



# A more stable market environment

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Area President, China

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# Valmet in China

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# China area overview

Focusing on businesses in pulp and paper industry

## Our business

- We serve customers by providing technology, automation and services for the pulp, paper and energy industries in China
- Improve customer relationship, understand the customers' real needs and provide competitive solutions

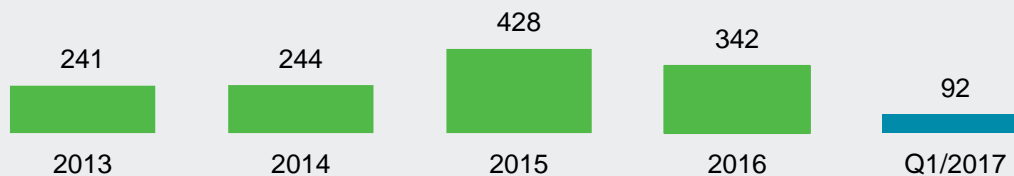
## Our customers

- Our customers are in leading position in pulp and paper businesses
- Our customers are looking for opportunities in energy savings and efficiency

## Our achievements

- Large installed base in pulp and paper industry
- Good reputation for lifecycle service
- Continuous technology development
- We have established strong local presence to serve our customers

## Orders received



# Valmet offering in China

## Comprehensive offering in pulp and paper industry

- Complete paper, board and tissue making lines, rebuilds and key components
- Complete fiber lines and recovery islands, rebuilds
- Complete Automation offering for mainly pulp and paper customers
- Valmet full scope service for pulp and paper customers

## We have strong position in high-end technologies

### Services



- Service net sales has increased roughly 90% in the past five years
- 65% of orders received is from 10 key corporations
- Agreement based business has started to develop in the past two years

### Automation



- Totally 500 installed automation systems (Quality Measurement, Process Control, Web Inspection, Condition Monitoring) including 20 competitor replacements only this year
- More than 6,000 pulp and paper analyzers and consistency measurements

### Pulp and Energy



- 18 complete Valmet pulp lines are running at 13 customers
- We are #1 counted by delivered capacity of pulp lines and #2 by number of deliveries in wood pulp lines

### Paper

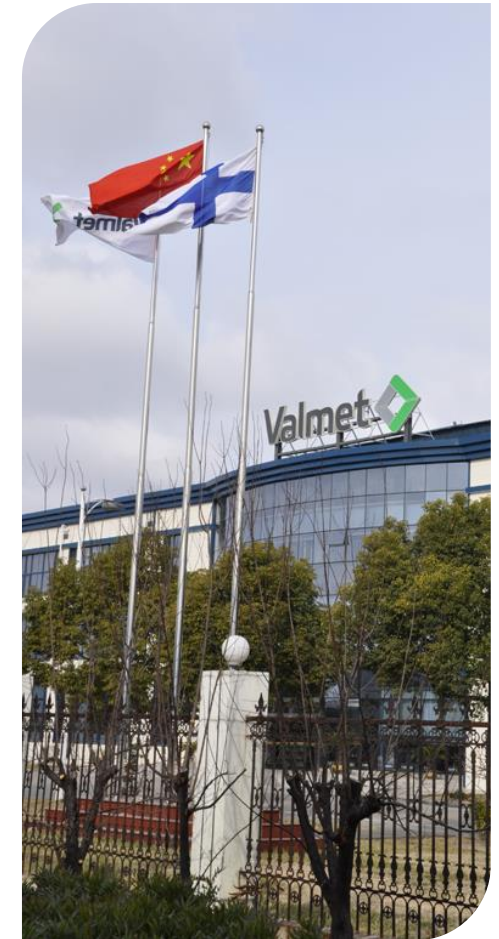


- More than 100 running Valmet paper and board machines and 21 tissue machines at 49 customers
- We are clearly #1 in paper and board machines and #2-3 in tissue machines

