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PRESENTATION

Calle Loikkanen - *Valmet Corporation - VP of IR*

Good afternoon, ladies and gentlemen, and welcome to Valmet's Q3 2016 results presentation. My name is Calle Loikkanen, and I'm head of Valmet's Investor Relations.

Today, Valmet's President and CEO, Pasi Laine, together with Valmet's CFO, Kari Saarinen, will walk us through the results presentation. And as usual, we will end with the Q&A session.

Without any further ado, let us start with the presentation. So, Pasi, please, the floor is yours.

Pasi Laine - *Valmet Corporation - President, CEO*

Thank you, Calle. Very well started first quarterly results from Calle. So thank you for joining the meeting now; it's nice to be here and present Valmet's results. So first of all, we can say that our orders received increased and profitability improved compared to last year.

I will have normal agenda. So first we will go through Q3 numbers in brief, and then business lines development, then the financial development will be presented by Kari, and then I come back to this guidance and short-term outlook.

First, 2016 third quarter in brief. So first of all, orders received remained at the previous year's level and net sales increased in our stable businesses. And like you remember, stable businesses is our Automation and Services business together. Then orders received increased and net sales decreased in our capital business. Our backlog is currently about EUR2.2 billion, profitability improved, so comparable EBITA margin was at 7.5% level, and our net debt decreased to EUR126 million. So quite good third quarter for Valmet.

The numbers themselves, first of all, orders received was EUR788 million. And net sales, a little bit less; EUR685 million, and our comparable EBITA for this quarter was EUR52 million and the comparable EBITA margin was 7.5%. We employed about 12,100 people.

And if you look at the numbers from a geographical point of view, then Europe has been gaining a bigger share during the whole year, and later in the presentation you will see that actually, Europe was very strong in orders received in the third quarter. So Europe has now brought 47% of the revenue to us this year. North America has stayed at the traditional level, 20%, and then South America 8%, Asia-Pacific 12% and China 13%.



And if we look at the net sales division the same way from business lines' perspective, then we can say that now 51% of the net sales came from stable businesses; meaning Services and Automation together, and capital businesses was, of course, the rest 49%.

Orders received increased to EUR788 million; like I said, it's an improvement compared to last quarter. And I would say that it's at a reasonably good level also if you will think on the yearly perspective the order intake. Our orders received increased in Pulp and Energy business line where market activity was good. Stayed at previous year's level in Services and Automation and decreased in Paper business line.

Like you see here, Europe has been very strong, actually, in market activity in the third quarter. So 62% of the orders came from Europe, and that is mainly due -- not only due to the Pulp and Energy, but also Paper. So we can't, of course, say surprisingly active, but Europe has been a good market for us in the third quarter like it has been the whole year as well.

Then if we look at our stable business; so stable business has now increased nicely, and if we calculate the four last quarters together now, the order intake from the stable business accounts to EUR1.490 billion. So we are quite close to EUR1.5 billion, and if you remember where we started, our order intake in the beginning - or before the demerger, there was about EUR1 billion, and now we are at EUR1.5 billion level in stable businesses. And that, of course, has changed Valmet and Valmet's stability a lot. So I think I would like to thank already now our regional operation in Services and Automation for excellent work that they have been doing with our customers.

Then if you look at the backlog. So the backlog increased, now it's EUR2.2 billion level, and like you see from this graph now, the backlog has stabilized quite nicely there at EUR2.1 billion to EUR2.2 billion. And like we have been saying earlier, it's in a way, good level of backlog so it makes possible that in most of the units, we have good workload, and then in most of the units, we don't have too high workload not to be competitive in the short term delivery time items either.

So we feel that this EUR2.2 billion to EUR2.1 billion level is a good level for our order backlog. And like in earlier years as well, we are not any more telling how a big part of the backlog will be recognized as revenue in the fourth quarter, and that has been our policy and that is the policy this year as well. About 30% of the backlog is coming from our stable business and the rest is coming from our capital businesses.

