

## Transcript for "Financial Statements Review for 2025"

**00:00:01 - 00:01:05**

Pekka Rouhiainen: Good morning, everyone. Welcome to Valmet's Fourth Quarter Results Webcast. My name is Pekka Rouhiainen. I'm the vice president of Investor Relations at Valmet. With me today are Valmet's President and CEO, Thomas Hinnerskov, and our CFO, Katri Hokkanen. Today, we will walk you through Valmet's fourth quarter and also highlight some full-year highlights. The most notable one is the full-year margin increasing to a new record of 11.9 percent as our strategy delivered its first results during the second half. The agenda for today is straightforward. First, Thomas will present the Q4 of full-year highlights, including the acquisition of Severn. Next, Katri will walk us through the financial development in detail. Then Thomas will return to discuss the dividend proposal, the guidance for 2026, and the short-term market outlook for the next six months. After the presentations, we will open the lines for your questions. Thank you for joining us today and for your interest in Valmet. With that, let's get started, Thomas.

**00:01:05 - 00:02:06**

Thomas Hinnerskov: Thank you, Pekka. 2025 was my first full year as CEO of Valmet, and it's been a truly transformative year. We've been driving many changes and initiatives, and I'll get back to some of those later in the presentation. Therefore, firstly, I want to thank the Valmet team for all the hard work and commitment throughout the whole year. I would also like to thank everyone at Valmet personally for being very open and welcoming to me at Valmet and being open to the behavioral and cultural aspects we've been working on to speed up our execution and be bolder in our thinking. Let me start by setting the overall frame for today. We operate in a soft market in the second half of the year. However, even though the market is going through a softer patch in the short term, we do remain confident that our strategic choices are the correct ones, and they will take us to the next level of performance by 2030.

**00:02:07 - 00:03:19**

Thomas Hinnerskov: With that, let's start with the full-year highlights. For the full year, we delivered a resilient performance. Net sales held steady, and our comparable EBITA margin reached, as Pekka said, a record of 11.9 percent, up 0.6 percentage points from previous years. This was driven by the bold operating model changes we decided on already in the first quarter, when the market was still largely in better shape. That timing really mattered, and we were ahead of the curve. It gave us the efficiency benefits when the environment turned softer later in the year, without us having to react defensively at a challenging moment. Process Performance Solutions performed exceptionally well, and Biomaterial Solutions and Service maintained stable margins despite our customers' low operating rates and overall weaker global economy. Cash flow remains strong at 581 million, and orders remain solid against a very demanding comparison period.

**00:03:21 - 00:04:34**

Thomas Hinnerskov: The board of Valmet proposes a €1.35 dividend per share, unchanged from last year. Overall, Lead the Way is now being embedded across the organization, and the benefits have become visible already in the second half of last year. With that, let's take a look at the fourth quarter. The overall fourth quarter picture is quite similar to the full year. The market was subdued in Biomaterial Services, as we anticipated. Unfortunately, we saw a more muted demand also in the parts of our Process Performance Solutions, especially in the pulp and paper automation market, which was slower than expected. Also, some packages in automation actually got postponed at the end of the year. When we exclude the exceptionally landmark Arauco order and the FX from the comparison point, orders were very close to last year's level, which is a solid achievement, I think, in this environment. Profitability was clearly a highlight.

**00:04:34 - 00:05:45**

Thomas Hinnerskov: Our comparable EBITA margin reached an all-time high of 13.3 percent for the quarter, driven by the operating model improvements implemented earlier in the year. Those actions, decided when the market was still better, gave us the efficiency that we needed in the second half. We secured several important wins, including our largest-ever energy order for a biomass power plant in Berlin. These kinds of projects add to our install base and create long-term life cycle opportunities for us. Process Performance Solutions delivered another excellent quarter with a margin of 21.9 percent. That's a very good execution from the team and a strong starting point as we invest back into growth, growing into 2026, like we've talked about earlier as well. Finally, we announced the acquisition of Severn Group just before Christmas. Severn brings leading severe service valve technologies and a high-quality install base, truly strengthening our Flow Control in several key process industries. It's a very strong strategic fit for us.

**00:05:48 - 00:07:09**

Thomas Hinnerskov: One important clarification. Our 2026 guidance does not include this acquisition. We will include Severn in our guidance once the transaction is fully finalized, which we expect will happen in Q2. Overall, we had a strong quarter operationally supported by disciplined execution and the benefit of the choices we made earlier in the year, even though the market didn't support us with tailwinds. Let's take a closer look at the order development behind the quarter. As expected, orders for the quarter decreased year-on-year in both segments, mainly because of the comparison period, including the exceptionally large pulp mill order from Arauco in Q4 2024. As previously mentioned, this order also impacted Biomaterial Services and Automation Solution orders intake in Q4 last year. That single project alone created a very demanding benchmark for this quarter. Against that backdrop, our performance was solid. We secured our largest ever energy order for the Berlin biomass power plant, which also came with an extensive service agreement highlighting the lifecycle approach that we launched early in the year at our strategy.

