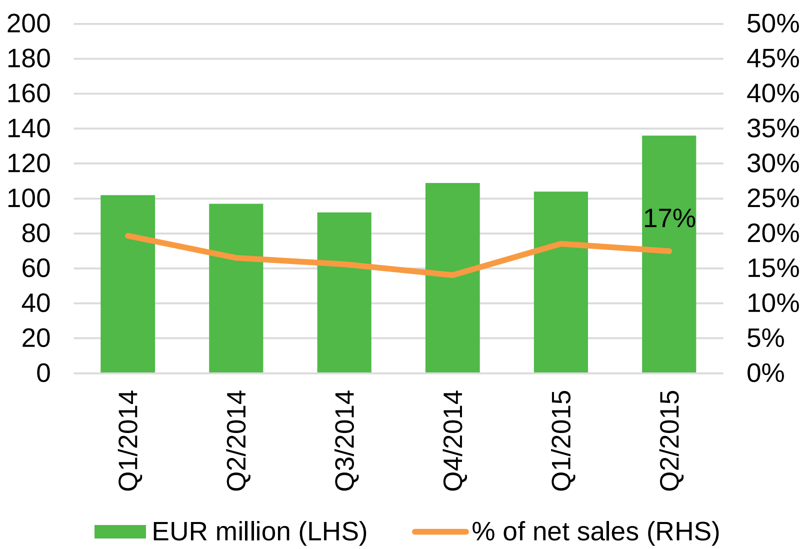
1) Compared with the exchange rates for April–June, 2014

Good development in gross profit

Gross profit (EUR million and % of net sales)



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



- Gross profit increased, also when excluding the impact of Automation
- Selling, general & administrative (SG&A) expenses under control
- Further actions to improve gross profit through Must-Win implementation

Key Must-Win objectives to increase the profitability

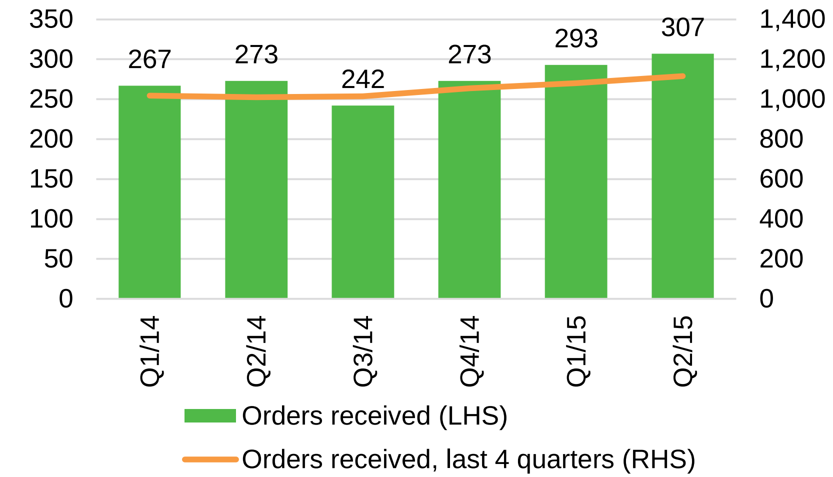
Improve project and service margin	Reduce quality costs and lead times	Savings in procurement	Improve product cost competitiveness to increase gross profit
• Harmonization of processes • Localization of competencies • Better selection of sales cases • Development in project management	• Common quality development approach • Quality tools and processes • Highlight the importance of quality initiatives and accountability	• Increase sourcing from cost competitive countries • Increase use of sub-contracting • Consolidation of shipment and warehouse network	• Focus on cost efficient design • Modularity and standardization

Business lines' development

Growth in orders received and net sales in Services

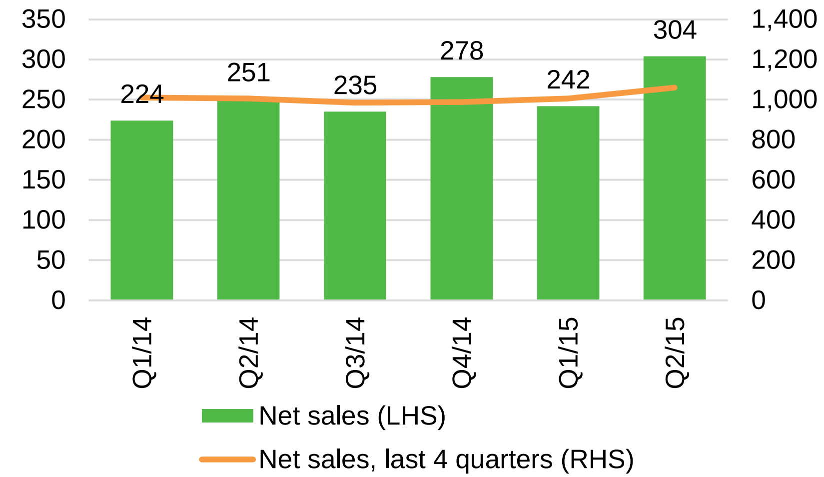
Orders received (EUR million)

Q1–Q2/2014: EUR 540 million	**Q1–Q2/2015:** EUR 600 million



Net sales (EUR million)

Q1–Q2/2014: EUR 475 million	**Q1–Q2/2015:** EUR 546 million



- Services orders received increased compared with Q2/2014
  - Orders received increased in China, South America and Asia-Pacific, and remained stable compared with Q2/2014 in EMEA and North America
  - Orders received decreased in Mill Improvements, and increased in all other business units
  - Changes in foreign exchange rates[1] increased orders received by approximately EUR 16 million
- Net sales increased compared with Q2/2014

1) Compared with the exchange rates for April–June, 2014

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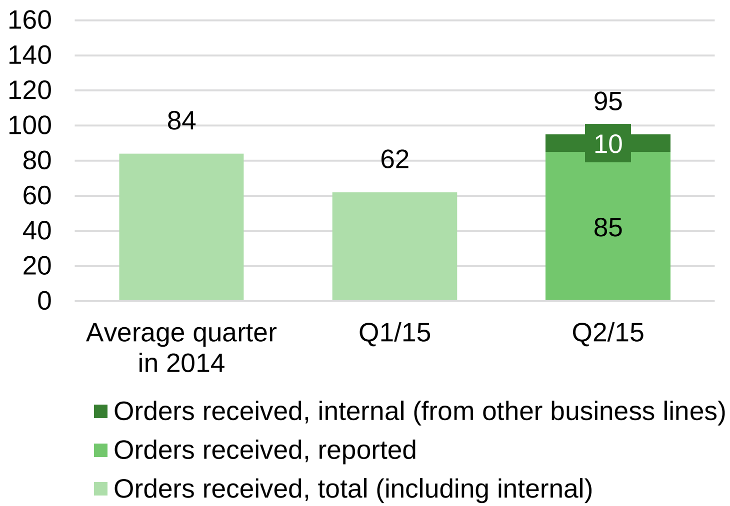
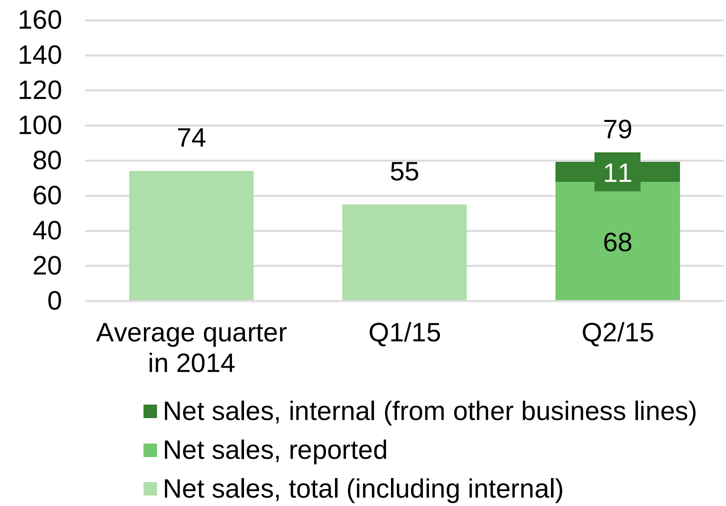
Strong start for Automation as part of Valmet

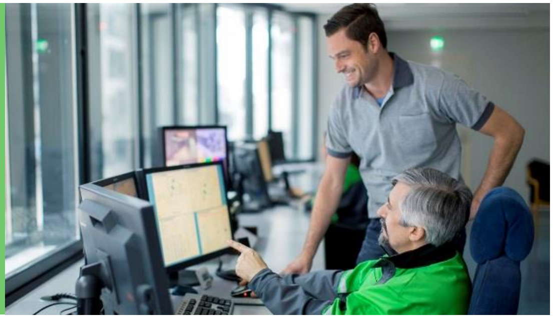
Orders received[1, 2] (EUR million)