Then one -- we have tradition that we talk about one subject, which is more general type; I think the last time I was talking about the Services concept and now it's sustainability, and like you have noticed, we were included in Dow Jones Sustainability Index in the worldwide index; there were four companies altogether from Finland who were included in that and 350 companies all together globally. So of course for us it's a very nice achievement, the recognition of the work that we have included at the third time in a row to this global index.

We have had a lot of work, but we have had continued the sustainability work and with very pragmatic way so we have a program where we focus on improving our sustainability of the supply chain. We have, of course, health and safety procedures developing so that we are making better and better care that our health procedures are such that we don't have -- we have minimum lost time incidence frequency. Then we have put quite a lot of effort in training programs and performance management. So we spent I can say over EUR2 million a year just for the training programs to make sure that our personnel is trained very well in different kind of jobs, like in sales or project management or services or procurement.

Then we are, of course, developing sustainable solutions together with our customers and delivering them a sustainable solution by which they, with our technology, can contribute to the decreasing of CO2 emissions in the world, which is of course, our mission as well. So converting renewable resources into sustainable results. And then we have programs where we participate in developing a better standard of living, for example, with education programs in South America for helping poor children in some other countries. So we think that this Sustainability 360 degrees agenda is important because sustainability is not only one thing but several things, and we have to be active on all these fronts. And the latest news is that we have been included also in the CDP index, and I think that announcement came this week. So we have had good progress here and we continue to have sustainability as one of our focus areas in the future as well.

Then if I go to the business lines development. So first, Services; so here you see that Services order intake in the first three quarters have improved from EUR852 million to EUR898 million. So about 5% growth in the first three quarters. And like we are saying, our target setting, I think we want to grow double the market size -- market growth. So this first three quarters we have been able to live with the target setting.



Net sales has been improving about EUR32 million compared to last year in the three first quarters. Market activity has been good in China, Asia-Pacific and South America and remained at last year's level in EMEA and North America. Business wise, Energy and Environmental, Rolls and Performance have been increasing and last year's level in Fabrics and Mill improvement. But all in all, I think it's important to notice that we have had about 5% growth in orders received in Services in the first three quarters.

Automation has been -- this quarter, order intake was about the same than the quarter before; EUR2 million growth. Cumulatively, I don't have now the figures here, but we have had small growth also in Automation cumulatively compared to last year.

And of course, the whole year is difficult to calculate because not the whole year was included in our numbers last year. And like earlier, we have been saying the clear focus in Automation is that we want to make that also change that to growth mode, and at least the beginning of the year, we have been able to do that. It's one of the core activities in Valmet to make sure that the Automation business continues to grow. And like we have seen, Automation has been performing very well in Valmet times and we are very pleased that it's part of our operations now.

Then if we go to Pulp and Energy, first of all, the quarter was good; so order intake was EUR275 million. And then if we look to the three first quarters, the order intake has been growing from EUR600 million to EUR692 million so EUR90 million, but almost EUR90 million growth, which is good so we have had a good situation in Pulp and Energy. Net sales is stabilizing so that it's somewhere a little bit over EUR200 million if you calculate three quarters in a row.

Then a couple of comments about the order intake itself. So we have been saying that energy activity is there, and we got quite nice Energy orders in the third quarter. And then at the same time, we have been saying that there is less activity in Pulp, so the shift between the years is such that last year we had more Pulp, less Energy; this year, we had more Energy and less Pulp. But that fits very well to our organization because we can partly utilize the same resources for part of the Pulp and part for the Energy. We are very satisfied with the third quarter order intake in Pulp and Energy.

Then in Paper, order intake was EUR176 million, and then if you compare year-on-year, there we are EUR2 million below last year. So last year it was EUR474 million and now it is EUR472 million. And I would say that this EUR176 million is reasonable order intake for one quarter, and the whole year is reasonable order intake for the three first quarters. Net sales wise, we are exactly at the same level than last year so EUR459 million.

That was a quick overview of the business line development, and I would like to welcome Kari to tell more about the details of the financial numbers.

Kari Saarinen - Valmet Corporation - CFO

Thank you, Pasi, and also, good afternoon on my behalf as well. So going a bit deeper on the financials, so our quarter's orders were 9% higher than last year, and that's been driven by the P&E (Pulp and Energy) where we had the highest increase. Cumulatively, our orders received was 9% above last year's, and actually, Pulp and Energy is plus 15%, Services are 5% ahead of last year's, and then PAP (Paper) is flat.