**00:07:10 - 00:08:25**

Thomas Hinnerskov: This is an important long-term value driver. Overall, our energy business had a good year and was able to close some key wins. In Biomaterial Services, the market remained subdued, and we saw a decrease in service orders compared to Q4 last year. This is fully in line with what we communicated earlier, that operating rates and investment activity have been under pressure, and we saw the impact in our Q4 financials. In Process Performance Solutions, the environment softened, particularly in the Pulp and Paper Automation. The difficult end market of our customers also showed in automation demand during the quarter, and furthermore, some package deals did not materialize and were postponed for later. Going forward, we see the market now stabilizing from the weaker Q4 level. Overall, while the headline year-on-year comparison shows a clear decline, we had a decent quarter in a soft market and continued to capture some strategically important wins that strengthen our installed base for the long-term service opportunities.

**00:08:28 - 00:09:46**

Thomas Hinnerskov: Let me then highlight one example that illustrates the strength and the versatility of our automation technology. We secure the automation delivery for the next-generation Polarstern polar research vessel. This is a mission-critical platform for a vessel operating in some of the most extreme environments on Earth. The order showcased how far beyond the traditional process industries our automation offering today reaches. When a customer like this chooses Valmet to run a vessel like this, it is a strong testament or a statement of trust in the reliability, safety, and sophistication of our systems. It also builds long-term value. These vessels have a multi-decade lifecycle, and the automation is central to their operation. This creates recurring life cycle revenue and further strengthens our installed base in a segment where we already hold a leading global position in cruise and marine arbitration. While the quarter was soft in Pulp and Paper automation, this kind of win demonstrates the underlying competitiveness of our technology and our ability to grow in diverse markets.

**00:09:48 - 00:11:04**

Thomas Hinnerskov: Let's look at another concrete example of our strategy to further strengthen our Process Performance business and diversify outside our traditional biomaterial business. We are very excited to be able to announce the acquisition of Severn in the fourth quarter. This is a strategically important step for Valmet in the mission-critical Flow Control business. Severn brings leading severe-service valve technologies, a strong install base, and deep customer relationships in industries that are complementary to ours, to our biomaterial business and businesses such as refining, chemicals, energy, and gases, as well as metal and mining. The strategic fit is excellent. Severn has a proven track record in demanding applications where reliability is key, and they strengthen our Flow Control business, both technology-wise and commercially. It clearly expands our addressable market and increases our presence in segments where we see long-term growth potential beyond our traditional biomaterial business.

**00:11:05 - 00:12:21**

Thomas Hinnerskov: It also takes us to the top five globally in the valves business. The combination also brings clear synergy opportunities, broader market rates, complementary offerings, and the ability to increase service presentation or penetration in a large, high-quality install base. Severn generated around €250 million of revenue in 2025, with an EBITA margin of about 16 percent, reflecting a solid operating foundation. We expect the acquisition to close during the second quarter of this year. Overall, it's a good strategic fit. In addition, its strength and Flow Controls broaden our portfolio and improve our growth profile over the long term. Now let's turn to Process Performance Solutions. Process Performance Solutions delivered a record year in comparable EBITA. Orders came in at €372 million, decreasing as anticipated due to the strong comparison period, which includes the landmark automation order from Arauco last year.

**00:12:22 - 00:13:44**

Thomas Hinnervik: Net sales remained at last year's level. Flow Control continued to grow organically. Bio-automation solutions saw a decline, particularly or partly, I would say, reflecting the softer demand conditions we already discussed on the previous slides. The clear highlight is profitability. Comparable EBITA reached a new record of €90 million, and the margin increased to 21.9 percent. The margin was supported by solid commercial execution, operating model efficiencies, and overall disciplined cost control. Even with a softer automation market and a tough comparison on orders, PPS continues to show strength and resilience. However, we do want to be mindful of the fact that we don't expect the margins to continue at this record level into 2026, as we will be investing back into long-term growth by hiring key personnel both in sales and also in R&D. Now, let's move to the Biomaterials Solutions and Services. Starting with orders.

**00:13:44 - 00:15:06**

Thomas Hinnervik: The highlight win in the quarter was the Berlin Biomass Powerplant Order, which I mentioned earlier. However, compared to last year's exceptionally strong fourth quarter, orders were clearly lower, as the comparison period included the very large Arauco pulp mill order. Full-year services orders were up four percent organically and represented 52 percent of the orders received. Looking at the market environment, the Biomaterial Services market continued to be soft, which was very much in line with what we saw already in the third quarter. In fact, the year was divided into sort of two parts. A good active first half, followed by a clearly softer second half as customer operating rates were visible in the market. On the net sales side, development was as expected. Capital net sales came in at a solid level in the quarter, and we saw the Arauco project progressing well. In total, we booked roughly €400 million of Arauco as net sales during 2025, and we estimate that roughly another €400 million will be booked as net sales in 2026 as the project continues to advance, according to plans.