Net sales[2] (EUR million)



- Orders received EUR 95 million in Q2/2015
  - Internal orders received amounted to EUR 10 million
  - EMEA accounted for ~60% and North America for ~20% of orders received
  - Pulp and Paper accounted for ~70% and Energy and Process for ~30% of orders received
- Net sales EUR 79 million in Q2/2015
  - Internal net sales amounted to EUR 11 million

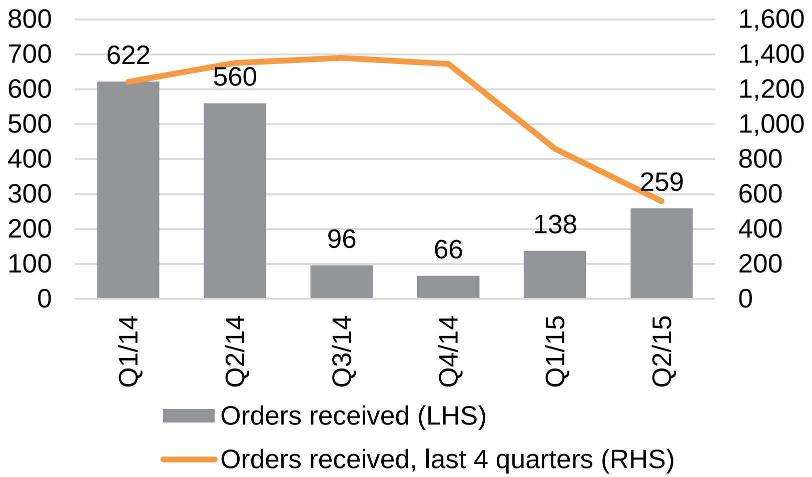


1) Q1/2015 orders received is calculated from Metso's reported figures and pro forma figures excluding Process Automation Systems and are therefore indicative only. Q2/2015 figures are Automation business line figures.
2) Average quarter has been calculated by dividing 2014 figures by 4 (in 2014, orders received EUR 336 million and net sales EUR 297 million).

Pulp and Energy orders received EUR 259 million, net sales stable

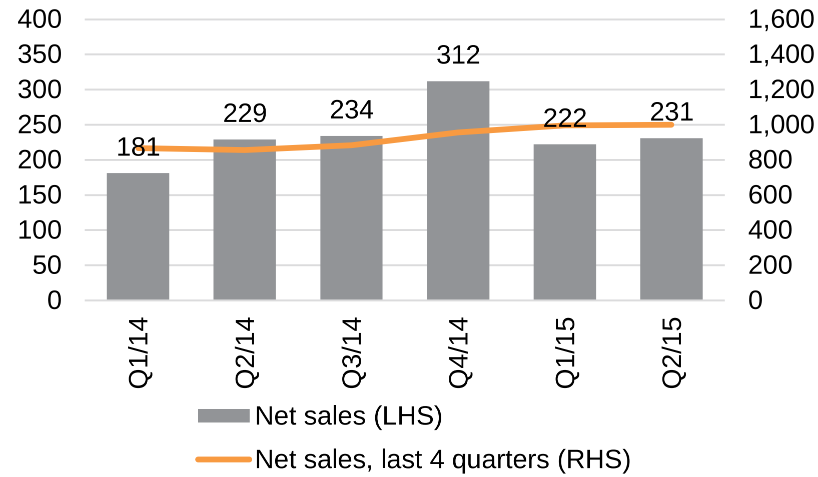
Orders received (EUR million)

Q1–Q2/2014: EUR 1,182 million	**Q1–Q2/2015:** EUR 397 million



Net sales (EUR million)

Q1–Q2/2014: EUR 410 million	**Q1–Q2/2015:** EUR 453 million



- Orders received decreased compared with Q2/2014
  - Orders received increased in North America, and decreased in other areas
  - Orders received decreased in both Pulp and Energy
- Net sales remained stable compared with Q2/2014

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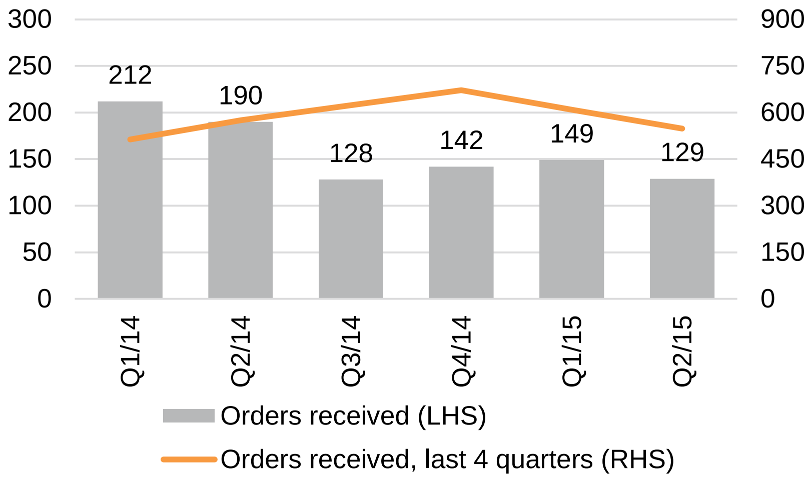
Paper orders received EUR 129 million, net sales increased

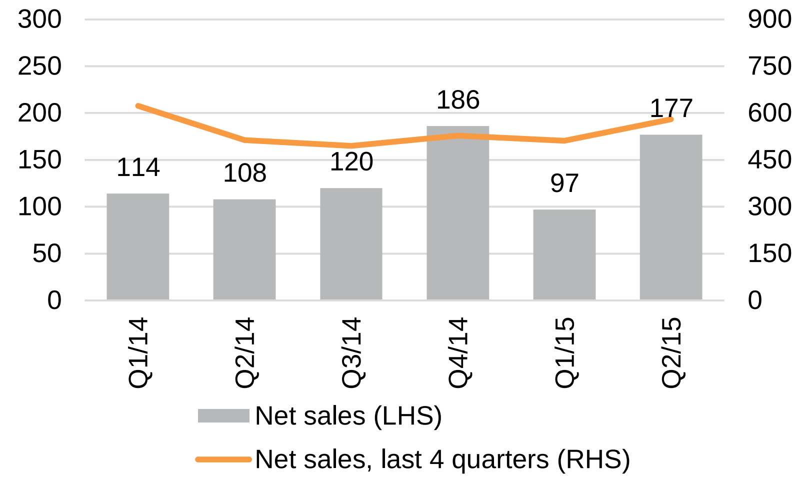
Orders received (EUR million)

Q1–Q2/2014: EUR 402 million	**Q1–Q2/2015:** EUR 278 million



Net sales (EUR million)

Q1–Q2/2014: EUR 222 million	**Q1–Q2/2015:** EUR 273 million



- Orders received decreased compared with Q2/2014
  - Orders received increased in North America, remained stable compared with Q2/2014 in EMEA, South America and Asia-Pacific, and decreased in China
  - Orders received increased in Tissue, and decreased in Board and Paper
- Net sales increased compared with Q2/2014

