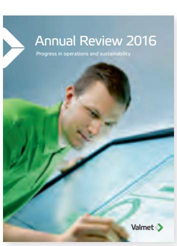
Financial Statements 2016 and Information for Investors

Valmet

Valmet reports 2016



Annual Review 2016

The report describes Valmet's market environment and the progress of its strategy, operations and sustainability in 2016.

GRI Supplement 2016

The report includes Valmet's sustainability reporting indicators and principles, and its alignment with the Global Reporting Initiative (GRI) G4 framework.

Financial Statements 2016 and Information for Investors

The report includes Valmet's Financial Statements for 2016 and information about its shares, shareholders and management.

Corporate Governance Statement 2016

The report covers Valmet's governance principles and activities, Board, management and remuneration in 2016.

Valmet Financial Statements 2016 and Information for Investors

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* The accompanying notes form an integral part of these Financial Statements.

Notes to the Consolidated Financial Statements

Report of the Board of Directors January–December, 2016

Governance

Current legislation, the company's Articles of Association and the rules and regulations of organizations regulating and supervising the activities of listed companies are complied with in Valmet Oyj and Valmet Group corporate governance. Valmet Oyj complies with the Finnish Corporate Governance Code for listed companies, which was published by the Securities Market Association in October 2015 and came into force on January 1, 2016. The Code is publicly available at www.cgfinland.fi/en.

Corporate Governance Statement

Valmet has prepared a separate Corporate Governance Statement for 2016 which complies with the recommendations of the Finnish Corporate Governance Code for listed companies including Remuneration Reporting. It also covers other central areas of corporate governance. The statement has been published on Valmet's website, separately from the Board of Directors' Report, at www.valmet.com/governance.

Annual General Meeting

The Annual General Meeting is the company's highest decision-making body, and its tasks are defined according to the Articles of Association and the Finnish Limited Liability Companies Act. The Annual General Meeting decides on the adoption of the Financial Statements, the distribution of profit, discharging the members of the Board of Directors and the President and CEO from liability, appointing the members, Chairman and Vice Chairman of the Board and the auditor, and their remunerations, as well as other matters requiring a decision by the Annual General Meeting according to the Finnish Limited Liability Companies Act and presented to the Annual General Meeting. The General Meeting convenes at least once a year. The Board of Directors convenes the Annual General Meeting.

The Board of Directors

The Board of Directors shall see to the administration of the company and the appropriate organization of its operations and ensures that the monitoring of the company's accounting and asset management is arranged appropriately. The Board of Directors monitors the Group's activities, finances and risk management, and its task is to promote the interests of shareholders and the Group by ensuring the appropriate organization of the entire Group's governance and operations.

According to Valmet's Articles of Association, the Board of Directors shall include at least five (5) members and at most eight (8) members. The term of office of Board members ends at the end of the first Annual General Meeting following the elections. The Annual General Meeting selects the Chairman, Vice Chairman and other members of the Board.

President and CEO

The Board of Directors selects a President and CEO for the company and decides on the salary and remunerations of the President and CEO and other terms related to the position. The Board of Directors monitors the work of the CEO.

The President and CEO is responsible for the company's daily administration according to the instructions and regulations of the Board of Directors. The President and CEO is responsible for ensuring the legality of the company's accounting and for the reliable organization of the company's asset management.

Valmet's results 2016

Figures in brackets, unless otherwise stated, refer to the comparison period, i.e. the same period of the previous year. Automation has been consolidated into Valmet's financials since April 1, 2015, when the acquisition of Automation was completed.

Key figures[1]

EUR million	2016	2015	2014
Orders received	**3,139**	2,878	3,071
Order backlog[2]	**2,283**	2,074	1,998
Net sales	**2,926**	2,928	2,473
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**196**	182	106
% of net sales	**6.7%**	6.2%	4.3%
Earnings before interest, taxes and amortization (EBITA)	**183**	157	94
% of net sales	**6.2%**	5.3%	3.8%
Operating profit (EBIT)	**147**	120	72
% of net sales	**5.0%**	4.1%	2.9%
Profit before taxes	**136**	108	67
Profit / loss	**82**	78	46
Earnings per share, EUR	**0.55**	0.51	0.31
Earnings per share, diluted, EUR	**0.55**	0.51	0.31
Equity per share, EUR	**5.88**	5.70	5.36
Dividend per share, EUR	**0.42**[3]	0.35	0.25
Cash flow provided by operating activities	**246**	78	236
Cash flow after investments	**188**	-287	194
Return on equity (ROE)	**9%**	9%	6%
Return on capital employed (ROCE) before taxes	**12%**	12%	9%

[1] The calculation of key figures is presented in the section 'Formulas for Calculation of Indicators'.
[2] At the end of period.
[3] Board of Directors' proposal.

		As at Dec 31,	
Equity to assets ratio and gearing	**2016**	**2015**	**2014**
Equity to assets ratio at end of period	**37%**	36%	42%
Gearing at end of period	**6%**	21%	-21%

Orders received increased in Pulp and Energy, Paper and Services business lines

Orders received, EUR million	2016	2015	Change
Services	**1,182**	1,119	6%
Automation	**299**	222	-
Pulp and Energy	**939**	864	9%
Paper	**718**	673	7%
Total	**3,139**	2,878	9%

Orders received, EUR million	2016	2015	Change
North America	**588**	717	-18%
South America	**235**	166	42%
EMEA	**1,594**	1,320	21%
China	**342**	428	-20%
Asia-Pacific	**381**	247	54%
Total	**3,139**	2,878	9%

In 2016, orders received amounted to EUR 3,139 million, i.e. 9 percent more than in the comparison period (EUR 2,878 million). Stable business (Services and Automation business lines) accounted for 47 percent of Valmet's orders received (47%). Orders received increased in the Pulp and Energy, Paper, and Services business lines. The Automation business line contributed to orders received with EUR 299 million. Orders received increased in Asia-Pacific, South America and EMEA (Europe, Middle-East and Africa) and decreased in China and North America. Measured by orders received, the top three countries were the USA, Finland and China, which together accounted for 38 percent of total orders received (the USA, Finland and China, which together accounted for 49%). The emerging markets accounted for 37 percent (36%) of orders received.

Changes in foreign exchange rates compared with the exchange rates for year 2015 decreased orders received by approximately EUR 20 million in 2016.

The Pulp and Energy business line received the largest orders in 2016. In September, Valmet received an order for a biomass-fired boiler plant and related biofuel storage and conveyor systems to Denmark, valued at over EUR 150 million. In March, Valmet got an order in Finland for three boiler plants and automation system, valued at around EUR 100 million.

Other orders received during the year include, among others, an order in Chile for a white liquor plant, an order in Italy for an OptiConcept M boardmaking line and the related mill-wide automation system, an order for a biofuel boiler and related environmental systems to Sweden, and an order for a multifuel power boiler and flue gas cleaning system to Japan.

Order backlog at EUR 2.3 billion

	As at Dec 31,		
Order backlog, EUR million	2016	2015	Change
Total	**2,283**	2,074	10%

At the end of the year, the order backlog totaled to EUR 2,283 million, which was 10 percent higher than at the end of the comparison period (EUR 2,074 million). Approximately 25 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 25% at the end of 2015).

Net sales remained at the previous year's level in 2016

Net sales, EUR million	2016	2015	Change
Services	**1,163**	1,128	3%
Automation	**290**	229	-
Pulp and Energy	**826**	913	-9%
Paper	**647**	659	-2%
Total	**2,926**	2,928	0%

Net sales, EUR million	2016	2015	Change
North America	**644**	615	5%
South America	**205**	335	-39%
EMEA	**1,369**	1,304	5%
China	**362**	303	19%
Asia-Pacific	**346**	372	-7%
Total	**2,926**	2,928	0%

Net sales in 2016 remained at the previous year's level and amounted to EUR 2,926 million (EUR 2,928 million). Stable business (Services and Automation business lines) accounted for 50 percent of Valmet's net sales (46%). Net sales remained at the previous year's level in the Services and Paper business lines and decreased in the Pulp and Energy business line. The Automation business line contributed to net sales with EUR 290 million. Net sales increased in China and EMEA, remained at the previous year's level in North America and decreased in South America and Asia-Pacific. Measured by net sales, the top three countries were the USA, Finland and China, which together accounted for 44 percent of total net sales (the USA, Finland and Sweden, which together accounted for 43%). Emerging markets accounted for 38 percent (42%) of net sales.

Changes in foreign exchange rates compared with the exchange rates for year 2015 decreased net sales by approximately EUR 18 million in 2016.

Comparable EBITA and operating profit

In 2016, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 196 million, i.e. 6.7 percent of net sales (EUR 182 million and 6.2%). Profitability improved due to improved gross profit and the acquisition of Automation and decreased due to a loss of EUR 17 million incurred in a pulp mill rebuild project.

Operating profit (EBIT) in 2016 was EUR 147 million, i.e. 5.0 percent of net sales (EUR 120 million and 4.1%). Items affecting comparability amounted to EUR -13 million (EUR -26 million).

Net financial income and expenses

Net financial income and expenses in 2016 were EUR -12 million (EUR -10 million).

Profit before taxes and earnings per share

Profit before taxes for 2016 totaled to EUR 136 million (EUR 108 million). The profit attributable to owners of the parent in 2016 amounted to EUR 83 million (EUR 77 million), corresponding to earnings per share (EPS) of EUR 0.55 (EUR 0.51).

The reassessment decision from the Finnish tax authority, received in December 2016, had a negative impact of EUR 8 million into profit and loss and EUR 0.06 into earnings per share (EPS) for the year, the amount consisting of prior year tax expense recorded in Finland netted-off with impact of tax receivable recognized arising from several different tax jurisdictions.

Return on capital employed (ROCE)

In 2016, the return on capital employed (ROCE) before taxes was 12 percent (12%) and return on equity (ROE) 9 percent (9%).

Business lines

Services – orders received EUR 1,182 million in 2016

Services business line	2016	2015	Change
Orders received (EUR million)	**1,182**	1,119	6%
Net sales (EUR million)	**1,163**	1,128	3%
Personnel (end of period)	**5,339**	5,363	0%

In 2016, orders received by the Services business line increased 6 percent to EUR 1,182 million (EUR 1,119 million) and accounted for 38 percent of all orders received (39%). Orders received increased in South America, Asia-Pacific, China and EMEA and remained at the previous year's level in North America. Orders received increased in Energy and Environmental, Mill Improvements and Rolls and remained at the previous year's level in Fabrics and Performance Parts.

In 2016, net sales for the Services business line amounted to EUR 1,163 million (EUR 1,128 million), corresponding to 40 percent of Valmet's net sales (39%).

Automation – orders received EUR 299 million in 2016

Automation business line	2016	2015	Change
Orders received (EUR million)	**299**	222	-
Net sales (EUR million)	**290**	229	-
Personnel (end of period)	**1,636**	1,637	0%

The acquisition of Process Automation Systems was completed on April 1, 2015 and the acquired business forms the Automation business line. In 2016, orders received by the Automation business line amounted to EUR 299 million and accounted for 10 percent of all orders received. EMEA accounted for approximately 60 percent and North America for approximately 25 percent of orders received. Pulp and Paper accounted for approximately 70 percent and Energy and Process for approximately 30 percent of orders received.

In 2016, net sales for the Automation business line amounted to EUR 290 million, corresponding to 10 percent of Valmet's net sales.

Pulp and Energy – orders received EUR 939 million in 2016

Pulp and Energy business line	2016	2015	Change
Orders received (EUR million)	**939**	864	9%
Net sales (EUR million)	**826**	913	-9%
Personnel (end of period)	**1,689**	1,750	-3%

In 2016, orders received by the Pulp and Energy business line increased 9 percent to EUR 939 million (EUR 864 million) and accounted for 30 percent of all orders received (30%). Orders received increased in Asia-Pacific, South America and EMEA and decreased in North America and China. Orders received increased in Energy and decreased in Pulp.

In 2016, net sales for the Pulp and Energy business line amounted to EUR 826 million (EUR 913 million), corresponding to 28 percent (31%) of Valmet's net sales.

Paper – orders received EUR 718 million in 2016

Paper business line	2016	2015	Change
Orders received (EUR million)	**718**	673	7%
Net sales (EUR million)	**647**	659	-2%
Personnel (end of period)	**2,774**	3,036	-9%

In 2016, orders received by the Paper business line increased to EUR 718 million (EUR 673 million) and accounted for 23 percent of all orders received (23%). Orders received increased in EMEA, remained at the previous year's level in North America and decreased in South America, Asia-Pacific and China. Orders received increased in Tissue and remained at the previous year's level in Board and Paper.

In 2016, net sales for the Paper business line amounted to EUR 647 million (EUR 659 million), corresponding to 22 percent (23%) of Valmet's net sales.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 246 million (EUR 78 million) in 2016. Net working capital amounted to EUR -294 million (EUR -238 million) at the end of December 2016. Change in net working capital, net of effect from business combinations and disposals in the statement of cash flows was EUR 55 million (EUR -121 million) in 2016. Payment schedules of large capital projects have significant impact on net working capital development. Cash flow after investments amounted to EUR 188 million (EUR -287 million) in 2016.