**00:15:08 - 00:16:14**

Thomas Hinnervik: In services, net sales decreased organically by about seven percent. This reflects the order mix in the region quarters, which have been more tilted towards longer lead-time mill improvement projects. Also, along with the FX impact, that mix effect was clearly visible in the net sales for the fourth quarter as well. Comparable EBITA amounted to €123 million, with a margin of 11.6 percent, unchanged from last year. Biomaterial Services' net sales were lower, but the operating model efficiency we implemented early in the year supported the segment's margin development, and I'm very pleased that we made those decisions when we did. Without them, the year-end would have been significantly tougher for this segment in terms of delivering the margin. This covers the operational and market development for our segment this quarter. To give you a deeper look at our financial development, I'll now hand over to Katri, our CFO. Katri, the floor is yours.

**00:16:16 - 00:17:21**

Katri Hokkanen: Thank you, Thomas. Before I begin, I want to sincerely thank the Valmet finance team and our investor relations team for a very strong year-end reporting effort. This was the first annual closing under our new, renewed operating model and reporting structure. We introduced several improvements to our quarterly and annual reporting during the year. Delivering these changes while maintaining the excellent accuracy and clarity required significant teamwork. I want to thank everyone involved for their dedication to this. I'll now take you through Valmet's financial development, focusing on the fourth quarter. I will cover our profitability, cash flow, balance sheet, and other key financials. As always, I aim to provide a clear and transparent view of our financial position and the drivers behind our performance. Let's start with an overview of our net sales and comparable EBITA for the fourth quarter.

**00:17:22 - 00:18:46**

Katri Hokkanen: Net sales amounted to €1.5 billion in Q4, and this was 51 million lower than in the comparison period. This was mainly due to a negative currency impact of approximately €42 million as the euro strengthened against the US dollar and some other key currencies. Organically, net sales were only one percent lower than Q4 last year, showing steady development in both segments. Comparable EBITA reached €196 million, and the margin rose to 13.3 percent, which is the highest quarterly margin in Valmet's history. The increase was driven by the cost savings from our own operating model renewal, which continues to support profitability in the second half. By the end of the year, we realized approximately €35 million in cost savings related to the operating model renewal. This includes approximately 20 million in the fourth quarter, and the targeted 80 million annual cost savings run rate has now been reached. As I said earlier, we will be investing part of those savings back into growth.

**00:18:46 - 00:20:11**

Katri Hokkanen: The incremental net savings impact will be roughly 30 million in the first half of this year. I'm pleased to note that even with the weaker market and currency headwinds, our operating model and disciplined execution allowed us to deliver another quarter of strong financial performance. Let's move next to our order backlog. At the end of 2025, Valmet's order backlog amounted to €4.3 billion, which is €146 million lower than at the end of 2024. Based on the current delivery schedules, we expect approximately €3.1 billion of the backlog to convert into net sales during this year. This is in line with the level we guided last year, when a similar amount of backlog was expected to be recognized as net sales during 2025. Our book-to-bill ratio for the full year was one, reflecting the softer market in the second half of the year. Even so, the absolute backlog continues to provide very solid visibility for this year. Overall, the backlog remains at a healthy level, supporting stable deliveries for the year ahead.

**00:20:12 - 00:21:41**

Katri Hokkanen: As always, our teams are working hard to create a solid amount of book-to-bill during the year on top of the order backlog. Moving on to our cash flow and working capital. Cash flow from operating activities amounted to €189 million for the fourth quarter, bringing the full-year operating cash flow to €581 million. Our comparable cash conversion ratio for 2025 was 94 percent, which is in line with our long-term average and demonstrates the strength of our cash generation capability. Net working capital decreased to €29 million at year-end, compared with €134 million a year ago. I'm very pleased to see over €100 million released during the year. CAPEX for the year totaled €103 million, representing about two percent of net sales, and this is broadly in line with previous years, and we expect this to increase a bit this year. Efficient cash generation, together with disciplined capital allocation, remains the key priority for us. They both support and enable operational flexibility and our long-term growth ambitions.

**00:21:41 - 00:23:14**

Katri Hokkanen: Let's move on to our balance sheet and leverage position. At the end of 2025, Valmet's net debt amounted to €904 million, and our gearing decreased to 35 percent, down from 38 percent in the third quarter. Net debt decreased by 41 million from Q3, even though we paid the second dividend installment of 67 cents per share, which totaled €123 million in Q4. Our net debt-to-EBITA ratio improved sequentially to 1.40, compared with 1.50 at the end of the third quarter. We are well within our target of under 50 percent gearing, which means we are in a good position for the upcoming Severn acquisitions as well. It is estimated to increase Valmet's gearing by approximately 15 percentage points once completed. The average interest rate of our total debt was 3.4 percent at year-end, decreasing from four percent a year earlier. During Q4, we also completed our first Schuldschein loan transaction, which amounted to €375 million. This transaction strengthens our long-term debt structure, diversifies funding sources, and broadens our debt investor base.

**00:23:14 - 00:24:41**

Katri Hokkanen: A big congratulations once more to the team that made this transaction happen. Net financial expenses decreased slightly to €62 million for the year. Overall, the balance sheet remains strong, which gives us flexibility as we continue to execute our strategy even in a softer market. Moving on to our capital efficiency and EPS. Our comparable ROCE for the full year was 13 percent. This is a solid level and slightly higher than a year ago. However, our long-term financial target is to reach 20 percent comparable ROCE by 2030, so we still have work ahead of us. The main driver behind the lower ROCE compared to 2022 is the series of acquisitions we have made recently, which have increased our capital employed. We remain confident that these investments will support stronger returns over time, and they fit well with our strategy and long-term financial ambition, increasing shareholder value. Adjusted earnings per share for the year were €1.82.