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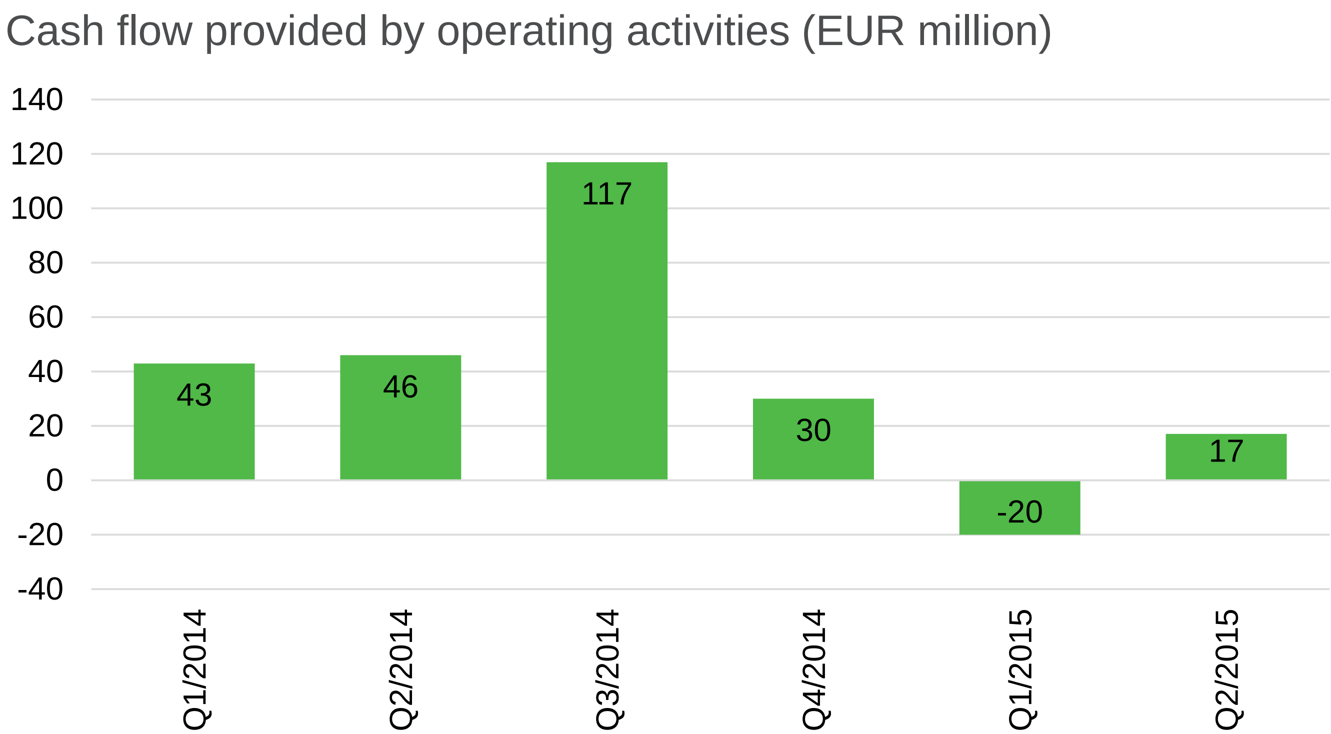
Financial development

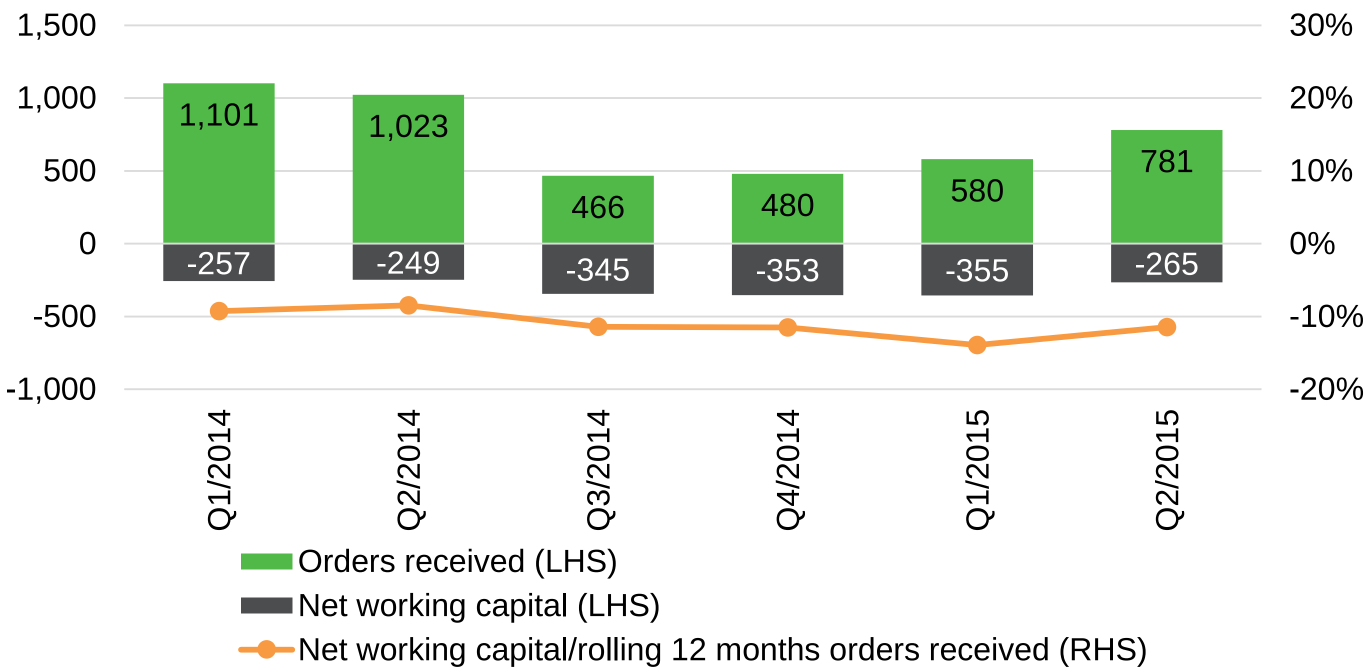
Cash flow provided by operating activities



- CAPEX excluding business acquisitions (EUR -9 million) less than depreciation (EUR -15 million)

Net working capital development

Net working capital and orders received (EUR million)

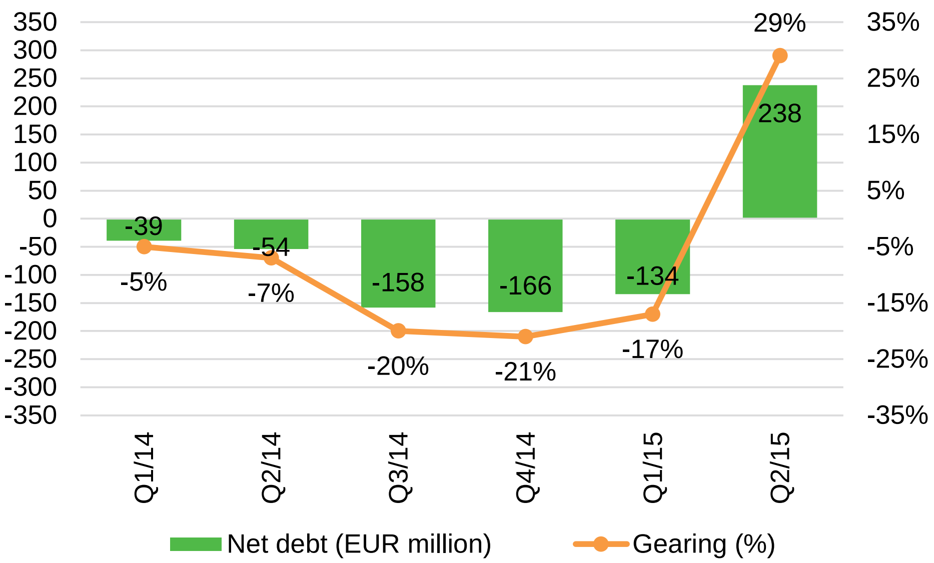


Net working capital has been on average -9% of rolling 12 months orders received

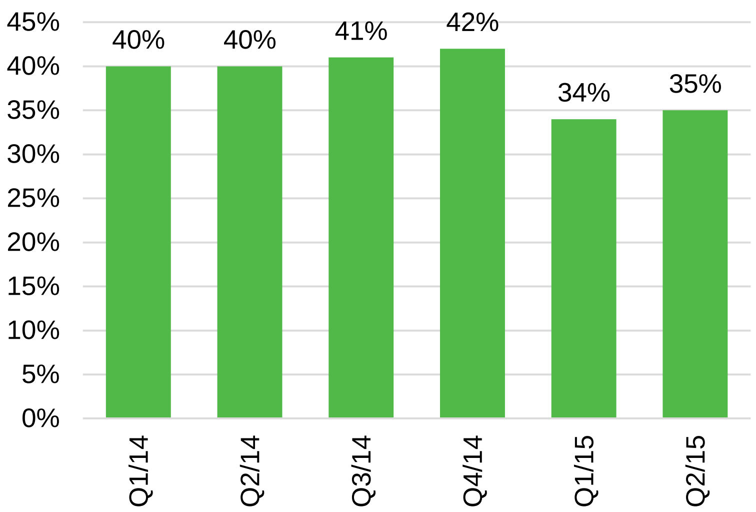
- Net working capital EUR -265 million, which equals -11% of rolling 12 months orders received

Net debt increased due to Automation acquisition

Net debt (EUR million) and gearing (%)



Equity to assets ratio (%)