At the end of December, gearing was 6 percent (21%) and equity to assets ratio was 37 percent (36%). Interest-bearing liabilities amounted to EUR 310 million (EUR 371 million) and net interest-bearing liabilities totaled to EUR 52 million (EUR 178 million) at the end of the reporting period. The average maturity for Valmet's non-current debt was 3.9 years and average interest rate was 1.3 percent.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 240 million (EUR 165 million) and interest-bearing available-for-sale financial assets totaling to EUR 1 million (EUR 7 million).

On October 20, 2016 Valmet announced by stock exchange release that it has signed a new EUR 200 million syndicated revolving credit facility agreement. The new facility matures on January 14, 2022 with two 1-year extension options dependent on the approval of the banks concerned. The new facility refinances the previous EUR 200 million credit facility. Valmet's liquidity was additionally secured by an uncommitted EUR 200 million commercial paper program. Both of the facilities were undrawn at the end of December.

On April 6, 2016, Valmet paid out dividends of EUR 52 million.

Investments excluding acquisitions

Gross capital expenditure excluding acquisitions in 2016 amounted to EUR -60 million (EUR -44 million). Maintenance investments amounted to EUR -40 million (EUR -36 million).

Acquisitions and disposals

Acquisitions

Valmet made no acquisitions in 2016.

Disposals

Valmet made no material disposals in 2016.

Research and development

Valmet's research and development (R&D) expenses for 2016 amounted to EUR 64 million, i.e. 2.2 percent of net sales (EUR 59 million and 2.0%). Research and development work is carried out predominantly in Finland and Sweden, within the business lines' R&D organizations and R&D Centers. In addition, research and development takes place within a network of customers, suppliers, research institutes and universities. In 2016, R&D employed 447 people (456 people).

Valmet's R&D work is based on customers' needs, such as increasing production efficiency, improving competitiveness, maximizing value of raw materials, widening the raw material base, providing high-value end products, and developing new innovations and technologies.

Currently, Valmet has three focus areas in its R&D work. To ensure advanced and competitive technologies and services, Valmet develops cost competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency, Valmet combines process technology, automation and services to increase resource efficiency in its customers' production processes. To promote renewable materials, Valmet develops solutions to replace fossil materials with renewable ones and to produce new high-value end products.

Valmet has recorded all costs resulting from R&D activities as expenses in the income statement in 2015 and 2016.

Number of personnel remained at the previous year's level

	As at Dec 31,		
Personnel by business line	**2016**	**2015**	**Change**
Services	**5,339**	5,363	0%
Automation	**1,636**	1,637	0%
Pulp and Energy	**1,689**	1,750	-3%
Paper	**2,774**	3,036	-9%
Other	**574**	520	10%
Total (end of period)	**12,012**	12,306	-2%

	As at Dec 31,		
Personnel by area	**2016**	**2015**	**Change**
North America	**1,274**	1,367	-7%
South America	**542**	531	2%
EMEA	**7,806**	7,747	1%
China	**1,697**	1,955	-13%
Asia-Pacific	**693**	706	-2%
Total (end of period)	**12,012**	12,306	-2%

In 2016, Valmet employed an average of 12,261 people (11,781). The number of personnel at the end of December was 12,012 (12,306). In 2016, personnel expenses totaled to EUR 795 million (EUR 748 million) of which wages, salaries and remuneration amounted to EUR 619 million (EUR 583 million).

Strategic goals and their implementation

Valmet is the leading global developer and supplier of technologies, automation and services for the pulp, paper and energy industries. Valmet focuses on delivering technology and services globally to industries that use bio-based raw materials. Valmet's main customer industries are pulp, paper and energy. These are all major global industries that offer growth potential for the future. Valmet is committed to moving its customers' performance forward. Valmet's vision is to become the global champion in serving its customers and its mission is to convert renewable resources into sustainable results.

Valmet seeks to achieve its strategic targets by pursuing the following Must-Win initiatives: 'customer excellence', 'leader in technology and innovation', 'excellence in processes' and 'winning team'.

Valmet's product and service portfolio consists of productivity-enhancing services, automation solutions, plant upgrades and rebuilds, new cost-efficient equipment and solutions for optimizing energy and raw material usage, and technologies increasing the value of our customers' end products.

In order to improve its operational excellence, Valmet is in the process of renewing its ERP system. The aim is to renew and improve Valmet's operational capability through process harmonization and standardization as well as through renewal and modernization of the ERP platform.

Valmet has an annual strategy process, where, among others, Valmet's strategy, Must-Wins and financial targets are reviewed. Valmet's strategy and higher financial targets were confirmed by the Board of Directors in June 2016 (Stock exchange release on June 21, 2016). Valmet has the following financial targets from 2017 onwards:

Financial targets

- Net sales for stable business to grow over two times the market growth
- Net sales for capital business to exceed market growth
- Comparable EBITA: 8–10%
- Comparable return on capital employed (pre-tax), ROCE: 15–20%
- Dividend payout at least 50% of net profit

Stable business means Services and Automation business lines. Capital business means Paper, and Pulp and Energy business lines.

Continued focus on improving profitability

Valmet continues to focus on improving profitability through various actions, in e.g. sales process management, project management and project execution, in procurement and quality, as well as in technology and R&D. Also, the modernization of the ERP platform will, once finalized, contribute to profitability improvement.

To improve sales process management, Valmet is focusing on key account management and analyzing the customers' share of wallet. Valmet is targeting market share improvement at key customers and adding focus on sales training. Valmet has also launched 'Valmet Way to Serve' – a shift towards more unified and customer oriented services.

Valmet is continuously improving its project management and project execution by training personnel and implementing a Valmet-wide project execution model. By focusing on improving project management and execution, Valmet is targeting to continuously improve gross profit.

Valmet has set a new long-term savings target for procurement. In order to decrease procurement costs, Valmet is increasingly focusing on design-to-cost and adding supplier involvement through supplier relationship management. Valmet has also set a new target for quality cost savings and is adding focus on root cause analysis of quality deviations. Valmet is continuing to adopt the Lean principles and methodology.

Valmet is constantly focusing on new technologies and R&D in order to improve product cost competitiveness and performance. Additionally, Valmet is currently modernizing its ERP system, which will, once implemented, increase efficiency.

Progress in sustainability

In 2016, Valmet maintained its position among the world's sustainability leaders. In September, Valmet was included in the Dow Jones Sustainability Index (DJSI) for the third consecutive year among the 316 most sustainable companies in the world. In October, as a recognition for its actions and strategy to mitigate climate change, Valmet was also awarded a top position on the 2016 Climate A List by CDP, the international not-for-profit organization that promotes sustainability. Valmet reports annually on its sustainability performance according to the Global Reporting Initiative, GRI G4 Core option, with selected indicators assured by an independent third party.

Valmet's Sustainability360° agenda covers all aspects of the business and value chain, and integrates Valmet's sustainability work with the strategic targets and Must-Wins. The sustainability agenda focuses on five core areas: sustainable supply chain; health, safety and environment; people and performance; sustainable solutions and corporate citizenship. In 2016, Valmet carried out an extensive review of the agenda and introduced a new three-year action plan for 2016–2018. Valmet's sustainability work, with special focus on globally sustainable supply chain and continuous improvement of the HSE culture, progressed according to plan.

Supply chain process strengthened

Valmet has continued to implement a global supplier sustainability management process. A global Valmet-level supplier evaluation process is automated, including sustainability gates as an integral part of the tool. In 2016, Valmet together with an independent third party, conducted 54 sustainability audits planned for this year in

Brazil, China, Croatia, India, Indonesia, Lithuania, Mexico, Poland and Thailand. Based on the audits, 700 corrective actions were taken and Valmet follows up the status constantly. Furthermore, 200 Valmet procurement professionals in risk areas received further training on responsible procurement practices.

An unrelenting focus on health, safety and environment (HSE)

Valmet constantly emphasizes risk management, prevention, leadership, and learning as we strive towards the goal of zero harm. Valmet's lost time incident frequency rate (LTIF) for own employees at the end of 2016 was at the level of 2.3 (12 months rolling; 3.3 at the end of December 2015). Tragically, Valmet did not achieve its goal of zero fatalities, as two external workers died on project sites at customer mills in 2016. Valmet engages in an active and open dialog on HSE with its customers, suppliers and other partners. Valmet believes effective collaboration, common rules and good co-ordination are fundamental to achieving safety on shared worksites.

Progress with people and performance

Of Valmet's employees, a total of 99.8 percent have completed a Code of Conduct training following the update of Valmet's Code in 2015. In 2016, Valmet renewed its internal mobility guidelines with the aim of building a diverse, engaged and flexible workforce. The renewed guidelines for internal mobility will make it easier for the personnel to gain new and different types of experience within the company.

During the year, Valmet continued to execute the actions defined by each business line, area and Valmet as a whole as a result of the 2015 employee engagement survey. Completion of these actions was at 92 percent at the end of 2016.

Lawsuits and claims

Several lawsuits, claims and disputes based on various grounds are pending against Valmet in various countries, including product liability lawsuits and claims as well as legal disputes related to Valmet's deliveries.

Valmet announced by stock exchange release on February 20, 2015, that Andritz Oy had filed a summons application with the Stockholm District Court against Valmet AB, a subsidiary of Valmet Oyj, regarding patent infringement. The Swedish Court of Patent Appeals decided on March 23, 2016 to revoke Andritz's patent and the Swedish Supreme Administrative Court has in a decision of August 30, 2016, refused leave to appeal. The decision to revoke Andritz's patent is thus upheld and patent in question is permanently invalidated. On September 13, 2016, Andritz informed the Stockholm District Court it will withdraw its infringement action. This entails legally that the patent is deemed to never have existed and consequently there is no infringement or dispute.

Valmet announced by stock exchange release on September 16, 2016, that Suzano Papel e Celulose S.A. has filed a request for arbitration against Valmet Celulose, Papel é Energia Ltda, Valmet AB and Valmet Technologies Oy, subsidiaries of Valmet Oyj, claiming approximately EUR 80 million. The arbitration relates to separate Equipment Sales Agreements for the Suzano Imperatriz pulp mill project in Brazil. Valmet disputes the claims brought by Suzano and has also actively pursued claims of its own against Suzano for breach by Suzano of its obligations under the Agreements.

Valmet announced by stock exchange release on December 22, 2016, that it has received a reassessment decision from the Finnish tax authority for Valmet Technologies Inc. The reassessment decision is a result of a tax audit carried out in the company, concerning tax years 2010–2012. The Finnish tax authority has requested Valmet to pay additional taxes, late payment interest and penalties in total of EUR 19 million. Valmet considers the Finnish tax authority's decision unfounded and will appeal the decision to Board of Adjustment of the Finnish tax authority.

Valmet's management does not expect to the best of its present understanding that the outcome of these lawsuits, claims and disputes will have a material adverse effect on Valmet in view of the grounds currently presented for them, provisions made, insurance coverage in force and the extent of Valmet's total business activities. Valmet is also a plaintiff in several lawsuits.

Shares and shareholders

Share capital and number of shares

At the end of December 2016, Valmet's share capital totaled to EUR 100,000,000 and the number of shares was 149,864,619. At the end of December, Valmet held 399 treasury shares and the number of outstanding shares was 149,864,220.

Largest shareholders (Euroclear)

The following table summarizes the largest shareholders on December 31, 2016.

	Largest shareholders (Euroclear)	Holdings	% of holdings
1	Solidium Oy[1]	16,695,287	11.14
2	Varma Mutual Pension Insurance Company	5,065,465	3.38
3	Elo Pension Insurance Company	3,810,000	2.54
4	Ilmarinen Mutual Pension Insurance Company	3,388,055	2.26
5	The State Pension Fund	1,545,000	1.03
6	Keva	1,502,166	1.00
7	Nordea Fennia Fund	1,165,130	0.78
8	Mandatum Life Insurance Company Limited	922,537	0.62
9	Odin Finland	915,239	0.61
10	Nordea Pro Finland Fund	753,168	0.50
11	Danske Invest Finnish Institutional Equity Fund	740,000	0.49
12	OP-Finland Small Firms Fund	708,000	0.47
13	OP-Finland Value Fund	659,279	0.44
14	Evli Finnish Small Cap Fund	635,253	0.42
15	Sigrid Jusélius Foundation	610,865	0.41

[1] Solidium Oy is wholly owned by the Finnish state.

Valmet is not aware of any other shareholders exceeding five percent ownership in Valmet on December 31, 2016 than the one presented in the table. All flagging notifications received and announced during 2016 are presented in the section of flagging notifications.