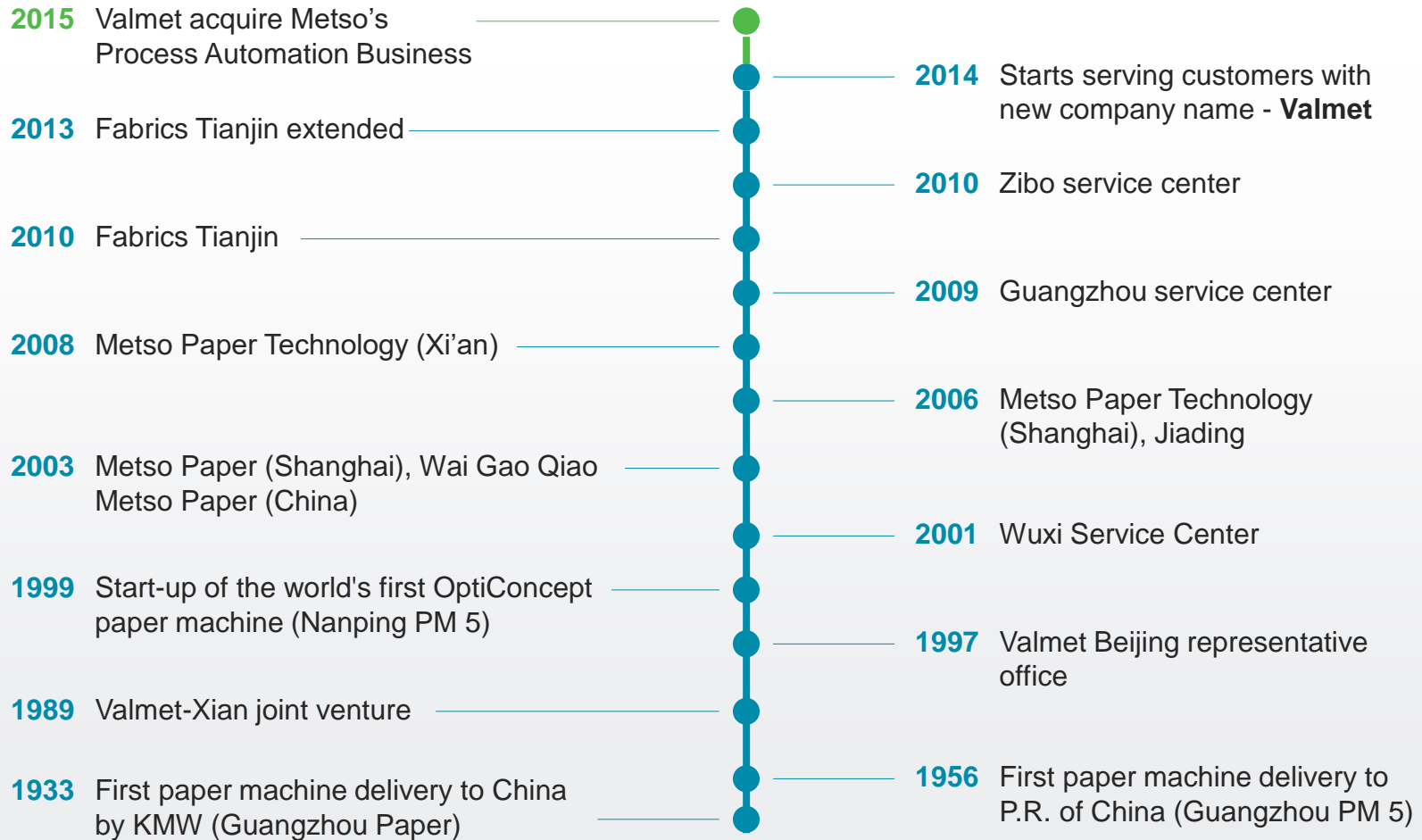
# Valmet's operations in China

Serving the pulp, paper and energy industries

- A technology and services company with a unique customer offering – also including full automation offering for pulp, paper, energy and other selected process industries.
- About 1,700 employees serving customers through a local network of production, sales and service units
- 5 production units, 3 service centers and several branch offices with the support of Valmet's global network
- Valmet's first deliveries to China were in the 1930's (by Valmet's predecessor)
- The first joint venture (Valmet Xian) was established in 1989



# Valmet's milestones in China

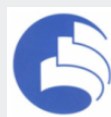


# Local presence in China



# Strong regional customer base across China

Serving pulp, paper and energy customers



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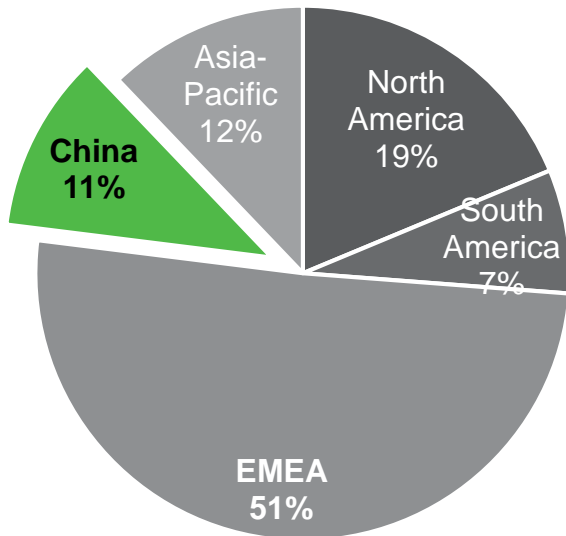


# The share of China in Valmet

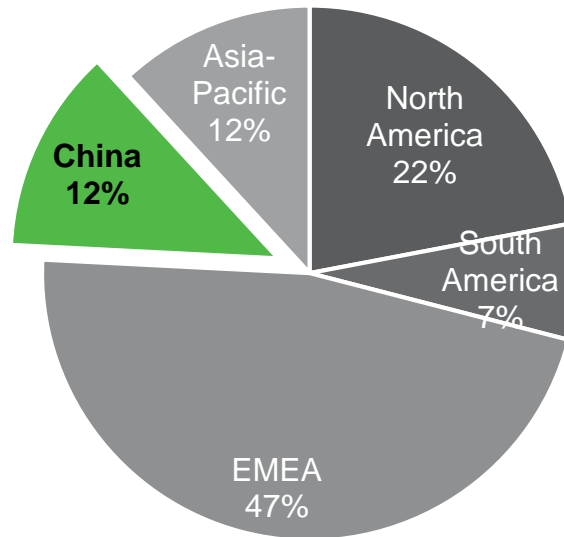
2016 figures

- China is an important market for new board and tissue machines
- China's relative weight in Valmet's business is balanced

