

Good development in Services – new way to serve customers launched

Interim Review,
January–June 2016

July 28, 2016

Pasi Laine, President and CEO

Kari Saarinen, CFO

Agenda

Interim Review, January–June 2016

- 1 Q2/2016 in brief
- 2 Business lines' development
- 3 Valmet Way to Serve
- 4 Financial development
- 5 Guidance and short-term market outlook
- 6 New financial targets
- 7 Summary of Interim Review Q2/2016
- 8 Appendix



Q2/2016 in brief

Q2/2016 in brief

- Orders received and net sales remained at the previous year's level in stable business¹
- Orders received decreased and net sales remained at the previous year's level in capital business²
- Order backlog at EUR 2.1 billion
- Profitability increased – Comparable EBITA margin at 7.1%
- Net debt EUR 231 million

1) Stable business = Services and Automation business lines

2) Capital business = Pulp and Energy, and Paper business lines

Net sales split in Q2/2016

Orders received
EUR 692 million

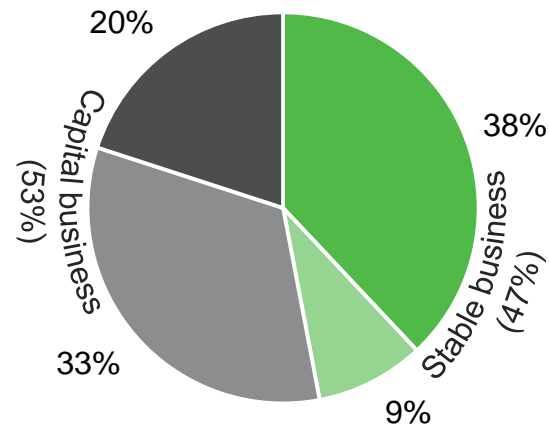
Net sales
EUR 804 million

Comparable EBITA¹
EUR 57 million

Comparable EBITA¹ margin
7.1%

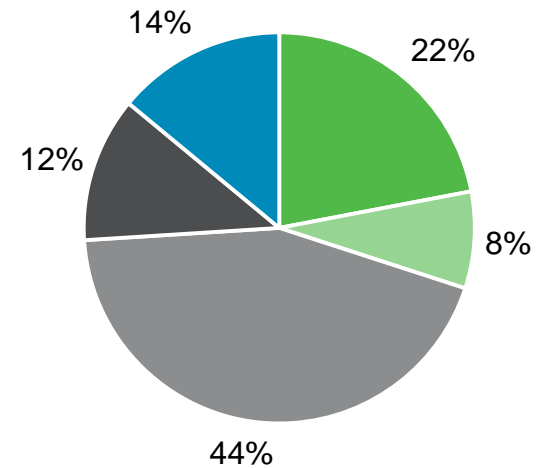
Employees
12,492

Net sales by business line



- Services
- Automation
- Pulp and Energy
- Paper

Net sales by area

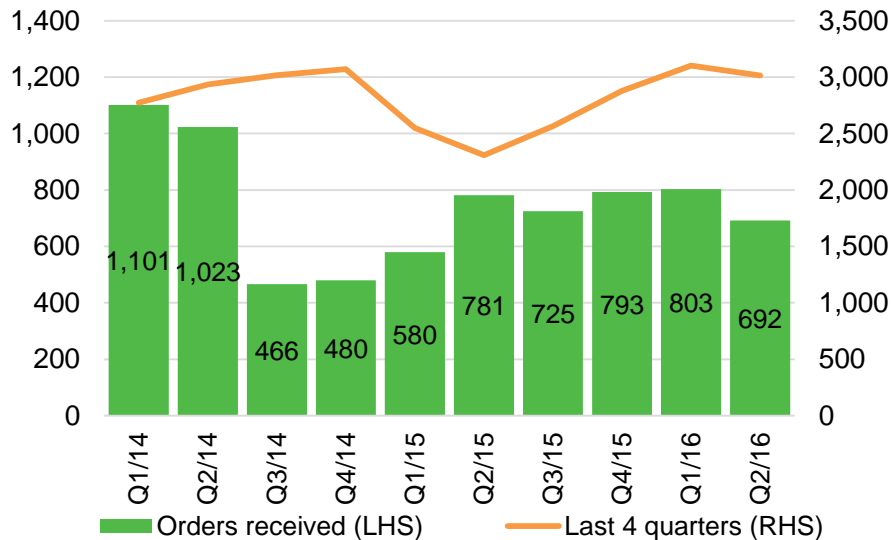


- North America
- South America
- EMEA
- China
- Asia-Pacific

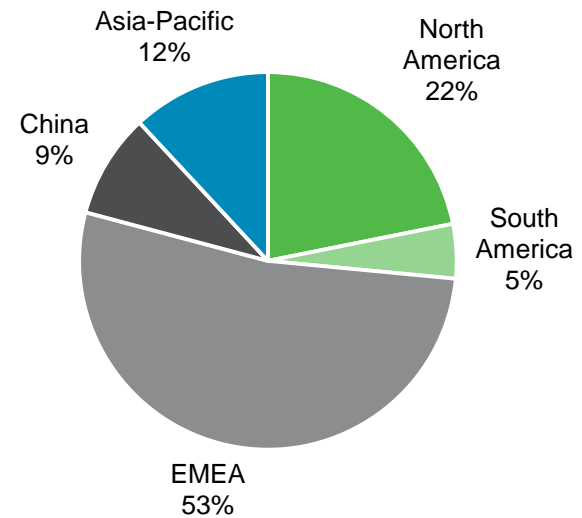
1) Due to new regulation by the European Securities and Market Authority, Valmet has decided to replace the performance measure 'EBITA before non-recurring items' with 'Comparable EBITA'. The content of items affecting comparability, i.e. items previously disclosed as non-recurring, remain unchanged and therefore 'Comparable EBITA' equals previously disclosed 'EBITA before non-recurring items' (EUR 182 million in 2015). Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations or are incurred outside its normal course of business.

Orders received decreased to EUR 692 million in Q2/2016

Orders received (EUR million)



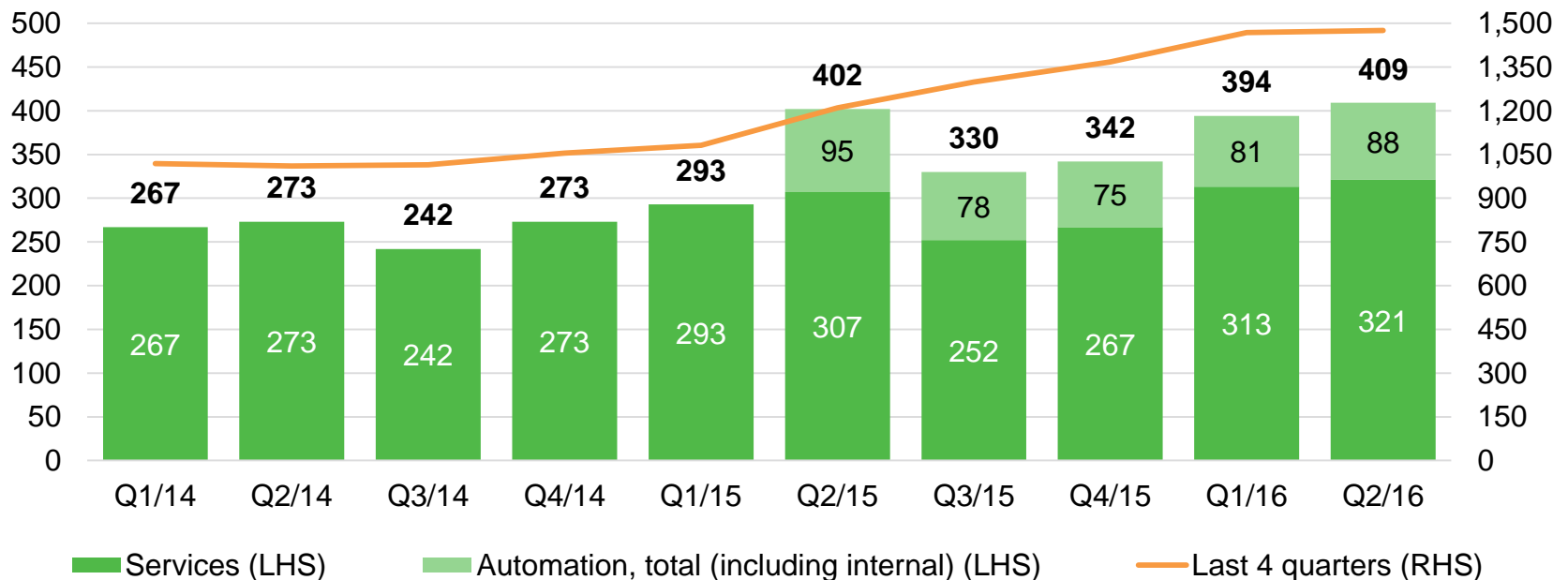
Orders received in Q2/2016, by area



- Orders received remained at the previous year's level in the Services and Automation business lines, and decreased in the Pulp and Energy and Paper business lines
- Orders received increased in Asia-Pacific and China, remained at the previous years level in South America, and decreased in North America and EMEA

Stable business orders received totaled EUR 1,475 million during the last 4 quarters

Orders received (EUR million) in stable business¹

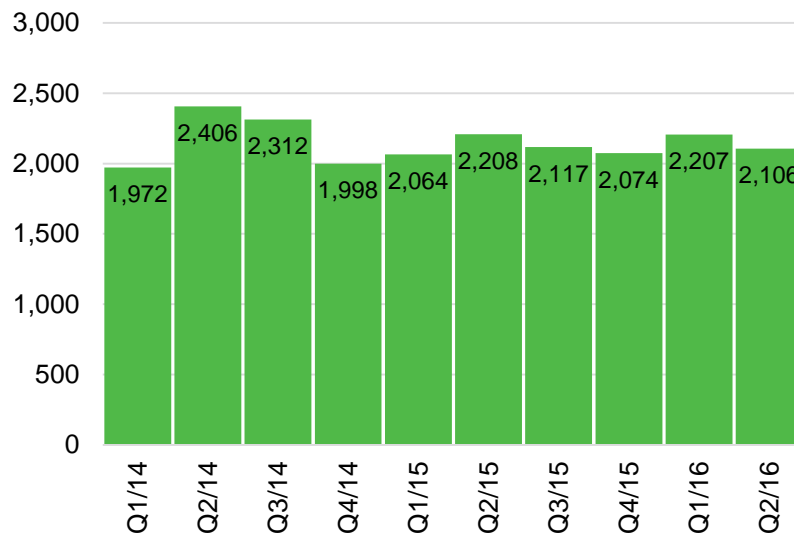


- Stable business orders received remained at the previous year's level
- All-time high orders received in Services business line in Q2/2016

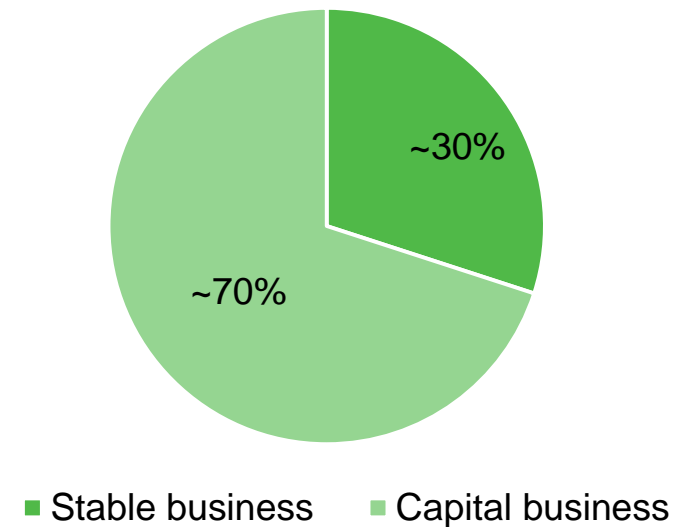
1) Including internal orders received for the Automation business line.