Holdings of the Board of Directors in Valmet Corporation on December 31, 2016

		Holdings	Holdings of interest parties
Risberg, Bo	Chairman of the Board	7,663	0
Von Frenckell, Mikael	Vice Chairman of the Board	110,234	0
Cantell, Aaro	Member of the Board	1,796	0
Helfer, Friederike	Member of the Board	5,983	0
Karvinen, Jouko Alvar	Member of the Board	1,796	0
Schrøder, Lone Fønss	Member of the Board	7,480	0
Tyni, Tarja Hannele	Member of the Board	1,796	0
Ziviani, Rogério	Member of the Board	5,983	0
Total		**142,731**	**0**
% of outstanding shares		**0.10%**	**0.00%**

Holdings of the Executive Team in Valmet Corporation on December 31, 2016

		Holdings	Holdings of interest parties
Laine, Pasi Kalevi	President and CEO	70,031	0
Saarinen, Kari Juhani	CFO	13,357	0
Karlstedt, Bertel Evald	Business Line President, Pulp and Energy	16,704	0
King, David	Area President, North America	3,604	0
Lappalainen, Juha Tapani	SVP, Strategy and Operational Development	20,051	0
Macharey, Julia Irene	SVP, Human Resources	8,779	0
Niemi, Aki Petri	Area President, China	18,737	0
Pietilä, Hannu T.	Area President, Asia-Pacific	19,103	0
Ruotsalainen, Jussi Sakari	Business Line President, Automation	13,663	0
Salonsaari-Posti, Anu Maarit	SVP, Marketing and Communications	5,814	100
Simola, Vesa Tuomas	Area President, EMEA	16,511	0
Tacla, Celso Luiz	Area President, South America	35,055	0
Tiitinen, Jukka Heikki	Business Line President, Services	36,870	100
Vähäpesola, Jari	Business Line President, Paper	20,796	0
Total		**299,075**	**200**
% of outstanding shares		**0.20%**	**0.00%**

Distribution of holdings by group on December 31, 2016

	Number of shareholders	Number of shares	% of share capital
Nominee registered and non-Finnish holders	302	74,077,916	49.4
Finnish institutions, companies and foundations	2,350	38,917,031	26.0
Solidium Oy[1]		16,695,287	11.1
Finnish private investors	42,921	20,174,385	13.5
Total	**45,573**	**149,864,619**	**100**

[1] Solidium Oy is wholly owned by the Finnish state.

The ownership structure is based on the sector classifications of Statistics Finland. The classification specifies institutions that invest in compulsory insurance, such as pension insurance companies, in the public sector. Life and accident insurance companies, among others, are defined as finance and insurance institutions.

Distribution of holdings by number of shares held on December 31, 2016

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1–100	19,448	42.7	994,794	0.7
101–1,000	21,631	47.5	7,953,608	5.3
1,001–10,000	4,114	9.0	10,527,880	7.0
10,001–100,000	311	0.7	8,051,087	5.4
100,001–	69	0.2	122,328,810	81.6
Total	**45,573**	**100.00**	**149,856,179**	**100.0**
Nominee registered	**10**	**0.02**	**72,133,207**	**48.1**
Treasury shares held by the parent company	**1**	**0**	**399**	**0.0**
On shared account	**0**	**0**	**8,440**	**0.0**

Treasury shares and Board authorizations

Valmet Oyj's Annual General Meeting on March 22, 2016 authorized Valmet's Board of Directors to decide on the repurchase of company's own shares in one or several tranches. The maximum number of shares to be repurchased shall be 10,000,000 shares, which corresponds to approximately 6.7 percent of all the shares in the Company.

Company's own shares may be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase). The Company's own shares may be repurchased using the unrestricted equity of the Company at a price formed on a regulated market on the main list of Nasdaq Helsinki's stock exchange on the date of the repurchase.

Company's own shares may be repurchased for reasons of developing the Company's capital structure, financing or carrying out acquisitions, investments or other business transactions, or for the shares to be used in an incentive scheme. The Board of Directors resolves on all other terms related to the repurchasing of the Company's own shares.

Valmet Oyj's Annual General Meeting authorized Valmet's Board of Directors to decide on the issuance of shares as well as the issuance of special rights entitling to shares pursuant to Chapter 10(1) of the Finnish Limited Liability Companies Act in one or several tranches. The issuance of shares may be carried out by offering new shares or by transferring treasury shares held by Valmet Oyj. Based on this authorization, the Board of Directors may decide on a directed share issue in deviation from the shareholders' pre-emptive rights and on the granting of special rights subject to the conditions mentioned in the Finnish Limited Liability Companies Act.

The maximum number of new shares which may be issued by the Board of Directors based on this authorization shall be 15,000,000 shares, which corresponds to approximately 10 percent of all the shares in Valmet Oyj. The maximum number of treasury shares which may be issued shall be 10,000,000 shares, which corresponds to approximately 6.7 percent of all the shares in the Company.

The Board of Directors is furthermore authorized to issue special rights pursuant to Chapter 10(1) of the Finnish Limited Liability Companies Act entitling their holder to receive new shares or treasury shares for consideration. The maximum number of shares which may be issued based on the special rights shall be 15,000,000 shares, which corresponds to approximately 10 percent of all the shares in Company. This number of shares shall be included in the aggregate numbers of shares mentioned in the previous paragraph.

The new shares and treasury shares may be issued for consideration or without consideration.

The Board of Directors of Valmet Oyj shall also be authorized to resolve on issuing treasury shares to the Company without consideration. The maximum number of shares which may be issued to Valmet Oyj shall be 10,000,000 shares when combined with the number of shares repurchased based on an authorization. Such number corresponds to approximately 6.7 percent of all shares in the Company. The treasury shares issued to the Company shall not be taken into account in the limits set out in the preceding paragraphs.

The Board of Directors may resolve on all other terms of the issuance of shares and special rights entitling to shares pursuant to Chapter 10(1) of the Finnish Limited Liability Companies Act. The Company may use this authorization, for example, for reasons of developing the Company's capital structure, in financing or carrying out acquisitions, investments or other business transactions, or for the shares to be used in incentive schemes.

The authorizations shall remain in force until the next Annual General Meeting, and they cancel the Annual General Meeting's authorizations of March 27, 2015.

Trading in shares

The closing price of Valmet's share on the final day of trading for the reporting period, December 30, 2016, was EUR 13.98. The closing share price on the last day of trading in 2015 (December 31, 2015) was EUR 8.90. The share price increased by approximately 57 percent during the reporting period. The highest price for the share during the reporting period was EUR 15.06, the lowest EUR 8.08 and the volume-weighted average price was EUR 11.52. The number of shares traded on Nasdaq Helsinki Ltd during year 2016 was approximately 103 million. The value of trading was approximately EUR 1,170 million. (Source: Nasdaq)

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Chi-X and BATS. A total of approximately 26 million of Valmet's shares were traded on alternative marketplaces in January–December, which equals to approximately 20 percent of the share's total trade volume. Of the alternative exchanges, Valmet's shares were traded especially on Chi-X. (Source: VWD, Six)

Market capitalization (excluding treasury shares) stood at EUR 2,095 million at the end of the reporting period.

Development of Valmet's share price, December 31, 2015–December 31, 2016

Number of shareholders

The number of registered shareholders at the end of December 2016 was 45,573 (47,952). Shares owned by nominee-registered and non-Finnish parties equaled to 49.4 percent of the total number of shares at the end of December 2016 (51.3%).

Share capital and share data[1]

	2016	2015	2014
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,864,220**	149,864,220	149,864,220
Treasury shares held by the Parent Company	**399**	399	399
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,864,220**	149,864,220	149,863,252
Average number of diluted shares	**149,864,220**	149,864,220	149,863,252
Trading volume on Nasdaq Helsinki Ltd.	**103,423,288**	102,209,913	137,682,776
% of total shares for public trading	**69.0**	68.2	91.9
Earnings/share, EUR	**0.55**	0.51	0.31
Earnings/share, diluted, EUR	**0.55**	0.51	0.31
Dividend/share, EUR	**0.42[2]**	0.35	0.25
Dividend, EUR million	**63[2]**	52	37
Dividend/earnings	**76%[2]**	68%	81%
Effective dividend yield	**3.0%[2]**	3.9%	2.4%
Price to earnings ratio (P/E)	**25.4**	17.3	33.2
Equity/share, EUR	**5.88**	5.70	5.36
Highest share price, EUR	**15.06**	12.47	10.37
Lowest share price, EUR	**8.08**	8.36	6.00
Volume-weighted average share price, EUR	**11.52**	10.39	7.54
Share price, December 31, EUR	**13.98**	8.90	10.22
Market capitalization[3], December 31, EUR million	**2,095**	1,334	1,532

[1] The formulas for calculation of figures are presented in the section 'Formulas for Calculation of Indicators'.
[2] Board of Directors' proposal.
[3] Excluding treasury shares.

Flagging notifications

During the review period, Valmet received the following flagging notification:

Stock exchange release on March 7, 2016

Valmet Oyj received a notification referred to in Securities Market Act from Cevian Capital Partners Ltd., stating that the company's ownership and share of votes in Valmet Oyj has decreased below the threshold of 5 percent (1/20). As a result of share transactions on March 4, 2016, the holding of Cevian Capital Partners Ltd. decreased to 0 shares (10,323,191 shares in the previous flagging notification), representing an ownership of 0.00 percent (6.89 percent in the previous flagging notification) of Valmet Oy's total number of shares and share of votes.

Share-based incentive plans

Valmet's share-based incentive plans are part of the remuneration and retention program for Valmet's management. The aim of the plans is to align the objectives of shareholders and management to increase the value of the company, commit management to the company, and offer management a competitive reward plan based on long-term shareholding in Valmet.

Valmet has entered into an agreement with a third-party service provider concerning the administration of the share-based incentive programs for key personnel. At the end of the reporting period, the number of shares held within the administration plan was 467,258.

Long-term incentive plan 2012–2014

In December 2011, a share-based incentive plan including three performance periods, which were the calendar years 2012, 2013 and 2014, was approved. The reward for the 2012 performance period was paid during 2015 and for the 2013 performance period, the performance criteria were not met and therefore no rewards were paid for the 2013 performance period. From the performance period 2014 a gross number of 262,980 shares were earned. The reward will be paid partly as company shares and partly in cash in 2017.

Long-term incentive plan 2015–2017

The Board of Directors of Valmet Oyj approved in December 2014 a new share-based incentive plan for Valmet's key employees. The Plan includes three discretionary periods, which are the calendar years 2015, 2016 and 2017. The Board of Directors shall decide on the performance criteria and targets in the beginning of each discretionary period. The Plan is directed to approximately 80 key people.

The reward of the plan from the discretionary period 2015 was based on EBITA % and Services orders received growth %. The reward was paid partly as company shares and partly in cash in 2016. As part of the plan, members of Valmet's Executive Team had the possibility to receive a matching share reward for the discretionary period 2015 provided that the Executive Team member owned or acquired Valmet shares up to a number determined by the Board of Directors by December 31, 2015. The reward paid on the basis of the discretionary period 2015 corresponded to a total of 540,035 shares, including the matching share rewards.

The potential reward of the program from the discretionary period 2016 is based on Comparable EBITA % and orders received growth % of the stable business, that is, the Services and Automation business lines. The potential reward of the plan from the discretionary period 2016 will be paid partly as Valmet shares and partly in cash in 2017. As part of the share-based incentive program members of the Valmet Executive Team have the possibility to receive a matching share reward for the discretionary period 2016 provided that the Executive Team member owns or acquires Valmet shares up to a number determined by the Board of Directors by December 31, 2016. A gross number of 582,675 shares, including the matching share reward, have been allotted to participants on the basis of discretionary period 2016.

The shares to be transferred as part of the possible reward are obtained in public trading, ensuring that the incentive plan will not have a diluting effect on Valmet's share value.

The Board of Directors of Valmet decided in December 2016 to continue the share-based incentive program approved in December 2014 for Valmet's key employees. The potential reward of the program from the discretionary period 2017 is based on Comparable EBITA % and orders received growth % of the stable business, that is, the Services and Automation business lines. The potential reward of the plan from the discretionary period 2017 will be paid partly as Valmet shares and partly in cash in 2018. The rewards to be paid on the basis of the plan are in total an approximate maximum of 550,000 shares in Valmet.

As part of the share based incentive program members of the Valmet Executive Team shall have a possibility to receive a matching share reward for the discretionary period 2017 provided that the Executive Team member owns or acquires Valmet shares up to a number determined by the Board of Directors by December 31, 2017.

More information about share-based incentive plans can be found in Valmet's Corporate Governance Statement which is available at www.valmet.com/governance.

Resolutions of Valmet Oyj's Annual General Meeting

The Annual General Meeting of Valmet Oyj was held in Helsinki on March 22, 2016. The Annual General Meeting adopted the Financial Statements for 2015 and discharged the members of the Board of Directors and the President and CEO from liability for the 2015 financial year. The Annual General Meeting approved the Board of Directors' proposals, which concerned authorizing the Board to decide on repurchasing company shares and to resolve on the issuance of shares and the issuance of special rights entitling to shares.

The Annual General Meeting confirmed the number of Board members as eight and appointed Bo Risberg as Chairman of Valmet Oyj's Board and Mikael von Frenckell as Vice Chairman. Aaro Cantell, Jouko Karvinen and Tarja Tyni were appointed as new members of the Board. Lone Fønss Schrøder, Friederike Helfer and Rogério Ziviani will continue as members of the Board. The term of office of the members of the Board of Directors expires at the end of the next Annual General Meeting.