**00:24:41 - 00:26:13**

Katri Hokkanen: The year-on-year decrease is mainly related to changes in the expensing of fair value adjustments from acquisitions. Just as a reminder, adjusted EPS excludes acquisition-related impacts, but it does include items affecting comparability, which is sometimes misunderstood. Looking at the key financial figures for the fourth quarter, I'm pleased to note that almost all the numbers are in the black for Q4, with the exceptions of orders, for reasons we have already discussed, and net sales, which decreased mainly due to currency impacts. Comparable EBITA increased to €196 million, up two percent from the previous year, and the margin improved to 13.3 percent. EBITA and operating profit also increased from last year's levels. Cash flow from operating activities was €189 million, up seven percent year-on-year in Q4 and five percent in 2025. For the full year, items affecting comparability amounted to minus €85 million, compared to minus 53 million in 2024. The increase in these costs was mainly driven by restructuring expenses related to the operating model renewal.

**00:26:13 - 00:26:41**

Katri Hokkanen: On a full-year basis, our tax rate was 25.7 percent, which is in line with Valmet's historical

ETR level, which has been around 25 percent. You will also notice that our effective tax rate in Q4 was higher than usual, as there were some one-off impacts on the taxes. That concludes my review of the key financials. Thomas, over to you, please.

**00:26:41 - 00:28:10**

Thomas Hinnerskov: Thank you very much, Katri. That was very clear, transparent, and good, thanks. Let's start with the dividend. We laid out our capital allocation priorities back at the Capital Market Day last year in June. First organic growth. We're reinvesting part of the operating model savings back into growth, particularly into strength and commercial execution. This is a deliberate choice to support our long-term profitability. Secondly, strategic M&A. We expect to close the approximately €410 million acquisition of Severn in 2026. It's a significant strategic step aligned with our portfolio ambition. Thirdly, dividends. Our policy is to pay out 50 percent of profit for the period, or a minimum of 50 percent for the period. The board's proposal is a €1.35 dividend, translating into 89 percent payout ratios and 249 million in total dividends, unchanged from last year. Fourth is share buybacks, which remain a flexible tool depending on the balance sheet strength and other capital allocation needs of the previous priorities.

**00:28:11 - 00:29:42**

Thomas Hinnerskov: Overall, the proposed dividend is consistent with our policy. It reflects confidence in Valmet's cash flow and long-term financial position. Let me start with the short-term market outlook for the first half of 2026, compared with the fourth quarter. In PPS, the market softened in Q4, particularly in pulp and paper automation, but also in Flow Control, where earlier tariff costs pre-buying turned into a temporary headwind. From here, we do not expect further softening. We see the PPS market stabilizing at the Q4 level and improving modestly during the first half of 2026. In Biomaterials Solutions and Services, the market environment in pulp, packaging, and paper remains soft and highly dependent on the timing of any possible individual customer decision. Biomaterial services are also expected to remain soft, but not to worsen from current levels, which is why we've adjusted the wording. Capacity utilization, especially in Europe and China, remains low and continues to pressure our customers' profitability. From our perspective, the market is flattening, not deteriorating further.

**00:29:44 - 00:31:13**

Thomas Hinnerskov: Turning then to our 2026 guidance, which we published today. First, we expect net sales to remain at the previous level. This reflects the flat order backlog and the short-term market environment I just described. Second, we expect comparable EBITA to remain at the previous level or increase. The drivers are clear. On the positive side, we'll have additional net savings of roughly €30 million from the operating model renewal, as well as the first benefits from the new global supply unit. On the more cautious side, general market uncertainty remains high, and for that reason, we guide for flat or an increase. Our long-term ambition remains unchanged. Our 2020 target is a 15-point comparable EBITA margin, which will be a clear step up from the 11.9 in 2025, and we continue working with determination to progress also in 2026. Despite the market challenges, our simplified operating model, our focus strategy, and precision to navigate near-term volatility, and to continue creating long-term value for both our customers and our shareholders. With that, I'll hand over to Pekka for instructions on the Q&A.

**00:31:14 - 00:31:48**

Pekka Rouhiainen: Thank you, Thomas and Katri. Let's now go to the Q&A part here. As usual, you have the chance to ask questions through the digital platform and also dial in to the webcast. We'll start with the questions here from the platform, since we have a few. First, Thomas, can you discuss the services market in 2025 and the outlook for 2026 for Biomaterial Services, as it's one of the important factors for the guidance?

**00:31:48 - 00:33:03**

Thomas Hinnerskov: Clearly, that is one of the swing factors for the guidance. Looking back at 2025, we can divide the year into two parts. The first half was clearly strong, especially at the beginning with parts. However, over the summer period, we had good mill improvement projects coming off, and some pre-buying ahead of the tariffs as well. We also saw that in the first half. Then it turned into a softer second half that really reflects our customers' operating rates and the challenges that they're going through. Going then into 2026, which I think is what we are most interested in and passionate about, how that will turn out. Clearly, softness continues. We don't say that it's going to be softer than what we've experienced now, but it is going to be soft. It is a bit foggy in terms of looking further out at how it will go. However, I think what we are doing as well is that we're investing in commercial capabilities. We're strengthening our life cycle concepts to actually help our customers.

