Transcript of Valmet's Q1 2025 result webcast on April 23, 2025

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Pekka Rouhiainen: Good morning, and welcome to Valmet's first quarter 2025 results publication webcast. Valmet's year started strongly in Services and Automation segments, while the market conditions remain subdued in the Process Technologies segment. I'm Pekka Rouhiainen from IR, and with me today are Thomas Hinnerskov, President and CEO, and Katri Hokkanen, CFO. Today, Thomas will first go through the highlights of the quarter and provide an update on the strategy renewal process. After that, Katri will go through the financial development in more detail, also from the segment perspective. Thomas will then conclude with the guidance and short-term market outlook. With that, I hand over to the presenters. Thomas, the floor is yours.

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Thomas Hinnerskov: Thank you, Pekka. I'm very happy to be here. Great to start the year in a good way. Let's start looking at Q1. Overall, orders received increased to 1.3 billion. Particularly pleased to see the performance in our stable business. We'll come back to that several times during the presentation. Overall, the backlog also amounts to 4.6 billion, a bit higher than at the end of Q4, which is a positive development that we are happy about. Net sales were flat year over year. Stable business grew, but Process technology decreased, which is unfortunate, but it is also a consequence of the subdued market we're currently experiencing. Comparable EBITA remained on the same level as last year, landing at 121 million with a slightly better margin of 10.2 percent. Cash flow was very strong in 2024, and I'm very happy to say that the good trajectory really continued. Our cash conversion was very strong in Q1, and cash flow landed at 217 million.

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Thomas Hinnerskov: The Comparable ROCE increased by a notch from year-end to now, to 13 percent. The biggest news of the quarter was our plan to renew the operating model. The proposed model will help us serve our customers better throughout the lifecycle of our equipment, the things that we deliver, and the solutions we deliver to customers. It will also simplify how we operate, and it will increase our efficiency. I'll come back to that later in my presentation as well. [silence 00:02:28-00:02:31] First of all, let's have a look at the Q1. Is this the previous slide or what? No, sorry about that. Now here we are. First of all, let's look at the stable business. Q1 order intake was 974 million, which was a record. Even though it was partly supported by an acquisition we made last year, the organic growth was also strong. The year started strongly in the stable business, where we reported orders increased by 14 percent. Even on an organic basis, with the acquisition or taking the acquisition out, we also saw organic growth of eight percent in service, positively, however, supported by a large mill improvement project, but also consumables and the performance parts grew nicely.

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Thomas Hinnerskov: I would also say, and we can come back to that, the organic growth was also supported by price increases in the segment. Geographically, orders increased in Asia-Pacific, South America, and North America, and were flat in China and EMEA. Big thanks to all area teams for their effort in Q1, and a special thanks to Asia-Pacific for making a record quarter in service orders received in Q1 2025. Then, organic growth in Automation,12 percent, driven by a strong performance in both Flow Control and Automation Systems. In Automation Systems, we saw good activity in the pulp and paper industry, but also in other process industries. In Flow Control, orders increased, particularly in service and in valve controls and actuators. We might have seen some pre-tariff buying, which might have been visible, particularly in the Flow Control in North America. However, overall, I think it is fairly - - shows a fairly level of actual activity that we saw in the market. I'm very pleased with the strong performance by our teams and the good level of customer activity in the stable business.

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Thomas Hinnerskov: I'd say this highlights the resilience of our stable business throughout the years, through cycles, and it has been a strong contributor organically, roughly six percent. It was also impacted by acquisitions over the years, but the six percent organic growth nicely improving, so it's good to see. We're very pleased overall with a strong, stable business, orders totaling close to 3.5 billion on a last 12 months basis. That really demonstrates our ability to serve customers from equipment throughout its life cycle, which is a true lifecycle approach. A small customer highlight of the quarter, we launched Valmet DNAe in 2024, which was one of the highlights of '24. I'm very pleased to see that we're continuing to get traction.

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Thomas Hinnerskov: We've already received a good number of orders for our DNAe. This customer case is from Q1. Finnish power plant selected Valmet DNAe to modernize the automation of its power plant. Great win by the team in the energy sector. The customer made a thorough evaluation process and ended up concluding that Valmet DNAe adds the most value to them. This customer, ESE-Energia, decided to replace the old third-party system with this comprehensive DNAe solution. Really, a full automation system upgrade of their power plant. Strategically, this brings Valmet much closer to the customer and adds value through deep system integration. We can add value to the customer throughout the lifecycle with upgrades, remote support, and future add-ons that will come into the system.