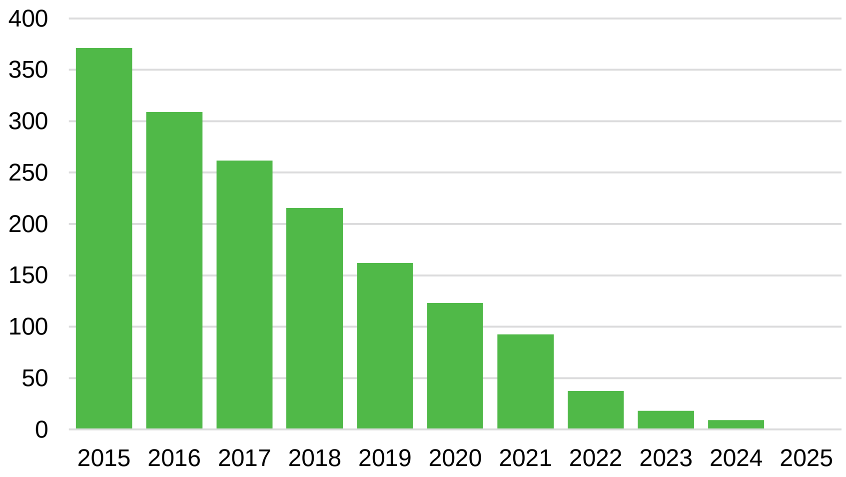


- Gearing (29%) and net debt (EUR 238 million) increased due to acquisition
- Equity to assets ratio increased from Q1/2015 but decreased from Q2/2014 due to acquisition

Structure of loans and borrowings

Interest-bearing debt EUR 428 million as at June 30, 2015

Amount of outstanding interest-bearing debt (EUR millions)



- Average maturity of long-term loans is 3.8 years
  - Average interest rate is 1.3%

Main financing sources

Amount	Lender
EUR 129 million	European Investment Bank
EUR 100 million	Skandinaviska Enskilda Banken
EUR 70 million	Swedish Export Kredit
EUR 95 million	Nordic Investment Bank

Back-up facilities

Amount	Outstanding
EUR 200 million syndicated revolving credit facility	EUR 0 million
EUR 200 million domestic commercial paper program	EUR 30 million

Guidance and short-term market outlook

Guidance and short-term market outlook

Guidance for 2015 (as given on February 6, 2015)

Guidance for 2015	
	Valmet estimates that, including the acquisition of Process Automation Systems, net sales in 2015 will increase in comparison with 2014 (EUR 2,473 million) and EBITA before non-recurring items in 2015 will increase in comparison with 2014 (EUR 106 million).

Short-term market outlook

		Q3/2014	Q4/2014	Q1/2015	Q2/2015
Services		Satisfactory	Satisfactory	Satisfactory	Satisfactory
Pulp and Energy	Pulp	Satisfactory	Satisfactory	Good	Good
	Energy	Satisfactory	Satisfactory	Weak	Weak
Paper	Board and Paper	Good	Good	Good	Good
	Tissue	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Automation		-	-	Satisfactory	Satisfactory

Summary of Interim Review Q2/2015

Q2/2015 in brief

Strong start for Automation as part of Valmet

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Interim Review January–September 2015

October 28, 2015

www.valmet.com/investors

Upcoming site visits:

Sundsvall, Sweden
September 10, 2015

Shanghai, China
September 24, 2015

Appendix

Largest shareholders on June 30, 2015

Based on the information given by Euroclear Finland Ltd.

Largest shareholders

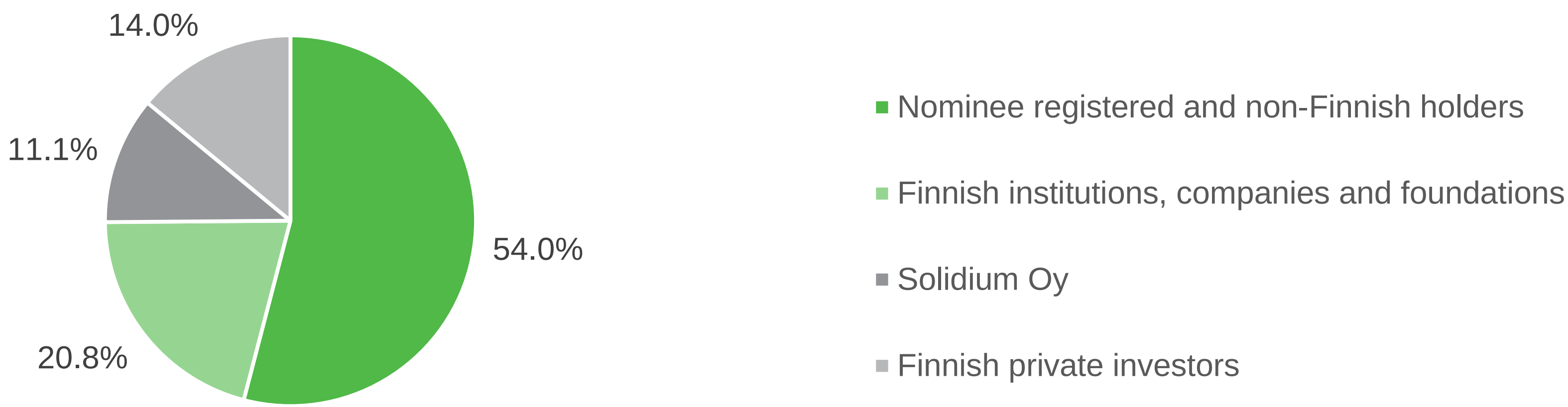
#	Shareholder name	Number of shares	% of shares and votes
1	Solidium Oy[1]	16,695,287	11.14%
2	Varma Mutual Pension Insurance Company	4,208,465	2.81%
3	Nordea Funds	3,994,491	2.67%
4	Skagen Global Verdipapirfond	3,106,627	2.07%
5	Ilmarinen Mutual Pension Insurance Company	3,092,126	2.06%
6	The State Pension Fund	1,520,000	1.01%
7	Keva	1,502,166	1.00%
8	Mandatum Life Insurance Company Limited	1,217,307	0.81%
9	OP Funds	979,300	0.65%
10	Skagen Global II Verdipapirfond	968,463	0.65%
	10 largest shareholders, total	37,284,232	24.87%
	Other shareholders	112,580,387	75.13%
	Total	149,864,619	100.00%

- The holding of Franklin Templeton Institutional, LLC decreased on June 9, 2015 to 7,196,324 shares (previously 7,517,629 shares), corresponding to an ownership of 4.80% (previously 5.02%) of Valmet’s shares.
- The holding of Capital Partners Ltd. decreased on February 12, 2015 to 10,323,191 shares (previously 20,813,714 shares), corresponding to an ownership of 6.89% (previously 13.89%) of Valmet’s shares.