Our net sales was EUR685 million, so that is minus 7% compared to last year's quarter three; this is because of the capital businesses, meaning Pulp and Energy and the Paper business lines, were below, whereas the stable businesses were ahead. And cumulatively, we are at plus 3% at net sales compared to last year's three quarters. Order backlog of EUR2.2 billion; that was higher than a year ago, as well it was also higher than what we started this year. Quarter 3's comparable EBITA, EUR52 million or 7.5%; so that was actually the best quarter ever at Valmet percent wise. Last year, we did EUR47 million or 6.4%.

Then looking at the cumulative comparable EBITA; that is now EUR140 million, that is EUR20 million than we did a year ago. Cumulative EBITA percentage, that is 6.5%, a year ago, we were at 5.8%. Earnings per share EUR0.17 now at quarter three and cumulatively, we are at EUR0.46, so that is almost 40% improvement compared to the cumulative figure a year ago.

And then the cash flow, so the quarter's cash flow, EUR122 million, and cumulatively, we are at EUR158 million. So major development compared to a year ago; last year's year to date was EUR14 million. Net debt, EUR126 million and gearing 14.7%, so gearing was one-half what it was a year ago.

Then this shows a bit more in detail the development of our net sales. So we can see here that the Services business line increased EUR18 million; that is a 7% increase in quarter three compared to a year ago; Automation was flat, reduction in capital businesses, Pulp and Energy, [EUR180 million] (corrected by company after the call), our Paper business line, minus EUR48 million -- so all together EUR66 million reduction. So once more, all the reduction coming from capital businesses.

Looking at gross profit. So actually, we had increased our gross profit to slightly more than 23%; that is 1.5 percentage points higher what we did a year ago. And this is mainly driven by the strong performance of Services business line. Our SG&A, they were actually the lowest since quarter one year 2015, and we have actually taken continuous improvement and development actions to lower our costs, and main impacts we have seen in China, North America and Poland, Poland now during this year, we actually -- we had some headcount reductions all the way up to close to 500 persons.

And then looking at our comparable EBITA. So as said our EBITA has developed favorably, so we were at 7.5% at quarter three, and this is the highest EBITA percent since the beginning of Valmet. And then also we have now worked hard and improved our EBITA each quarter compared to the EBITA percent a year ago. So, so far, we have had seven quarters where we have had better EBITA percent than a year ago.

Cash flow; so the quarter's cash flow, EUR122 million. And cumulatively, we are at EUR158 million, so we had strong cash flow in quarter three, and that is driven by the high profits that we did, and then also the reduction of our net working capital. And if we actually look at the net working capital here, so in the end of quarter three, our net working capital was minus 9% of the rolling 12 months order. So which is like our average now if you look at the past history. So we came to the level where we actually had been earlier and we have actually actions in place to also improve this situation here. So we have actually quite strong follow up in place, we have also credit limits in place with all of our customers. And also, we have massive trainings ongoing. So more than 2,100 people have actually participated in net working capital training during this year.

Looking at our net debt. So net debt, EUR126 million; lowest since the acquisition of Automation, and the gearing was 15%; that was also significant drop from the end of quarter two where it was 27%. And then also pretty much half of the amount what we had a year ago. Equity to asset ratio also improved, and so in the end of the quarter, it was 38%.

Then looking at capital employed and also then the comparable return on capital employed. So that increased from 12% to 14%, so our target is 15% and now we are at 14% and this is actually driven by our profit. Our capital employed actually did not improve very much this quarter.

So back to you, Pasi. Thank you.

Pasi Laine - Valmet Corporation - President, CEO

Thank you, Kari. Kari starts to be very quick with the presentation, so it's good because then it leaves more time for questions later on.

Then next, the guidance. So we keep the guidance for 2016 the same what we had at earlier. So Valmet estimates that net sales in 2016 will remain at the same level with 2015 and comparable EBITA in 2016 will increase in comparing with 2015. So exactly the same what we have had the whole year.