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Thomas Hinnerskov: Clearly strengthen our reputation outside pulp and paper, and particularly in the energy segment. Big thanks to the team, and also big thanks to our valued customer for your trust in this one. [silence 00:06:50-00:06:57] Moving on to strategy. The strategy process started late last year. I have to say it's progressing and proceeding very well. Really exciting and fruitful discussions that we're having on a broad basis in the company. Let's first look at a little bit of recent history and the background for the strategic renewal, but also the operating to a very large extent. Looking at our numbers from the last three to four years, organic growth has clearly plateaued, both in terms of net sales and comparable EBITA as well as margin.

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Thomas Hinnerskov: That's not something that we're really happy about. On top of that, capital employed increased, so ROCE clearly decreased as well. This is something we want to take action on and improve in the coming years. On top of that, you can say that market activity in the Process Technology, as we also saw in Q1, remains at a low level. In here, we need to make sure we have an efficient operation that performs also in challenging market situations. That's why, at the end of Q1, we, as a consequence of all this, announced the plan to renew Valmet's operating model as the first action in this strategic renewal process. Overall, we're aiming to serve our customers better. This is basically the most important end goal and purpose of the changes that we are making. It will put us in a better position to achieve, deliver and take a lifecycle approach towards the customer. We will have strong business areas, who are then

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Thomas Hinnerskov: responsible and accountable for driving the profitability and growth of both capital and related aftermarket services. Throughout the customer lifecycle, customers will actually be interfacing with one business area. Secondly, it will simplify the organizational structure. The current five geographical areas will be integrated into the new business areas, keeping the local proximity to customers. Thirdly, we will drive efficiency by establishing a global supply unit to support our cost competitiveness, but also put us in a position where we can have a more flexible supply chain that can actually manage peaks and troughs in the demand and the market. The process we're going through now will impact up to a maximum of 1,150 roles globally.

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Thomas Hinnerskov: All these roles are white-collar employees, so no blue collars are included in the 1,150 potential people. In terms of financial, we estimate, as we said when we came out, that an €80 million savings with full run rate achieved by the beginning of 2026. Roughly in a year's time. The renewed strategy will be fully communicated at our upcoming Capital Market Day on June 5th. The renewed strategy really aims to identify future growth areas, both within our current business, and to simplify the way we work and increase our operational efficiency. I’m really looking forward to meeting you all in person in Tampere and having a good discussion on where the future strategic direction of Valmet is going. With this, I'll hand over to Katri for the financials. There you go.

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Katri Hokkanen: Thank you, Thomas, and good morning, everyone, also, on my behalf. I will go through the financial development next on the slides. Valmet's orders were nicely tilted towards stable business during the first quarter. It's good to remember that the first quarter is typically a seasonally strong quarter in stable business for us. Year-over-year growth was also strong. In the first quarter, 73 percent of our orders came from stable business. On the net sales side, they were more evenly distributed. Seasonally, our net sales in the first quarter are typically a bit lower than in other quarters. Then, in terms of comparable EBITA, almost all of our profits were generated in the Services and Automation segments, and the quarter was weak for profitability in Process Technologies.

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Katri Hokkanen: Q1 orders increased to 1.3 billion, and the order backlog was close to 4.6 billion. The big Arauco pulp mill order is visible in the order backlog. Net sales decreased a bit, and comparable EBITA was exactly the same as last year at 121

million, and the margin was 10.2 percent. Both net sales and comparable EBITA decreased sequentially from the fourth quarter, which is a typical seasonal pattern for us in Valmet. Items affecting comparability were minus eight million for the quarter, and they were mostly related to our Other segment, and to a smaller extent, to the Process Tech and Automation segments. The IAC provisions related to the operational model change and the workforce reductions are expected to be booked in the second quarter this year.

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Katri Hokkanen: Amortization was 24 million for the quarter, leading to 89 million operating profit. Going forward, the quarterly amortization is expected to be roughly at a similar level to that in Q1. Adjusted EPS remained at last year's level at €0.33. Some words about the order backlog next. The order backlog is 122 million higher than at the end of last year. And order backlog has grown in stable business and a bit lower in process tech. Roughly 60 percent of the backlog is related to Process Technologies, and 40 percent to stable business. The order backlog for this year is roughly 2.9 billion. And it is the same amount we had last year at this point. This is in line with our guidance of flat net sales for this year. Moving on to the segment financials.

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Katri Hokkanen: Starting with Process Technologies, market activity continues to be low, but the orders received over the last 12 months are at a good level, supported by the big order in Q4 last year. Net sales, however, are decreasing, and this has also led to a lower comparable EBITA margin. Orders received in process tech increased in the first quarter, but it is fair to admit that the market activity continues to be subdued, and the book-to-bill ratio is below one. Net sales decreased by 17 percent or 84 million, which then led to a lower comparable EBITA and margin that was disappointingly low at 1.5 percent. Moving on to Services next, where the development looks much better, both orders and net sales have been growing steadily in recent years, and the comparable EBITA margin now reached 18 percent on the last 12-month basis.