Order backlog at EUR 2.1 billion at the end of Q2/2016

Order backlog (EUR million)



Structure of order backlog



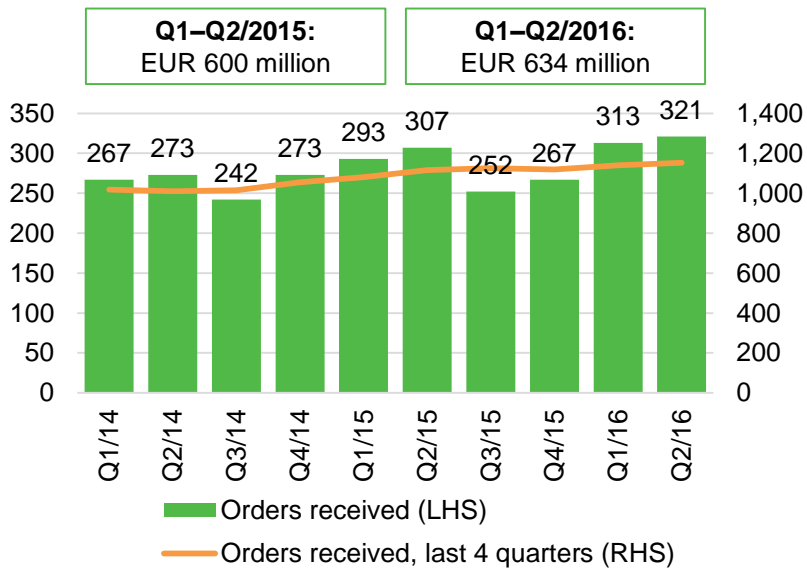
- Order backlog EUR 101 million lower than at the end of Q1/2016
- About 55% of the order backlog is currently expected to be realized as net sales during 2016
- Approximately 30% of the order backlog relates to stable business



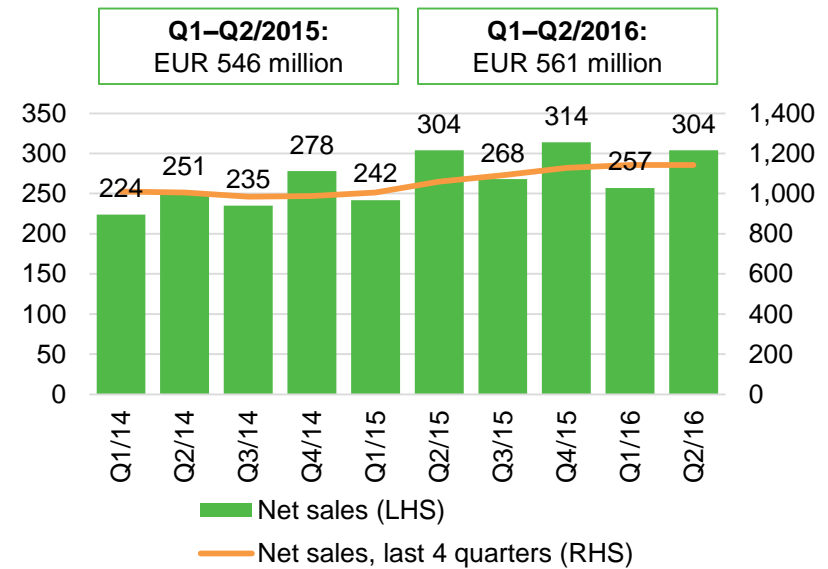
Business lines' development

Orders received and net sales at the previous year's level in Services in Q2/2016

Orders received (EUR million)



Net sales (EUR million)



- Orders received remained stable compared with Q2/2015
 - Orders received increased in Asia-Pacific, South America and North America, remained at the previous year's level in EMEA and decreased in China
 - Orders received increased in Energy and Environmental, and Mill Improvements and remained at the previous year's level in Fabrics, Rolls, and Performance Parts
 - Changes in foreign exchange rates¹ decreased orders received by approximately EUR 6 million
- Net sales remained stable compared with Q2/2015

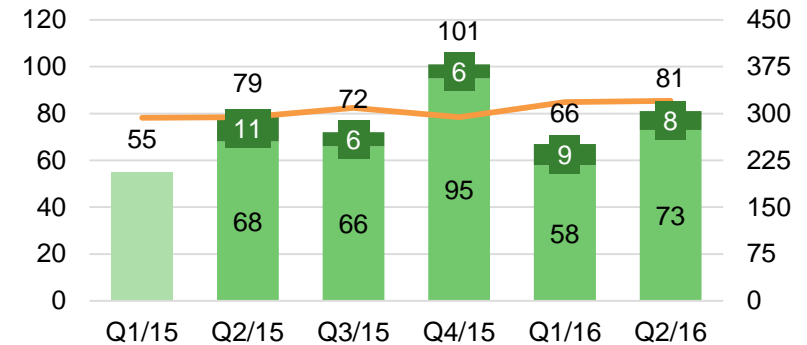
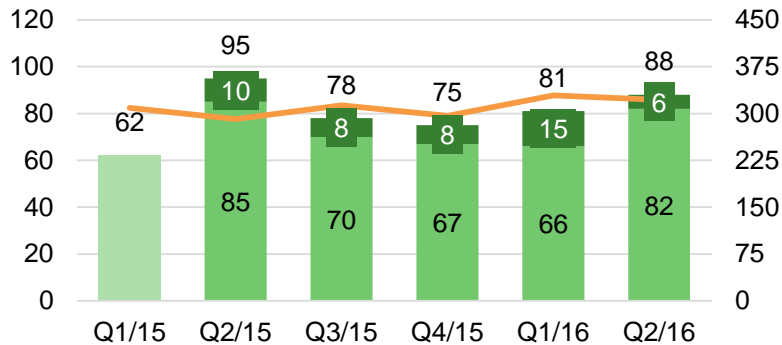


1) Compared with the exchange rates for January–June 2015

Orders received at the previous year's level and net sales increased in Automation in Q2/2016

Orders received¹ (EUR million)

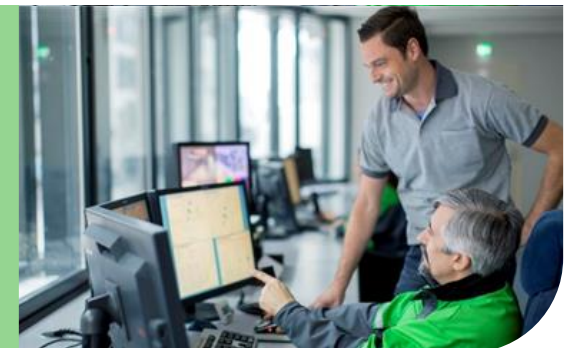
Net sales¹ (EUR million)



- Orders received, internal (from other business lines)
- Orders received, external
- Orders received, total (including internal)
- Orders received, last 4 quarters (RHS)

- Net sales, internal (from other business lines)
- Net sales, external
- Net sales, total (including internal)
- Net sales, last 4 quarters (RHS)

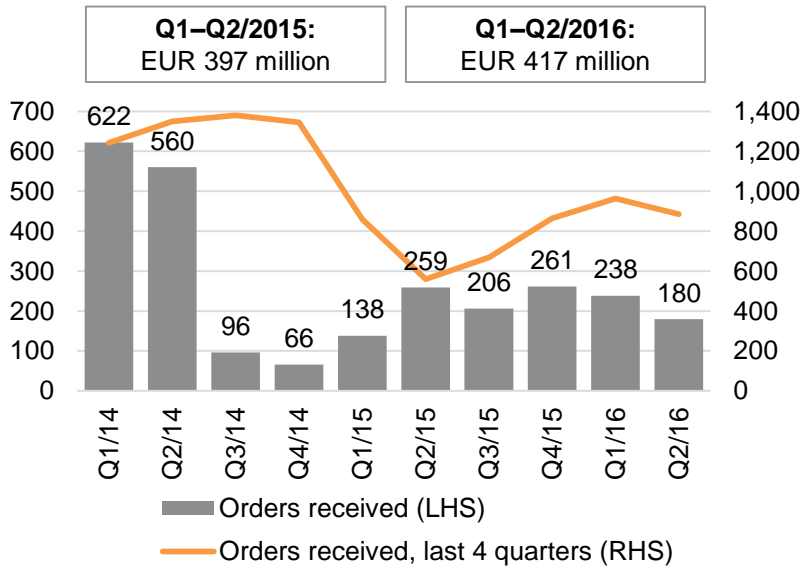
- Orders received remained stable compared with Q2/2015
 - Orders received increased in Asia-Pacific and South America, remained at the previous year's level in EMEA and decreased in North America and China
 - Orders received remained at the previous year's level in Pulp and Paper and decreased in Energy and Process
- Net sales increased compared with Q2/2015



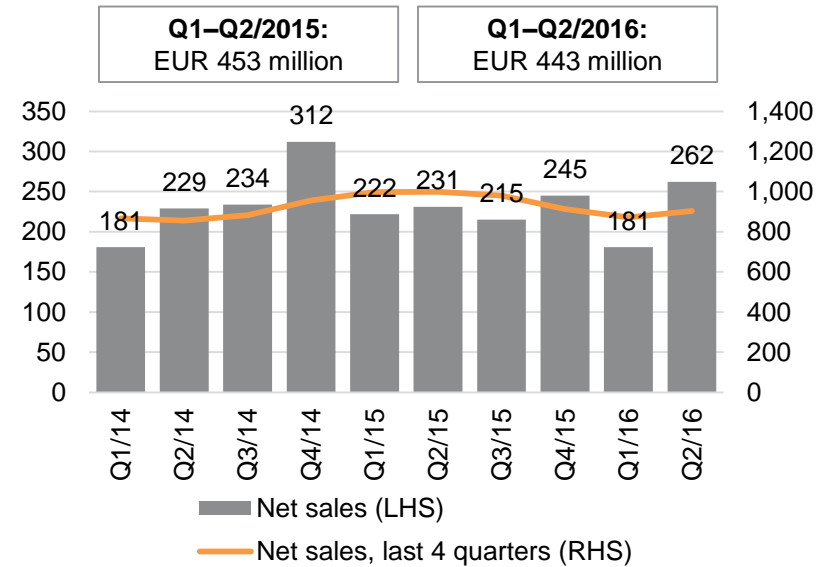
1) Q1/2015 orders received and the underlying figures for 'Orders received, last 4 quarters' and 'Net sales, last 4 quarters' are calculated based on Metso's reported figures and pro forma figures excluding Process Automation Systems and are therefore indicative only.

Orders received decreased and net sales increased in Pulp and Energy in Q2/2016

Orders received (EUR million)



Net sales (EUR million)

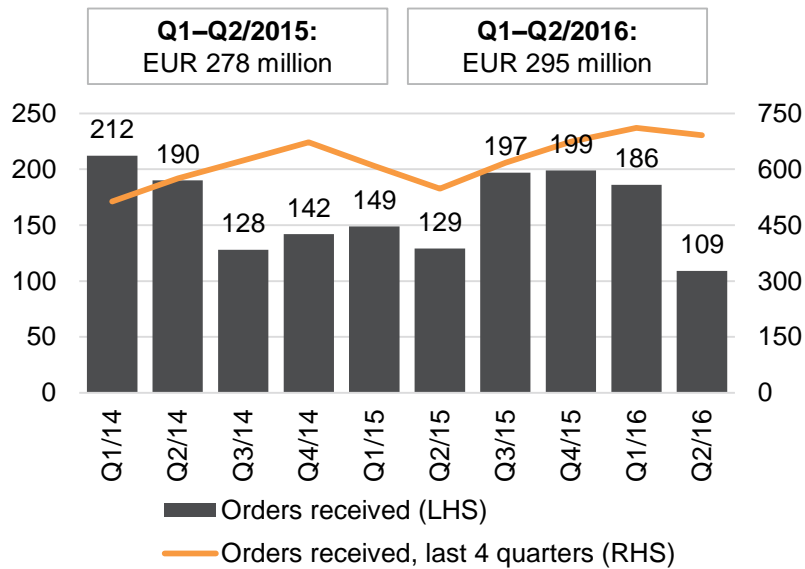


- Orders received decreased compared with Q2/2015
 - Orders received increased in China and decreased in all other areas
 - Orders received increased in Energy and decreased in Pulp
- Net sales increased compared with Q2/2015