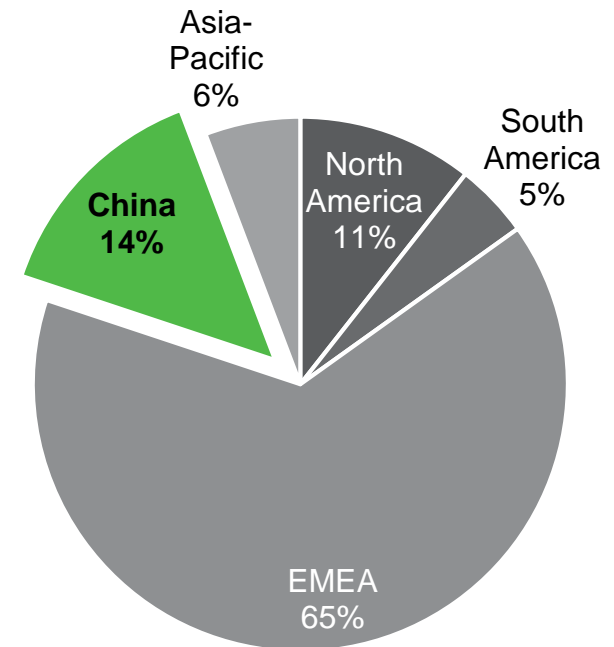
Orders received



Net sales



Personnel





# Market position, drivers and market review

# Market drivers

## ➤ Services

- Growth supported by significant amount of new capacity installed during the last 15 years and the installed base is aging. New installations creating new growth opportunities.

## ➤ Automation

- Increasing demand for saving costs of raw materials, energy and labor drives need for automation
- Higher quality requirements drive the need for automation
- Aging automation systems installed during last 15 years drive upgrade and replacement business

## ➤ Pulp

- Increasing standard of living in Asia driving demand for paper, board and tissue based products, expected to increase the demand for fiber
- Demand for paper, board and tissue is growing fastest in Asia, especially China and India, which do not have sufficient domestic fiber resources

## ➤ Paper

- Developing markets, e.g. China, expected to drive containerboard demand
- Higher product penetration together with improved product quality drive tissue consumption e.g. in China
- Trend for lighter basis weights in packaging

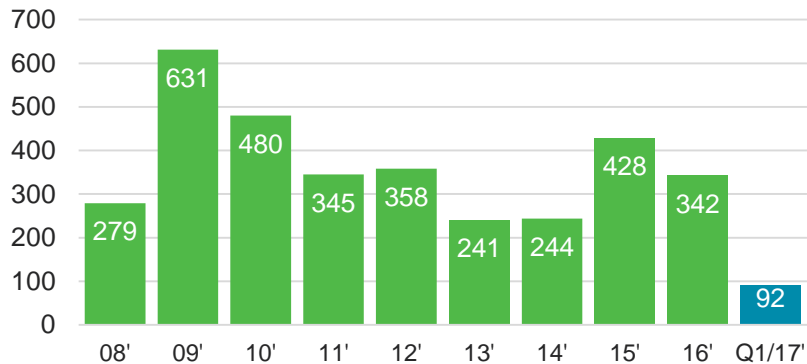
# China: CPA says paper and board production up marginally in 2016; consumption stagnant

BEIJING, May 17, 2017 (RISI) –

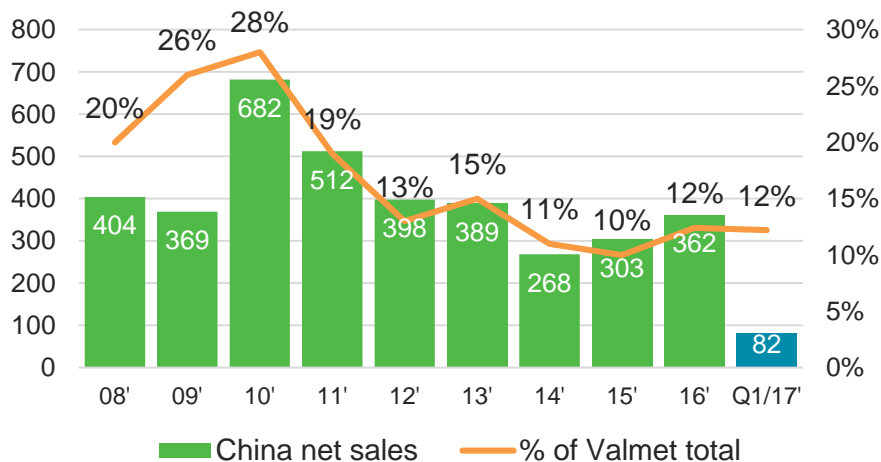
China's paper and board (P&B) production saw minor growth in 2016, but consumption was nearly flat, corresponding with the country's economic slowdown. According to the annual report the China Paper Association (CPA) released last week, overall P&B production there increased by 1.35% year-on-year to 108.55 million tonnes in 2016. The growth rate was much lower than the 2.29% recorded in 2015. Consumption was 104.19 million tonnes, with annual growth rate shrinking from 2.79% in 2015 to 0.65% in 2016. Despite the static picture in general, leading companies, such as Nine Dragons Paper (Holdings), Lee & Man Paper Manufacturing, Shandong Chenming Paper Holdings and Sun Paper managed to boosted their output and financial performance. According to the CPA, the top 30 producers in China had a total P&B production of 62.3 million tonnes in 2016, a jump of 5.5 million tonnes or 9.6% compared to the previous year. Among them, 25 reported a positive year-on-year growth in production, with 23 exceeding the national average rate of 1.35%. Fiercer competition and stricter environmental regulations are believed to have squeezed small mills and consequently to have benefited major players.