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Katri Hokkanen: The first quarter marked a very strong start to the year in Services. Orders received grew eight percent organically across the service portfolio. Net sales also increased by six percent organically and supported the comparable EBITA. The comparable EBITA margin was 17.6 percent, which is the best ever Q1 margin for Services. Looking at the Automation segment next. Orders received and net sales trends are also very positive here in recent years. The last 12 months' comparable EBITA was 258 million on a margin of 17.6 percent. The margin has plateaued, but partly this is explained by the acquisition of API, where the margin has historically been lower. Orders received increased by 24 percent in the Automation segment, of which 12 percent was organic growth.

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Katri Hokkanen: This also means that the start of the year was very strong in terms of orders in the Automation segment. Sixty-three percent of the orders came from outside the pulp and paper industry in the first quarter. Net sales increased by 10 percent, and this was due to the acquisition of API. Organically, we saw a slight decrease of two percent here. Comparable EBITA increased to 55 million, and the margin was 16.2 percent. It's good to remember that Automation's net sales and profitability are typically seasonally lower in the first quarter. Looking at the segments' big picture. As said, Services and Automation performed well while Process Tech has been suffering from the low market activity. The expenses in Other were 16 million for the quarter, and they have been roughly 50 million in the last years. We expect a similar or slightly higher level this year.

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Katri Hokkanen: Then, comparable gross profit, it was exactly at last year's level on a last 12-month basis, while the margin increased by a notch to 28.4 percent. Comparable SG&A expenses have been increasing faster than our net sales since '22, which is partly why we are now planning the 80 million cost reductions. Cash flow continued to be on a strong level, and this was clearly one of the highlights of the quarter. The last 12 months' cash flow increased to 633 million, and Q1 was 217 million. CapEx amounted to 24 million, a bit lower than in the comparison quarter. When you look at the net working capital, it decreased clearly from the year-end to minus 193 million. This is now minus three percent of the last 12 months rolling orders received. It's worth noting that the AGM decided on a dividend of €1.35 per share, and it is paid in two instalments, in April and October. The net working capital, therefore, included 249 million dividend liability.

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Katri Hokkanen: Moving on to balance sheet, thanks to the strong cash flow net debt decreased to 875 million and gearing to 36 percent, and net debt to EBITDA decreased to 1.3. The average interest rate was four percent, and net financial expenses were 15 million in the first quarter. Lastly, a few words about ROCE and earnings per share. Both ROCE and adjusted EPS have been under pressure in recent years, but they remained roughly at par with the end of last year on a last 12-month basis. That concludes my part of the presentation. I'll now hand it back to you, Thomas.

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Thomas Hinnerskov: Thank you, Katri. Good. Let's move to the guidance and the short-term market outlook. Overall, our guidance is unchanged. We continue to estimate that full-year net sales and comparable EBITA will remain at last year's level. The short-term market outlook for Process Tech remained the same as earlier. Customer activity is stable, however, at a low level overall. When we double click a bit on that, in pulp, some discussions with customers on some larger greenfield projects in South America that are out there in the market, these discussions continue, and it's always very hard to say anything about the timing of customers' decisions, particularly in these very large decision processes. Outside of these big greenfields, customer activity for smaller projects and rebuilds continues to be rather low.

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Thomas Hinnerskov: The same goes for board and paper customer activity, also on a low level. However, if you look a bit on the energy side of things, there is some activity and active discussions. There's also a delay in decision-making. It is clear that the current market sentiment, with a lot of clouds in the global economy, is

dragging processes or decision-making processes a bit. It's at least resulting in extra rounds of discussions. The tissue market continues to be quite active, which is nice to see. When it comes to Services, we had a very strong start to the year and good organic growth, both in terms of our orders and customer activity in general. We estimate that activity continues to be on a stable level going forward, what we would say is a good level.

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Thomas Hinnerskov: Automation is also a good activity that will remain stable. There's some seasonality in Q1. We typically have a strong quarter in terms of orders received for the service and for the automation business. However, that also went for last year, but we still outperformed this year. Maybe also to say that the short-term market outlook. When we talk about this, we aim to capture some of the underlying customer activity. It shouldn't be read as our guidance in terms of our orders received, because that is reflected on how well we perform and how good we are in the market in the selling process. Lastly, maybe let's touch on our outlook on the current tariffs briefly, at least. First and foremost, we are following the US tariffs very closely as they change, or any potential response from other countries.