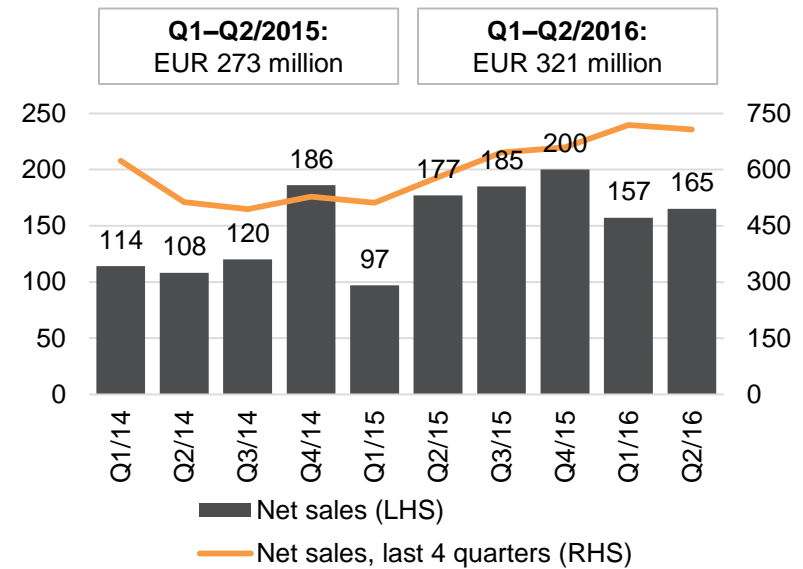


Orders received and net sales decreased in Paper in Q2/2016

Orders received (EUR million)



Net sales (EUR million)



- Orders received decreased compared with Q2/2015
 - Orders received increased in Asia-Pacific, North America and China, and decreased in EMEA
 - Orders received decreased in both Board and Paper, and Tissue
- Net sales decreased compared with Q2/2015





Valmet Way to Serve

Our core commitments

Safety
comes first

Close to you

Solutions to
your needs

People you
can trust

Our services offering

Reliability

- Spare parts and components
- Maintenance and shutdown management
- Outsourcing services

Performance

- Production consumables
- Process support and optimization

New Technology

- Process and automation upgrades
- Automation projects
- Industrial Internet and remote solutions

Shared Journey Forward

Valmet way to serve

Committed to moving your performance forward



Financial development

Key figures Q2/2016

EUR million	Q2/2016	Q2/2015	Change	Q1–Q2/2016	Q1–Q2/2015	Change
Orders received	692	781	-11%	1,495	1,360	10%
Order backlog ¹	2,106	2,208	-5%	2,106	2,208	-5%
Net sales	804	779	3%	1,456	1,340	9%
Comparable EBITA ²	57	54	6%	88	73	21%
% of net sales	7.1%	6.9%		6.1%	5.5%	
EBITA	55	42	32%	85	61	39%
Operating profit (EBIT)	47	32	45%	66	46	45%
% of net sales	5.8%	4.1%		4.5%	3.4%	
Earnings per share, EUR	0.21	0.14	45%	0.28	0.19	44%
Return on capital employed (ROCE), before taxes ³				11%	9%	
Cash flow provided by operating activities	33	17	92%	36	-3	
Gearing ¹				27%	29%	

Items affecting comparability: EUR -1 million in Q2/2016 (EUR -12 million in Q2/2015), EUR -3 million in Q1–Q2/2016 (EUR -12 million in Q1–Q2/2015)

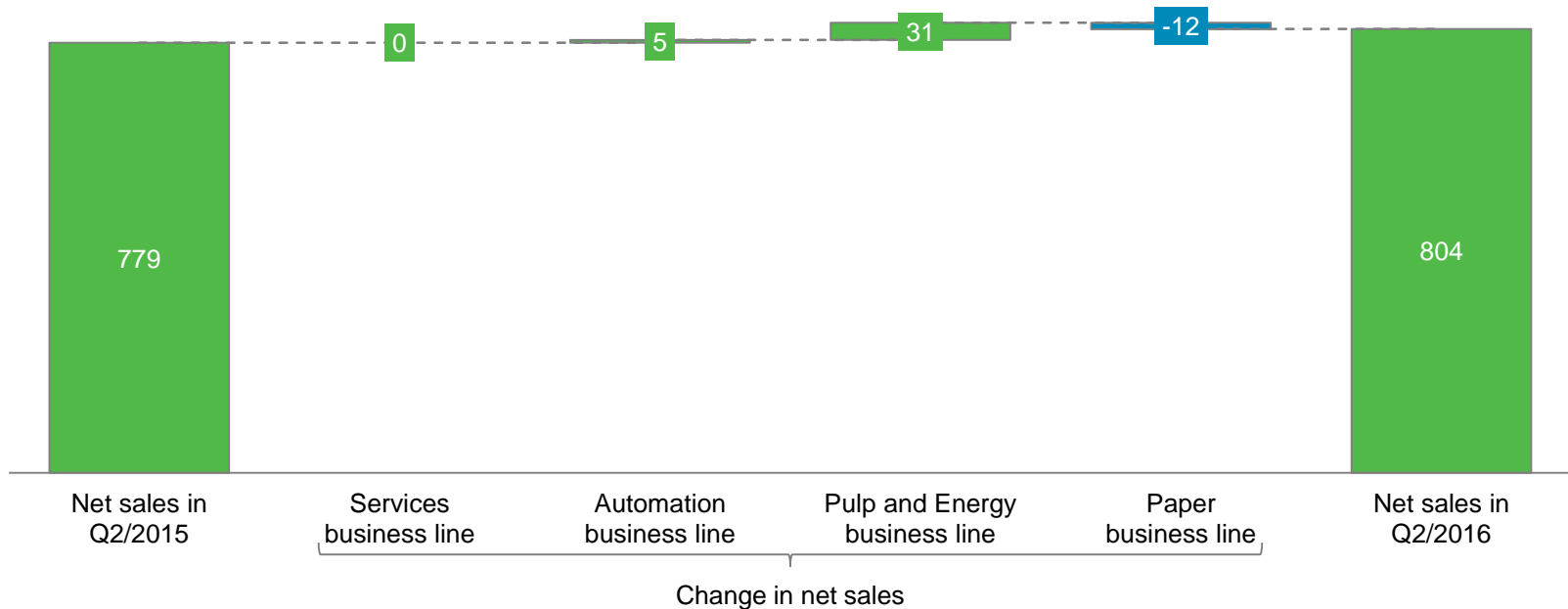
1) At the end of period

2) Due to new regulation by the European Securities and Market Authority, Valmet has decided to replace the performance measure 'EBITA before non-recurring items' with 'Comparable EBITA'. The content of items affecting comparability, i.e. items previously disclosed as non-recurring, remain unchanged and therefore 'Comparable EBITA' equals previously disclosed 'EBITA before non-recurring items'. Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations or are incurred outside its normal course of business.

3) Annualized

Net sales EUR 25 million higher compared with Q2/2015

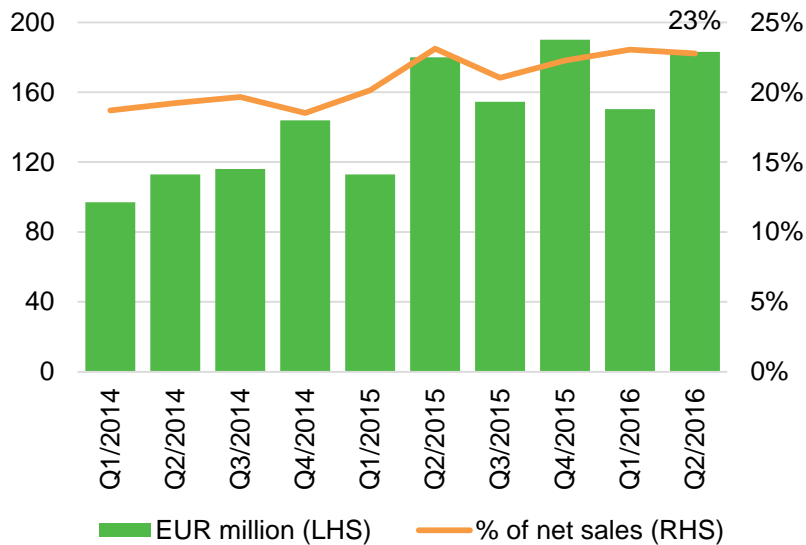
Net sales bridge, Q2/2015 vs. Q2/2016 (EUR million)



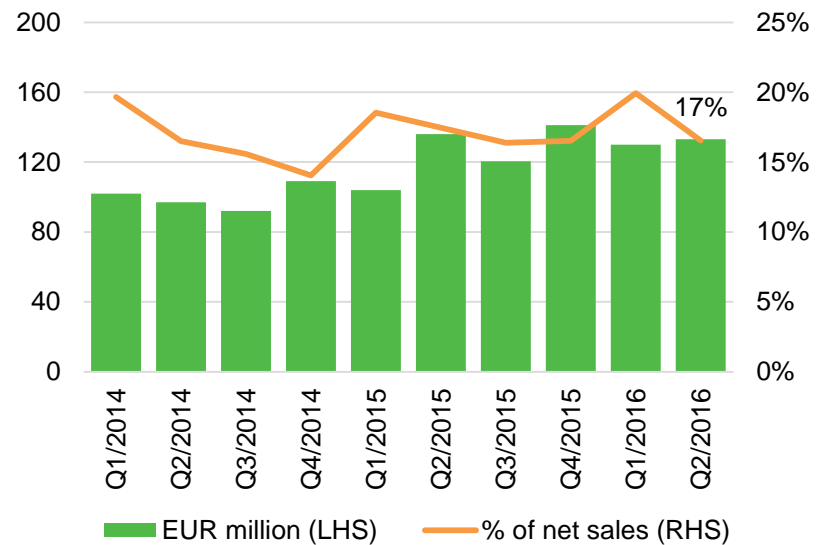
- Net sales increased in Pulp and Energy, and Automation business lines
- Net sales remained at the previous year's level in Services business line and decreased in Paper business line

Gross profit at the previous year's level

Gross profit (EUR million and % of net sales)



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

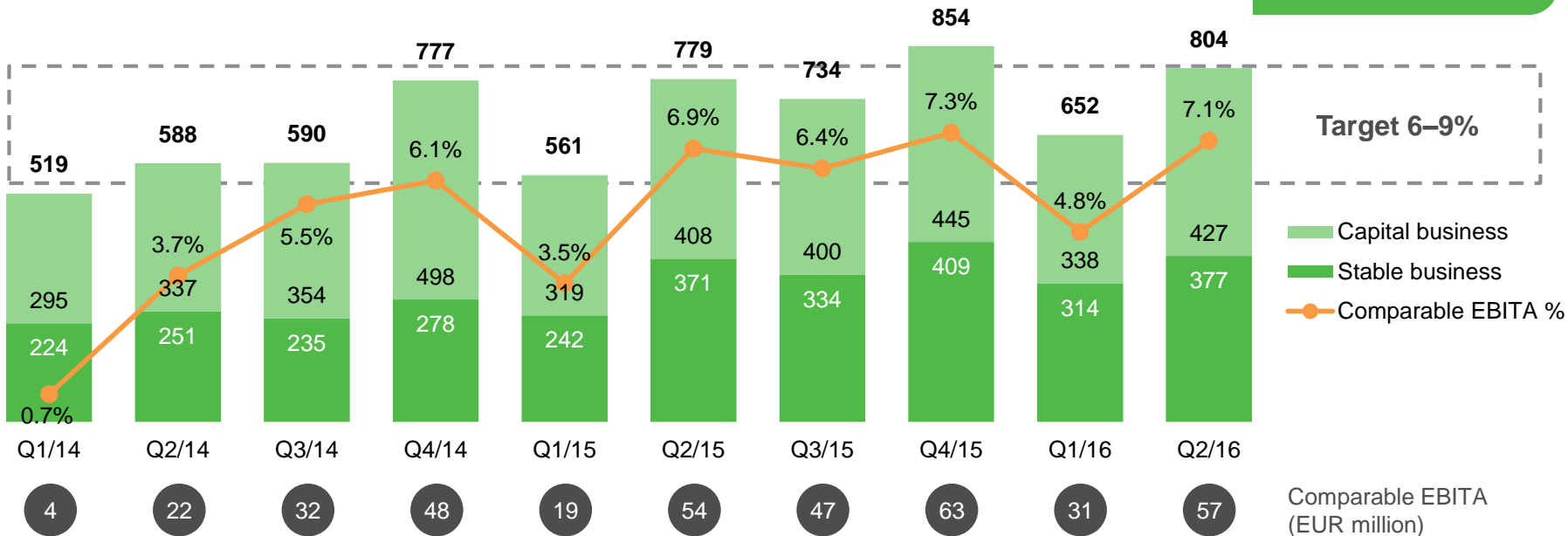


- Gross profit remained stable compared with Q2/2015
- Selling, general & administrative (SG&A) expenses remained stable compared with Q2/2015
- Actions to improve gross profit through Must-Win implementation