# Development of orders received and net sales

## Orders received



## Net sales



- Orders received and net sales have been recovering the past 2 years
  - Record order intake and net sales years just after financial crisis
  - Strong stimulus-driven investments led to overcapacity in most paper grades (like in many industries in China). Market activity has been better recently
  - Growth in board and tissue consumption, but linked with overall economic activity
  - China's volumes are in "new normal" levels having higher ratio of Services.
  - We have adapted to this market and expect this to continue with normal annual cyclicity

# Changes in the market environment

## Market environment

- Growth opportunities in services, market growth mainly in services
- Fiber market will remain at about the same level as today
- Bioenergy market is expected to grow, but not in focus now.
- Paper market flat, investment mainly on board grades and tissue with large and medium size machines

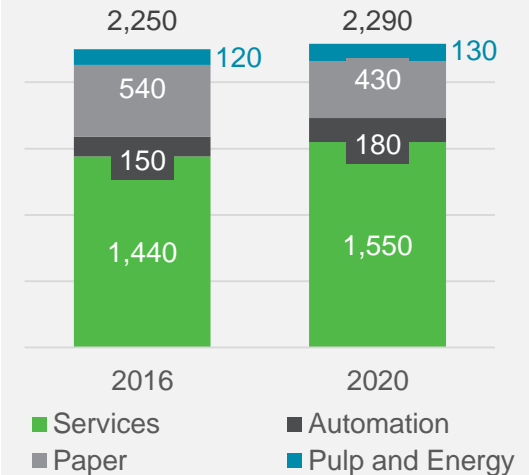
## Customers

- Profitability improved in the past few years
- OPEX and cash flow are the main concern currently
- Focus on individual strategy implementation
- Environmental requirements are getting higher, leading to investment needs.

## Effects on us

- In new investment business, focus more on board and tissue machines, key components and some rebuilds
  - => Competition on who has the best-fit solution
  - => Further development of local capability, utilize capacity for global deliveries
- Services business having more local and international competitors
  - => Development of combined offering like agreements and process competence
  - => Development of local presence close to customer, Shared Journey Forward.