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

Valmet

Ownership structure on June 30, 2015

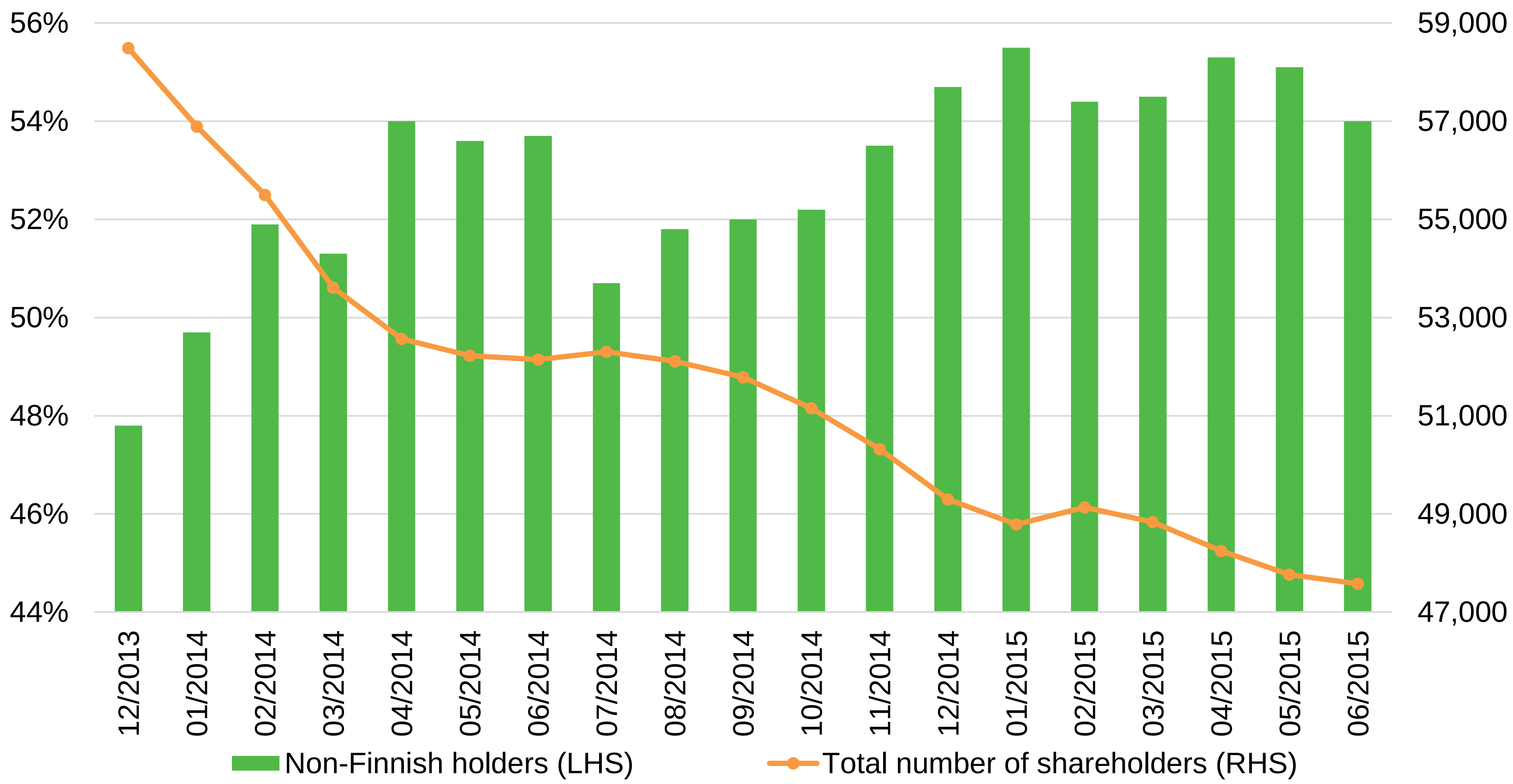


Sector	Number of shareholders	% of total shareholders	Number of shares	% of shares
Nominee registered and non-Finnish holders	295	0.6%	80,959,438	54.0%
Finnish institutions, companies and foundations	2,591	5.5%	31,225,221	20.8%
Solidium Oy[1]	0	0	16,695,287	11.1%
Finnish private investors	44,694	93.9%	20,984,673	14.0%
Total	47,580	100.0%	149,864,619	100.0%

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

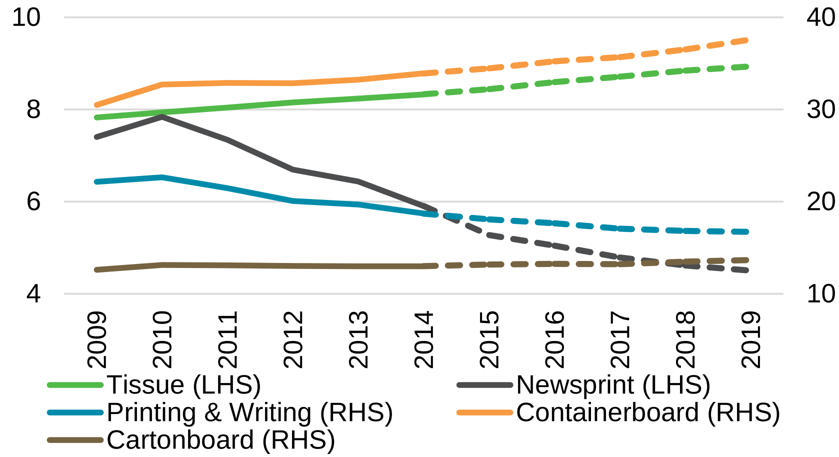
1) A holding company that is wholly owned by the Finnish State

Share of non-Finnish holders and number of shareholders

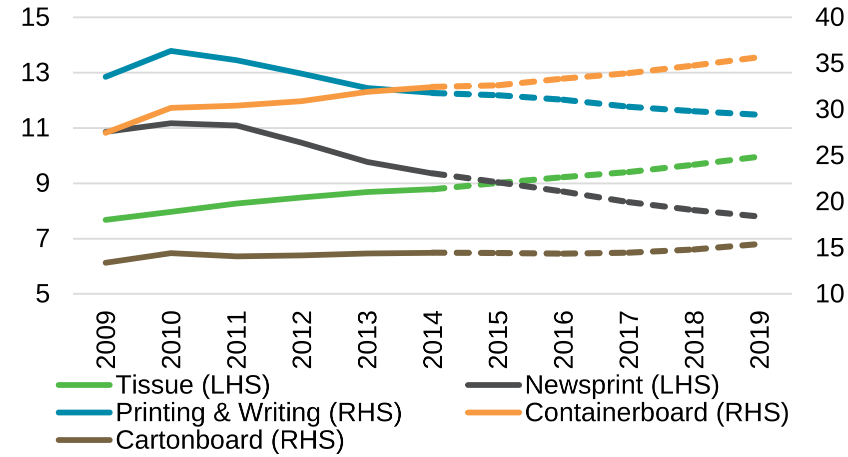


Paper, board, and tissue production trends

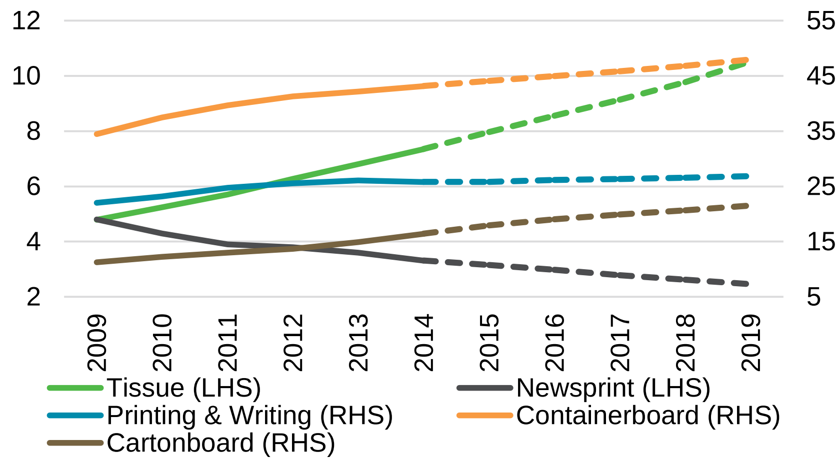
North America (million tonnes)



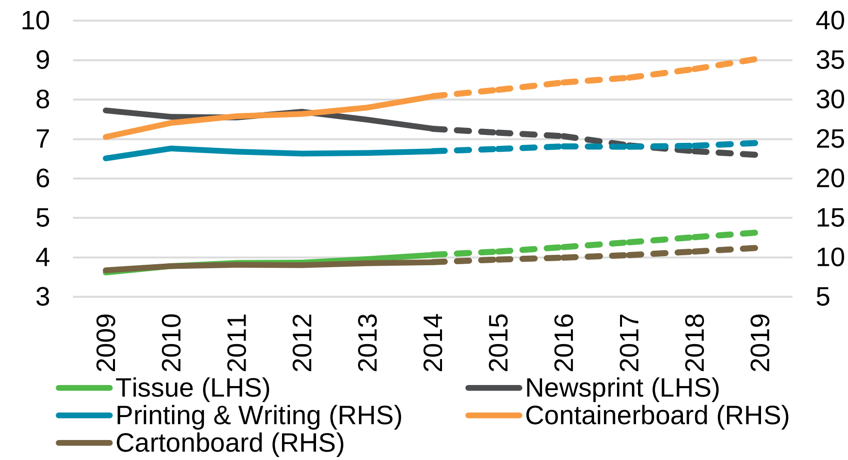
Europe (million tonnes)



China (million tonnes)



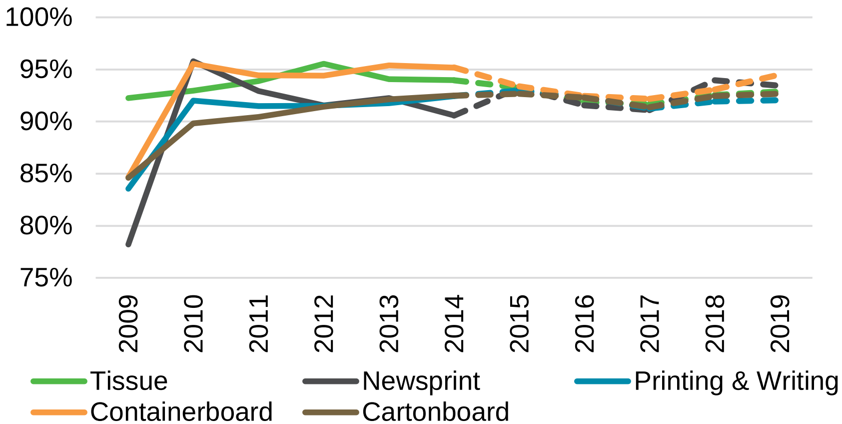
Asia-Pacific (million tonnes)