Comparable EBITA margin development

Net sales and Comparable EBITA (EUR million and %)

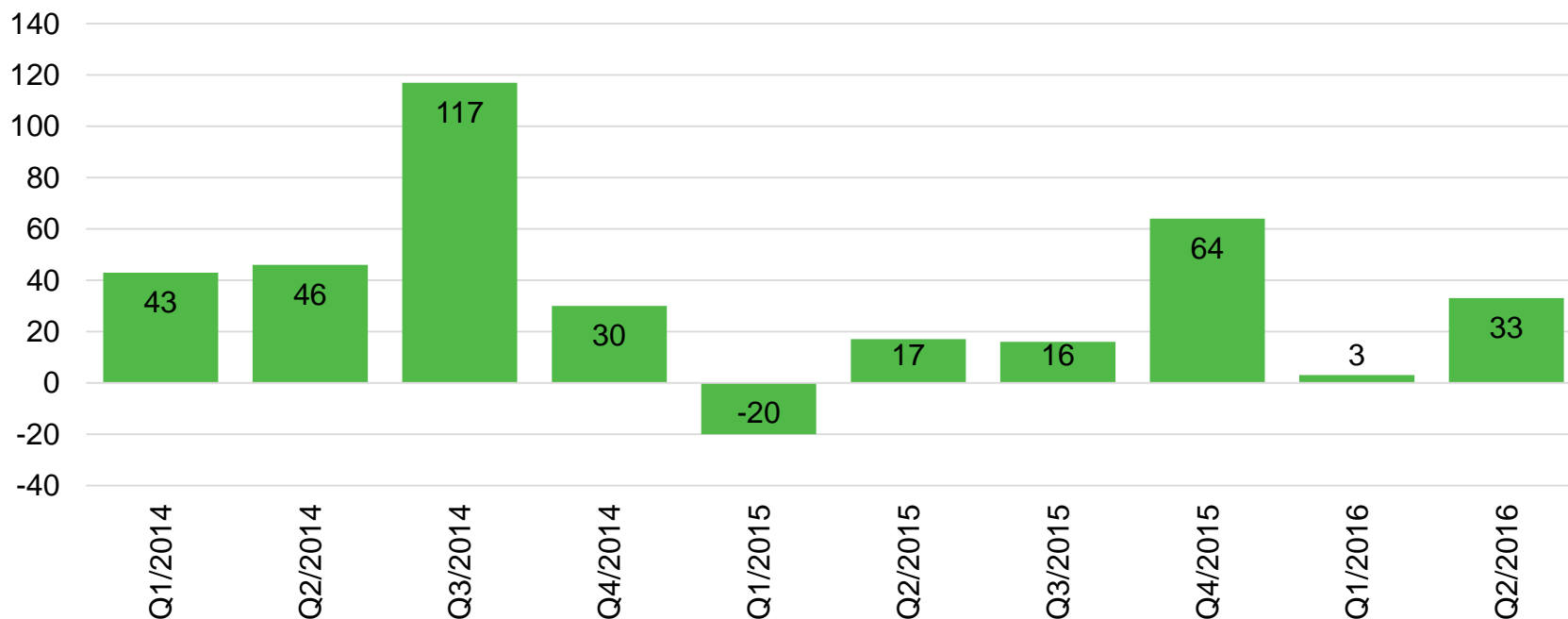
New target 8–10%
from 2017 onwards



- Net sales remained stable compared with Q2/2015 and profitability increased
 - Profitability improved due to the higher level of net sales in the Pulp and Energy business line

Cash flow provided by operating activities

Cash flow provided by operating activities (EUR million)

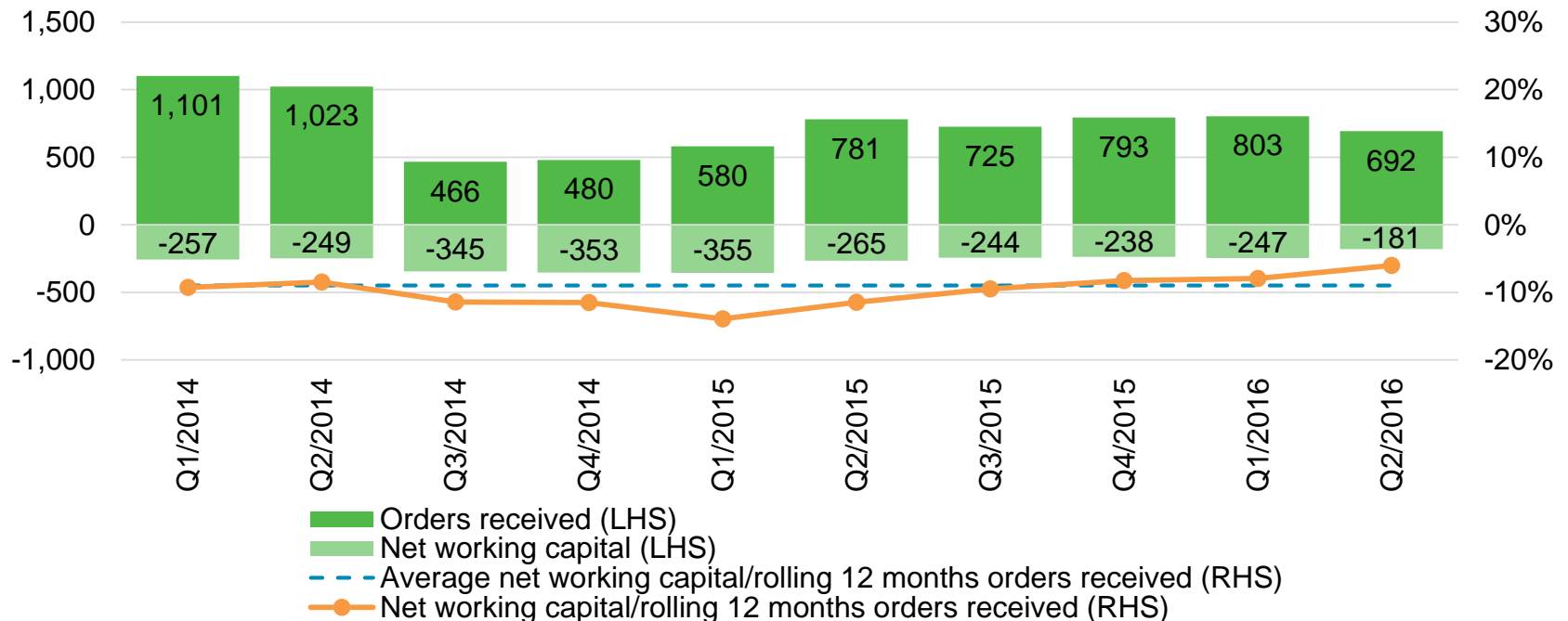


- Change in net working capital¹ EUR -16 million in Q2/2016
- Cash flow provided by operating activities EUR 33 million in Q2/2016
- CAPEX excluding business combinations EUR -18 million in Q2/2016

1) Change in net working capital, net of effect from business combinations and disposals in the consolidated statement of cash flows

Net working capital -6% of rolling 12 months orders received

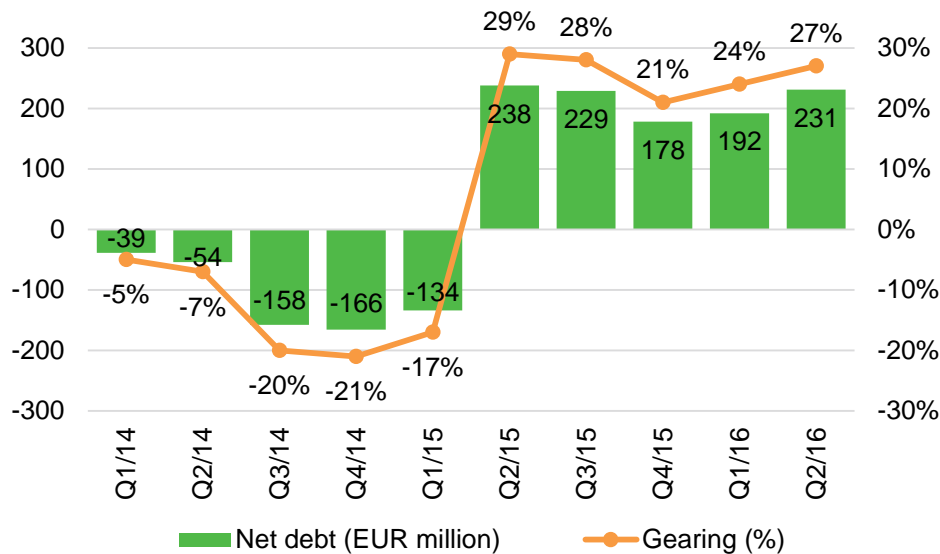
Net working capital and orders received (EUR million)



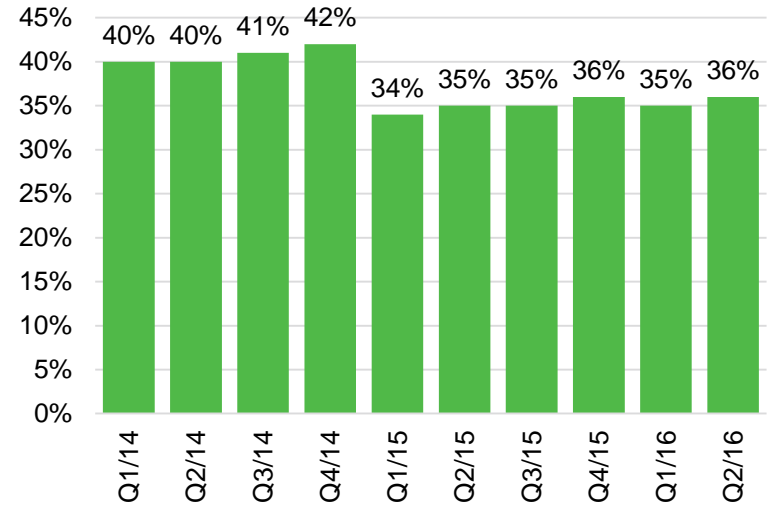
- Net working capital EUR -181 million, which equals -6% of rolling 12 months orders received
- Payment schedules of large capital projects have significant impact on net working capital development

Net debt increased compared to Q1/2016

Net debt (EUR million) and gearing (%)