The Annual General Meeting appointed PricewaterhouseCoopers Oy, authorized public accountants, as the company's auditor for a term expiring at the end of the next Annual General Meeting.

Valmet published stock exchange releases on March 22, 2016, concerning the resolutions of the Annual General Meeting and the composition of the Board of Directors. The stock exchange releases and a presentation of the Board's members can be viewed on Valmet's website at www.valmet.com/agm.

In compliance with the resolution of the Annual General Meeting on March 22, 2016, Valmet Oyj paid out dividends of EUR 52 million for 2015, corresponding to EUR 0.35 per share, on April 6, 2016.

Risks and business uncertainties

Valmet's operations are affected by various strategic, financial, operational and hazard risks. Valmet takes measures to exploit emerging opportunities and to limit the adverse effects of potential threats. The assessment of risks related to sustainable development holds an important role in risk management. If such threats materialized, they could have material adverse effects on Valmet's business, financial situation and operating result or on the value of shares and other securities.

The objective of Valmet's risk management is to ensure the implementation of an effective and successful strategy for achieving both long- and short-term goals. The task of Valmet's management is to regulate risk appetite.

In assessing risks, Valmet takes into consideration the probability of the risks and their estimated impact on net sales and financial results. Valmet's management estimates that the company's overall risk level is currently manageable in proportion to the scope of its operations and the practical measures available for managing these risks.

Financial uncertainty in the global economy, coupled with fluctuations in exchange rates and tightening financial market regulations, may have an adverse effect on the availability of financing from banks and capital markets and could reduce the investment appetite of Valmet's customers. Valmet estimates that the high proportion of business derived from stable business (Services and Automation) and the geographical diversification will reduce the possible negative effects that market uncertainties may have.

If global economic growth weakens, it might have adverse effects on new projects under negotiation or on projects in the order backlog. Some projects may be postponed, suspended, or canceled. In the case of long-term delivery projects, initial customer down payments are typically 10–30 percent of the value of the project and customers make progress payments as a project is implemented. This significantly decreases the risks and financing requirements related to Valmet's projects. Valmet continually assesses its customers' creditworthiness and their ability to meet their obligations. As a rule, Valmet does not finance customer projects. If economic growth slows significantly, the markets for Valmet's products may shrink, which may lead to, for example, tougher price competition. Changes and uncertainty in future regulation and legislation can also critically affect especially the energy business.

Large fluctuations in energy prices can affect the global economy. These fluctuations can also affect Valmet and its customers, especially in the energy business.

Changes in labor costs and the prices of raw materials and components can affect Valmet's profitability. Wage inflation is continuing, but Valmet's goal is to offset this at least partly through increased productivity and strict price discipline. It is possible, however, that tough competition in some product categories will make it difficult to pass on cost increases to product prices. On the other hand, some of Valmet's customers are raw material producers and their ability to operate and invest may be enhanced by strengthening commodity prices and hampered by declining commodity prices.

To ensure a high level of quality in both production and services, it is important to sustain a high level of competence and talent availability. That is not limited to maintaining efficient recruitment programs, utilization of existing talent and sharing knowledge globally.

Through acquisitions Valmet may become exposed to risks associated with new markets and business environments. The actual acquisition process also includes risks. Other risks associated with acquisitions include, but are not limited to, integration of the acquired business, increased financial risk exposure, retention of key personnel and achieving the targets set for the acquired business.

Management of project business risks important

An important part of Valmet's business consists of project business. Pulp business projects in particular are large, thus project-specific risk management is crucial. Key risks related to projects are project cost estimation, scheduling, project risk management, quality and performance risks, and materials management risks. Risk analysis is taking place, as a minimum, for all significant project quotations. The work concerning threat and opportunity assessment continues during the execution phase of the project. Risk management is based on careful planning and on continuous, systematic monitoring and evaluation. Project risks are managed by improving and continuously developing project management processes and the related systems.

There may be changes in the competitive situation of Valmet's individual businesses, such as the emergence of new, cost-effective players in the markets. Valmet can safeguard its market position by developing its products and services, and through good customer service and a local presence.

Availability of financing crucial

Securing the continuity of Valmet's operations requires that sufficient funding is available under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure the company's immediate liquidity and to ensure the flexibility of financing. The average maturity for Valmet's non-current debt is 3.9 years. Loan facilities include customary covenants and Valmet is in clear compliance with the covenants at the balance sheet date.

Net working capital and capital expenditure levels have a key impact on the adequacy of our financing. Valmet estimates that the company is well-positioned to keep capital expenditure at the level of total depreciation.

Of the financial risks that affect Valmet's profit, currency exchange rate risks are among the most substantial. Exchange rate changes can affect Valmet's business, although the wide geographical scope of the company's operations reduces the impact of any individual currency. Economic insecurity typically increases exchange rate fluctuations. Valmet hedges its currency exposures linked to firm delivery and purchase agreements.

Changes in legislation and the way authorities interpret regulation, for example regarding taxation, can also have an impact on Valmet's financials.

At the end of December 2016, Valmet had EUR 624 million (EUR 624 million) of goodwill on its statement of financial position. Valmet assesses the value of its goodwill for impairment annually or more frequently if facts and circumstances indicate that a risk of impairment exists. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Annual Report.

Events after the reporting period

There were no subsequent events after the review period that required recognition or disclosure.

Guidance for 2017

Valmet estimates that net sales in 2017 will remain at the same level as in 2016 (EUR 2,926 million) and Comparable EBITA in 2017 will increase in comparison with 2016 (EUR 196 million).

Short-term outlook

General economic outlook

After a lackluster outturn in 2016, economic activity is projected to pick up pace in 2017 and 2018, especially in emerging market and developing economies. However, there is a wide dispersion of possible outcomes around the projections, given uncertainty surrounding the policy stance of the incoming U.S. administration and its global ramifications. (International Monetary Fund, January 16, 2017)

Short-term market outlook

Valmet estimates that the short-term market outlook has increased to a good level in board and paper (previously satisfactory level).

Valmet reiterates the good short-term market outlook in tissue and energy as well as the satisfactory short-term market outlook for services, automation and pulp.

Board of Director's proposal for the distribution of profit

Valmet Oyj's distributable funds totaled to EUR 944,614,474.21 on December 31, 2016, of which the net profit for 2016 was EUR 113,648,799.98 (according to Finnish Generally Accepted Accounting Standards).

The Board of Directors proposes that a dividend of EUR 0.42 per share be paid based on the statement of financial position to be adopted for the financial year which ended December 31, 2016, and that the remaining part of the profit be retained and carried further in the Company's unrestricted equity.

The dividend will be paid to shareholders who on the dividend record date March 27, 2017 are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend will be paid on April 6, 2017. All the shares in the company are entitled to a dividend with the exception of treasury shares held by the company on the dividend record date.

In Espoo on February 8, 2017
Valmet's Board of Directors

Financial Indicators

EUR million	As at and for the twelve months ended Dec 31, 2016	As at and for the twelve months ended Dec 31, 2015	As at and for the twelve months ended Dec 31, 2014
Net sales	**2,926**	2,928	2,473
Net sales change, %	**0%**	18%	-5%
Operating profit	**147**	120	72
% of net sales	**5.0%**	4.1%	2.9%
Profit before tax	**136**	108	67
% of net sales	**4.6%**	3.7%	2.7%
Profit	**82**	78	46
% of net sales	**2.8%**	2.7%	1.9%
Profit attributable to owners of the parent	**83**	77	46
Amortization	**-35**	-37	-22
Depreciation	**-51**	-55	-51
Depreciation and amortization	**-87**	-92	-72
% of net sales	**-3.0%**	-3.1%	-2.9%
Comparable EBITA	**196**	182	106
% of net sales	**6.7%**	6.2%	4.3%
EBITA	**183**	157	94
% of net sales	**6.2%**	5.3%	3.8%
Financial income and expenses, net	**-12**	-10	-5
% of net sales	**-0.4%**	-0.3%	-0.2%
Interest expenses	**-9**	-13	-12
% of net sales	**-0.3%**	-0.5%	-0.5%
Gross capital expenditure (incl. business acquisitions)	**-60**	-368	-46
% of net sales	**-2.1%**	-12.6%	-1.8%
Business acquisitions, net of cash acquired	**-**	-323	-
Cash flow provided by operating activities	**246**	78	236
Cash flow after investments	**188**	-287	194
Research and development expenses, net	**-64**	-59	-42
% of net sales	**-2.2%**	-2.0%	-1.7%
Total assets	**2,958**	2,894	2,412
Equity attributable to owners of the parent	**881**	855	804
Total equity	**886**	860	809
Interest bearing liabilities	**310**	371	68
Net interest bearing liabilities	**52**	178	-166
Net working capital (NWC)	**-294**	-238	-353
Return on equity (ROE), %	**9%**	9%	6%
Return on capital employed (ROCE) before taxes, %	**12%**	12%	9%
Equity to assets ratio, %	**37%**	36%	42%
Gearing, %	**6%**	21%	-21%
Orders received	**3,139**	2,878	3,071
Order backlog at end of year	**2,283**	2,074	1,998
Average number of personnel	**12,261**	11,781	10,853
Personnel at end of year	**12,012**	12,306	10,464

Formulas for Calculation of Indicators

EBITA:

Operating profit + amortization

Comparable EBITA:

Operating profit + amortization + items affecting comparability

Earnings per share:

$$\frac{\text{Profit attributable to shareholders of the company}}{\text{Average number of outstanding shares during period}}$$

Earnings per share, diluted:

$$\frac{\text{Profit attributable to shareholders of the company}}{\text{Average number of diluted shares during period}}$$

Return on equity (ROE), % (annualized):

$$\frac{\text{Profit}}{\text{Total equity (average for period)}} \times 100$$

Return on capital employed (ROCE) before taxes, % (annualized):

$$\frac{\text{Profit before tax + interest and other financial expenses}}{\text{Balance sheet total - non-interest bearing liabilities (average for period)}} \times 100$$

Comparable return on capital employed (ROCE) before taxes, % (annualized)[1]:

$$\frac{\text{Profit before tax + interest and other financial expenses - items affecting comparability}}{\text{Balance sheet total - non-interest bearing liabilities (average for the period)}} \times 100$$

[1] Measure of performance also calculated on a rolling 12-month basis.

Equity to assets ratio, %:

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

Gearing, %:

$$\frac{\text{Net interest bearing liabilities}}{\text{Total equity}} \times 100$$

Net interest bearing liabilities:

Non-current interest bearing debt + current interest bearing debt
- cash and cash equivalents - other interest bearing assets

Net Working Capital:

Other non-current assets + inventories + trade and other receivables
+ amounts due from customers under construction contracts
+ derivative financial instruments (assets) - post-employment benefits
- provisions - trade and other payables - advances received
- amounts due to customers under construction contracts
- derivative financial instruments (liabilities)

Dividend per share:

$$\frac{\text{Dividend for the financial period}}{\text{Number of shares at end of period}}$$

Dividend / earnings ratio, (%):

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Dividend per share}}{\text{Closing share price at end of period}} \times 100$$

Price / earnings ratio:

$$\frac{\text{Closing share price at end of period}}{\text{Earnings per share}}$$

Consolidated Statement of Income

EUR million	Note	Year ended Dec 31, 2016	2015
Net sales	2, 3	**2,926**	2,928
Cost of goods sold	4, 12	**-2,259**	-2,291
Gross profit		**667**	637
Selling, general and administrative expenses	4, 12, 17	**-518**	-501
Other operating income	18	**32**	29
Other operating expenses	18	**-33**	-47
Share in profits and losses of associated companies, operative investments	21	**1**	2
Operating profit		**147**	120
Financial income	8, 9	**3**	6
Financial expenses	8, 9	**-15**	-16
Share in profits and losses of associated companies, financial investments	21	**-**	-2
Profit before taxes		**136**	108
Current tax expense		**-56**	-29
Deferred taxes		**2**	-1
Income taxes, total	15	**-54**	-30
Profit / loss		**82**	78
Attributable to:			
Owners of the parent		**83**	77
Non-controlling interests		**-**	-
Profit / loss		**82**	78
Earnings per share attributable to owners of the parent:			
Earnings per share, EUR		**0.55**	0.51
Diluted earnings per share, EUR		**0.55**	0.51

Consolidated Statement of Comprehensive Income

EUR million	Note	Year ended Dec 31, 2016	2015
Profit / loss		**82**	78
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges	6, 8, 16	**1**	-2
Currency translation on subsidiary net investments	16	**-7**	10
Income tax relating to items that may be reclassified	15	**-**	-
		-6	8
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans	14	**-5**	8
Income tax relating to items that will not be reclassified	15	**7**	-1
		2	7
Other comprehensive income / expense		**-5**	15
Total comprehensive income / expense		**78**	93
Attributable to:			
Owners of the parent		**78**	92
Non-controlling interests		**-1**	1
Total comprehensive income / expense		**78**	93