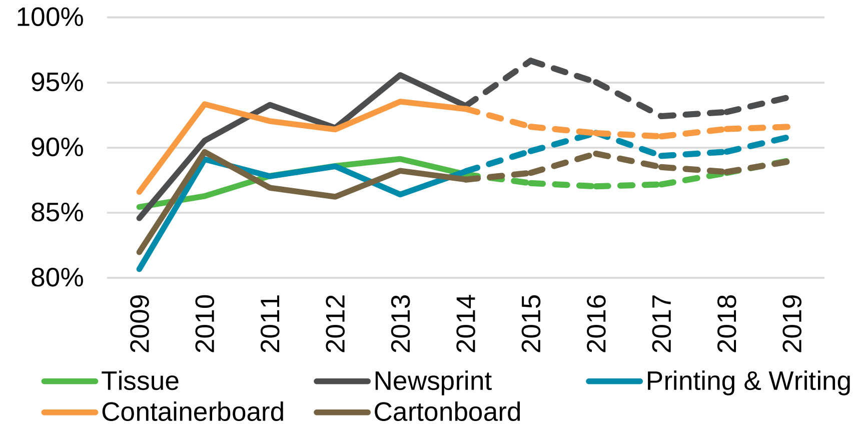
Source: RISI

Paper, board, and tissue operating rates

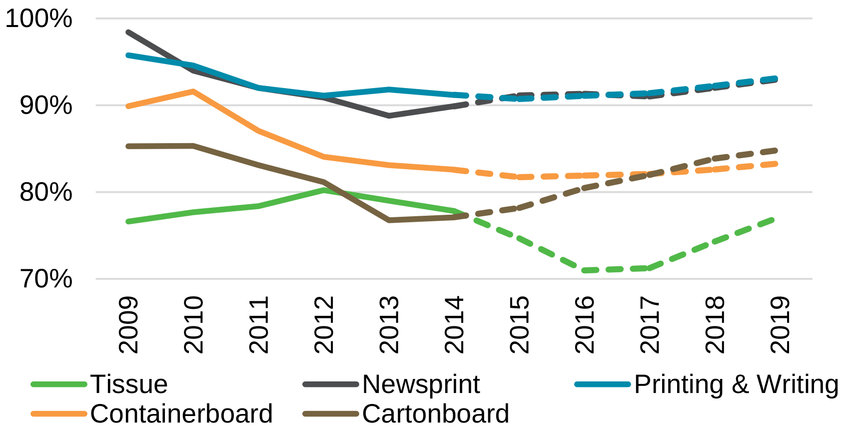
North America



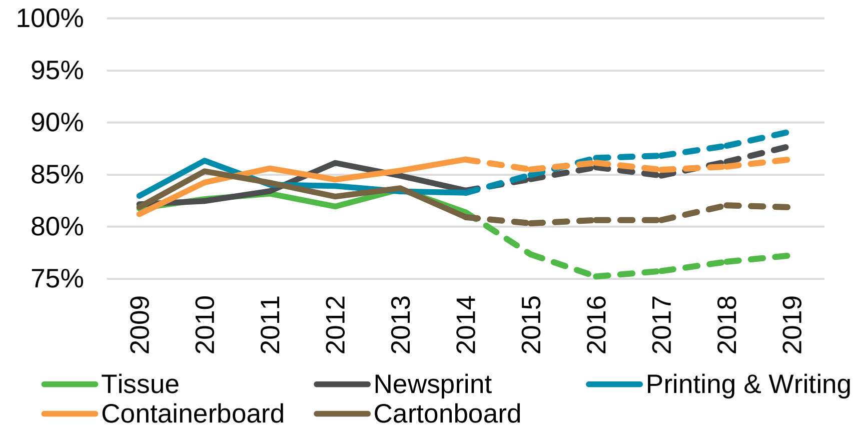
Europe



China



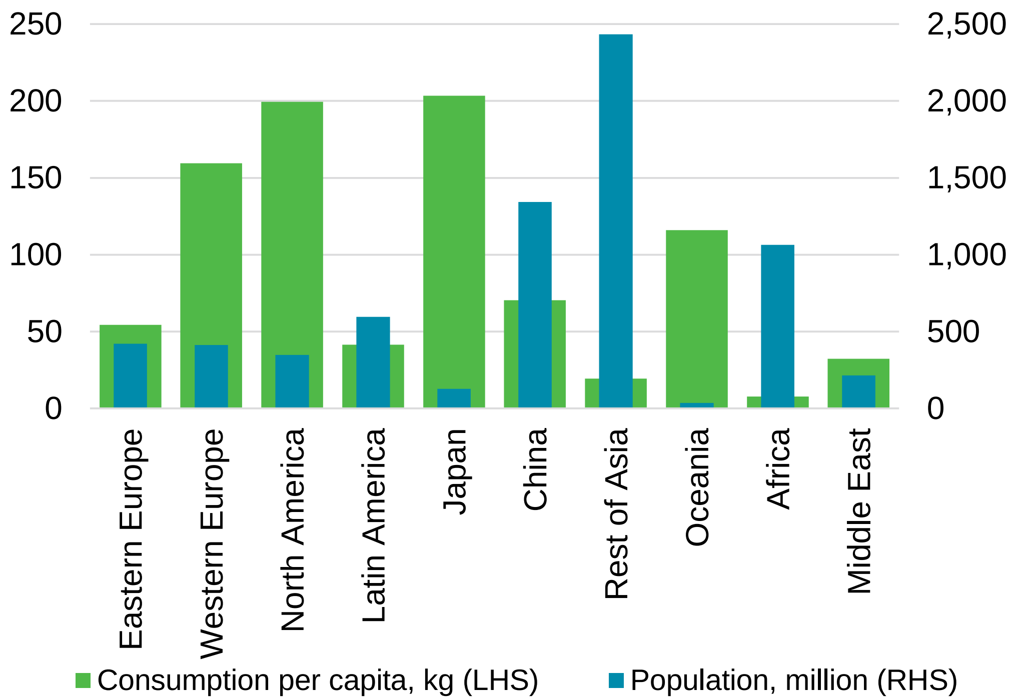
Asia-Pacific



Source: RISI

Paper and board consumption growth trends

Paper and board consumption per capita vs. population



Average global consumption: 53 kg per capita

Population growth in emerging markets is larger than in developed markets

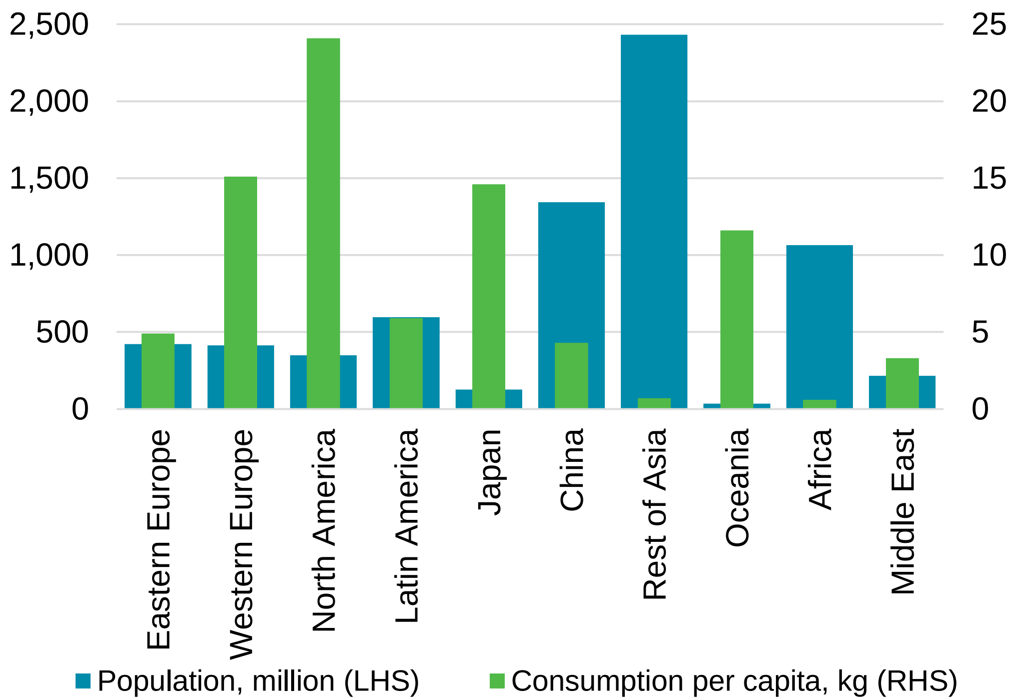
Level of consumption per capita in emerging markets clearly below that in developed markets