**00:33:03 - 00:33:15**

Thomas Hinnervskov: There's still a lot they can do in terms of the mill improvement projects to drive up their efficiency so they become more competitive in their market, and I see that as a positive thing. However, it's in our hands that we can actually drive that ourselves.

**00:33:17 - 00:33:37**

Pekka Rouhiainen: Thank you, Tomas. Thank you for that clarification. Then, about the guidance, it was already reflected here, but we also received a few questions before the call started. Does the guidance include Severn acquisitions, and what kind of financial impact do you expect from Severn in 2026?

**00:33:38 - 00:34:07**

Thomas Hinnervskov: That's a good point. It is very important to clarify that Severn is not included in our guidance. It's too early to do that. We will include it once we close it in the second quarter. That is clear. Severn had a 2025 estimate of roughly 250 million in sales that will come into Valmet at the time we close the deal, from a run rate perspective.

**00:34:08 - 00:34:24**

Pekka Rouhiainen: Thank you. Another question on the services net sales, maybe going to Katri here. The services' net sales decreased in Q4. Were there some specific drivers for that decrease?

**00:34:24 - 00:34:47**

Katri Hokkanen: Thank you. First of all, organically it went down by 7 percent, so FX played a role there. However, Thomas discussed in his presentation that, as you remember, in Q3, our orders were a bit more tilted towards these mill improvement projects, and they take a longer time to recognize as revenue. That was the main reason.

**00:34:49 - 00:35:04**

Pekka Rouhiainen: Thank you for those answers. Please use the platform. We'll address those questions later if there are any more. Now we go to the conference call. Operator, I hand over to you.

**00:35:06 - 00:35:32**

Speaker 4: 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. [silence 00:35:19-00:35:25] The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

**00:35:36 - 00:36:00**

Panu Laitinmäki : Thanks for taking my questions. I have two questions. The first question is on biomaterials. The margin trend was better in Q4 than in Q3, if we look at the year-on-year development and the absolute level. The question is, what was behind that improvement? You've said that you got a bit more cost savings in Q4 than Q3, but was that the reason, or was there something else in the underlying business?

**00:36:21 - 00:36:32**

Thomas Hinnervskov: Basically, I think we also said, on my part, that a large part of that margin improvement in Q4 for the biomaterials was that the operating model changes impacted them positively. As you probably remember, Panu, we said roughly two-thirds of the savings from the operating model come into the biomaterial business.

**00:36:32 - 00:36:55**

Panu Laitinmäki : Okay. Thank you. Secondly, on performance, you said in your comments that you don't expect the margin to remain at the record-high 25 level. Were you referring to Q4 not continuing at the 22 level or, on a kind of full-year basis, as what you reported for that division?

**00:36:55 - 00:37:48**

Thomas Hinnervskov: I think we specifically are commenting on that it will not stay on the Q4 level going forward. As you recall from the Capital Market Day, this is one of the areas where we want to invest. We want to drive more organic growth by investing in sales resources and further R&D resources that we started executing right after the Capital Market Day, and the strategy was launched. Some of these recruitments came online late last year and early this year, and we can say that increased the cost level and therefore took the margins down. Then it's also clear that when you drive sales in this area, we will not see the bottom-line impact as fast because it takes a bit of time before it really gets into the service mode of this solution.

**00:37:49 - 00:38:03**

Katri Hokkanen: Let me build on top of that. If you look at the PPS margin, it was actually really strong in the second half of last year. We expected to ease a bit but still remain on a solid level.

**00:38:06 - 00:38:17**

Thomas Hinnerkov: You also remember, Panu, we said it in Q3 as well that we were commercially ahead of the curve in terms of anticipating some of the cost challenges that now come online from a terrorist perspective, et cetera.

**00:38:19 - 00:38:20**

Panu Laitinmäki : Okay. Thank you.

**00:38:26 - 00:38:36**

Speaker 4: The next question comes from Mikael Doepel from Nordea. Please go ahead. [silence 00:38:30-00:38:36]

**00:38:36 - 00:39:30**

Mikael Doepel: Thank you. Good morning, everybody. Thanks for taking my question. I have a couple of questions. Basically, I'll take them one by one. Firstly, on the service segment, I appreciate the comments earlier. However, can you give a bit more comment there? You say it's still a tough or soft market. Is there any region that stands out in terms of consumables demand, for example, and how do you see the rebuilds and other projects, if you look at the current environment? Also, if you think about the trajectory for the business in the mid-term, do you see any pent-up demand building up currently? Is there something in this cycle that is different from the past? In other words, do you see any reason why the environment would stay weak beyond a few quarters?