Then in short-term market outlook; Services and Automation we keep the same as earlier, so satisfactory, and so we see that some of the markets are active, some less active and when you integrate the whole picture, then Services and Automation is the same.

Pulp, like we have been saying the whole year, is satisfactory; we don't see that there will be a very big pulp mill decisions during the coming six months. And then the positive thing, what we are saying is that the development in Energy. First of all, our order intake in Energy has been good in the third quarter, and actually a little bit earlier as well. And that has caused that now we have very good work load in our energy related operations.

And we also see that there is reasonable market activity going forward. Maybe not as big project as what we have been announcing, but there is market activity and as a result of improved workload and continuing activity on the middle size of the energy project, we saw that it is correct to increase the market outlook in Energy to good.

Then Board and Paper we have been saying that it is good, and last two quarters, we have been saying that decisions have been postponed and postponed. And now, we see that it is correct to say that it is satisfactory. And there I think our market outlook hasn't been exactly -- or now retrospectively, it is easy to say that it hasn't been exactly the correct, so I think this satisfactory level corresponds now better to the market outlook what we see currently in Board and Paper. Then opposite to that, the tissue market has been good and we had very good order intake in the third quarter in Tissue and we see that the tissue market continues to be at the good level also in the coming six months.

So all in all, there are changes now in this market outlook, but if you summarize the whole and think about the sizes of the businesses and compare them with each other, then I would say that our total market outlook is the same as it has been in quarter one and quarter two. And I don't see there any dramatic changes, even if we change the outlook for three of the sub-segments. So that is the market outlook.

And then as a summary, a stable business; orders received remained at last year's level, net sales increased, capital business has good order intake, net sales decreased, backlog is EUR2.2 billion and we see that it is a good level of backlog. So giving opportunities to take new orders, but giving also good enough work load for the maturity of our units. Profitability has improved, comparable EBITA margin was 7.5% and our net debt is now EUR126 million and that is quite nicely improved.

QUESTIONS AND ANSWERS

Calle Loikkanen - Valmet Corporation - VP of IR

Thank you, Pasi, thank you, Kari. And now, we will continue with Q&A. If we start here from questions in Keilasatama, do we have any questions here?

Okay, no questions in Keilasatama. So we can move over to the questions on the lines. So, Operator, please, do we have any questions?

Operator

(Operator Instructions) Manu Rimpela.

Manu Rimpela - Nordea - Analyst

My first question would be on the operational leverage in the quarter. I must say, I'm very positively surprised by the fact that your sales fell 6% organically in the quarter and they were almost EUR120 million lower than in the second quarter. But despite that, you were able improve the margin compared to the second quarter, which in a way, I mean, doesn't make sense to me given that you have EUR120 million less sales, but you still have higher margins.

So I would just like to understand, why was there no negative operational leverage from the almost EUR70 million fall in the equipment sales, and how was the mix able to compensate for this and is this a kind of sustainable level on the margins, do you think?

Kari Saarinen - Valmet Corporation - CFO

Well, first about the capital sales. So, Manu, there is one thing to notice that even though if our, like, big projects revenue recognition is based on the percentage of completion and there are also quarters when actually we don't recognize the revenue because the milestones just don't fall in

that quarter. So that is one point is there. Also, if we look at our SG&A so actually our SG&A spend were the lowest since quarter one last year. So there was also some positive elements that were there and also the Services, Services contributed quite good profitability now this quarter as well.

Manu Rimpela - *Nordea - Analyst*

But if I look at your SG&A, I think that was only down something like EUR4 million compared to the previous year. But then your sales were still down by almost EUR50 million, so just trying to understand how come the equipment business doesn't have an operational leverage as it seems? Is there some big costs that are being postponed or switched between the quarters, so had something to do with the percentage of completion accounting?

Kari Saarinen - *Valmet Corporation - CFO*

Well, I said that we had a strong quarter with our stable business and low cost and we just had a good quarter now.

Manu Rimpela - *Nordea - Analyst*

And then in terms of the Q4, so I mean, I think that typically, in your business, that should be a higher margin quarter because of better activities. So I mean, should that normal seasonality hold true for this year as well?