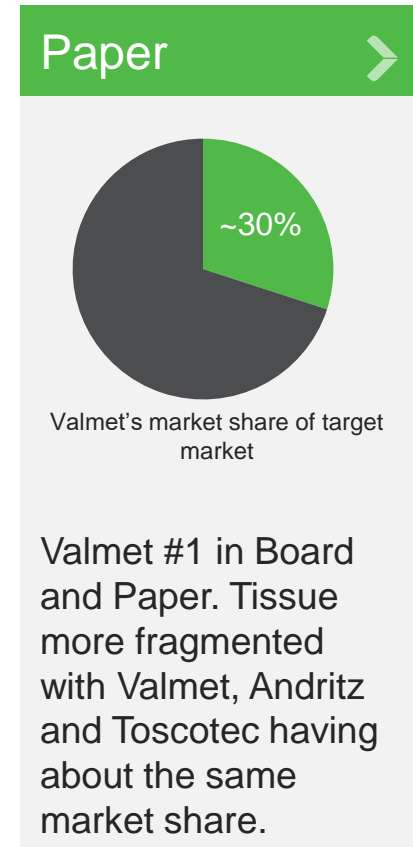
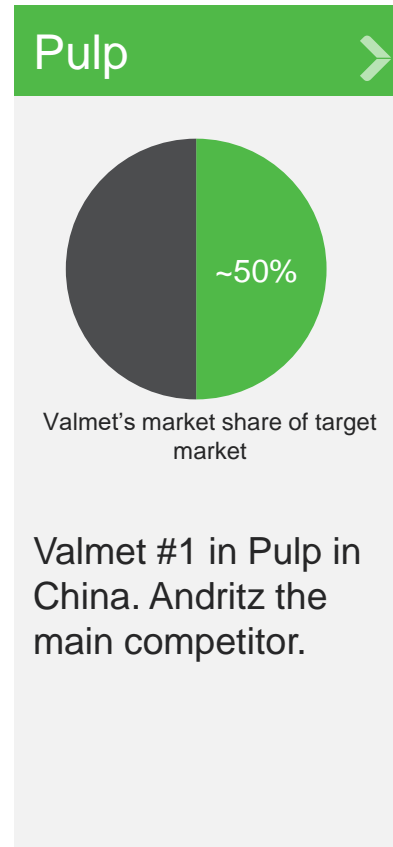
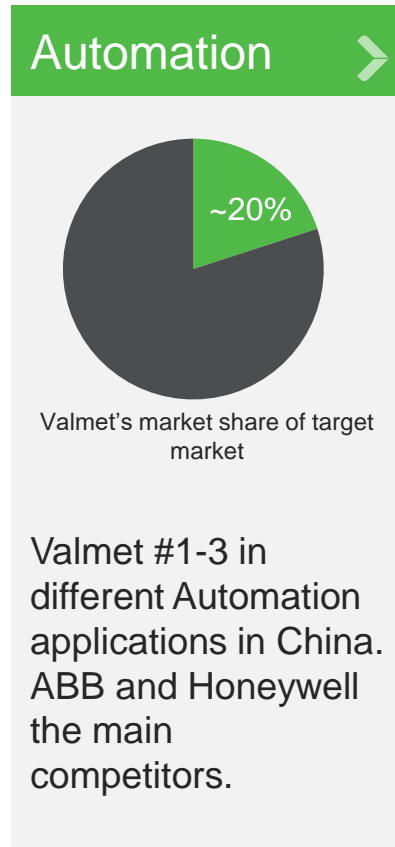
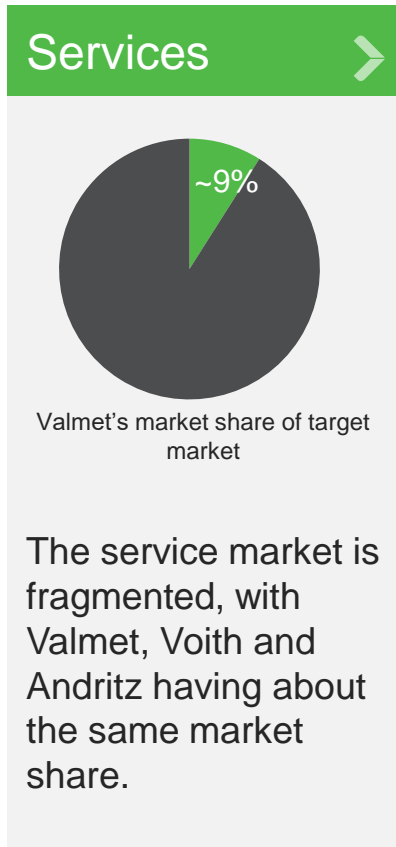
## Target market size (EUR million)





# Main competitors

# Valmet's market position in China





# Competitors

## Number of competitors in all business segments

- Global 1<sup>st</sup> tier competitors expand local presence
- Global 2<sup>nd</sup> tier competitors finding cooperation with local suppliers for new installations and actively competing with key components
- Local competitors are seeking technology development and expanding to Asian market

Services	Automation	Pulp and Energy	Paper
<ul style="list-style-type: none"><li>• Voith Paper</li><li>• Andritz Pulp &amp; Paper</li><li>• Number of suppliers strong in selected products / technology, like AFT for baskets, BTG for doctor etc.</li><li>• Numbers of maintenance suppliers, like PMT, UP-Tech, Refine etc.</li><li>• Numbers of paper machine clothing suppliers like Albany, Xerium</li></ul>	<ul style="list-style-type: none"><li>• ABB</li><li>• Honeywell</li><li>• Siemens</li><li>• Voith</li><li>• Procemex</li><li>• Isra</li><li>• BTG</li><li>• PulpEye</li><li>• Hollysys</li><li>• Supcon</li><li>• Hangzhou Huazhang</li><li>• Sichuan Tongcheng</li></ul>	<p><b>Pulp mill competitor</b></p> <ul style="list-style-type: none"><li>• Andritz Pulp &amp; Paper</li><li>• GL&amp;V</li><li>• Wenrui Machinery</li><li>• Fujian Sanming Paper Machinery</li><li>• Other local suppliers</li><li>• Huaji Group</li></ul> <p><b>Energy competitor</b></p> <ul style="list-style-type: none"><li>• Wuhan Boiler</li><li>• Western Power</li><li>• Hangzhou boiler</li><li>• Wuxi boiler</li><li>• Jinan boiler</li><li>• Chempolis</li><li>• Dong Energy</li></ul>	<p><b>Paper &amp; board</b></p> <ul style="list-style-type: none"><li>• Voith Paper</li><li>• Yueli Machinery</li><li>• China Paper Machinery Corporation (CPMC)</li><li>• Bellmer</li><li>• Number of local suppliers</li><li>• Kadant BC</li></ul> <p><b>Tissue</b></p> <ul style="list-style-type: none"><li>• Voith Paper</li><li>• Andritz Pulp &amp; Paper</li><li>• A Celli</li><li>• Toscotec</li><li>• Kawano Zoki</li></ul> <p><b>Key components</b></p> <ul style="list-style-type: none"><li>• PMP, PMT, ABK, GapCon, GL&amp;V and others</li></ul>