**00:39:32 - 00:40:57**

Thomas Hinnerkov: Good morning, Mikael. Thanks for joining us. Thanks for the question, even though you are calling in. It's a good question. Allow me to elaborate a little bit because I think it's an important driver. There are probably three elements I'm looking into when we think about it. You asked a little bit about the areas geographically where there are differences. I think it's clear that North America took some capacity out at the end of Q2 and Q3, and now they're running at very good operating rates. That's great to see that that actually also impacts our business going into this year. On the other hand, we had some quite low operating rates, in particular in the China-Asia market, which has also impacted the service business. Do we see that continuing? I think that we can get into a global economy where there's a little bit less uncertainty, which will also drive consumer behavior and confidence up, which will then be helpful for our customers, which will then create more demand, and therefore their operating rates will go up. I think it's harder to see that it should go further down from here. I think that is a pretty stressed or pretty low end of the market range that we're in.

**00:41:15 - 00:41:49**

Thomas Hinnerkov: Then, what I also think is going to help us in going forward is if you look at our capital business in this area for 2025, then I would say, just to give you a little more flavor to this, in the pulp business, we probably had a 50 percent market share last year. Capital in the packaging business is definitely leading, for sure, in terms of capturing a very strong position last year. Then on tissue, we also had a hit rate that was well above 50 percent last year. That also builds the install base, even though it was a relatively soft market on the capital side, but it does help us going forward.

**00:41:51 - 00:42:24**

Mikael Doepel: Okay. Thanks. Then another question on the project or the capital business you just mentioned. If we think about the larger potential greenfield projects out there, how would you describe the current market environment and the pipeline? Do you see the increased geopolitical uncertainties pushing projects out in time or even some cancellations, or are things actually progressing as planned? Any color on that would be helpful. Thank you.

**00:42:25 - 00:43:20**

Thomas Hinnerkov: No problem. I think there is no big change from when we talked last. I think that sort of situation basically is the same. They're the same projects in Latin America that everybody knows about. There's still some activity across other parts of the world. I think our pipeline generally looks the same as it did a year ago when we look at our sales pipeline. With that, I don't think there are bigger changes. Maybe a bit of further

color to that. I think in North America, with the old install base, there are good opportunities for our customers to actually improve their current operation by doing larger mill improvement projects. It's always difficult to predict when it actually happens.

**00:43:23 - 00:43:36**

Mikael Doepel: Absolutely. Then, just a brief follow-up on that related to Arauco. I think you mentioned that you expect revenues of about 400 million from that project in 2026. What was it in 2025? You might have said this, but I missed it.

**00:43:36 - 00:43:46**

Thomas Hinnerskov: It's roughly the same. It's roughly evenly distributed. If you think from a run rate perspective, you're going to see the same net sales in 2026 as you saw in 2025.

**00:43:47 - 00:43:48**

Mikael Doepel: Okay. Thank you very much.

**00:43:49 - 00:44:02**

Thomas Hinnerskov: We're happy with the progress in the fourth quarter as well. It is progressing really well on all the different installed islands, and we're very pleased with how the team is managing and operating that.

**00:44:04 - 00:44:05**

Mikael Doepel: That's great. Thank you.

**00:44:09 - 00:44:15**

Speaker 4: The next question comes from Tomas Skogman from DNB Carnegie. Please go ahead.

**00:44:19 - 00:44:52**

Tom Skogman: Good morning. This is Tom Skogman from DNB Carnegie. I would like to get a bit more clarity on these savings programs. If you first start with this €80 million program for white collars, I think you said the incremental savings in the P&L in 2026 will be around €30 million. However, is this kind of the total impact, also adjusting for these growth plans that you have, or should I take away some of these €30 million and be on the bridge?

**00:44:53 - 00:45:09**

Thomas Hinnerskov: That's a good question, Tom. As we said before, we had roughly € 30 million in 2025. We'll have another €30 million in 2026. The €30 million in 2026 is the net of investment into growth.

**00:45:12 - 00:45:38**

Tom Skogman: Okay, so that's the total impact. Then I'm a bit surprised that you don't give out any information at all about this €100 million savings program or kind of supply chain savings and manufacturing footprint. Should I estimate some savings at all this year, or is this kind of not the thing for 2026 or the 2027 and beyond, or what should I think?

**00:45:41 - 00:46:32**

Thomas Hinnerskov: That's a good question, Tom. There are a couple of parts to the whole global supply savings. The €100 million we talked about back in June shows that we are driving relentlessly to get short-term impact, particularly from a procurement perspective. Then we are also looking over our overall footprint to see where we should focus our manufacturing capabilities. We'll throw more color on that and information about that as we progress throughout 2026. You'll know more about that. I would probably think about having something similar to the operating model savings in your spreadsheet.

**00:46:32 - 00:46:37**

Tom Skogman: It's around €30 million in savings this year and nothing in 2025, basically.

**00:46:37 - 00:46:45**

Katri Hokkanen: Yes, I would have said double-digit million, which is very much in line with what the boss just said.

**00:46:45 - 00:46:48**

Tom Skogman: There were no savings here in 2025, right?



**00:46:48 - 00:46:53**

Katri Hokkanen: They really start to materialize in 2026, so that's the thing.

**00:47:02 - 00:47:07**

Thomas Hinnervskov: When you have to think about why we said no savings in 25, Tom, it is because we compared it to what we have seen earlier. We talk about where we are cranking up the machine to deliver more.