Kari Saarinen - *Valmet Corporation - CFO*

Well, we are keeping our guidance so that net sales is flat and EBITA improves.

Manu Rimpela - *Nordea - Analyst*

But you are not willing to comment on the seasonality?

Pasi Laine - *Valmet Corporation - President, CEO*

I think the seasonality -- we have been saying that there is seasonality in Services and in Automation and that seasonality is there, then is the seasonality as big as last year, we cannot, of course, say anything. But then of course, when we try to reduce the seasonality, then it might be that the surprise for the last quarter will become small.

Operator

Sven Weier.

Sven Weier - *UBS - Analyst*

You were commenting on the year-on-year development in Pulp order intake. I was just hoping you could give us also some color on how Pulp developed on orders sequentially; if you have seen any impact from lower pulp prices and the news from the pulp makers on the decision making there or was Pulp basically flat sequentially on the orders?



Pasi Laine - Valmet Corporation - President, CEO

So the Pulp order intake, we have been saying actually the whole year that the last year, we had so many decisions that we don't expect very big decisions this year. And that has been the reason we -- so we are saying that the big pulp mill projects will not materialize in 2016, and that is actually what we have been saying the whole year.

We have seen good activity on debottlenecking and expansion projects in most of the parts of the world in Pulp. So there we see activity, but what is causing the lower order intake is that there won't be big pulp mill orders this year.

Sven Weier - UBS - Analyst

So given that you have changed and have not changed your statement as satisfactory there, I suppose that sequentially there is going to be no change on that activity? Not on the big ones, just on the bread and butter business.

Pasi Laine - Valmet Corporation - President, CEO

I have difficulties -- can you once again, repeat? I have bad hearing, but let's try again. Can you ask once again?

I think it was something about the big order intake still, and I think we have been saying the whole year that there won't be big projects decided and small project activity continues.

Was the whole line cut?

Kari Saarinen - Valmet Corporation - CFO

Hello? We can't -- somebody on the line, so the reception is not so great.

Operator

Sven, your line is open. I think he went mute.

Pasi Laine - Valmet Corporation - President, CEO

Okay, all right.

Operator

So we will proceed with the next question?

Calle Loikkanen - Valmet Corporation - VP of IR

Yes.

Operator

Johan Eliason.



Johan Eliason - *Kepler Cheuvreux - Analyst*

I was wondering a little bit about your debt; it has come down quite nicely. You say there's more to do on net working capital management. And the situation is that your stable businesses have basically grown by 60% to be around EUR1.5 billion right now.

What is a good debt level for you, going forward?

Pasi Laine - *Valmet Corporation - President, CEO*

We haven't defined the exact debt level, so Kari can continue with the details, but I think in our type of business we need quite strong balance sheet; we are doing big capital projects and the net working capital fluctuations are actually quite big depending on how the timing of the pre-payments from big projects is coming and so on. So we prefer to have a quite solid balance sheet. So Kari can continue.

Kari Saarinen - *Valmet Corporation - CFO*

So a couple of comments here. So yes, you are right, that actually we repaid our debts, we had repaid our debts this year, EUR62 million already. And then the net debt has come down and we are working hard on our net working capital, and some of the activities that we have taken, they are already bearing fruit and those activities also continue. And then it's also true what Pasi said that we need to have a strong balance sheet and also during quarter three, we actually refinanced our revolving credit facility worth EUR200 million. And so we are working on our balance sheet as well.

Johan Eliason - *Kepler Cheuvreux - Analyst*

But is the target get to a net cash position. Before you were considering it too strong, or how should you think about this?

Pasi Laine - *Valmet Corporation - President, CEO*

We haven't set a target, but of course, when we made PAS (Process Automation Systems) -- Automation acquisition, and before that we were clearly on the negative side and then gearing went from minus 15 to plus 30. And then we said that the next job is to reduce the debt level and we are on that part now and we have been reducing and we will continue to target to reduce it even further.

Operator

Antti Suttelin.