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Thomas Hinnerskov: I would say, though, thanks to our global footprint and especially our strong presence in the US, especially in the service sector, we are rather well covered. We are constantly looking at whether we can take and make proactive steps to protect our supply chain and our cost structure. The planned global supply chain unit that we're planning in a new operating model will be key in keeping us competitive, especially in such a lively situation as we currently experience. Secondly, in many areas, especially in Process Technology, our geographical footprint is quite similar to that of our competitors, so we're not at a structural disadvantage there either, with an even playing field, I would say. Thirdly, the broader question is how this uncertainty impacts the global economy, our customers, their customers, and, in the end, Valmet.

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Thomas Hinnerskov: I would say, 23rd of April, we haven't seen any major changes in customer activity, so it is still continuing quite well. We are maybe seeing some hesitations like we've seen for the year to date on investment decisions, including in our stable business, on bigger repairs, or bigger maintenance. This may continue until there's more clarity on the overall tariff situation. I think the uncertainty is probably the worst thing, but we are clearly managing and doing our best. I think we are in a good position to actually manage the situation quite well. Overall, unchanged guidance. That's all for me. I'll hand it back to Pekka.

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Pekka Rouhiainen: Thank you, Thomas. Thank you, Katri. Let's now move on to the Q&A section of this webcast. As a reminder, you can post the questions throughout the online platform, and I will read them out to Thomas and Katri here. Please utilize that option as well. First, let's go to the teleconference line. Operator, handing over to you.

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Operator: If you wish to ask a question, please dial Pound Key five on your telephone

keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Antti Kansanen from SEB. Please go ahead.

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Antti Kansanen: Hi, guys. It's Antti from SEB. A couple of questions from me, all on the Services business. This first is on the Q1 margin, which was obviously strong, as you mentioned, the best ever for the quarter, and a big increase year over year. Maybe a bit of color on the margin improvement. Should we expect normal seasonality from here onwards, or was there something extraordinary supporting the Q1?

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Thomas Hinnerskov: Thanks, Antti. Overall, Q1, as you said, was a very good quarter for the service business. Also, from a margin perspective. The team has done a really good job in terms of pricing and being ahead of the curve. That impacts and shows in the strong margin. That's actually the main driver behind the whole thing. Efficient. The volumes also coming through also help the margin, and then good pricing.

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Antti Kansanen: Any color on the kind of the level of the price increases on a year-over-year basis?

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Thomas Hinnerskov: It depends a bit on where you are in the world, what the tariffs have been, and how the inflation situation has been. Broadly, quite good overall price increases, and in line or above what you would expect, hence the improved margin.

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Antti Kansanen: Okay. I guess there's nothing extraordinary in terms of mix. I mean, regarding consumables versus parts versus projects type of thing that would be visible on the margin, that it's more of a pricing thing.

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Thomas Hinnerskov: No, I wouldn't - - I can't say these two things impacted apart from the pricing side. It's basically a relatively average view of the business that you see, not a mix change.

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Katri Hokkanen: The strong volume, as you said, supports--

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Thomas Hinnerskov: It's clear that when the volume goes up, the drop-down rate is good.

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Katri Hokkanen: Yes.

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Antti Kansanen: Okay. Also on Services and the outlook. I guess after Q4, you had a gradually improving market activity, which is now stable. Is this just a function of the comparison period, or are you referring to maybe slower decision-making on some of the improvements? Is there any change, or is it just a different comparison?

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Thomas Hinnerskov: For me, Antti, quite clearly it's just good Q1. Don't see it as a change. It's just that we've reached a very good level.

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Antti Kansanen: Okay. Thank you.

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Thomas Hinnerskov: Stable on a good level. That's how I read it, the market currently, on the service side of things. I would say don't take it as a downgrade on the service outlook, in that sense, when we say stable.

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Antti Kansanen: Understood. That's all from me.

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Thomas Hinnerskov: Thanks.

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Katri Hokkanen: Thank you, Antti.

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Thomas Hinnerskov: The next question comes from Mikael Doepel from Nordea. Please go ahead.

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Mikael Doepel: Thank you. Good morning, Thomas, Katri, and Pekka. I have a couple of questions. First, coming back to your commentary, Thomas, on the tariffs. I think you said that you haven't seen any change in customer activity overall, but you also mentioned some hesitation about bigger investment decisions. Just to be clear on that, you have a stable outlook for Process Technologies, right? Does that mean that you don't see any hesitation currently due to the uncertainties around the potential tariffs, or how should we read that?

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Thomas Hinnerskov: In the service side or across the board.

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Mikael Doepel: In Process Technologies in particular.

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Thomas Hinnerskov: In Process Technologies. I think in Process Technologies, the market is overall subdued. The tariffs on top of that create a bit of a longer decision-making process. It's getting harder to predict which quarter the orders come in. I think when we look at the pipeline, it's unchanged on the process technology part.