**00:47:08 - 00:47:24**

Tom Skogman: Can you just give some thoughts about where you will get this kind of half of the supply chain, and then the rest is kind of factory closures, and how much of these will be reinvested, also, so we don't plug too much into our models?

**00:47:24 - 00:47:50**

Thomas Hinnervskov: It's clear that some of these savings in terms of driving our global competitiveness are very, very important from a competitiveness perspective and also from a margin expansion perspective. Some of it will be, or will have to be, in particular in today's environment, reinvested into actually winning the project. That is clear.

**00:47:54 - 00:48:08**

Tom Skogman: I understand that. Finally, the Severn order trend in 2025. You just said what the sales were, but can you give some indication of the order trend there?

**00:48:10 - 00:48:11**

Thomas Hinnervskov: For Severn?

**00:48:13 - 00:48:13**

Tom Skogman: Yes.

**00:48:14 - 00:48:16**

Thomas Hinnervskov: Let's come back to that when we close.

**00:48:17 - 00:48:24**

Tom Skogman: Okay. Thank you. [silence 00:48:18-00:48:24]

**00:48:24 - 00:48:36**

Speaker 4: The next question comes from Sven Weier from UBS. Please go ahead. [silence 00:48:30-00:48:36]

**00:48:36 - 00:49:08**

Sven Weier: Good morning. Thanks for taking my questions. The first one is a follow-up on Mikael's regarding the greenfield project pipeline, and your position in the Chinese market, because, obviously, we've seen a few projects there last year. I think there's another one coming this year. We always talk about South America, but there are quite a few things happening in China. How do you see your chances of winning something there in 2026? That's the first one. Thank you.

**00:49:09 - 00:50:00**

Thomas Hinnervskov: Thanks, Sven. Thanks for joining. The Chinese market is an important market for us. We're well established. We delivered the first machine there back 90 years ago, I think. We've been a longstanding supplier in the Chinese market. It is clear, as you said, that some of the dynamics we see in the Chinese market are that they have an aggressive investment philosophy. However, they're also becoming more integrated, which we have not seen to the same extent before. They're going more backwards into actually having their own pulp supply, and that will drive demand for projects in the Chinese market over the next couple of years.

**00:50:00 - 00:50:07**

Sven Weier: Do you also see that going ahead in your current pipeline for this year?

**00:50:10 - 00:50:17**

Thomas Hinnervskov: Yes. It's always difficult to say when things really pan out. I have to say that as well. However, yes, we do see it in the pipeline.

**00:50:24 - 00:51:03**

Sven Weier: The second question I had was just around the guidance because, obviously, it was flat sales. You gave a bit of a point of guidance on revenues, which appreciates. However, on EBIT, you say it is flat, but it could also increase. I just wonder about the moving parts because operating leverage is not going to have an impact if your revenues are flat. You also talked about the savings. Should we expect a big mix impact on the bridge? What kind of range are we talking about here? Could it be a significant increase, or are we talking about a relatively narrow range here as well for EBIT?

**00:51:04 - 00:52:06**

Thomas Hinnerkov: That's a good question. What are the swing factors here? I think, as we've shown in the last year, especially the second half, we're taking our own destination really in our own hands with having been early on the operational savings, which then hit the bottom line already in the second half. There are swing factors going into 2026. I would say, to a very large extent, two things. Service growth and then growth in our PPS business. Katri talked about our order backlog, but still, a lot of book-to-bill happened this year in 2026. That's mainly thinking about PPS and the service, especially maybe on PPS, which may be especially on the automation systems.

**00:52:06 - 00:52:15**

Sven Weier: The upside is not limited to the 30 million net savings, but there could also be a positive mixed effect on top of that if things go well.

**00:52:18 - 00:52:23**

Thomas Hinnerkov: Yes, back to how the growth comes in service, in particular in PPS.

**00:52:28 - 00:52:33**

Sven Weier: Which would then be more, I guess, back-end loaded on service, given that, in the short term, the service market is still as difficult as you said, right?

**00:52:33 - 00:52:42**

Thomas Hinnerkov: Exactly, and as you said, that creates the mix impact as well, which then drives off our margin.

**00:52:44 - 00:52:45**

Timo Heinonen: Understood. Thank you, Thomas.

**00:52:46 - 00:52:53**

Thomas Hinnerkov: Thanks. [silence 00:52:46-00:52:53]

**00:52:53 - 00:53:11**

Speaker 4: As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad. The next question comes from Timo Heinonen from Handelsbanken Markets. Please go ahead.

**00:53:14 - 00:53:38**

Timo Heinonen: Thanks for taking my questions. It's Timo from Handelsbanken. I'm sorry if you already commented on this, but the service profitability was very strong in the fourth quarter, and the cost savings. However, at the same time, sales are down quite a bit. I think it must have been some underlying improvement that the margin is up only because of the cost savings.

**00:53:44 - 00:53:49**

Thomas Hinnerkov: First of all, thanks for joining us, Timo. Are you talking just about the bioservice, or did you talk about the whole thing?

**00:53:49 - 00:53:50**

Timo Heinonen: I'm talking about the bioservices.