Consolidated Statement of Financial Position

Assets

EUR million	Note	As at Dec 31, 2016	2015
Non-current assets			
Intangible assets			
Goodwill		**624**	624
Other intangible assets		**213**	235
Total intangible assets	4	**837**	859
Property, plant and equipment			
Land and water areas		**26**	26
Buildings and structures		**133**	138
Machinery and equipment		**183**	196
Assets under construction		**32**	25
Total property, plant and equipment	4	**374**	385
Financial and other non-current assets			
Investments in associated companies	21	**12**	12
Non-current financial assets	6, 7, 8	**22**	25
Deferred tax asset	15	**80**	85
Non-current income tax receivables		**24**	-
Other non-current assets	7	**12**	13
Total financial and other non-current assets		**151**	134
Total non-current assets		**1,362**	1,378
Current assets			
Inventories			
Materials and supplies		**66**	82
Work in progress		**322**	350
Finished products		**83**	76
Total inventories	5	**471**	508
Receivables			
Trade and other receivables	6, 7	**646**	575
Amounts due from customers under construction contracts	3	**197**	216
Other current financial assets	6, 7, 8	**17**	21
Income tax receivables		**25**	31
Total receivables		**885**	842
Cash and cash equivalents	6	**240**	165
Total current assets		**1,596**	1,516
Total assets		**2,958**	2,894

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	Note	As at Dec 31, 2016	2015
Equity			
Share capital		**100**	100
Reserve for invested unrestricted equity		**407**	404
Cumulative translation adjustments		**11**	18
Fair value and other reserves		**-3**	-4
Retained earnings		**366**	336
Equity attributable to owners of the parent	16	**881**	855
Non-controlling interests		**5**	6
Total equity		**886**	860
Liabilities			
Non-current liabilities			
Non-current debt	6	**262**	309
Post-employment benefits	14	**151**	149
Provisions	10	**20**	10
Other non-current financial liabilites	6, 8	**6**	3
Deferred tax liability	15	**62**	70
Total non-current liabilities		**501**	542
Current liabilities			
Current portion of non-current debt	6	**48**	62
Trade and other payables	6, 11	**754**	767
Provisions	10	**108**	98
Advances received		**245**	248
Amounts due to customers under construction contracts	3	**332**	276
Other current financial liabilities	6, 8	**23**	13
Income tax liabilities		**61**	27
Total current liabilities		**1,572**	1,491
Total liabilities		**2,073**	2,033
Total equity and liabilities		**2,958**	2,894

Consolidated Statement of Cash Flows

EUR million	Note	Year ended Dec 31, 2016	2015
Cash flows from operating activities			
Profit / loss		**82**	78
Adjustments			
Depreciation and amortization	4	**87**	92
Gain (-) / loss (+) on sale of fixed assets	18	**-**	-1
Dividend income and net interests	9	**12**	6
Income taxes	15	**54**	30
Other non-cash items		**4**	23
Change in net working capital, net of effect from business combinations			
Inventories		**33**	14
Trade and other receivables		**-72**	-59
Amounts due to / from customers under construction contracts, net		**75**	-32
Trade and other payables		**19**	-44
Interest paid		**-14**	-7
Interest received		**6**	3
Dividends received		**1**	-
Income taxes paid		**-40**	-25
Net cash provided by (+) / used in (-) operating activities		**246**	78
Cash flows from investing activities			
Capital expenditures on fixed assets	4	**-60**	-44
Proceeds from sale of fixed assets		**2**	3
Business combinations, net of cash acquired and loan repayments	4, 19	**-**	-323
Net cash provided by (+) / used in (-) investing activities		**-58**	-365
Cash flows from financing activities			
Redemption of own shares		**-2**	-7
Dividends paid		**-52**	-37
Proceeds from issuance of non-current debt		**-**	355
Principal payments of non-current debt		**-62**	-61
Proceeds from available-for-sale financial assets		**9**	24
Other		**-**	-13
Net cash provided by (+) / used in (-) financing activities		**-108**	259
Net increase (+) / decrease (-) in cash and cash equivalents		**80**	-28
Effect of changes in exchange rates on cash and cash equivalents		**-5**	1
Cash and cash equivalents at beginning of year	6	**165**	192
Cash and cash equivalents at end of year		**240**	165

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	**Equity attributable to owners of the parent company**	Non-controlling interests	**Total equity**
Balance at Jan 1, 2015	100	403	9	-3	296	804	5	809
Profit / loss	-	-	-	-	77	77	-	78
Other comprehensive income / expense								
Cash flow hedges								
Fair value gains / losses, net of tax	-	-	-	3	-	3	-	3
Transferred to Other operating income / expenses in profit and loss, net of tax	-	-	-	-5	-	-5	-	-5
Currency translation on subsidiary net investments	-	-	10	-	-2	8	-	8
Remeasurement of defined benefit plans, net of tax	-	-	-	-	9	9	-	9
Other comprehensive income / expense total	-	-	10	-2	7	15	-	15
Total comprehensive income / expense	-	-	10	-2	84	92	1	93
Dividends	-	-	-	-	-37	-37	-	-37
Purchase of treasury shares	-	-	-	-	-7	-7	-	-7
Share-based payments, net of tax	-	2	-	-	2	3	-	3
Balance at Dec 31, 2015	100	404	18	-4	336	855	6	860
Balance at Jan 1, 2016	**100**	**404**	**18**	**-4**	**336**	**855**	**6**	**860**
Profit / loss	-	-	-	-	83	**83**	-	**82**
Other comprehensive income / expense								
Cash flow hedges								
Fair value gains / losses, net of tax	-	-	-	6	-	**6**	-	**6**
Transferred to Other operating income / expenses in profit and loss, net of tax	-	-	-	-6	-	**-6**	-	**-6**
Currency translation on subsidiary net investments	-	-	-7	-	-	**-7**	-	**-7**
Remeasurement of defined benefit plans, net of tax	-	-	-	-	2	**2**	-	**2**
Other comprehensive income / expense total	-	-	-7	1	2	**-4**	-	**-5**
Total comprehensive income / expense	-	-	-7	1	84	**78**	-1	**78**
Dividends	-	-	-	-	-52	**-52**	-	**-52**
Purchase of treasury shares	-	-	-	-	-2	**-2**	-	**-2**
Share-based payments, net of tax	-	3	-	-	-1	**2**	-	**2**
Balance at Dec 31, 2016	**100**	**407**	**11**	**-3**	**366**	**881**	**5**	**886**

Notes to the Consolidated Financial Statements

1 Basis of preparation

General information

Valmet Oyj (the "Company" or the "parent company"), a public limited liability company, and its subsidiaries (together "Valmet", "Valmet Group" or the "Group") form a global supplier of sustainable technology and services, which designs, develops and produces systems, automation solutions, machinery and equipment for process industries. The main customers of Valmet operate in the pulp, paper and energy industries.

Valmet Oyj is domiciled in Helsinki, and its registered address is Keilasatama 5, 02150 Espoo, Finland. The Company's shares are listed on the Nasdaq Helsinki Ltd as of January 2, 2014. The copies of the consolidated financial statements are available at www.valmet.com or the parent company's head office, Keilasatama 5, 02150 Espoo, Finland.

The consolidated financial statements were authorized for issue by Valmet's Board of Directors on February 8, 2017 after which, in accordance with Finnish Limited Liability Company Act, the financial statements are either approved, amended or rejected in the Annual General Meeting. The consolidated financial statements have been prepared in accordance with the basis of preparation set out below and accounting principles described in connection with each note.

Basis of presentation

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the EU. In the financial statements the figures are presented in million euros subject to rounding, which may cause some rounding inaccuracies in aggregate column and row totals.

Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which Valmet Group has control. Control over an entity exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When the Group has less than a majority of the voting or similar rights of an entity, the Group considers all relevant facts and circumstances in assessing whether it has control over an entity, including the contractual arrangement with the other vote holders of the entity, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains and losses arising from transactions between Group companies are eliminated.

Acquisition and disposal of subsidiaries

Valmet applies the acquisition method of accounting to account for business combinations. The total consideration transferred for the acquisition of a subsidiary or a business is the fair value of the assets transferred, the liabilities assumed and the equity interests issued by Valmet Group. The total consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When Valmet ceases to have control, any remaining interest in the entity is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognized through profit and loss. In addition, any amounts previously recognized in 'Other comprehensive income' in respect of that entity are accounted for as if realized and thus they are recognized in profit and loss.

Associated companies

The consolidated financial statements include associated companies in which Valmet either holds between 20 percent to 50 percent of the voting rights or in which Valmet otherwise has significant influence but not control. Investments in associated companies are accounted for using the equity method of accounting. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased to recognize Valmet's share of changes in net assets of the associates after the date of the acquisition. The Group's investment in associates includes goodwill identified on acquisition. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired.

Valmet's share of post-acquisition profit or loss is recognized in profit and loss, and its share of post-acquisition movements in 'Other comprehensive income' is recognized in 'Other comprehensive income' with a corresponding adjustment to the carrying amount of the investment. The share of results of associated companies is presented in profit and loss either included in 'Operating profit' or adjacent to 'Financial income and expenses' below 'Operating profit' depending on the nature of the investment.

Foreign currency translation

Items included in the consolidated financial statements of each of Valmet entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in euros, which is the Group's presentation currency. The statements of income of foreign Group companies are translated into euros using the average exchange rate for the reporting period. The statements of financial position are translated at the closing exchange rate of the reporting date. Translating the net income for the period using different exchange rates in the statements of income and in the statement of financial position, results in a translation difference, which is recognized in 'Other comprehensive income'.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange rate differences arising are recognized in 'Other comprehensive income'. When a foreign subsidiary is disposed of or sold, exchange rate differences that were recorded in equity are recognized in profit and loss as part of the gain or loss on sale.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of transaction. Non-monetary items that are measured at fair value are translated into functional currency using the exchange rate of the valuation date. Foreign exchange gains and losses resulting from the settlement of such balances and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognized in profit and loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit and loss within 'Financial income and expenses'. All other foreign exchange gains and losses are presented in 'Other operating income and expenses'.

Key exchange rates:

		Average rates		Year-end rates	
		2016	**2015**	**2016**	**2015**
USD	(US dollar)	**1.1021**	1.1130	**1.0541**	1.0887
SEK	(Swedish krona)	**9.4496**	9.3414	**9.5525**	9.1895
BRL	(Brazilian real)	**3.8571**	3.7024	**3.4305**	4.3117
CNY	(Chinese yuan)	**7.3199**	6.9924	**7.3202**	7.0608

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and exercise judgment in the application of the accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting principles and critical accounting estimates and judgments are described adjacent to each notes as follows:

- Segment reporting — Note 2
- Revenue recognition — Note 3
- Intangible assets and property, plant and equipment — Note 4
- Depreciation and amortization — Note 4
- Impairment testing — Note 4
- Inventories — Note 5
- Financial assets and liabilities — Note 6
- Trade receivables — Note 6
- Borrowings — Note 6
- Derivative financial instruments — Note 8
- Provisions — Note 10
- Share-based payments — Note 13
- Pensions and coverage of pension liabilities — Note 14
- Income taxes — Note 15

2 Reporting segment and geographic information

Accounting principles

Valmet supplies process automation, machinery, services, clothing and filter fabrics for the pulp, paper and energy industries. Valmet's operations and profitability is reported on as a single segment and operative decisions have been made by Valmet's CEO as Valmet's Chief Operating Decision Maker (CODM) at Valmet Group level. Valmet has not aggregated operating segments and thus Valmet Group is the only reportable operating segment.

The performance of the Group is reviewed by the Chief Operating Decision Maker. One key indicator of performance is EBITA (Earnings Before Interest, Taxes and Amortization). The performance is also monitored with Comparable EBITA, i.e. with EBITA excluding items of income and expenses, such as capacity adjustment costs, impairment of assets, and other infrequent events, as these reduce the comparability of the Group's performance from one period to another.

Reconciliation between Comparable EBITA, EBITA and operating profit:

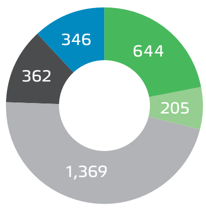
		Year ended Dec 31,	
EUR million	**2016**	**2015**	**2014**
Comparable EBITA	**196**	182	106
Items affecting comparability in cost of sales			
Expensing of fair value adjustments recognized in business combinations	**-**	-7	-
Expenses related to capacity adjustments	**-8**	-3	-4
Other items affecting comparability	**-**	-1	-
Items affecting comparability in selling, general and administrative expenses			
Expenses related to capacity adjustments	**-1**	-2	-3
Costs related to business combinations	**-**	-3	-1
Items affecting comparability in other operating income and expenses			
Impairments	**-**	-5	-
Expenses related to capacity adjustments	**-4**	-5	-2
Other items affecting comparability	**-**	-	-2
EBITA	**183**	157	94
Amortization included in cost of sales			
Other intangibles	**-2**	-1	-2
Amortization included in selling, general and administrative expenses			
Intangibles recognized in business combinations	**-26**	-28	-13
Other intangibles	**-8**	-7	-6
Operating profit	**147**	120	72

Entity-wide information

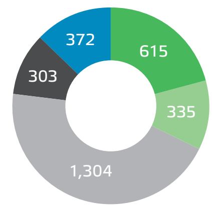
Valmet's businesses are present in over 35 countries and on all continents. The main market areas are Europe and North America accounting for 66% of net sales in 2016 and 64% in 2015.