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Mikael Doepel: Okay. Well, that's very clear. On the tariffs, how do you really deal with those when you agree on a project order currently?

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Thomas Hinnerskov: That's--

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Mikael Doepel: Or the potential tariffs.

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Thomas Hinnerskov: Exactly. That's why contractually, you need to have an opportunity to pass on any tariff impacts to the customers. It might be you're actually finalizing the delivery in 18 months' time or two years. A lot of things can change by then. Both we and the customers wanted to make sure that it is being dealt with in a fair way, so that if tariffs increase, we can pass it on, if they decrease, the customer gets the benefit of that.

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Mikael Doepel: Okay. That's clear. Then, just finally--

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Thomas Hinnerskov: Process technology.

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Mikael Doepel: Finally, on the cost savings, the 80 million that you are targeting, I'm just wondering, do you have any views on what the costs will be for implementing this, and how and when you will book those, and also, in terms of 2025? Any idea of what kind of benefits you would expect to gain from these savings to support your numbers, as well as the guidance for the year?

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Thomas Hinnerskov: Katri said that it's going to be booked in Q2.

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Katri Hokkanen: Yes.

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Thomas Hinnerskov: We're in the middle of the negotiations. It's progressing quite well, the negotiations. I think it's a very good spirit overall. We all see the purpose of these changes. It's a bit early to say what the exact or rough number on that is, but it is something that we will have a clear view on in Q2, and book in Q2. Katri, any further?

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Katri Hokkanen: Just to mention, for the provision that it's going to be sizable, I think that's fair to say, but as Thomas said, the impact for this year is too early to comment. We will definitely come back to that when we publish the second quarter results.

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Thomas Hinnerskov: It's also important to state, Mikael, that just because there's a cost associated with a thing, it should not keep us from taking or making the difficult decisions. We need to do the right thing for the company, even if it has short-term cost consequences.

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Mikael Doepel: No, no, absolutely. I was also thinking a bit about the-- Given the fact that you expect the full run rate from the beginning of the year. Eighty million, just wondering how much out of that you expect to achieve in 2025. However, perhaps it's too early to comment on that.

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Thomas Hinnerskov: Yes.

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Mikael Doepel: All right. Thanks. Thank you very much.

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Thomas Hinnerskov: Thank you, Mikael.

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Katri Hokkanen: Thanks Mikael.

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Operator: The next question comes from Panu Laitinmäki from Danske Bank. Please go ahead.

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Panu Laitinmäki*:* Hi. I have a question on the Process Technologies margin, which has been coming down sequentially for about three years now. How do you see this developing going forward, given the order book that you have? Will it go negative before it starts to improve? Are you planning to make additional cost savings in the Process Technologies to protect the margin?

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Thomas Hinnerskov: Maybe if I give my quick comment, Katri, it's a good question overall. One point five percent, €6 million, is not something we are particularly happy or proud about. Clearly, something that needs to improve. It is important, though, to see this in an overall context. Sales are down, one hundred and twenty-four million, if I remember correctly, from Q4 last year. Where we had a 2.8 percent margin, there is a lot of this sales volumes that impact the overall margin quite a bit, actually, more than I would like. That's also one of the reasons why we're taking the operating model change with the global supply unit. We need to create a much more agile global supply chain that can actually deal with peaks and troughs in a better way.

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Katri Hokkanen: Yes, and if I build on top of that, the current market activity and our existing portfolio. For this year, I'm not expecting that the margin would improve from the current three percent the last 12 months' level for the full year.

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Panu Laitinmäki*:* Okay. Thanks, then a bit related, still on Process Technologies. You had good Pulp and Energy orders, but then quite low in the Paper side. You mentioned that the kind of pipeline is unchanged, but timing is more difficult to predict. How do you see the paper, kind of board, order intake going forward? Was this exceptionally low due to timing, or is this more like a run rate to expect, or what are your thoughts on that?

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Thomas Hinnerskov: First and foremost, I don't think that in any quarter you can take it as a run rate in the process technology. In particular, in the current environment, there's a very digital or binary in terms of decision-making and the size of the projects. I would say, compared to where we were looking three months ago, basically the same pipeline. When it comes out, it's a little bit harder to predict, particularly with the global economy clouds or at least fog in terms of the clarity that

is there. Then some customers take bolder bets, some just want to see a little bit of how it's going. I think it is viewed roughly unchanged in terms of the pipeline, but timing can be hard to predict.

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Panu Laitinmäki*:* Thank you. I still have two quick ones on Automation if I may continue. On Automation, you mentioned the pre-buy in Flow Control. Was this significant in the US in Q1?