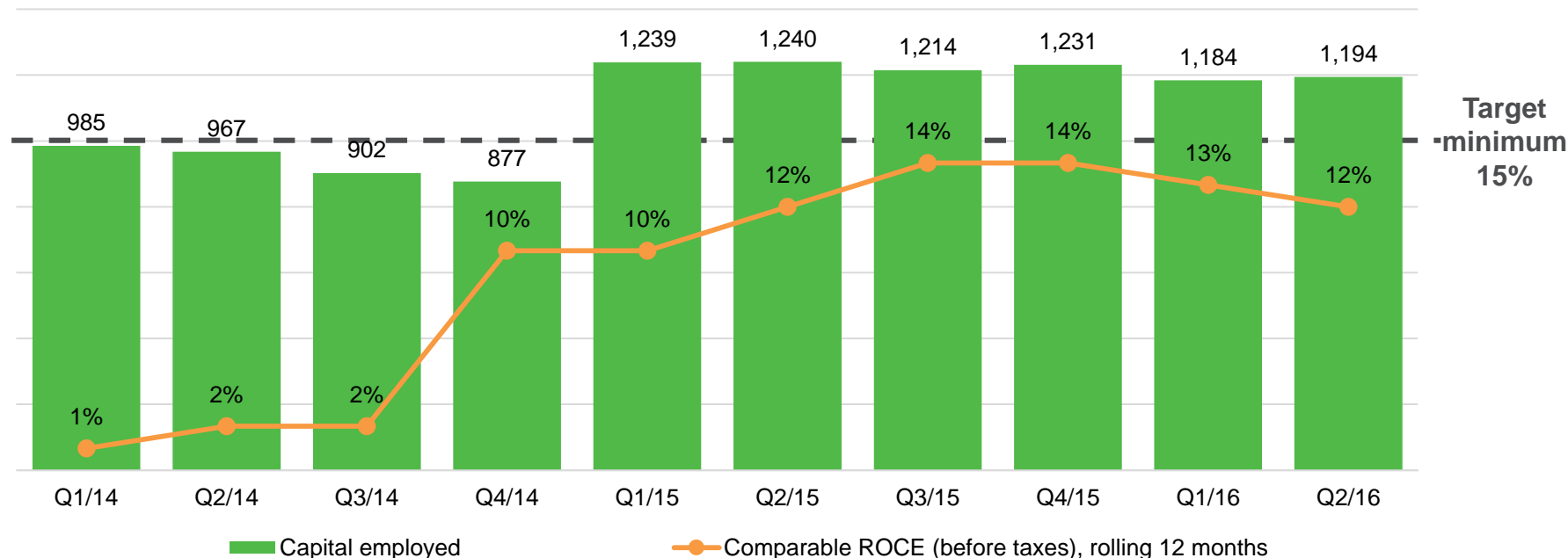
Equity to assets ratio (%)



- Gearing (27%) and net debt (EUR 231 million) increased compared to Q1/2016 due to dividend payout
- Equity to assets ratio increased from Q1/2016
- Automation acquisition was completed on April 1, 2015

Capital employed and Comparable ROCE

Capital employed (EUR million) and Comparable return on capital employed (ROCE), before taxes¹ (percent)



- New target for Comparable return on capital employed (ROCE) from 2017 onwards: 15–20%

1) Rolling 12 months



Guidance, and short-term market outlook

Guidance and short-term market outlook

Guidance for 2016 (as given on February 9, 2016)

Guidance for 2016



Valmet estimates that net sales in 2016 will remain at the same level with 2015 (EUR 2,928 million) and Comparable EBITA in 2016 will increase in comparison with 2015 (EUR 182 million).

Due to new regulation by the European Securities and Market Authority, Valmet has decided to replace the performance measure 'EBITA before non-recurring items' with 'Comparable EBITA'. The content of items affecting comparability, i.e. items previously disclosed as non-recurring, remain unchanged and therefore 'Comparable EBITA' equals previously disclosed 'EBITA before non-recurring items' (EUR 182 million in 2015). Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations or are incurred outside its normal course of business.

Short-term market outlook

		Q3/2015	Q4/2015	Q1/2016	Q2/2016
Services		Satisfactory	Satisfactory	Satisfactory	Satisfactory
Automation		Satisfactory	Satisfactory	Satisfactory	Satisfactory
Pulp and Energy	Pulp	Good	Satisfactory	Satisfactory	Satisfactory
	Energy	Weak	Satisfactory	Satisfactory	Satisfactory
Paper	Board and Paper	Satisfactory	Good	Good	Good
	Tissue	Satisfactory	Satisfactory	Satisfactory	Satisfactory

The short-term market outlook is given for the next six months from the ending of the respective quarter.



New financial targets

New and increased financial targets from 2017 onwards

New target

Growth



- Net sales for stable business to grow over two times the market growth
- Net sales for capital business to exceed market growth

Profitability



- Comparable EBITA: 8–10%

ROCE



- Comparable return on capital employed (pre-tax), ROCE¹: 15–20%


Dividend policy



- Dividend payout at least 50% of net profit

The new financial targets have been announced by stock exchange release on June 21, 2016.

1) $ROCE \text{ (pre-tax)} = (\text{profit before taxes} + \text{interests and other financial expenses} - \text{items affecting comparability}) / (\text{balance sheet total} - \text{non-interest-bearing liabilities (average for period)})$.



Summary of Interim Review Q2/2016

Q2/2016 in brief

- Orders received and net sales remained at the previous year's level in stable business¹
- Orders received decreased and net sales remained at the previous year's level in capital business²
- Order backlog at EUR 2.1 billion
- Profitability increased – Comparable EBITA margin at 7.1%
- Net debt EUR 231 million

1) Stable business = Services and Automation business lines

2) Capital business = Pulp and Energy, and Paper business lines

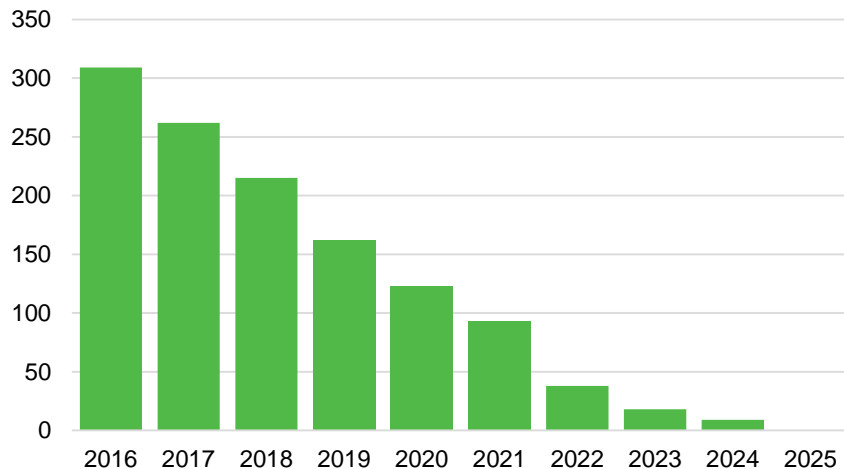


Appendix

Structure of loans and borrowings

Interest-bearing debt EUR 351 million as at June 30, 2016

Amount of outstanding interest-bearing debt (EUR millions)



Main financing sources

Amount	Lender
EUR 88 million	European Investment Bank
EUR 86 million	Skandinaviska Enskilda Banken
EUR 61 million	Swedish Export Kredit
EUR 95 million	Nordic Investment Bank

Back-up facilities

Amount	Outstanding
EUR 200 million syndicated revolving credit facility	None outstanding
EUR 200 million domestic commercial paper program	EUR 20 million

- Average maturity of long-term loans is 3.1 years
- Average interest rate is 1.2%

Largest shareholders on June 30, 2016

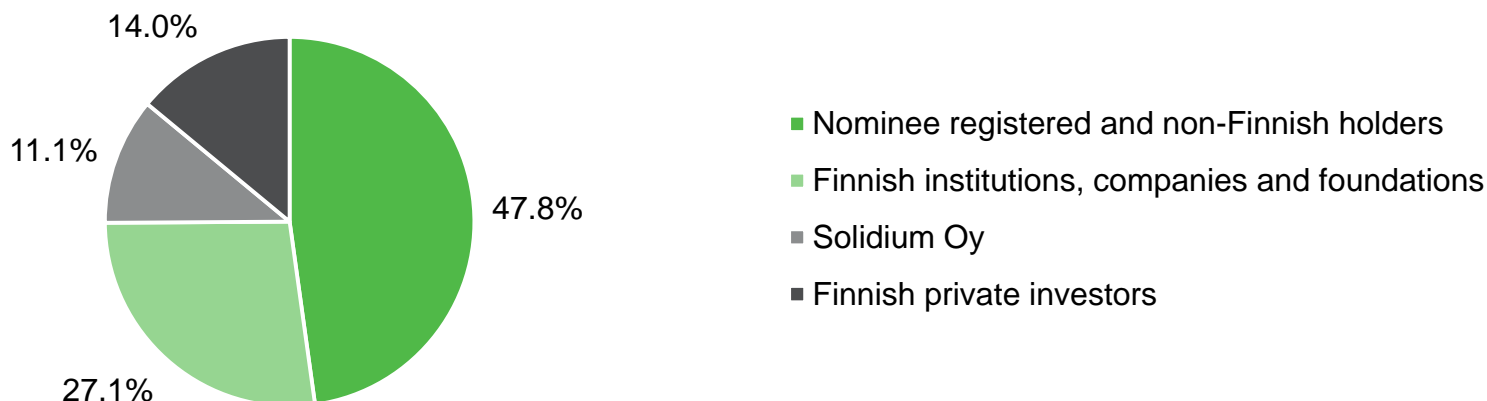
Based on the information given by Euroclear Finland Ltd.

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	6,108,465	4.08%
3	Ilmarinen Mutual Pension Insurance Company	3,388,055	2.26%
4	Elo Pension Company	3,110,000	2.08%
5	Nordea Funds	2,865,459	1.91%
6	The State Pension Fund	1,695,000	1.13%
7	Keva	1,502,166	1.00%
8	Danske Invest funds	1,228,599	0.82%
9	Mandatum Life Insurance Company Limited	1,217,307	0.81%
10	OP Funds	990,878	0.66%
	10 largest shareholders, total	38,801,216	25.89%
	Other shareholders	111,063,403	74.11%
	Total	149,864,619	100.00%

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

Ownership structure on June 30, 2016

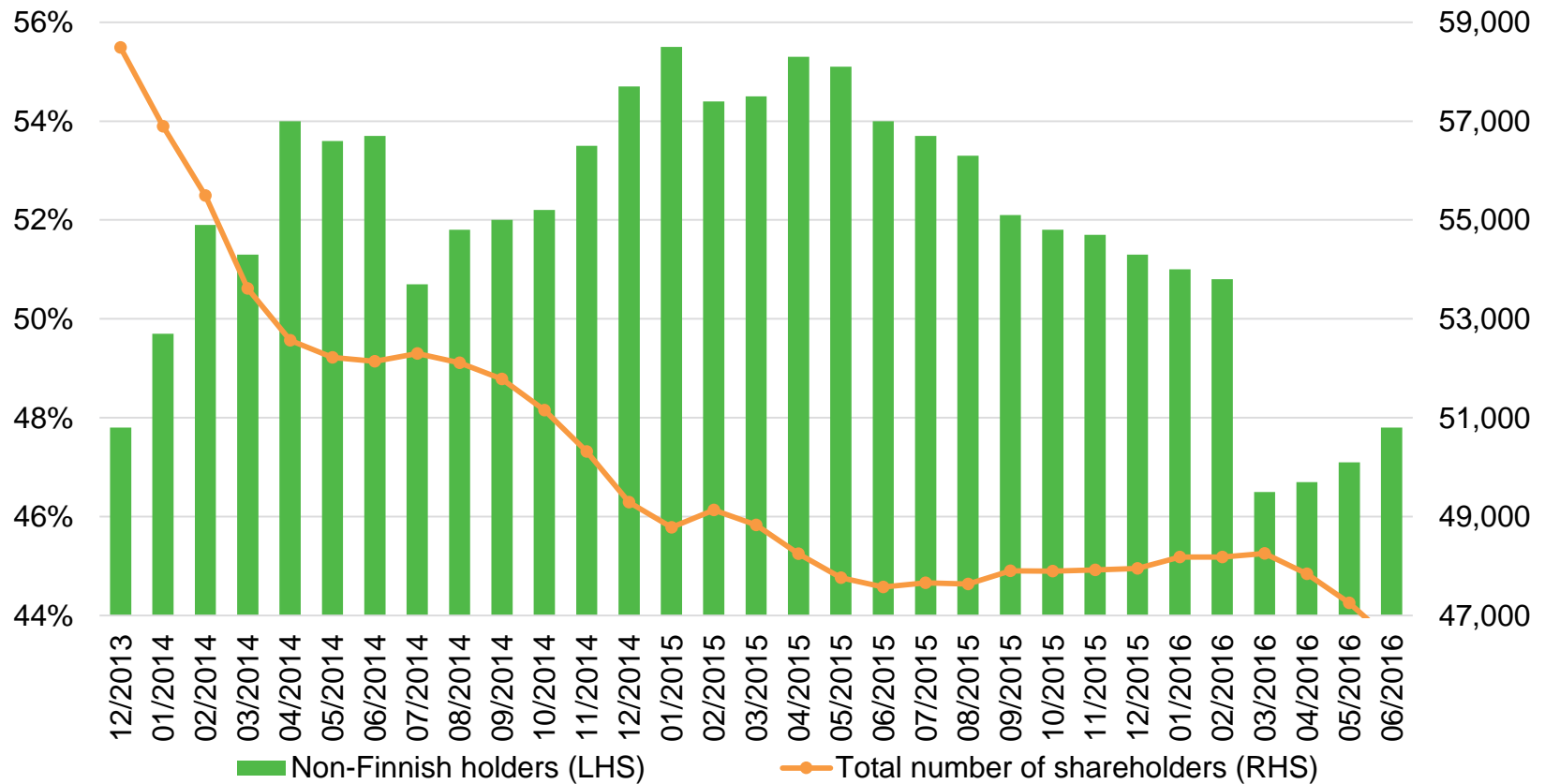


Sector	Number of shareholders	% of total shareholders	Number of shares	% of shares
Nominee registered and non-Finnish holders	302	0.7%	71,588,096	47.8%
Finnish institutions, companies and foundations	2,448	5.3%	40,672,772	27.1%
Solidium Oy ¹	0	0.0%	16,695,287	11.1%
Finnish private investors	43,738	94.1%	20,908,464	14.0%
Total	46,488	100.0%	149,864,619	100.0%