This offers us long-term growth potential

Source: RISI

Tissue consumption growth trends

Tissue consumption per capita vs. population



Average global consumption: 4.5 kg per capita

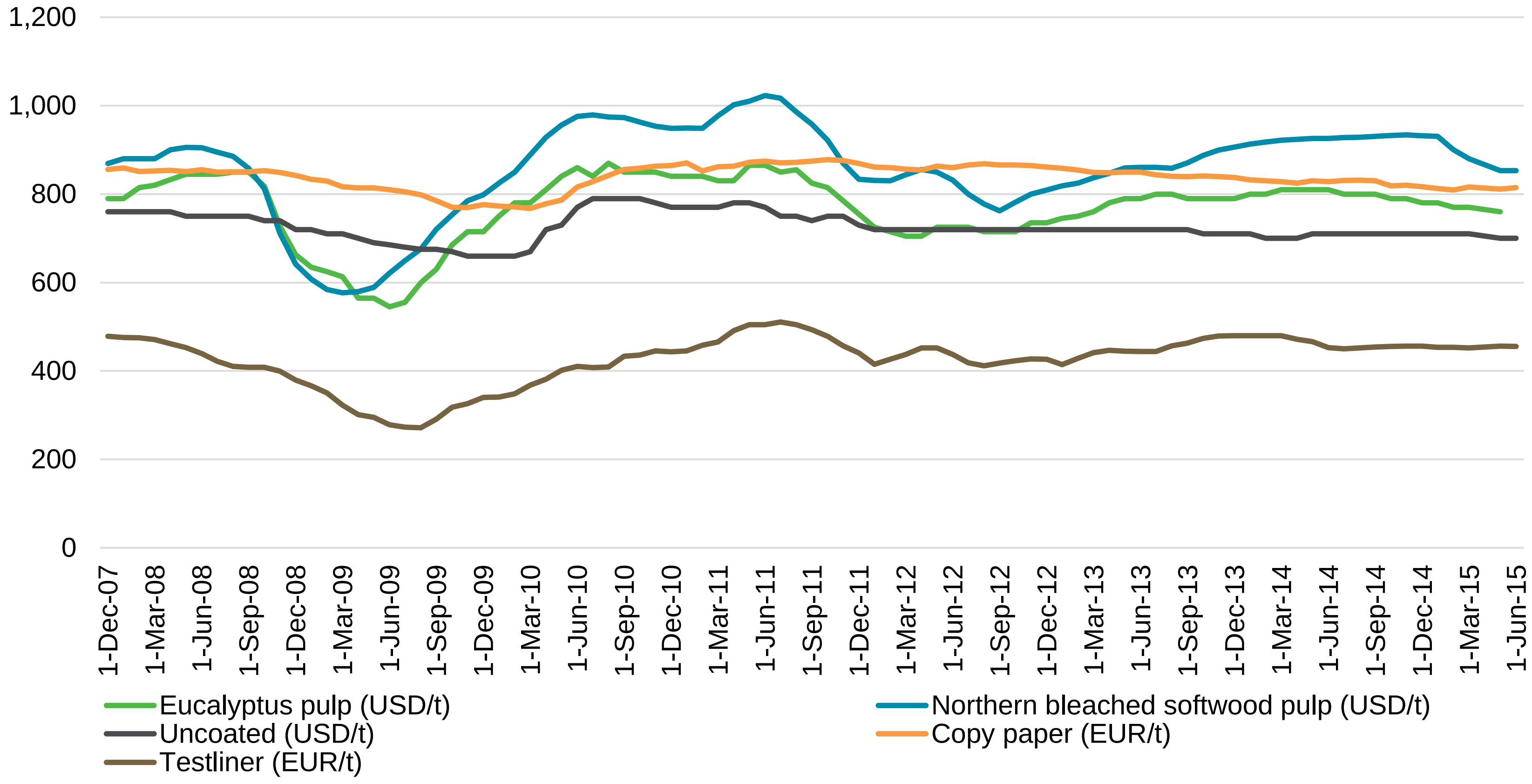
New products and consumption models based on tissue are helping increase consumption in developed markets