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Thomas Hinnerskov: I wouldn't say that it was significant. We just saw that, there was some visibility of potential pre-buying in Flow Control in North America. However, I wouldn't say, it's not a big ticket item. We just want to be very transparent.

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Panu Laitinmäki*:* Thanks. The final one on Automation, you mentioned that the API profit contribution was now positive, and I think it was negative for most of last year. Can you comment on where the margin is now? How do you expect that to develop going forward?

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Katri Hokkanen: I think the only comment for that is that it contributed positively. We cannot give comments on that level. Actually, everything is proceeding very well. The carve-out was challenging, and we're happy with the work that the team has been doing there.

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Thomas Hinnerskov: I just visited them at their Houston head office, or their North American headquarters, where there is some manufacturing production, a month ago, roughly. A really positive visit, I would say. I'm very happy that we made that acquisition last year, and it is on the right trajectory. That's definitely how we see it currently.

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Panu Laitinmäki*:* If you think about ‘25 full year, API contributions would be clearly positive compared to what it was last year.

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Thomas Hinnerskov: Yes. That's the expectation.

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Panu Laitinmäki*:* Okay. Thank you. That's all for me.

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Operator: [silence 00:36:32-00:36:35] The next question comes from Johan Eliason from Kepler Cheuvreux. Please go ahead.

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Johan Eliason*:* Hi. It's Johan at Kepler Cheuvreux. Just coming back to your competitive picture a little bit. You highlighted from a tariff situation that your competitors, primarily in process tech, have the same geographic setup as you. I was wondering about the currency developments. We have seen a very strong appreciation of the Swedish krona, and I think you have quite significant capacities in

Sweden in tissue, pulp, and energy. Do you have any comments on how you think this will impact your competitive situation going forward?

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Thomas Hinnerskov: I think overall, it depends on the North American market. The dollar swings that we've seen lately are a bit hard to predict, but it is what it is, and you just need to manage it. When we receive orders or have currency exposure, we tend to hedge them to ensure that we don't take on currency risk. That goes for the Swedish krona, versus if we send things to South America, North America, or Asia in the pulp and tissue business.

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Johan Eliason*:* Is it fair to say that you have a bigger cost exposure to the Swedish krona than your peers in tissue and pulp, for example?

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Thomas Hinnerskov: You would say that's a relatively logical conclusion, as I guess we are the only one who has major manufacturing in Sweden, so that's clear.

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Katri Hokkanen: It's good to remember that it's a global business. Also, when we talk about a project business, the subcontracting place plays a role there. Therefore, it's a combination of many things.

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Johan Eliason*:* Okay. Thank you very much.

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Operator: [silence 00:38:48-00:38:51] The next question comes from Tom Skogman from Carnegie. Please go ahead.

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Tom Skogman: [silence 00:38:57-00:39:00] Yes. Hello, this is Tom from Carnegie. I have a couple of questions surrounding the new strategy. I guess we will hear more about this at the Capital Market Day. Is it correct to read between the lines that there will be some larger cost-cutting also when it comes to blue collars? Is that what you're trying to signal to us?

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Thomas Hinnerskov: Hey, Tom, we will discuss it more when it comes to the Capital Market Day in Tampere. It is clear that we want to drive a more efficient, more effective, cost-competitive global supply chain that can impact blue collars depending on how the market is. We will also need to make the-- The make or buy decision is also up in the air. How much do you actually need to control yourself? How much can you subcontract? I think it's important just to say that the first step in this new operating model is impacting white collars, not blue collars.

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Tom Skogman: You have a new Chairman. I wonder, is he just finding what you're proposing, or is he very active in building the new model?

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Thomas Hinnerskov: We have three new members of the Board, very engaging, good input from different perspectives. That's exciting. That's their full support for the operating model change. It's been intense in terms of getting them up to speed on the different actions, the reasons why, and why we're doing as we're doing. Also getting them up to speed on the current thinking strategically, so that there's full backup from the new Board when we present to you guys on June 5th. It's great to have a Chairman who also has a little understanding of the whole background from which we're coming also from a cultural perspective.

00:41:21
Tom Skogman: The story has been about stability in service and automation for the last five years that Valmet has presented to the investors. When I read what you're doing here, it sounds like the service business will be integrated. I assume you will not report service profitability in the future. Is that right or wrong? I also wonder why we shouldn't be afraid that you'll start subsidizing the equipment business with service, so you accept losses in the equipment business if you don't report it. To report something externally puts some pressure on the organization, at least to avoid losses in a weak market.