Net sales by destination:

2016, EUR 2,926 million



2015, EUR 2,928 million



Non-current assets by location:

EUR million	Finland	North America	South America	EMEA excluding Finland	China	Asia-Pacific	Non-allocated	Total
2016	**198**	**105**	**23**	**80**	**93**	**16**	**732**	**1,248**
2015	204	105	17	81	103	10	735	1,256

Non-current assets comprise intangible assets, property, plant and equipment and investments in associated companies and joint ventures. Non-allocated assets include mainly goodwill and other fair value adjustments to assets arising from business combinations that have not been pushed down to the subsidiaries' books.

Gross capital expenditure (excluding business combinations) by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
2016	**3**	**4**	**39**	**8**	**7**	**60**
2015	4	2	28	6	5	44

Major customers

Valmet enters into large long-term construction contracts, which however individually rarely contribute more than 10 percent of annual revenue. In 2016 and 2015 there were no single customer with revenue exceeding 10 percent of net sales.

3 Revenue recognition

Accounting principles

Valmet delivers process automation, machinery, equipment and services for the pulp, paper and energy industries. On the capital business side the Group's revenue arises from projects, the scope of which ranges from delivery of complete mill facilities on a turn-key basis to single section machine rebuilds. Service revenue comprises short-term and long-term maintenance contracts, smaller improvement and modification contracts, rebuilds, as well as sale of spare parts and consumables.

Revenues from goods and services sold are recognized, net of sales taxes and discounts, when substantially all the risks and rewards of ownership are transferred to the buyer. The transfer of risk typically takes place either when the goods are shipped or made available to the buyer for shipment or are delivered to agreed location depending on the terms of the contract. The credit worthiness of the buyer is verified before engaging into a sale. However, if a risk of non-payment arises after revenue recognition, an allowance for non-collectability is established.

Capital projects

Sales and anticipated profits under engineering and construction contracts are recorded on a percentage of completion basis. The stage of completion is determined either by employing the milestone or the cost-to-cost method. Under the milestone method, revenue is recognized based on predetermined milestones that are estimated to reflect realized value add (contract value of the work performed to date). Estimated contract profits are recorded in profit and loss in proportion to recorded sales. Under the cost-to-cost method, the amount of revenue is recognized determined based on costs incurred as at each reporting date relative to total estimated costs. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract.

Subcontractor materials, labor and equipment, are included in 'Net sales' and 'Costs of goods sold' when Valmet is contractually held responsible for the ultimate completion of the project. Changes to total estimated contract profits (revenue and costs), if any, are recognized in the period in which they are determined.

Service revenue

Revenues from short-term service contracts are recognized once the service has been rendered, while revenues from spares part and consumables deliveries are recognized upon transfer of significant risks and rewards associated with the goods to the customer. Revenues from long-term service contracts are recognized on a percentage of completion basis using the cost-to-cost method.

Critical accounting estimates and judgments

Valmet delivers turnkey projects to its customers, where the signing of a sales contract and therefore, receipt of a firm commitment on the order and the final acceptance of a delivery by the customer, may take place in different financial periods. In accordance with its accounting principles, Valmet applies the percentage of completion method ('POC method') for recognizing revenue on such long-term delivery contracts. A projected loss on a customer contract is recognized through profit and loss, when it becomes known. The estimated revenue, the costs and profit, together with the planned delivery schedule of the projects are subject to regular revisions as the contract progresses to completion. Impact on profit arising from revision of estimates is charged through profit and loss in the period in which the facts that give rise to the revision become known. Although Valmet has significant experience using the POC method, the total costs estimated to be incurred on projects may change over time due to changes in the underlying project cost structures, which may ultimately affect the revenue recognized. Therefore, the POC method is not applied for recognizing sales commitments where the final outcome of the project and related cost structure cannot be pre-established reliably.

Information on statement of financial position items of uncompleted projects at December 31 is as follows:

EUR million	Cost and earnings of uncompleted projects	Billings of projects	Net
2016			
Projects where cost and earnings exceed billings	**1,619**	**1,422**	**197**
Projects where billings exceed cost and earnings	**1,378**	**1,710**	**332**
2015			
Projects where cost and earnings exceed billings	1,594	1,378	216
Projects where billings exceed cost and earnings	972	1,248	276

Analysis of net sales by category:

EUR million	Year ended Dec 31, 2016	2015
Sale of services and automation	**1,453**	1,357
Sale of projects, equipment and goods	**1,473**	1,572
Total	**2,926**	2,928

Net sales recognized under the percentage of completion method amounted to EUR 1,453 million, or 50% of net sales, in 2016. Net sales recognized under the percentage of completion method amounted to EUR 1,330 million, or 45% of net sales, in 2015.

4 Intangible assets and property, plant and equipment

Accounting principles

Fixed assets

Fixed assets comprise intangible assets and property, plant and equipment.

Intangible assets, which comprise mainly goodwill, software, patents and licenses, are stated at historical cost less accumulated amortization and impairment loss, if any. Goodwill is not amortized, but tested annually for impairment.

Property, plant and equipment is stated at historical cost, less accumulated depreciation and impairment loss, if any. Land and water areas are not depreciated.

Subsequent improvement costs related to an asset are included in the carrying value of such an asset or recognized as a separate asset, as appropriate, only when the future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs.

Depreciation and amortization

Amortization of intangible assets with a definite useful life is calculated on a straight-line basis over the expected economic lives of the assets, being the following:

Patents and licenses	5–10 years
Software	3–5 years
Technology	3–15 years
Customer relationships	3–15 years
Other intangibles (e.g. legal rights)	3–15 years

Depreciation of property plant and equipment is calculated on a straight-line basis over the expected useful lives of the assets, being the following:

Buildings and structures	15–40 years
Machinery and equipment	3–20 years

Expected useful lives are reviewed at each balance sheet date and if they differ significantly from previous estimates the remaining depreciation periods are adjusted accordingly.

Impairment

The carrying value of fixed assets subject to amortization or depreciation is reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A recoverable amount of an asset is the higher of its fair value and its value in use. The recoverable amount is compared with the asset's carrying amount and an asset is impaired if its carrying amount exceeds its recoverable amount. An impairment loss is recognized in profit and loss in 'Other operating expenses' immediately. A previously recognized impairment loss may be reversed if, and only if, there is exceptional and significant improvement in the circumstances having initially caused the impairment.

The carrying value of goodwill is reviewed for impairment annually or more frequently, if the facts and circumstances, such as decline in sales, operating profit or cash flows or material adverse changes in the business environment, suggest that carrying value may not be recoverable. Valmet has three cash generating units (CGUs) which establish the first aggregation levels at which impairment testing can be done. The testing of goodwill for impairment is performed at the CGU level as goodwill does not generate independent cash flows from the CGUs. Valmet uses value in use method to measure the recoverable amount of goodwill subject to testing. Value in use is estimated through discounted cash flow method. A previously recognized impairment loss on goodwill is not reversed even if there is significant improvement in circumstances having initially caused the impairment.

Critical accounting estimates and judgments

Impairment testing

Preparation of impairment analysis requires use of numerous estimates. The valuation is inherently judgmental and highly susceptible to change from period to period, because it requires management to make assumptions about future supply and demand related to its individual business units, future sales prices and achievable cost levels.

The value of the benefits and savings expected from the efficiency improvement programs are inherently subjective. All outsized improvements are excluded from future cash inflows and outflows. The value in use of a cash generating unit is determined by discounting estimated future cash flows with a discount a rate approximating the weighted average cost of capital (WACC). The WACC rate is based on comparable peer industry betas and capital structure. It is additionally adjusted with specific risks associated with the estimated cash flows and therefore the rate may not be indicative of actual rates obtained in the market.

Triggering events for impairment reviews at Valmet include the following:

- Material permanent deterioration in the economic or political environment of the customers' or of own activity
- Business's or asset's significant under-performance relative to historical or projected future performance
- Significant changes in Valmet's strategic orientations affecting the business plans and previous investment policies.

Intangible assets:

EUR million	Goodwill	Patents and licences	Capitalized software	Other intangible assets	Intangible assets total
2015					
Acquisition cost at beginning of year	446	39	62	246	794
Capital expenditure	-	-	-	7	7
Acquired in business combination	169	1	1	172	342
Retirements	-	-7	-1	-	-8
Reclassifications	-	2	6	-8	-
Translation differences	9	-	-1	3	11
Other changes and disposals	-	-	-	1	1
Acquisition cost at end of year	624	36	67	420	1,147
Accumulated amortization at beginning of year	-	-28	-53	-176	-256
Amortization charges for the year	-	-3	-4	-30	-37
Impairment losses	-	-1	-	-1	-1
Retirements	-	7	1	-	8
Translation differences	-	-	1	-2	-1
Accumulated amortization at end of year	-	-25	-55	-208	-288
Net book value at end of year	624	11	12	212	859

EUR million	Goodwill	Patents and licences	Capitalized software	Other intangible assets	Intangible assets total
2016					
Acquisition cost at beginning of year	624	36	67	420	**1,147**
Capital expenditure	-	-	-	15	**15**
Acquired in business combination	1	-	-	-	**1**
Retirements	-	-3	-	-2	**-5**
Reclassifications	-	2	5	-7	**-**
Translation differences	-1	-	1	-1	**-1**
Other changes and disposals	-	-	-	10	**10**
Acquisition cost at end of year	624	34	74	436	**1,168**
Accumulated amortization at beginning of year	-	-25	-55	-208	**-288**
Amortization charges for the year	-	-3	-5	-28	**-35**
Impairment losses	-	-1	-	-	**-1**
Retirements	-	3	-	2	**5**
Translation differences	-	-	-1	-	**-**
Other changes and accumulated amortization of disposals	-	-	-	-11	**-11**
Accumulated amortization at end of year	-	-25	-61	-245	**-331**
Net book value at end of year	**624**	**9**	**13**	**191**	**837**

Property, plant and equipment:

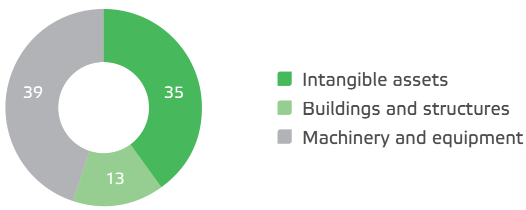
EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2015					
Acquisition cost at beginning of year	22	368	863	25	1,278
Capital expenditure	-	1	7	29	37
Acquired in business combination	4	17	4	-	26
Disposals	-	-4	-9	-	-13
Retirements	-	-	-10	-	-10
Reclassifications	-	7	21	-28	-
Translation differences	-	5	14	-1	19
Other changes	-	-	-	-1	-1
Acquisition cost at end of year	26	394	892	25	1,336
Accumulated depreciation at beginning of year	-	-236	-661	-	-897
Depreciation charges for the year	-	-13	-42	-	-55
Impairment losses	-	-5	-	-	-5
Disposals	-	3	8	-	11
Retirements	-	-	10	-	10
Translation differences	-	-4	-10	-	-14
Accumulated depreciation at end of year	-	-255	-695	-	-951
Net book value at end of year	26	138	196	25	385

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2016					
Acquisition cost at beginning of year	26	394	892	25	**1,336**
Capital expenditure	-	1	8	36	**45**
Disposals	-	-1	-10	-	**-11**
Retirements	-	-1	-5	-	**-6**
Reclassifications	-	7	23	-30	**-**
Translation differences	-	-1	-3	2	**-3**
Other changes	-	-	2	-	**2**
Acquisition cost at end of year	26	399	906	32	**1,363**
Accumulated depreciation at beginning of year	-	-255	-695	-	**-951**
Depreciation charges for the year	-	-13	-39	-	**-51**
Impairment losses	-	-1	-1	-	**-2**
Disposals	-	-	8	-	**8**
Retirements	-	1	5	-	**6**
Translation differences	-	1	2	-	**3**
Other changes	-	-	-3	-	**-3**
Accumulated depreciation at end of year	-	-266	-723	-	**-989**
Net book value at end of year	**26**	**133**	**183**	**32**	**374**

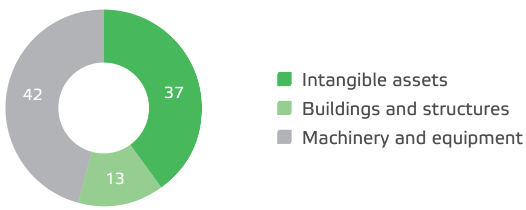
As at December 31, 2016 and 2015 there were no material assets leased under financial lease arrangements included in property, plant and equipment.