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

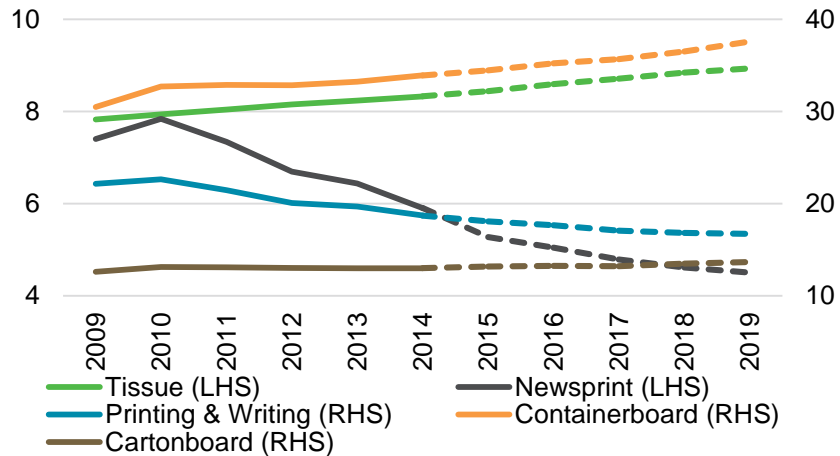
1) A holding company that is wholly owned by the Finnish State

Share of non-Finnish holders and number of shareholders

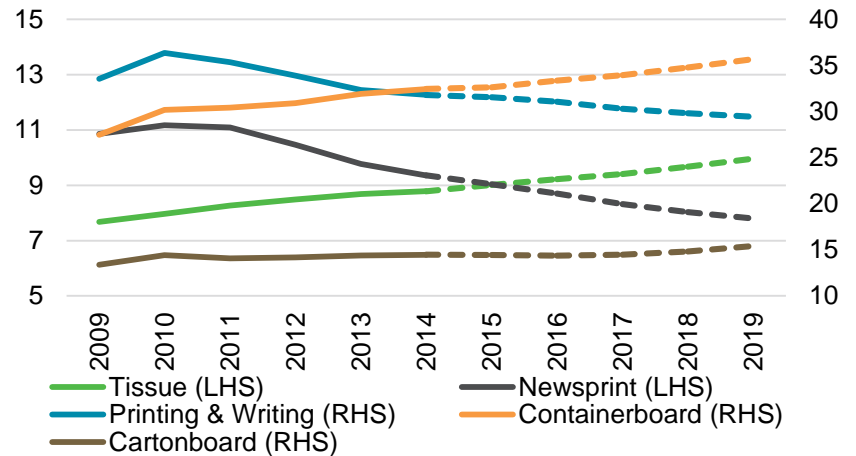


Paper, board, and tissue production trends

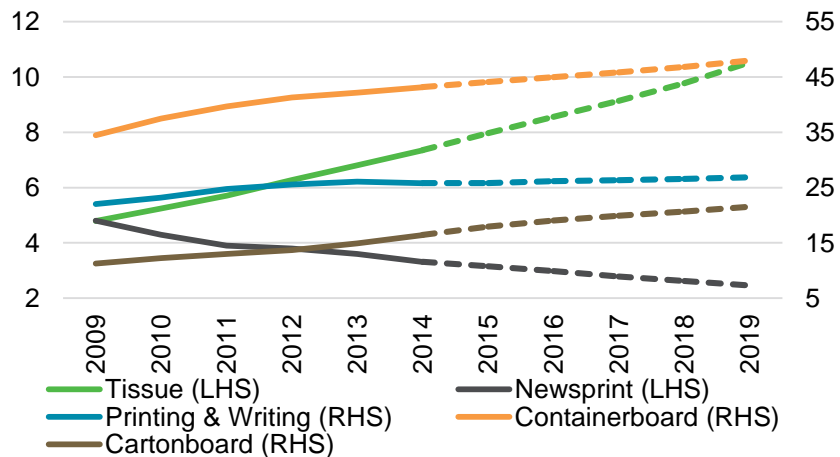
North America (million tonnes)



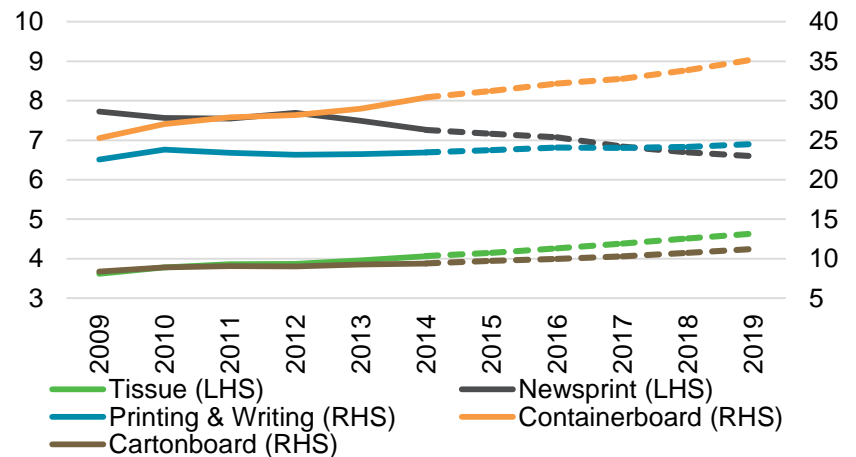
Europe (million tonnes)



China (million tonnes)



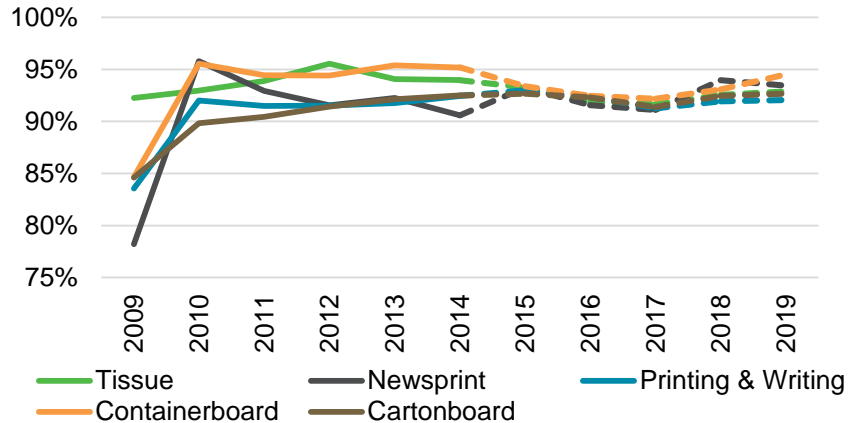
Asia-Pacific (million tonnes)