Antti Suttelin - *Danske Markets Equities - Analyst*

Just on the margin improvement, is it correct to say that what has been driving the margin this year is the procurement actions plus smaller increase in personnel relative to sales while the quality cost reduction has been not really progressing this year? So I just wonder what happens when you get that quality production going again?

Pasi Laine - *Valmet Corporation - President, CEO*

So you are right that procurement has been bringing results and then quality not; so quality -- we have a lot of actions ongoing, but this year, we haven't been successful in reducing our quality costs. So that work will continue.

Then of course we have other things as well, so we have been saying that we try to push up sales prices like all the companies try. And then we are saying that we try to improve also our project management processes, and all these things have been actually contributing to the gross profit improvement, not only the procurement. So it's procurement, sales and project management if I would summarize. Kari, do you agree with that?

Kari Saarinen - Valmet Corporation - CFO

Yes, also we improved our efficiencies so we made some continuous improvements in North America, China and also in Poland.

Pasi Laine - Valmet Corporation - President, CEO

That is true.

Antti Suttelin - Danske Markets Equities - Analyst

And should we expect this quality improvement to start going again at some point?

Pasi Laine - Valmet Corporation - President, CEO

Yes.

Antti Suttelin - Danske Markets Equities - Analyst

When?

Pasi Laine - Valmet Corporation - President, CEO

I think every day. We have discussed that quite much in management team and I think every day, it has to improve.

Antti Suttelin - Danske Markets Equities - Analyst

What segment is causing a problem at the moment?

Pasi Laine - Valmet Corporation - President, CEO

I would say that generally, the quality costs have been going down and then we have a couple of cases where we have had high quality costs, and those projects where we have had the quality costs causing that big increase that it can't be compensated by the improved quality in all the other operations.

Operator

Tommi Railo.



Tomi Railo - *SEB - Analyst*

As you said, you are not opening the sort of backlog to be delivered in the fourth quarter. But would you like to discuss that outlook for deliveries, for example, in the fourth quarter? If your guidance is to be taken as it is at face value, flat revenue growth, you were actually seeing now that the fourth quarter revenues will accelerate the decline compared to the third quarter. Is that what you really are trying to say, or are you suggesting that revenue should be maybe flattish in the fourth quarter, or what is your comment on that?

Kari Saarinen - *Valmet Corporation - CFO*

Well, I think that the way that we are commenting this is that we are seeing that the net sales is flat this year. And so, difficult to open that more at this stage.

Tomi Railo - *SEB - Analyst*

But are there certain big deliveries still in the equipment side for the fourth quarter, or is it mainly driven - or holding up because of the stable businesses?

Kari Saarinen - *Valmet Corporation - CFO*

Well, I think that we have projects ongoing where we have good revenue recognized during quarter four and also we are not expecting a lot from stable business as well.

Tomi Railo - *SEB - Analyst*

And then maybe on the order intake, I get the changes in the short term market outlook, but moving backwards a little bit in the third quarter -- in the second quarter, there were some postponement in the sort of customer decision making. Have you seen now that activity to come back in the third quarter? Is it the full reflection of that, and would you assume that not everything has come back but the level should continue into the fourth quarter? What you saw in the third quarter.

Pasi Laine - *Valmet Corporation - President, CEO*

So in the second quarter -- after the second quarter, we said that Board and Paper, we have seen that kind of postponements. And that phenomenon seems to continue and that is why we decreased the outlook to satisfactory. Then in Energy, we don't expect that kind of phenomenon to happen, in Tissue we don't expect of phenomenon currently to happen. That is why we have increased the outlook to good.

Operator

Thank you. There are no further questions at this time. Please continue.

Calle Loikkanen - *Valmet Corporation - VP of IR*

Thank you very much. Do we have any questions here from Keilasatama? If not, then thank you for the questions and thank you for the answers.

Pasi Laine - *Valmet Corporation - President, CEO*

Thank you.



Calle Loikkanen - Valmet Corporation - VP of IR

Just as a reminder, Valmet's financial statements review will be published on February 8 next year. So thank you very much for participating in this results presentation. Have a good day and good rest of the week, and let's hope to see you all in February. Thank you.

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