Depreciation and amortization

2016, EUR 87 million



2015, EUR 92 million



Depreciation and amortization by function are as follows:

EUR million	Year ended Dec 31, 2016	2015
Cost of goods sold	**-41**	-44
Selling, general and administrative expenses		
Marketing and selling	**-12**	-13
Research and development	**-5**	-5
Administrative	**-29**	-30
Total	**-87**	-92

2015 functional split of depreciation and amortization involves a correction to move EUR 11 million amortization of intangible assets recognized in business combinations from 'Marketing and selling' expenses to 'Administrative' expenses.

Goodwill impairment testing

Goodwill arising from business acquisitions is allocated as at the acquisition date to the cash generating unit or cash generating units expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to the CGU or CGUs.

In 2016 and 2015 Valmet has identified three CGUs. The first CGU comprises of Valmet's Paper business line and the paper business related part of Valmet's service business. The second CGU comprises of Valmet's Pulp and Energy business line and the pulp and energy related part of Valmet's service business. In 2015 Valmet identified a third CGU, Automation business line, as a result of Valmet's acquisition of Process Automation Systems business.

Valmet assesses the value of its goodwill for impairment annually or more frequently, if facts and circumstances indicate, that a risk of impairment exists. If any such indication exists, then the carrying value of the CGU is compared to its recoverable amount, which is determined based on a value in use calculation. This calculation uses pre-tax cash flow projections based on financial budgets approved by Valmet's management and Board of Directors covering a three-year period.

The following table sets out the allocation of goodwill as at December 31, 2016 and 2015 and the key assumptions applied in the value in use calculations (testing was performed as at September 30, 2016).

EUR million	As at Dec 31, 2016	2015
Paper business line and the paper business related part of Valmet's service business	**171**	169
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**289**	291
Automation business line	**164**	164
Total	**624**	624

Key assumptions applied	2016	2015
Long term growth rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**1.7%**	2.0%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**1.2%**	1.4%
Automation business line	**1.0%**	1.0%
Pre-tax discount rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**8.6%**	9.5%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**8.9%**	10.1%
Automation business line	**7.5%**	8.7%

The key assumptions are based on past performance and on expectations of Valmet's management and Board of Directors on market development. Assumptions on product mix are in line with the Group's financial targets with stable business growth exceeding that of capital business. Profitability margin assumptions are reflecting improvement similarly in line with the Group's financial targets as communicated. External sources are also used to obtain data on growth, demand and price development in establishing the assumptions. The discount rate used in testing is derived from the weighted average cost of capital based on comparable peer industry betas and capital structure. The assumption requiring most judgment is the market and product mix.

As a result of the annual impairment tests, no impairment loss was recognized on goodwill in 2016 or 2015.

Sensitivity analysis

Valmet's management has assessed that no reasonably possible change in any of the key assumptions would cause the CGU's carrying amount to exceed its recoverable amount.

A change in a key assumption that would cause the recoverable amount to equal the carrying amount of the CGU is presented in the table below.

	Change
EBITDA	
Paper business line and the paper business related part of Valmet's service business	decrease more than 55 percent
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	decrease more than 40 percent
Automation business line	decrease more than 50 percent
Pre-tax discount rate (%)	
Paper business line and the paper business related part of Valmet's service business	increase to more than 29 percent
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	increase to more than 18 percent
Automation business line	increase to more than 16 percent

5 Inventories

Accounting principles

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated amount that can be realized from the sale of the asset in the normal course of business after allowing for the costs of sale. For materials and supplies and finished products, cost is determined on a first in first out (FIFO) basis.

Critical accounting estimates and judgments

Valmet's policy is to maintain a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. The estimates are based on a systematic ongoing review and evaluation of inventory balances. As part of this evaluation, Valmet also considers the composition and age of the inventory compared to anticipated future needs.

Specification of changes in inventory obsolescense provision:

EUR million	2016	2015
Balance at beginning of year	**18**	21
Translation differences	**-**	1
Additions charged to profit / loss	**7**	11
Used reserve	**-3**	-2
Reversals	**-4**	-4
Other changes	**2**	-9
Balance at end of year	**21**	18

The cost of inventories recognized as expense was EUR 2,219 million and EUR 2,248 million for the years ended December 31, 2016 and 2015 respectively.

The 'Work in progress' balance includes specific costs identified for ongoing capital and service projects as of the balance sheet date. These costs usually include direct inventory costs and costs for absorption of engineering, supplies, manufacturing and project management costs. As of December 31, 2016 the 'Work in progress' amounted to EUR 322 million (EUR 350 million) and 'Total inventories' valued to EUR 471 million (EUR 508 million).

6 Financial assets and liabilities

Accounting principles

Valmet classifies its financial instruments into the following categories: assets and liabilities at fair value through profit and loss, loans and receivables, and available-for-sale financial assets. The classification is determined at the time of the initial recognition depending on the intended purpose.

Derivative financial assets and liabilities are initially recognized as at the trade date while for other financial assets and liabilities settlement date accounting is applied. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and Valmet has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are presented as non-current when their maturity exceeds one year.

Assets and liabilities at fair value through profit and loss

Derivative financial instruments to which hedge accounting is not applied are fair valued quarterly through profit and loss. Unrealized and realized gains and losses on derivatives are recorded in other operating income and expenses or in financial income and expenses.

Available-for-sale financial instruments

Available-for-sale financial instruments comprise available-for-sale equity and debt investments. These are carried at fair value with unrealized gains and losses arising from changes in fair value recognized through OCI in the fair value reserve. Gains and losses on disposal and impairment, if any, are recorded in the profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI. On each balance sheet date, Valmet assesses whether there is objective evidence on an available-for-sale financial asset being impaired. In case of a significant or prolonged decline in the fair value of such an asset compared to its acquisition value, the accumulated net loss is reversed from equity and recognized in the profit and loss. If the amount of the impairment loss decreases in subsequent periods for debt instruments and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit and loss.

Loans and receivables

Trade receivables are recognized at the original amount invoiced to customers and reported on the balance sheet, net of impairment. The impairment, which is expensed under 'Other operating income and expenses', is recorded if objective evidence of impairment exists on the basis of periodic reviews of receivables by taking into consideration individual customer credit risk, economic trends in customer industries and changes in payment terms. Bad debts are written off when official announcement of receivership, liquidation or bankruptcy is received confirming that the receivable will not be honored.

If extended payment terms, exceeding one year, are offered to customers, the invoiced amount is discounted to its present value and interest income is recognized over the credit term.

Loans and loan receivables are initially recognized at fair value including transaction costs. Subsequently they are recognized at amortized cost using the effective interest rate method. They are subject to regular and systematic review as to collectability.

If a loan receivable is estimated to be partly or totally unrecoverable, an impairment loss is recognized for the shortfall between the carrying value and the present value of the expected cash flows. Interest income on loan and other interest bearing receivables is included under 'Financial income and expenses'.

Borrowings

Non-current debt is initially recognized at fair value as at the settlement date, net of transaction costs incurred. Subsequently borrowings are measured at amortized cost by using the effective interest rate method. Debt is classified as a current liability unless Valmet has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Critical accounting estimates and judgments

Valmet's policy is to calculate impairment loss on financial assets when objective evidence of impairment exists. This process requires management judgement and includes consideration of available customer and market information. Resulting loss is best estimate based on information available and may differ from actual result.

Financial assets and liabilities divided by categories were as follows at December 31:

EUR million	Financial assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value	Fair value level
2016							
Non-current assets							
Available-for-sale financial assets	-	-	-	4	4	4	1, 3
Loan receivables	-	-	17	-	17	17	2
Derivative financial instruments	-	2	-	-	2	2	2
Total	**-**	**2**	**17**	**4**	**22**	**22**	
Current assets							
Available-for-sale financial assets	-	-	-	1	1	1	1
Trade receivables	-	-	561	-	561	561	2
Derivative financial instruments	7	9	-	-	16	16	2
Cash and cash equivalents	240	-	-	-	240	240	2
Total	**247**	**9**	**561**	**1**	**818**	**818**	

EUR million	Liabilities at fair value through profit and loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value	Fair value level
2016						
Non-current liabilities						
Loans from financial institutions	-	-	262	262	265	2
Derivative financial instruments	-	5	-	5	5	2
Total	**-**	**5**	**262**	**267**	**271**	
Current liabilities						
Current portion of non-current debt	-	-	48	48	48	2
Trade payables	-	-	226	226	226	2
Derivative financial instruments	6	17	-	23	23	2
Total	**6**	**17**	**273**	**297**	**297**	

EUR million	Financial assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value	Fair value level
2015							
Non-current assets							
Available-for-sale financial assets	-	-	-	3	3	3	1, 3
Loan receivables	-	-	20	-	20	20	2
Derivative financial instruments	-	2	-	-	2	2	2
Total	-	2	20	3	25	25	
Current assets							
Available-for-sale financial assets	-	-	-	7	7	7	1
Trade receivables	-	-	478	-	478	478	2
Derivative financial instruments	6	6	-	-	13	13	2
Cash and cash equivalents	165	-	-	-	165	165	2
Total	172	6	478	7	663	663	

EUR million	Liabilities at fair value through profit and loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value	Fair value level
2015						
Non-current liabilities						
Loans from financial institutions	-	-	309	309	312	2
Derivative financial instruments	-	3	-	3	3	2
Total	-	3	310	312	315	
Current liabilities						
Current portion of non-current debt	-	-	62	62	62	2
Trade payables	-	-	250	250	250	2
Derivative financial instruments	3	10	-	13	13	2
Total	3	10	312	325	325	

The 'Available-for-sale financial assets' comprise EUR 1 million listed shares (EUR 1 million) and EUR 1 million current interest bearing financial assets (EUR 7 million), which are all valued at their market value. The remaining EUR 2 million as at December 2016 (EUR 2 million) consists of various industrial participations, shares in real estate holdings and other shares for which market values do not exist, whereby they are valued at cost.

Valmet manages its cash by investing in financial instruments with varying maturities. Instruments with maturities exceeding three months are classified as 'Available-for-sale financial assets' and instruments with maturities of less than three months are classified as 'Cash and cash equivalents'.

The 'Cash and cash equivalents' comprise cash at bank and in hand EUR 200 million (EUR 135 million), commercial papers and other investments EUR 10 million (EUR 3 million) and other short term investments with maturity less than three months EUR 30 million (EUR 27 million).

The hierarchy of fair value levels is presented in Note 20. For more information of derivative financial instruments, see Note 8.

7 Interest bearing and non-interest bearing receivables

Loans and other interest bearing receivables comprise interest bearing trade and loan receivables.

	As at Dec 31,					
	2016			2015		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Interest bearing receivables						
Loan receivables	**17**	**-**	**17**	20	-	20
Trade receivables	**-**	**-**	**-**	-	1	1
Total	**17**	**-**	**17**	20	1	21
Non-interest bearing receivables						
Trade receivables	**-**	**561**	**561**	-	477	477
Prepaid expenses and accrued income	**-**	**32**	**32**	-	30	30
Other receivables	**6**	**53**	**59**	8	68	76
Total	**6**	**646**	**653**	8	575	583

Allowance for trade receivables has changed as follows:

	Year ended Dec, 31	
EUR million	2016	2015
Balance at beginning of year	**19**	16
Addition charged to expense	**7**	6
Used reserve	**-6**	-2
Unused amounts reversed	**-7**	-1
Balance at end of year	**14**	19

Analysis of trade receivables by age:

	As at Dec 31,	
EUR million	2016	2015
Trade receivables, not due at reporting date	**374**	303
Trade receivables 1–30 days overdue	**109**	77
Trade receivables 31–60 days overdue	**40**	41
Trade receivables 61–90 days overdue	**10**	16
Trade receivables 91–180 days overdue	**15**	15
Trade receivables more than 180 days overdue	**15**	25
Total	**561**	478

8 Derivative financial instruments

Accounting principles

Derivative financial instruments

Valmet uses derivative financial instruments to hedge its exposure to interest rates, foreign currency exchange rates and commodity price risks arising from operational, financing and investment activities. Derivatives are initially recognized in the balance sheet at fair value and subsequently measured at each balance sheet date at their fair value. Derivatives are designated at inception either as hedges of firm commitments or highly probable forecasted sales and purchase transactions (cash flow hedge), or as derivatives at fair value through profit and loss that do not meet the hedge accounting criteria.

For hedge accounting purposes, the relationship between the hedging instruments and hedged items is documented in accordance with the risk management strategy and objectives. In addition, Valmet tests the effectiveness of the hedge relationships at the inception of the hedge and on a quarterly basis both prospectively and retrospectively.

Derivative assets and liabilities are classified as non-current assets or liabilities when the remaining maturities exceed 12 months and as current assets or liabilities when the remaining maturities are less than 12 months.

Cash flow hedge

Valmet applies cash flow hedge accounting to certain interest rate swaps, foreign currency forward contracts and to electricity forwards.