# Strategy and competitive edges

# We achieve our strategic targets through the implementation of must-wins

## The facts

- Valmet has established strong position in pulp and paper industry
- Market
  - Equipment business is volatile following macroeconomy with board grades, rebuilds and tissue
  - Service market is growing but impacted by customer profitability
- Our customers are looking for opportunities in energy savings, efficiency and lighter basis weights and better strategic focus
- Competitors
  - Global competitors have strengthened their local presence
  - Local suppliers are trying to grow with mid-size capability and increase competence
  - Cost competitiveness is critical

## Our way Forward

- Maintain our leading market position in capital business with best technology.
- Service business growth with agreements and better service through Shared Journey Forward concept
- Strengthening key account and reference management
- Improving cost competitiveness through productivity development and capacity cost optimization
- Continuous development of process know-how, bundling service business
- Local competence development to support customer promise “close to you”
- Increasing Automation market share with new technology and products

**Our core commitments**

Safety  
comes first

Close to you

Solutions to  
your needs

People you  
can trust

**Services offering**

Reliability

Performance

New Technology

**Shared Journey  
Forward**

Valmet's way to serve

**Committed to moving your performance forward**



# 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 with JiAn

## Develop the partnership

### Strengthen Valmet Internal coordination

- Corporate Account management team built for customer group
- Dedicate Mill team Set up for JiAn mill
  - MSM coordinate the Value solutions for customer challenges
  - Quarterly Mill team Meeting and Visit customer together
  - Organize Finnish experts to support local team
  - Closely work on projects implementation for customer satisfaction improvement

### Work closely with customers all levels

- More communication with customer top management
  - Talk about annual plan and targets before next year
  - Review the solutions together to understand the expectations
  - Periodical review of the actions done and sharing Valmet's latest development
- Tailor made mini seminar to discuss each machine's bottlenecks and challenges
- Organize Audit and detail discussion with each machine line production team for solutions

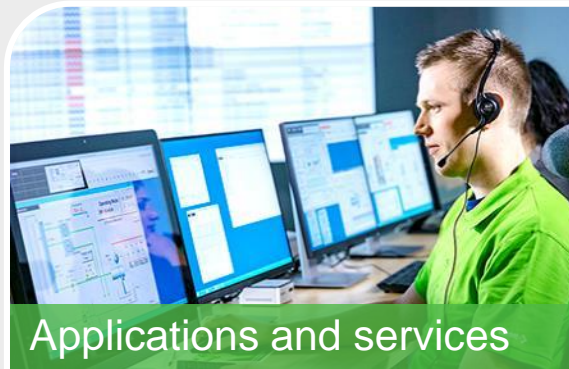


### Interview - Sherry Song & Shu Junmin

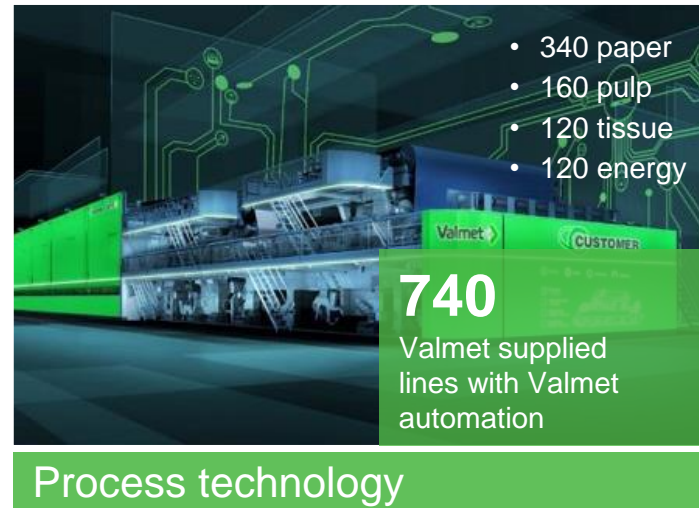




# Our Industrial Internet offering consists of four building blocks



# Our Industrial Internet capabilities are utilized already today

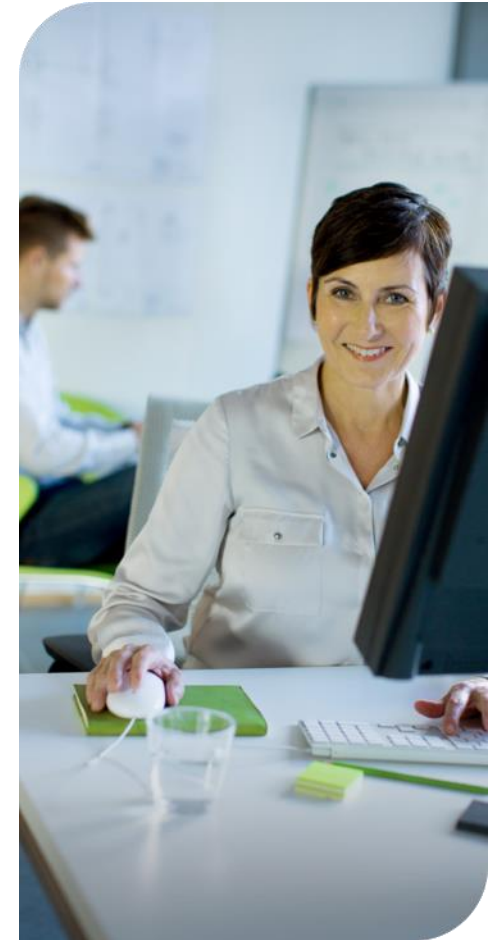




# Valmet's competitive edges

Why does Valmet have premium pricing?