00:41:54
Thomas Hinnerskov: That's a good question. If you look at our current operating model, it is quite clear that it is complex, both from our customers' perspective and from an employee's perspective. You have basically a three-dimensional matrix when it comes to service. If the country is involved, the service business lines are also involved, as well as the capital. The process technology business is involved because they actually design the equipment, which also needs to be designed to be able to service it better. I met a lot of customers. Actually, I had a few lately, even though we discussed a very big and large capital equipment decision and order decision making, before that was done they were already talking about and discussing, "How are we going to make sure that you can service us in an effective and efficient way?'

00:42:46
Thomas Hinnerskov: They buy the equipment to perform and give them an outcome over 25 years. For them, it's not just about the equipment. It's actually about ensuring that we deliver the outcome we're discussing with them, and that the solution can deliver it throughout the lifecycle. This closeness of integrating it, seeing it from a customer's perspective rather than an internal one, and then even maybe a market communications perspective. At the end of the day, what drives value is that we serve our customers better than the competition.

00:43:22
Katri Hokkanen: Maybe just for the reporting structure, what we will report. Stay tuned; we'll tell you more in the CMD. It's the right timing for that.

00:43:33
Tom Skogman: Finally, about sourcing from China. Can you fully avoid sourcing from China for items that you sell to the US market, for instance, board machines?

00:43:52
Thomas Hinnerskov: [silence 00:43:46-00:43:51] When we look at the current economy that we have globally, outside our industry as well, it is quite clear that the whole world is very, very integrated. If you start to put tariffs up in one place and take

building blocks away from the current whole system, flow of goods, it does impact somewhere. It's such an integrated global economy, so it's hard to say you can do something without impacting something else. I think that goes for everybody in this. How is it actually possible to create a board machine without sourcing anything from China? You can probably do that, but the question is, can you do it in an effective way or not?

00:44:45
Tom Skogman: [silence 00:44:41-00:44:44] Okay. Thanks.

00:44:47
Katri Hokkanen: Thanks, Tom.

00:44:48
Thomas Hinnerskov: Thanks, Tom. I hope to see you in Tampere.

00:44:51
Operator: The next question comes from Sven Weier from UBS. Please go ahead.

00:45:00
Sven Weier: Good morning. Thanks for taking my question. It's just to follow up, Thomas, on your earlier statements regarding market activity in South America on pulp greenfields. When I look at the pipeline, it's a bit of a long-dated one with most projects probably ramping towards the end of the decade, maybe the earliest one making a decision on investment by the end of this year. Is this generally the impression you have from the discussions that these are really early days, and it is pre-engineering discussions where, a decision making on those greenfields? What, if anything, is really on a 12 to 24-month type of view? Thank you.

00:45:51
Thomas Hinnerskov: Thanks, Sver. Obviously, you've done your homework, so you know that there are certain projects in the pipeline. Certain customers are looking to make big moves, big decisions, or big investments in the area. These tend to be longer projects. You need to have the forest and plant the trees, et cetera. There are certain discussions that are quite detailed as well, so that the actual development of the solutions is in the discussion phase, not just what we think overall, but on a quite detailed level.

00:46:35
Sven Weier: Regarding the tariff uncertainties, do you sense differences between the different customer groups? Let's say the pulp clients are a little less sensitive to tariffs, and other client groups are more worried about this, or what do you find among your clients?

00:46:56
Thomas Hinnerskov: It's a good question. I think the ones I've visited this year-- It impacts everyone because the world has been put in a limbo situation, and there's very little clearness of direction of travel. That just makes people, our customers, and everybody’s customers more or less, stop, pause, and just rethink. What are we seeing? How can this impact? It's actually less about the direct tariff. It's more about the global economy and how it will be impacted by it. That's why it's a bit across the board. Even when I meet oil and gas customers in North America, who you would

think that they are very positive. However, it's still a question of what the direction of travel of the global economy is.

00:48:05
Sven Weier: Yes, it makes sense. Thank you very much, Thomas.

00:48:09
Thomas Hinnerskov: I see you as well.

00:48:13
Operator: There are no more questions at this time. I hand the conference back to the speakers.

00:48:19
Pekka Rouhiainen: All right. Thank you for all the good questions through the teleconference line. We have a couple more here on the online platform. Let's take this in the order in which they came here. The first one is from James Winchester, who's asking, "You kept your revenue and earnings guidance unchanged. What is your level of confidence on this, given the downgrade of service activity and the high uncertainty with tariffs?" The guidance in relation to the service short-term market outlook and tariffs.

00:48:55
Thomas Hinnerskov: As we said, we keep our guidance. I don't see the service that we're saying is stable as a change in the guidance, really. It's just like we're on a good level. It is stable. That's basically in line with what we said a quarter ago, where the activity level increased. Now they have increased. Now, saying that it's on a stable level, I don't see that part really. What was the next one? That was two questions in it.