Consumption in emerging markets is still low, but growing

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

Source: RISI

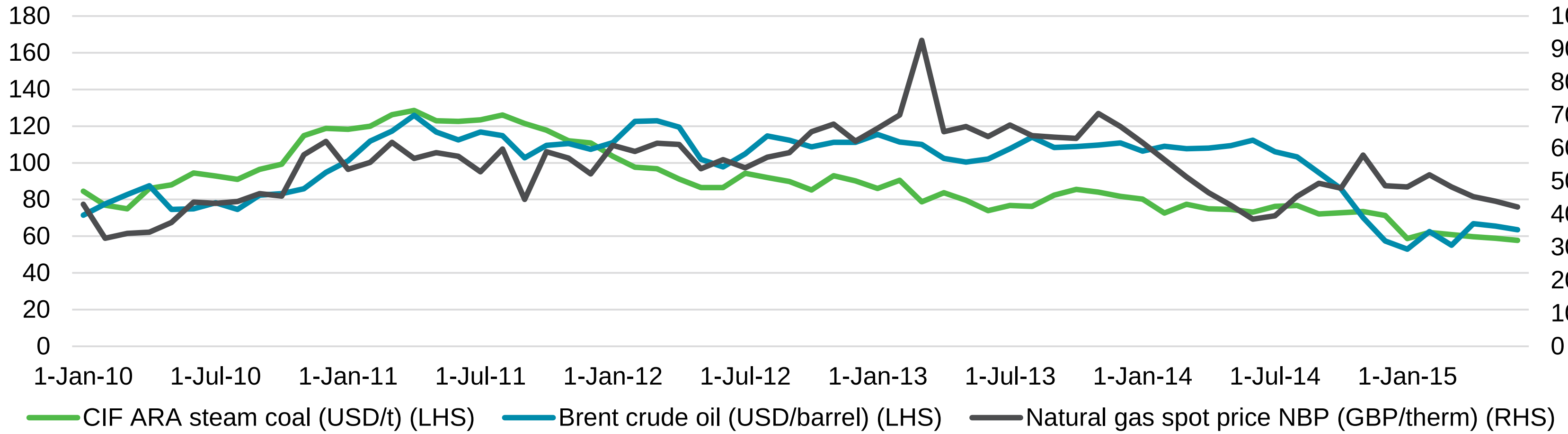
Pulp and paper price trends

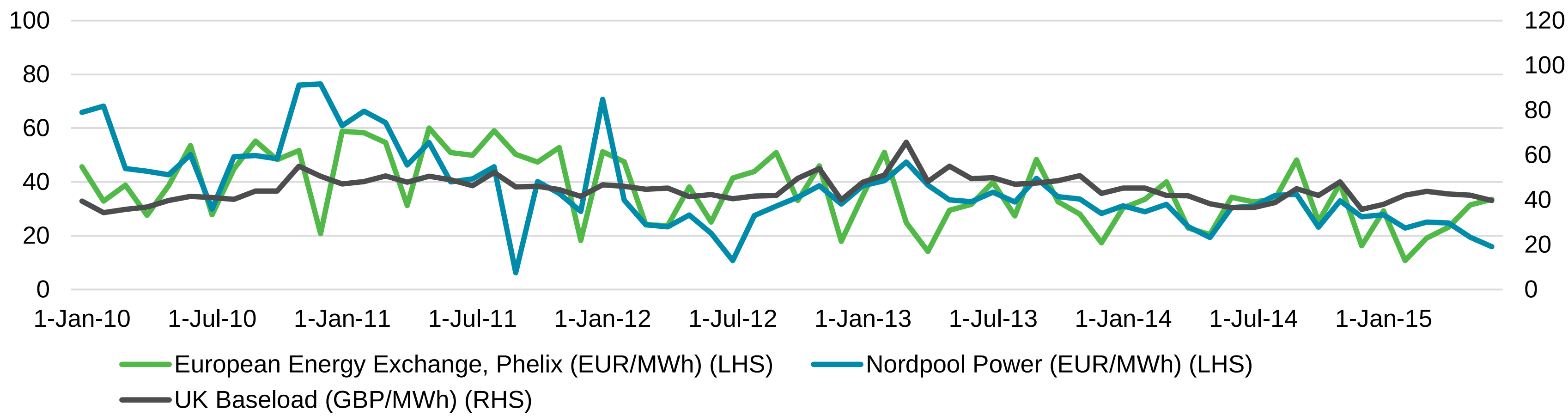


Source: Bloomberg

Crude oil, steam coal, natural gas and electricity

Europe

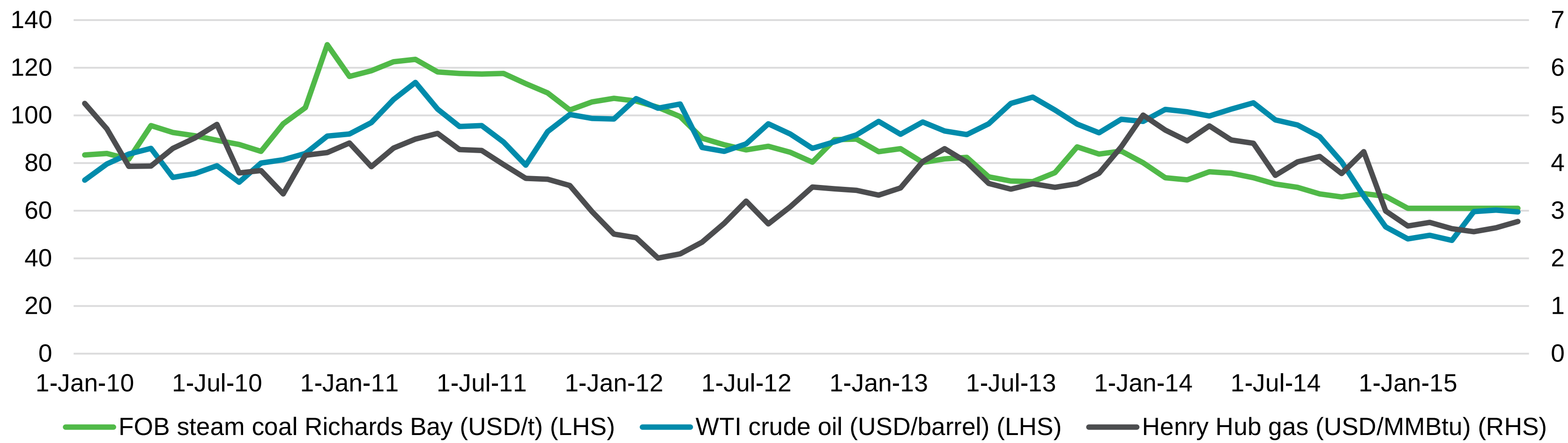


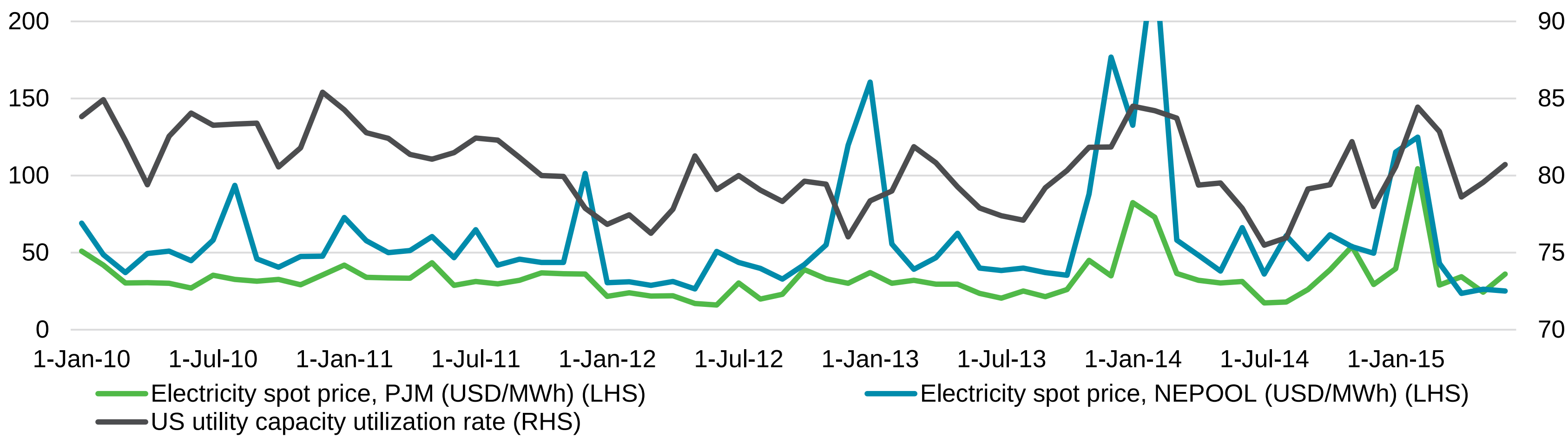


Source: Bloomberg

Crude oil, steam coal, natural gas and electricity

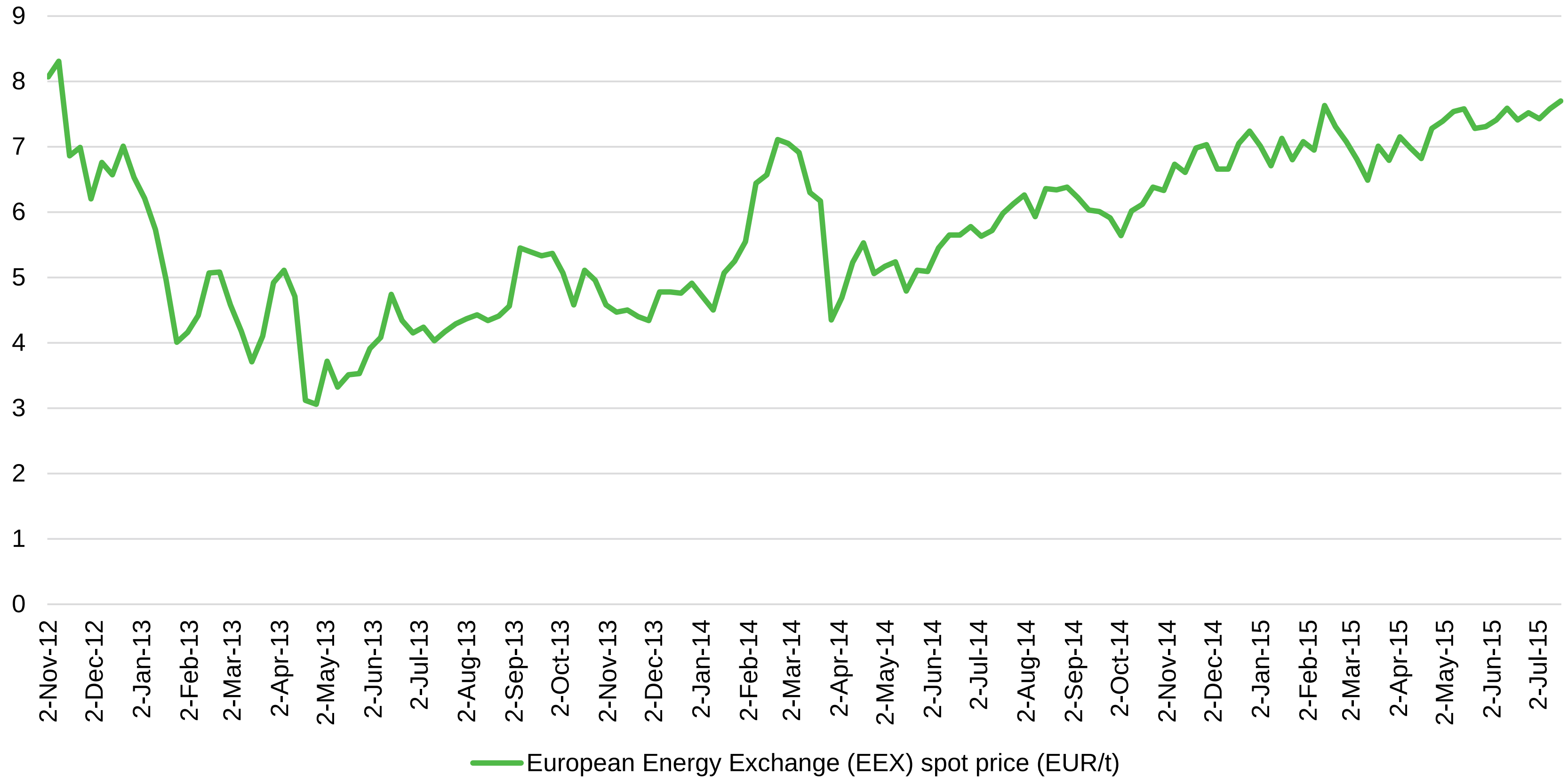
United States





Source: Bloomberg

European Carbon Emission Allowance



Source: Bloomberg

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