- Value of our technology and engineering
- Value of our quality of manufacturing
- Value of our smooth start-up and lower OPEX
- Value of our services



# Capitalizing the service potential

Installed base



Large installed base providing good opportunity to increase services.

Key Account Management



Strengthen Key Account Management to improve contribution from key accounts.

Agreement-based business



Continue to develop agreement-based business.

Cost competitiveness



Cost competitiveness to improve customer OPEX and to beat low-cost supplier.

Spearhead products



Introduce spearhead products and leading know-how to market.

# How to improve profitability in China?

## Competitive cost of raw materials and other procurement

- China is still competitive sourcing area
- Increase the share of subcontracting and reduce own capacity cost
- Localize component sourcing further

## Manufacturing efficiency and WTO

- Further optimize capacity cost
- Basic productivity development
- Modular manufacturing
- Implement Lean
- Increase the share of local engineering and project operations
- Continue to reduce quality cost
- Low investment needs – less cost pressure from depreciation costs in coming years.



# Summary

# Summary

- The service culture is developing and large installed base offers good possibilities to grow in services
- Board and tissue consumption is growing
  - Supported by megatrends
  - Constant partial overcapacity is part of market behavior
  - Improved customer profitability has normalized investment environment during past quarters
- Our strong focus on Key Account Management, performance and technology development will keep us ahead of competition





# Appendix: References in China

# Good order intake in 2016

## Balanced business and stronger market position

- Zibo Green Energy New Energy Co., Ltd.
  - Valmet's first Waste to Energy boiler plant delivery to Zibo, Shandong Province, China
  - Heat and power production will start by the end of 2017
- Nine Dragons Industries Co., Ltd.
  - Two containerboard production lines and related automation systems
  - High-quality testliner and fluting grades, 100 percent recycled raw materials
- Lee & Man Paper Manufacturing Ltd
  - Two Advantage DCT 200, and related automation systems, Repeat orders
  - 5 Advantage DCT 200 operated successfully



# Good order intake in 2016

## Balanced business and stronger market position (cont'd)

- Heze Baishida Wood Co., Ltd
  - Two defibrator systems
  - After rebuilds the mill will produce 18 ton/hour bd (bone dry) fiberboard
- Services business orders:
  - Optimization and rebuilds to three containerboard machines in Ji'an Group
  - One headbox upgrade and two headbox recondition service packages to Green Forest Paper
- Automation business orders:
  - Automation Package to new machines and replacement for others' installed base
  - Online condition monitoring systems to Anhui Shanying Paper Industry Co., Ltd.



# New start-ups in 2016 & 2017 Q1

- **Stora Enso Beihai**
  - BM1, web width 7,000mm, design speed 1,200m/min, start-up : May, 2016
  - BCTMP line, 650 ton/day, start-up: Dec. 2016
- **Asia Symbol (Guangdong) Paper Co., Ltd.**
  - PM 12, located in Xin Hui, Guangdong province and produces top quality fine papers
  - Wire width: 9350mm, design speed: 1,800 m/min, paper grade: 80 g/m<sup>2</sup>, production capacity: 1,700 ton/day, start-up: Jan, 2017
  - Very good start-up curve
- **One customer from Taiwan**
  - OptiConcept M board making line, start-up: March 17, 2017
  - Pulp line rebuilds, located in Hualien, Taiwan



# New start-ups in 2016 & Q1/2017

Cont'd

- Hengan International Group Company Limited
  - TM19 & 20, the 5th and 6th Advantage DCT 200HS tissue making line supplied by Valmet
  - Located in Wuhu, Anhui province, start-up: August and December in 2016
- Lee & Man Paper Manufacturing Ltd.
  - Four Advantage DCT 200 tissue lines successfully started up in Sep. – Dec., 2016
- Others:
  - Jingxing PM12 rebuilds, Yinzhou PM1&PM2 rebuilds, Zhejiang Longchen PM7 key sections
  - Zhanjiang Chenming pulp mill rebuilds, Ningfeng Fiberboard making line start-ups
  - Automation upgrades, service agreements

# Our success in moving forward in China

## New development in 2016

- New Office Building of Shanghai
  - Construction area 5,427 m<sup>2</sup>, height of building 20.6m
  - 330 seats, total 53 meeting rooms
  - Safety and Quality are the First
  - Green building