00:49:31
Pekka Rouhiainen: Given also the tariffs.

00:49:32
Thomas Hinnerskov: We talked a lot about the tariffs. We're trying to manage the situation to the best possible, keeping our finger on the pulse, close to the customers, and being with them during this time. It is about the fog that the global economy is creating that makes it a bit harder to predict the direction that we're traveling in. However, we stand by our guidance.

00:50:10
Katri Hokkanen: Maybe just to add that the order backlog to be recognized this year is 2.9 billion, which is the same as we had last year. We do need orders. We have book to bill. But that's a good starting point for the flat guidance.

00:50:30
Thomas Hinnerskov: Also, seeing that Automation has a 14 percent growth in orders, 12 percent organically for the quarter, even though sales were minus two percent. That actually also creates a good backlog for the coming quarters.

00:50:36
Pekka Rouhiainen: Thank you. Then follow up from James regarding the cash flow that was strong in Q1. What's the expectation on cash flow for the full year?

00:50:49

Katri Hokkanen: It was really, really good outcome. We're happy with the development and supported by the positive development in the net working capital. It's our target to keep the cash conversion rate very steady. Very happy about the beginning and also for last year's result. There has been very good development.

00:51:07

Thomas Hinnerskov: I think it's also a good testament to the relationship, the service, the delivery, what we bring to our customers, that they're actually willing to pay. We've seen working capital coming down. I think it's a good, strong testament to the value we bring to our customers that even in tough times, they're paying for it.

00:51:27

Katri Hokkanen: Yes.

00:51:40

Pekka Rouhiainen: Good, and maybe to add to that, on the other side, the dividend will be paid out during Q2, and then thank you for 250 million about the dividends. Then, to Katri, a question from James still on the same subject. Can you provide any color on other current liabilities that were up a little bit sequentially?

00:51:51

Katri Hokkanen: Yes. If I remember correctly, the dividend liability is actually booked in there. That's the change there, which was mentioned as being 249 million related to the dividends, what Pekka mentioned.

00:52:05

Pekka Rouhiainen: Exactly. Thanks Katri. Then, Sander Intelmann is asking what share of the business touches the US and is therefore potentially exposed to tariffs.

00:52:23

Thomas Hinnerskov: I think it's good to remember that in the US, we have about 2,500 people and a strong service business. A lot of our service business is actually made in the US or 'made in America,' as it's called over there. I think that creates a strong foundation that we're actually standing on in our service business. I visited API, we have manufacturing there. There is parts coming from different parts of the world, where there may be or will be potential tariffs. That's also about having a strong position from a value proposition perspective, so we can pass on the tariffs to our customers.

00:53:05

Pekka Rouhiainen: Thank you, and then a question, this is actually the last one for now. About the organic growth in the stable business in Q1, which was eight percent in Services and 12 percent in Automation. How would you characterize it? What share of organic growth was pricing-related?

00:53:26

Thomas Hinnerskov: I think I said it to Antti from SEB as well. Pricing clearly helped the organic growth. It clearly helped the margin. However, we don't disclose the split of how much is driven by pricing and how much is driven by volume.

00:53:45

Katri Hokkanen: It's a very normal tool for the stable business. Due to inflation, there are always some price increases. That's kind of a normal course of business anyway, and then--

00:53:54
Thomas Hinnerskov: It's a flow business as well. Right?

00:53:57
Katri Hokkanen: Yes.

00:53:57
Thomas Hinnerskov: It's a transactional business as well. It's just sort of--

00:54:01
Katri Hokkanen: Yes.

00:54:03
Pekka Rouhiainen: All right. Fantastic. That's all from the Q&A for today. Since there are no further questions, it's time for us to start wrapping up the event of today. Thanks again for joining and for your interest in Valmet. Before we close, a quick reminder of the upcoming investor events, which were already marketed by Thomas. However, most importantly, we will be hosting the Capital Markets Day on June 5th. It will be live at our Tampere site. A great opportunity to hear about the renewed strategy, meet our leadership team, and see the DNAe showroom demo in action. We warmly encourage you to join us there in person. Tampere is easily reachable from Helsinki, and we'll be organizing transportation from both Helsinki and the airport. Please welcome there. It's going to be an engaging day, and you can find more information and register on the investor website for the event. We will also be streaming it as a live webcast. It will be available for everybody, also online. Then we'll be back with our Q2 results on the 23rd of July. With that, we'll conclude today's webcast. Thank you again. We hope to see many of you in Tampere in June.

00:55:25
Thomas Hinnerskov: See you soon. Thanks.

00:55:26
Katri Hokkanen: Thank you.