**00:53:52 - 00:53:53**

Thomas Hinnerkov: Say it once again. I couldn't hear you.

**00:54:11 - 00:54:11**

Timo Heinonen: If we look at what the margin could have been, you have some cost savings, but the revenue has been down. It seems that you have been able to improve the underlying margin as well.

**00:54:13 - 00:54:14**

Thomas Hinnervskov: Is it PPS?

**00:54:14 - 00:54:14**

Katri Hokkanen: No, in services.

**00:54:14 - 00:54:17**

Timo Heinonen: The profitability has improved, excluding the cost savings.

**00:54:18 - 00:54:35**

Katri Hokkanen: Timo, as you know, we cannot give comments on the service's profitability overall. However, if you look at the buyer side's main driver, because the volume was dropping, and then the margin was kept, it was actually the operating model saving. That was the number one thing.

**00:54:35 - 00:54:40**

Timo Heinonen: Okay, but there is no kind of underlying improving pricing or anything like that.

**00:54:43 - 00:54:45**

Thomas Hinnervskov: It's not significant, I would say.

**00:54:47 - 00:54:48**

Timo Heinonen: Okay, thanks.

**00:54:50 - 00:54:59**

Thomas Hinnervskov: I think we mainly care about getting ahead of the curve from the softness in the market, and that's what we were quite pleased with because that decision really proved to be the right one.

**00:55:03 - 00:55:04**

Timo Heinonen: Okay.

**00:55:06 - 00:55:13**

Speaker 4: The next question comes from Tomas Skogman from DNB Carnegie. Please go ahead.

**00:55:18 - 00:55:56**

Tom Skogman: Hello again. I would just like to understand the dynamics a bit better in China, because to me it seems like you have other competition there than you have in the Western world. Hence, it's very hard to understand what is happening to your market shares in China in board machines and in pulp mills. There are so few order announcements from you regarding Chinese customers, especially on the pulp side. However, there seems to be a lot of things happening there. I would like to understand this a bit better.

**00:56:03 - 00:56:56**

Thomas Hinnervskov: I'm not sure that I fully get your question, Tom. Ask a follow-up if I'm not answering your question on that one. The Chinese market is a different market from some other markets. There's some different competition. Clearly, our large Chinese customers do look at the total cost of ownership, cost per ton, or being the most efficient. They understand, probably very, very well, that it is about having the lowest operating cost, especially in that market where there is also overcapacity. How do you actually get to be able to compete effectively and profitably in that market as well? That's where I think our technology really comes into play, because we can deliver that with the most or the lowest total cost of ownership to our customers.

**00:57:04 - 00:57:07**

Tom Skogman: However, if we look at pulp mills in China, what has been your market share there over the last five years or so? Is there any kind of change going on?

**00:57:09 - 00:57:28**

Thomas Hinnervskov: I don't think we disclosed the regional market shares, but as I said, we had a good year in our pulp business as well, taking 50 percent of the market share from a global perspective.

**00:57:30 - 00:57:46**

Tom Skogman: Are there other competitors in China in pulp mills? This is really what I want to understand. How are you doing against them in kind of mid-sized projects, et cetera? Is that one of the hopes that will be happening this year?

**00:58:03 - 00:58:12**

Thomas Hinnervik: I think our advantage is also in the Chinese market, or maybe in particular in the Chinese market, even more so, is back to the most efficient equipment, but also this thing about being able to support the customers in the startup process of the equipment. That's where all the competitors, especially local competitors, don't have the capability at all.

**00:58:15 - 00:58:16**

Tom Skogman: Okay. Thank you.

**00:58:21 - 00:58:26**

Speaker 4: There are no more questions at this time, so I hand the conference back to the speakers.

**00:58:28 - 00:58:56**

Pekka Rouhiainen: Thank you, operator. Thank you for the good Q&A session. There are no more questions on the digital platform, either, so I think it's time to start wrapping up. The Q1 report for Valmet will be published on April 28th. I hope to see many of you at the roadshows and seminars we are planning to attend in Q1. However, now I'd like to hand over to Thomas for any closing remarks.

**00:58:56 - 01:00:16**

Thomas Hinnervik: Thank you, Pekka. Thanks to everyone who joined us today for a good discussion here on this webcast and in other venues as well. First and foremost, I just really want to thank the Valmet team for the hard work and commitment during the past year. Thanks to the finance team for delivering another great, transparent report all at the right time, and meeting all the deadlines. Even more importantly, I want to send a big thanks to our customers for the trust that you have shown us throughout the year, given that a lot of you have had a very challenging year. I sincerely think that we've also played it back and tried to deliver as much value and make you as competitive as you possibly can in your markets as well. However, thank you very much for the trust. To sum up, we achieved a record high EBITA margin in Q4, thanks to the early action we took last year. 2025 was a truly transformative year for Valmet with a new strategy, a new operating model, and a lot of initiatives. The next strategic milestone is the Severn acquisition, which makes us even better positioned for growth in the Process Performance Solutions and outside our biomaterial core.

**01:00:16 - 01:00:27**

Thomas Hinnervik: With this, and despite some market headwinds, we are starting the year 2026 from a position of strength. See you out there. Have a great weekend when you get there. Thank you.