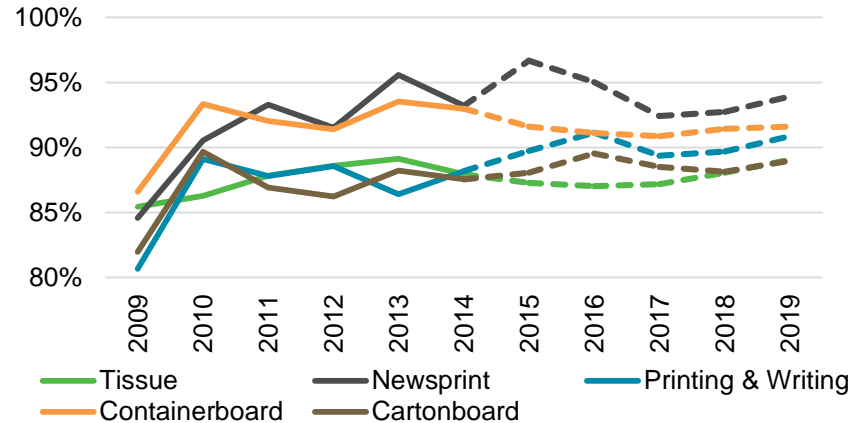
Source: RISI

Paper, board, and tissue operating rates

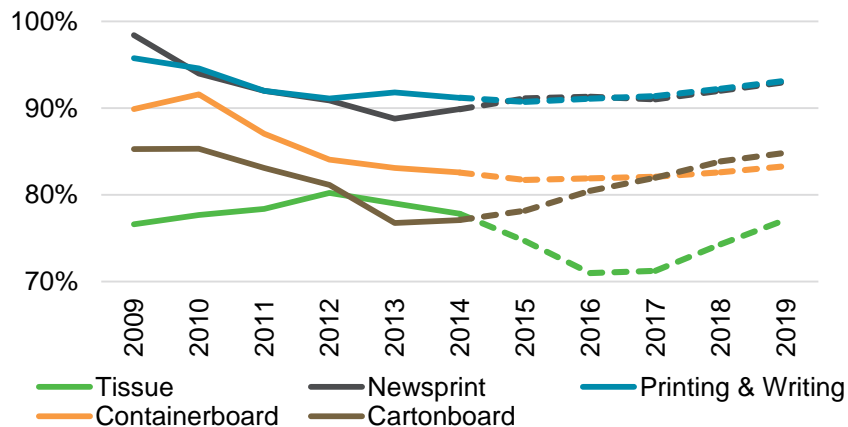
North America



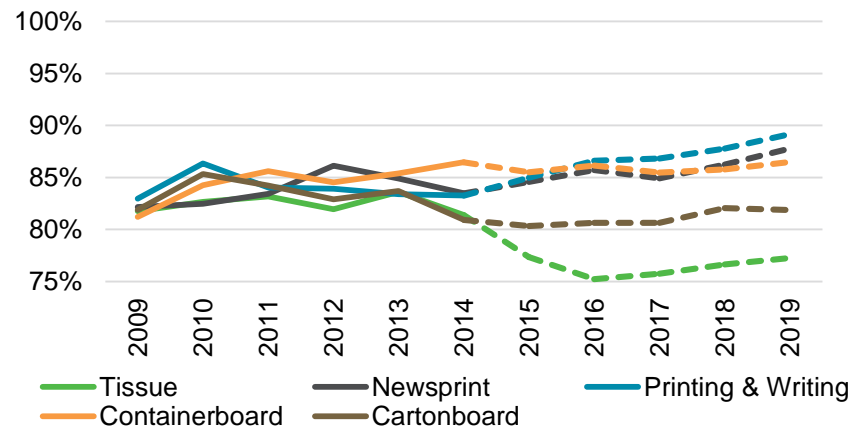
Europe



China



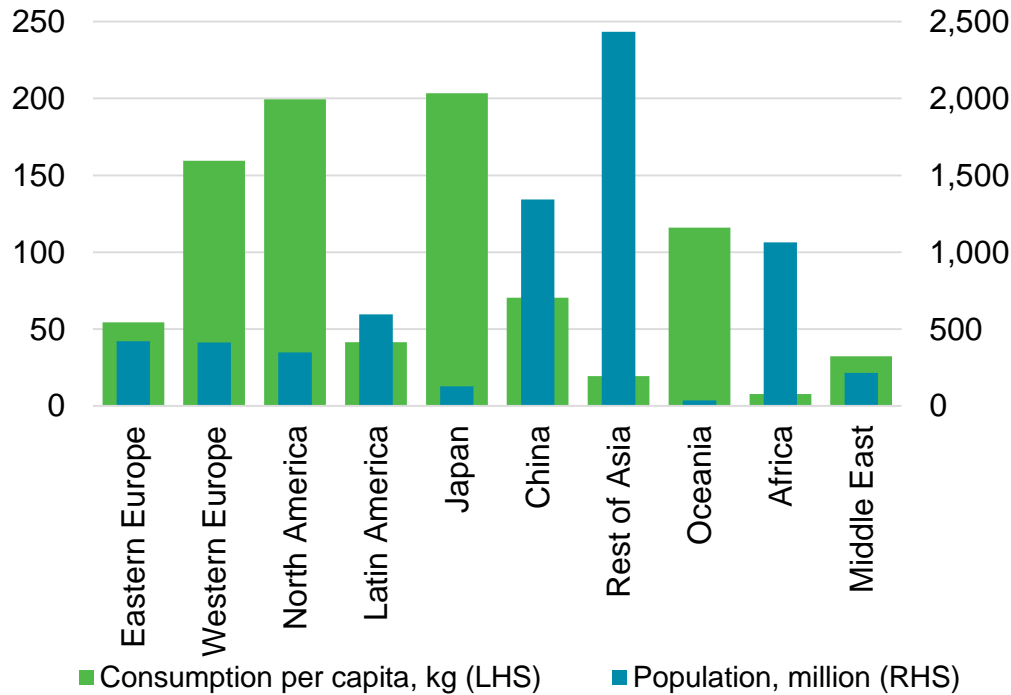
Asia-Pacific



Source: RISI

Paper and board consumption growth trends

Paper and board consumption per capita vs. population



Population growth in emerging markets is larger than in developed markets

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

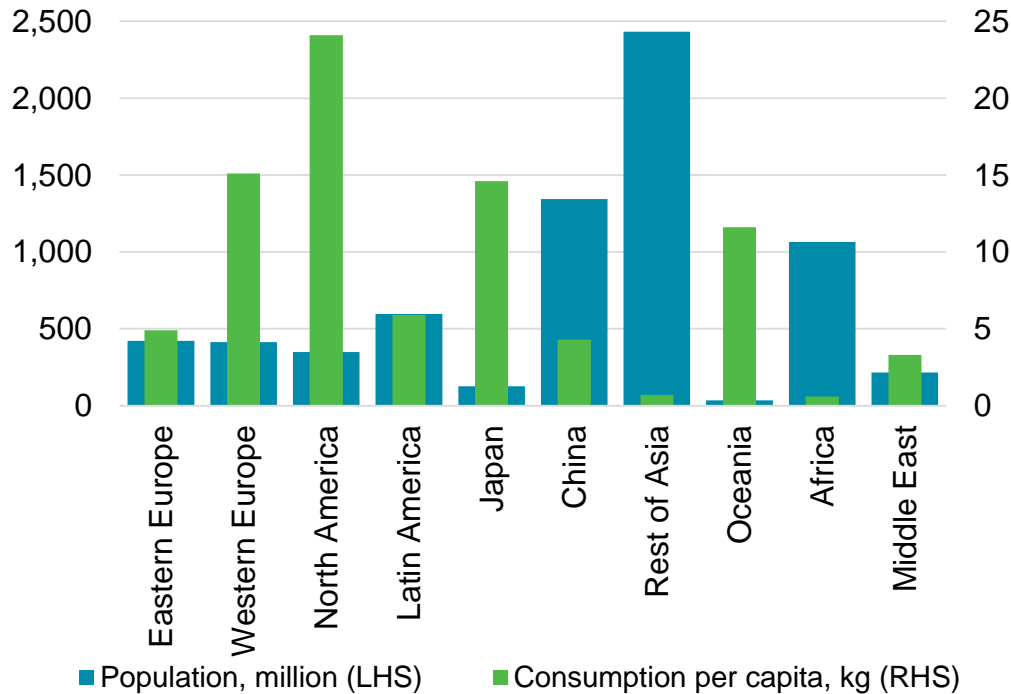
This offers us long-term growth potential

Average global consumption: 53 kg per capita

Source: RISI

Tissue consumption growth trends

Tissue consumption per capita vs. population



Average global consumption: 4.5 kg per capita

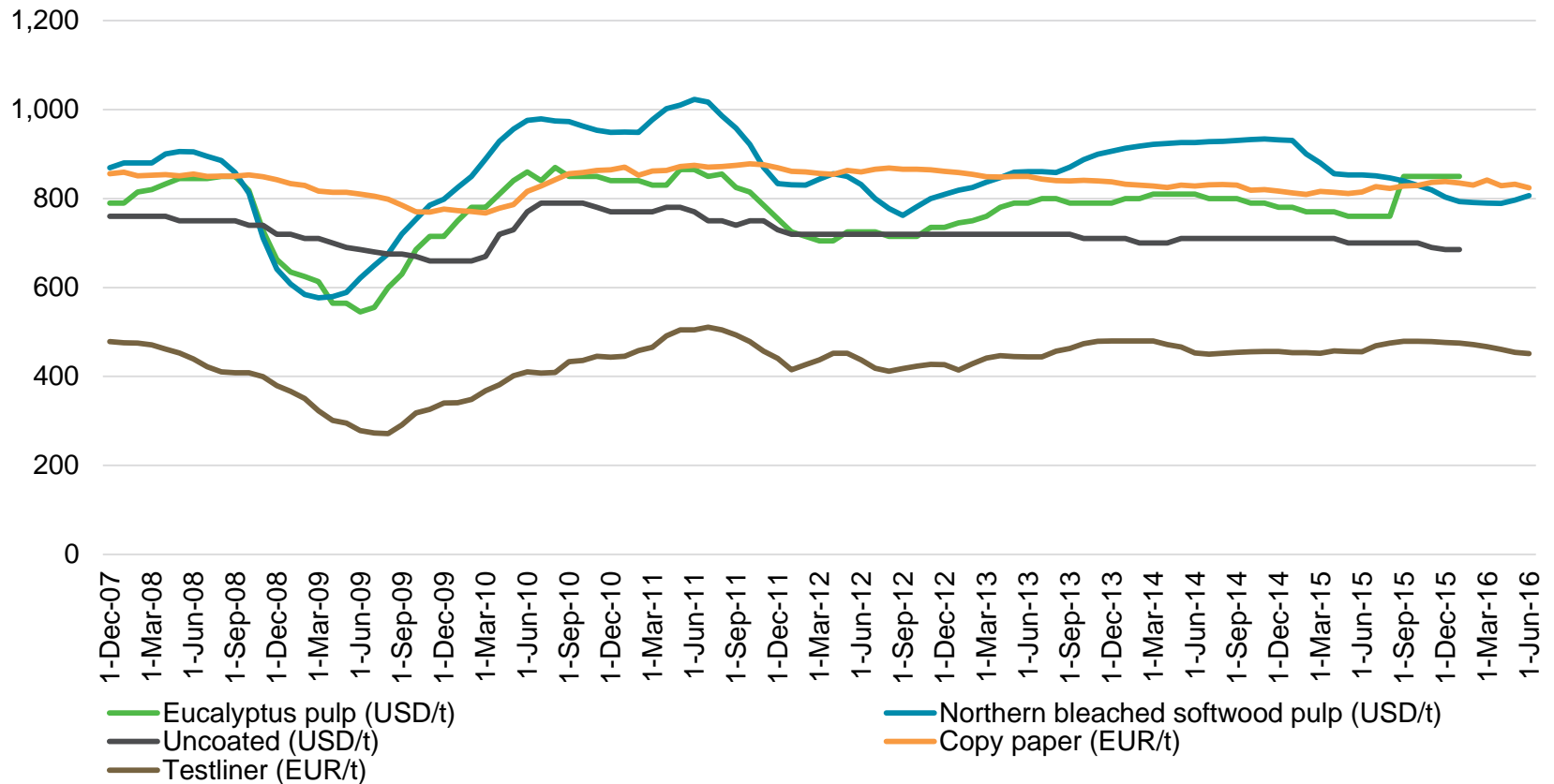
New products and consumption models based on tissue are helping increase consumption in developed markets

Consumption in emerging markets is still low, but growing

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

Source: RISI

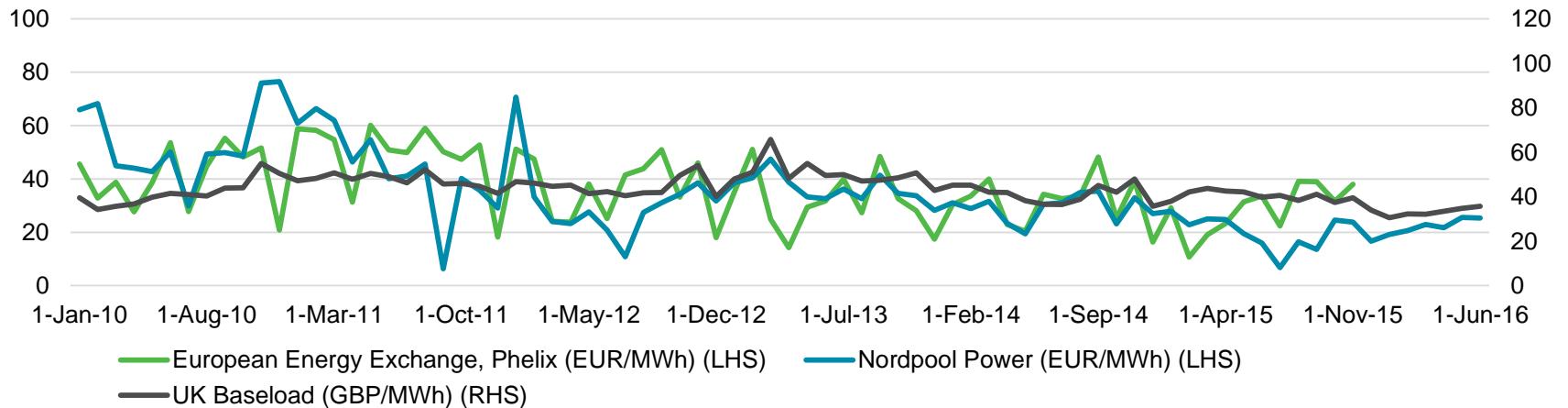
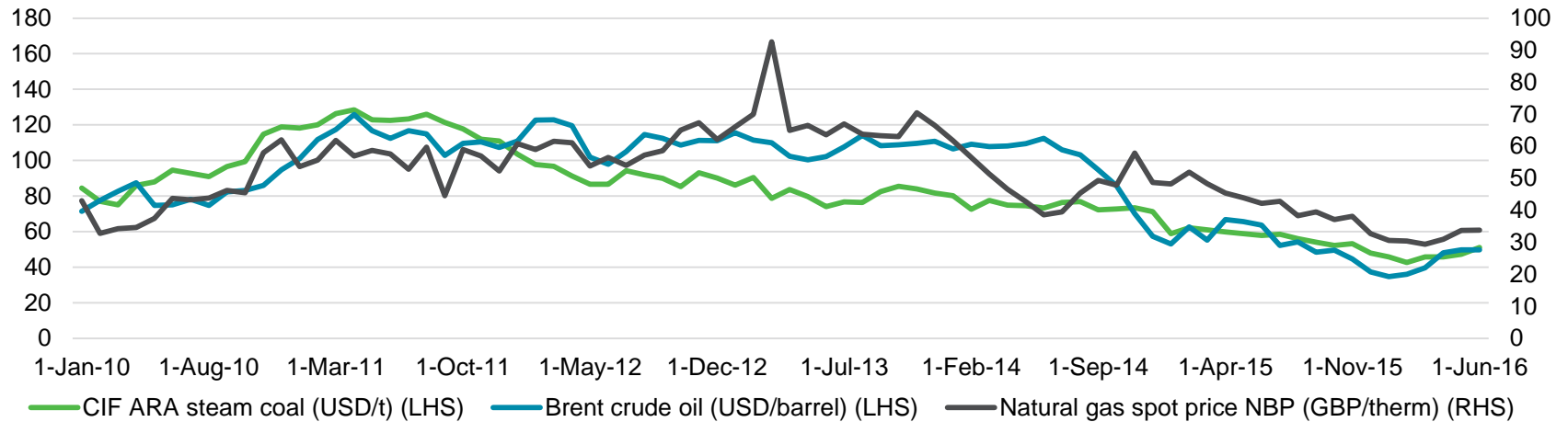
Pulp and paper price trends