# We support local communities in which we operate

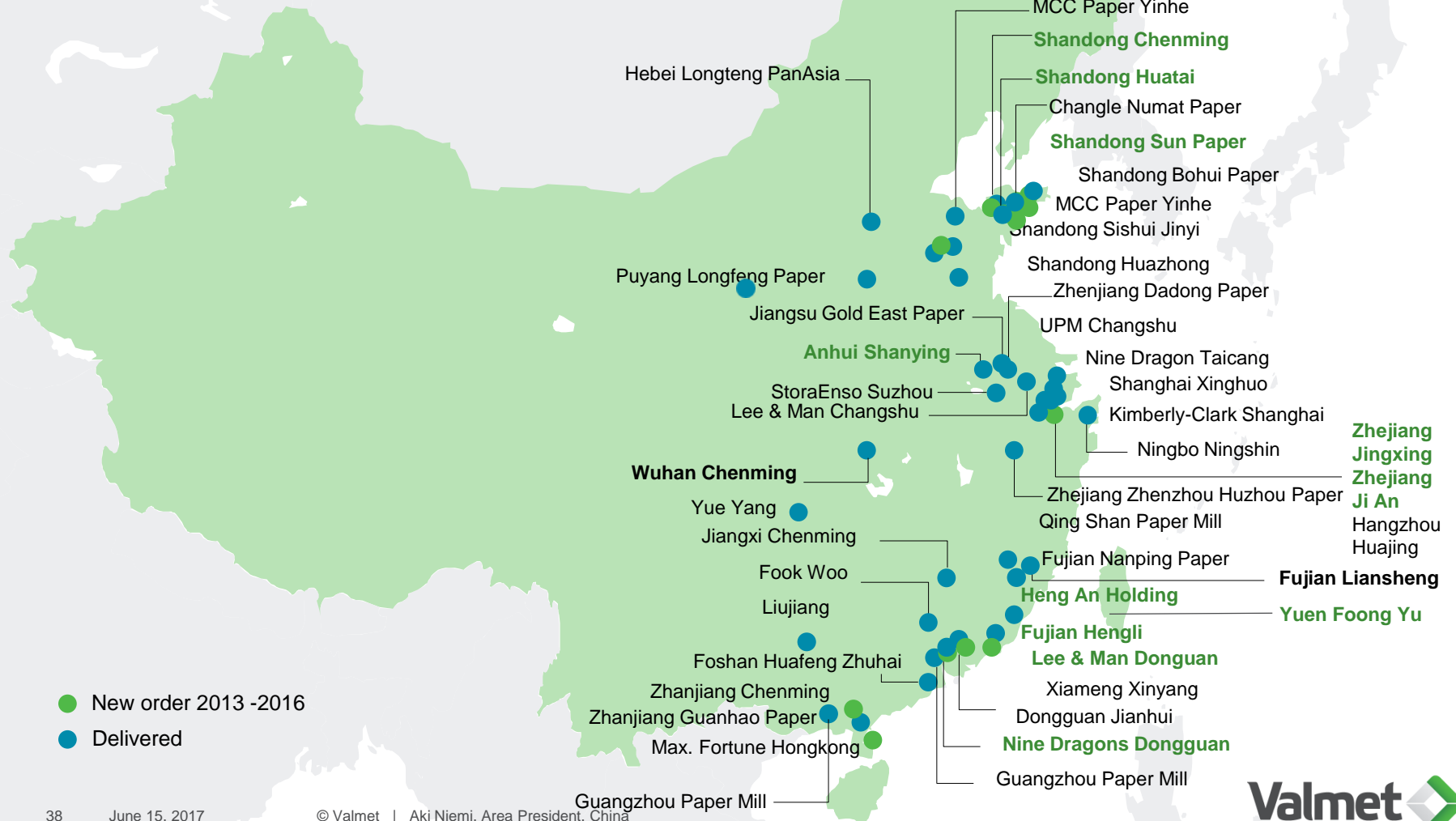
- Since 2009, Valmet Scholarships and technical seminars have helped domestic university students and professionals continuously
  - In 2016, scholarship to Shaanxi University of Science and Technology, Qilu University, Nanjing Forestry University
  - In March, 2017, technical seminar to Taiwan National Chung Hing University
- Shaanxi Kengzhen primary school water filters return visit in June, 2016
- Valmet participated in WWF's "Earth Hour" event for the 8<sup>th</sup> time, expressing our commitment to global climate change



# Pulping references in China



# Paper, Board and Tissue machine references in China





# Automation references in China



# Good recognition from customers in China



- “The environmental efficiency of PM 6 is beyond our expectations – much better than the industry standards,” comments **Wang Yong, Mill Manager of Anhui Shanying**.
- “The trend in containerboard production is towards lighter but stronger end product with less raw material and decreased energy consumption. This can be achieved by investing in new technologies,” says **Zhan Zhengfeng, General Manager of Anhui Shanying**.

- “I’m especially impressed by two technological highlights of the machine. One is the fabric insertion unit. With this solution no cantilevering beams are needed and the whole wet end is more compact.
- The other is the VacuMaster high-vacuum suction box that replaces the suction roll in the forming section and offers great energy saving potential,” says **Mr. Liao Changlv, Project Manager of Zhejiang Jingxing Paper**.





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