Source: Bloomberg

Crude oil, steam coal, natural gas and electricity

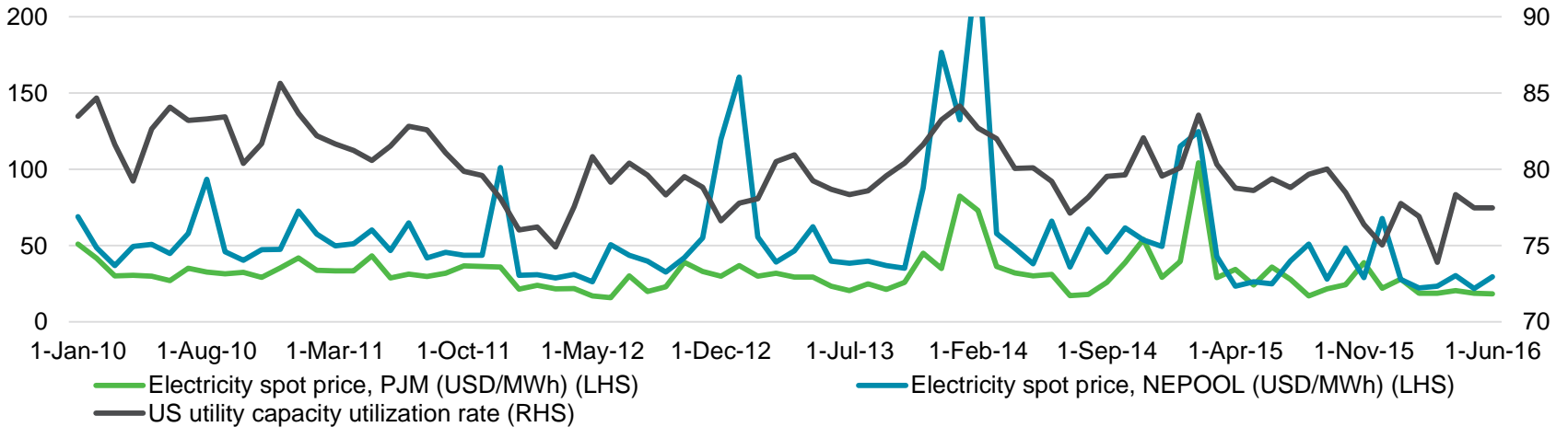
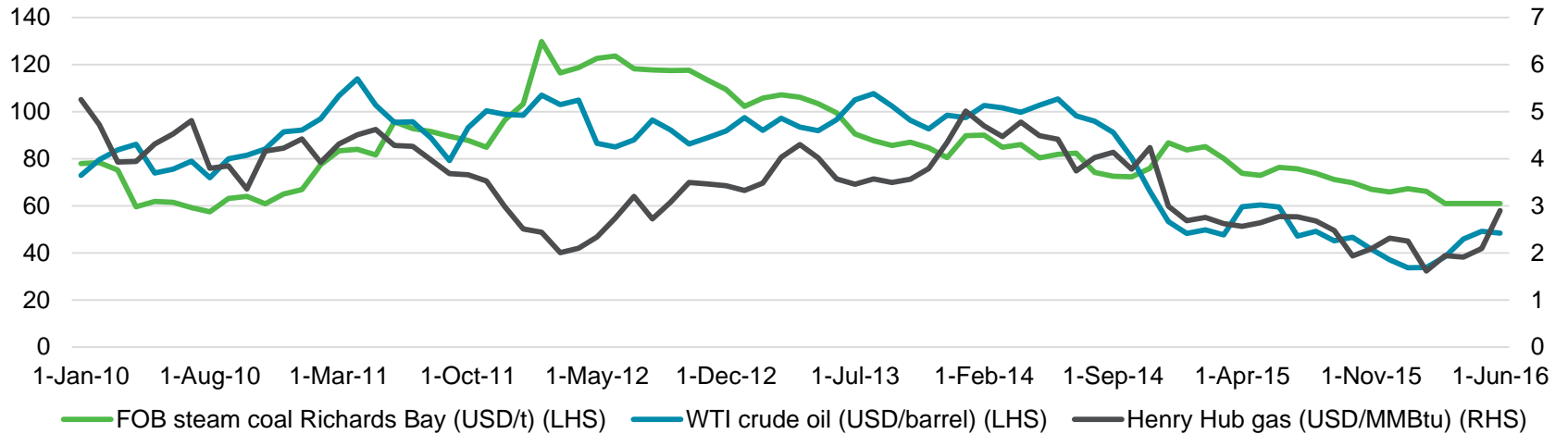
Europe



Source: Bloomberg

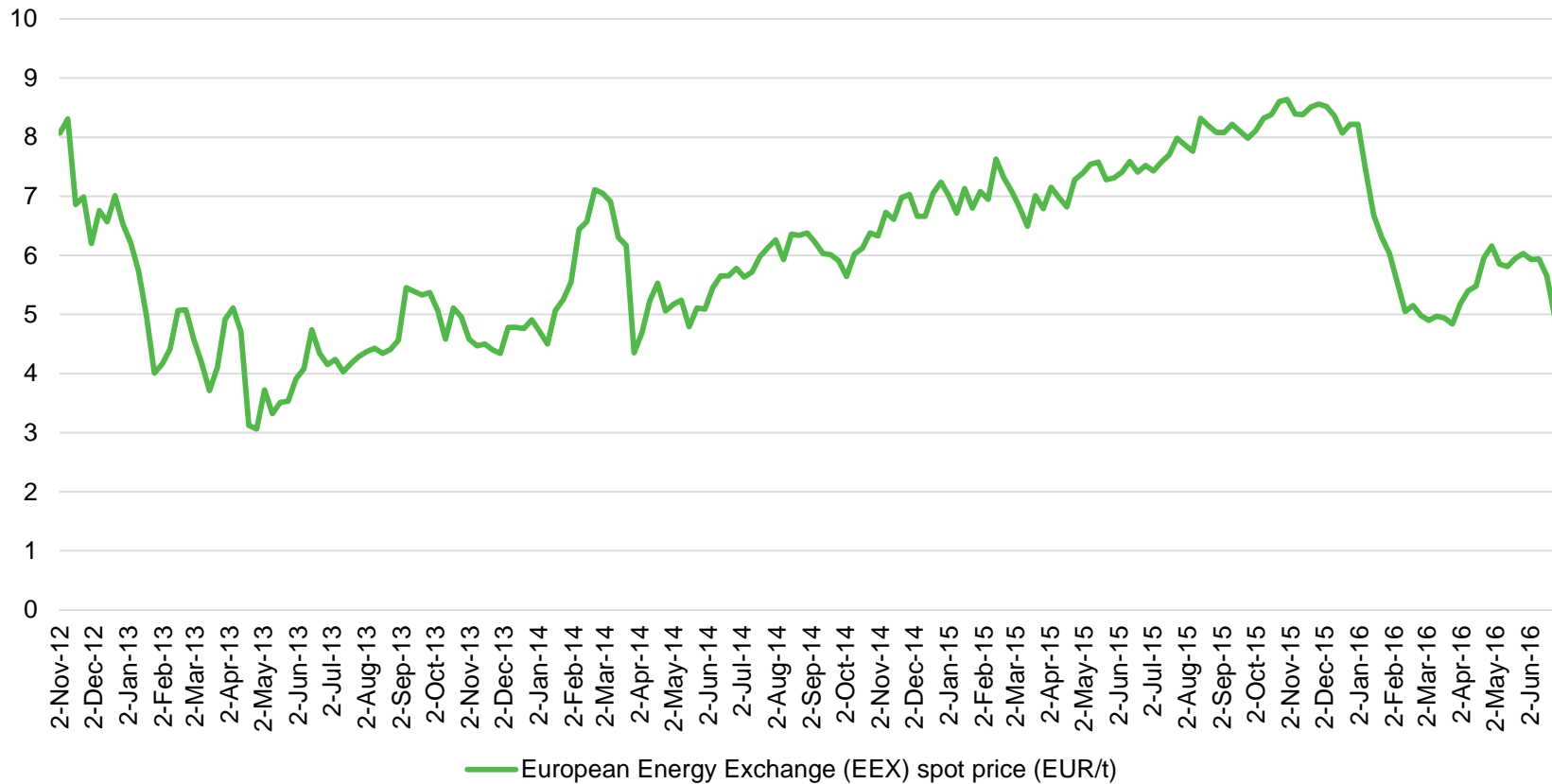
Crude oil, steam coal, natural gas and electricity

United States



Source: Bloomberg

European Carbon Emission Allowance



Source: Bloomberg

Important notice

IMPORTANT: The following applies to this document, the oral presentation of the information in this document by Valmet (the “Company”) or any person on behalf of the Company, and any question-and-answer session that follows the oral presentation (collectively, the “Information”). In accessing the Information, you agree to be bound by the following terms and conditions.

The Information is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction. The Information is not for publication, release or distribution in the United States, the United Kingdom, Australia, Canada or Japan.

The Information does not constitute or form part of, and should not be construed as an offer or the solicitation of an offer to subscribe for or purchase any securities, and nothing contained therein shall form the basis of or be relied on in connection with any contract or commitment whatsoever, nor does it constitute a recommendation regarding any securities. Prospective investors are required to make their own independent investigations and appraisals of the business and financial condition of the Company before taking any investment decision with respect to securities of the Company.

No securities of the Company are being offered or sold, directly or indirectly, in or into the United States and no shares in the Company have been, or will be, registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities laws of any state of the United States and, accordingly, may not be offered or sold, directly or indirectly, in or into the United States (as defined in Regulation S under the Securities Act), unless registered under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act and in compliance with any applicable state securities laws of the United States.

The Information is directed solely at: (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the “Order”), (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order and (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities of the Company or any member of its group may otherwise lawfully be communicated or caused to be communicated (all such persons in (i)-(iv) above being “Relevant Persons”). Any investment activity to which the Information relates will only be available to and will only be engaged with Relevant Persons. Any person who is not a Relevant Person should not act or rely on the Information. By accessing the Information, you represent that you are a Relevant Person.

The Information contains forward-looking statements. All statements other than statements of historical fact included in the Information are forward-looking statements. Forward-looking statements give the Company’s current expectations and projections relating to its financial condition, results of operations, plans, objectives, future performance and business. These statements may include, without limitation, any statements preceded by, followed by or including words such as “target,” “believe,” “expect,” “aim,” “intend,” “may,” “anticipate,” “estimate,” “plan,” “project,” “will,” “can have,” “likely,” “should,” “would,” “could” and other words and terms of similar meaning or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company’s control that could cause the Company’s actual results, performance or achievements to be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which it will operate in the future.

No representation, warranty or undertaking, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the Information or the opinions contained therein. The Information has not been independently verified and will not be updated. The Information, including but not limited to forward-looking statements, applies only as of the date of this document and is not intended to give any assurances as to future results. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to the Information, including any financial data or forward-looking statements, and will not publicly release any revisions it may make to the Information that may result from any change in the Company’s expectations, any change in events, conditions or circumstances on which these forward-looking statements are based, or other events or circumstances arising after the date of this document. Market data used in the Information not attributed to a specific source are estimates of the Company and have not been independently verified.



Interim Review
January–
September 2016

October 27, 2016

www.valmet.com/investors

Capital Markets Day

September 20, 2016
Helsinki, Finland

www.valmet.com/cmd