The realized gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in profit and loss within 'Financial income and expenses' concurrently with the recognition of the underlying interest expense. The gain or loss relating to the ineffective portion of interest rate swaps is expensed immediately and is also reported under 'Financial income and expenses'. The fair value of the interest rate swaps contract is calculated as the present value of the estimated future cash flows arising from the contract.

Valmet has designated only the currency component of the foreign currency forward contracts as the hedging instrument to hedge foreign currency denominated firm commitments. The interest component is recognized under 'Other operating income and expenses'. The realized gain or loss relating to the effective portion of the currency forward contracts is recognized in profit and loss in 'Net sales' or 'Cost of goods sold', as appropriate, concurrently with the underlying hedged item. Both at hedge inception and at each balance sheet date an assessment is performed to ensure the continued effectiveness of the designated component of the derivatives in offsetting changes in the fair values of the hedged cash flows.

Valmet regularly assesses the effectiveness of the fair value changes of the electricity forwards in offsetting the changes in the price of the underlying forecasted electricity purchases. The realized gain or loss relating to the effective portion of the electricity forward contracts are recognized in 'Cost of goods sold', whereas the ineffective portion of both realized and unrealized electricity forward contracts is recognized in 'Other operating income and expenses'.

When applying hedge accounting, the effective portion of the derivatives is recognized through 'Other Comprehensive Income' (OCI) in the hedge reserve under equity and reclassified to profit and loss concurrently with the underlying transaction being hedged.

The gain or loss relating to the ineffective portion of the derivatives is reported under 'Other operating income and expenses' in profit and loss. Should a hedged transaction no longer be expected to occur, any cumulative gain or loss previously recognized under equity is reclassified from OCI to profit and loss.

Derivatives at fair value through profit and loss

Certain foreign exchange forward and electricity forward contracts do not qualify for hedge accounting. Changes in the fair value of foreign exchange forward contracts accounted for at fair value through profit and loss, are mainly recognized in 'Other operating income and expenses'. However, when the foreign exchange forwards have been contracted to mitigate the exchange rate risks arising from foreign currency denominated financial items such as loans, receivables and cash, the changes in fair value of the derivatives are recognized in 'Financial income and expenses'.

Critical accounting estimates and judgments

Financial instruments

In accordance with the disclosure requirements on financial instruments, the management is obliged to make certain assumptions of the future cash in and outflows arising from such instruments. The management has also had to assume that the fair values of derivatives, especially foreign currency denominated derivatives at balance sheet date materially reflect the future cash in or outflow to be realized from such instruments.

Hedging of foreign currency denominated firm commitments

Under Valmet hedging policy, all Valmet entities have to hedge their foreign currency risk when they have become engaged in a firm commitment denominated in a currency different of their functional currency. The commitment can be between the parent company and Valmet entity or external to Valmet Group. When a firm commitment qualifies for recognition under the POC method, the entity applies cash flow hedge accounting and recognizes the effect from the hedging instruments in the OCI until the commitment is recognized. Although the characteristics triggering a firm commitment have been defined, the final realization of the unrecognized commitment depends also on factors beyond management control, which cannot be foreseen when initiating the hedge relationship. Such a factor can be a change in the market environment causing the other party to postpone or cancel the commitment. Management tries to the extent possible to include in the contracts clauses reducing the impact of such adverse events to the 'Consolidated Statement of Income'.

Notional amounts and fair values of derivative financial instruments as at December 31 are as follows:

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
2016				
Forward exchange contracts[1]	**1,699**	**18**	**26**	**-8**
Under hedge accounting	**1,148**	**11**	**21**	**-10**
Not qualifying for hedge accounting	**551**	**7**	**6**	**2**
Electricity forward contracts[2]	**121**	**-**	**1**	**-1**
Under hedge accounting	**121**	**-**	**1**	**-1**
Not qualifying for hedge accounting	**-**	**-**	**-**	**-**
Interest rate swaps[1]	**30**	**-**	**2**	**-2**
Under hedge accounting	**30**	**-**	**2**	**-2**
Total		**18**	**29**	**-10**
Netting fair values of derivative financial instruments subject to ISDAs[3]		**-16**	**-16**	**-**
Total, net		**3**	**13**	**-10**
2015				
Forward exchange contracts[1]	1,591	15	12	2
Under hedge accounting	960	8	10	-2
Not qualifying for hedge accounting	630	6	3	4
Electricity forward contracts[2]	216	-	3	-3
Under hedge accounting	158	-	2	-2
Not qualifying for hedge accounting	58	-	1	-1
Interest rate swaps[1]	30	-	1	-1
Under hedge accounting	30	-	1	-1
Total		15	16	-2
Netting fair values of derivative financial instruments subject to ISDAs[3]		-11	-11	-
Total, net		3	5	-2

[1] Notional amount in EUR million

[2] Notional amount in GWh

[3] Group's derivatives are carried out under International Swaps and Derivatives Association's Master Agreements (ISDA). In case of an event of default under these Agreements the non-defaulting party may request early termination and set-off of all outstanding transactions. These agreements do not meet the criteria for offsetting in the statement of financial position.

As at December 31, the maturities of financial derivatives are the following:

	2017	2018	2019	2020	2021 and later
2016					
Notional amounts					
Forward exchange contracts[1]	**1,443**	**242**	**14**	**-**	**-**
Electricity forward contracts[2]	**60**	**43**	**18**	**-**	**-**
Interest rate swaps[1]	**-**	**-**	**-**	**-**	**30**
Fair values, EUR million					
Forward exchange contracts	**-6**	**-2**	**-**	**-**	**-**
Electricity forward contracts	**-**	**-**	**-**	**-**	**-**
Interest rate swaps	**-**	**-**	**-**	**-**	**-2**

	2016	2017	2018	2019	2020 and later
2015					
Notional amounts					
Forward exchange contracts[1]	1,413	166	12	-	-
Electricity forward contracts[2]	104	56	39	17	-
Interest rate swaps[1]	-	-	-	-	30
Fair values, EUR million					
Forward exchange contracts	1	1	-	-	-
Electricity forward contracts	-2	-1	-	-	-
Interest rate swaps	-	-	-	-	-1

[1] Notional amount in EUR million
[2] Notional amount in GWh
[3] Group's derivatives are carried out under International Swaps and Derivatives Association's Master Agreements (ISDA). In case of an event of default under these Agreements the non-defaulting party may request early termination and set-off of all outstanding transactions. These agreements do not meet the criteria for offsetting in the statement of financial position.

9 Financial income and expenses

	Year ended Dec 31,	
EUR million	**2016**	**2015**
Dividends received	**1**	-
Interest income on financial assets	**3**	3
Net gain from foreign exchange	**-**	2
Financial income total	**3**	6
Interest expenses on financial liabilities at amortized cost	**-4**	-9
Net interest from defined benefit plans	**-5**	-4
Net loss from foreign exchange	**-3**	-
Other financial expenses	**-3**	-2
Financial expenses total	**-15**	-16
Financial income and expenses, net	**-12**	-10

'Interest expenses on financial liabilities at amortized cost' include interest expenses on interest-bearing loans and non-current interest rate swaps. In 2016 'Other operating income and expenses' includes EUR 4 million net foreign exchange loss (EUR 5 million loss) related to operative items and corresponding derivatives. Net foreign exchange loss of EUR 3 million (EUR 2 million gain) are recognized in 'Financial income and expenses' in 2016.

10 Provisions

Accounting principles

Restructuring and capacity adjustment costs

A provision for restructuring and capacity adjustment costs is recognized only after management has developed and approved a formal plan to which it is committed and it has raised a valid expectation in those affected by the measures that it will carry out the restructuring by starting to implement that plan or announcing its main features of the plan.

The costs included in a provision for capacity adjustment are those costs that are either incremental or incurred as a direct result of the plan or are the result of a continuing contractual obligation with no continuing economic benefit to Valmet or a penalty incurred to cancel the contractual obligation. Restructuring and capacity adjustment expenses are recognized in either 'Cost of goods sold' or 'Selling, general and administrative expenses' depending on the nature of the restructuring expenses. Restructuring costs can also include other costs incurred as a result of the plan, which are recorded under 'Other operating income and expenses', such as asset impairment charges.

Warranties

The Group generally offers warranties ranging from 12 to 24 months on its capital deliveries. A provision for warranty is recognized for the estimated warranty claims for each project. The main principle in measuring the warranty provision is to book a certain percentage, based on past experience, of a project's total revenue as a provision for expected warranty costs. For sales involving new technology and long-term delivery contracts, additional warranty provision may be established on a case by case basis to take into account the potentially increased risk. The actual warranty costs of each project are booked against the warranty provision and thus the remaining warranty provision of each project can be followed. Actual warranty costs incurred on projects are monitored regularly in order to assess the need for amending the percentage based on which warranty provisions are recognized going forward.

Provisions, for which the expected settlement date exceeds one year from the moment of their recognition, are discounted to their present value and adjusted in subsequent periods for the time effect.

Other provisions

Other provisions, comprise provisions for expected contract losses and provisions related to environment, personnel and lawsuits.

Critical accounting estimates and judgments

Under contractual warranty clauses, Valmet generally guarantees the performance levels agreed in the sales contract, the performance of products delivered during the agreed warranty period and services rendered for a certain period or term. The warranty liability is based on historical realized warranty costs for deliveries of standard products and services. The warranty period typically commences from the date of customer acceptance of the delivered equipment. For more complex contracts, including long-term projects, the warranty reserve is calculated contract by contract and updated regularly to ensure its sufficiency.

Provisions for capacity adjustments and restructuring costs are recognized when the requirements for recognition are satisfied. For reasons beyond the control of management the final costs may differ from the initial amount for which provision has been established.

Valmet recognizes a provision for losses associated with environmental remediation obligations when such losses are probable and reasonably calculable. The amounts of accruals are adjusted later as further information develops or circumstances change.

Specification of changes in provisions:

	Year ended Dec 31, 2016			
EUR million	**Warranty and guarantee liabilities**	**Restructuring provisions**	**Other provisions**	**Total**
Balance at beginning of year	88	9	10	108
Effect of change in classification	35	-	-	35
Translation differences	-	-	-	1
Addition charged to profit / loss	83	2	11	96
Used reserve	-73	-7	-7	-86
Reversal of reserve / other changes	-24	2	-3	-25
Balance at end of year	**110**	**6**	**12**	**128**
Non-current	13	3	3	20
Current	97	3	8	108

Movements in warranty and guarantee liabilities include opening balance adjustment of EUR 35 million consisting of reclassification of warranty and guarantee provisions for ongoing projects previously presented as part of accrued project costs into warranty and guarantee liabilities. As at December 31, 2016 'Other provisions' primarily consist of provisions for expected contract losses. The Group has no material environmental and product liabilities as at December 31, 2015 or December 31, 2016.

11 Trade and other payables

EUR million	As at Dec 31, 2016	2015
Trade payables	**226**	250
Accrued interest	**2**	2
Accrued personnel costs	**119**	120
Accrued project costs	**322**	313
Other payables	**85**	81
Trade and other payables total	**754**	767

The maturity of payables rarely exceeds six months and is largely determined by local trade practices and individual agreements between Valmet and its suppliers.

'Accrued personnel costs', which include holiday pay, are settled in accordance with local laws and stipulations.

Warranty and guarantee provisions for ongoing projects, in 2015 presented under accrued project costs, have in 2016 been presented as part of provisions.

12 Personnel expenses and the number of personnel

Personnel expenses:

EUR million	Year ended Dec 31, 2016	2015
Salaries and wages	**-611**	-580
Pension costs, defined contribution plans	**-62**	-62
Pension costs, defined benefit plans[1]	**-8**	-8
Other post-employment benefits[1]	**-3**	-4
Share-based payments	**-8**	-4
Other indirect employee costs	**-103**	-90
Total	**-795**	-748

[1] For more information, see Note 14.

Number of personnel:

	2016	2015
Personnel at end of year	**12,012**	12,306
Average number of personnel during the year	**12,261**	11,781

13 Share-based payments

Accounting principles

Certain Valmet key personnel participate in share-based incentive plans. Equity-settled share based awards are valued based on the market price of the Valmet share as of the grant date, and recognized as an employee benefit expense over the vesting period with a corresponding entry in equity. The liability resulting from cash-settled transactions is measured based on the market price of the Valmet share as of the balance sheet date and accrued as an employee benefit expense with a corresponding entry in the current liabilities until the settlement date.

Market conditions, such as the total shareholder return upon which vesting is conditioned, is taken into account when estimating the fair value of the equity instruments granted.

The expense relating to the market condition is recognized irrespective of whether that market condition is satisfied.

Non-market vesting conditions, such as operating profit, services business growth, return on capital employed and earnings per share targets, are included in assumptions about the amount of share-based payments that are expected to vest. At each balance sheet date, Valmet revises its estimates on the amount of share-based payments that are expected to vest. The impact of the revision to previous estimate is recognized through profit and loss with corresponding adjustment to equity and current liabilities, as appropriate.

Granted share amounts of the share-based incentive plans:

	2016
Plan 2012–2014	
At beginning of year	268,003
Forfeited	-5,023
At end of year	262,980
Plan 2015–2017	
At beginning of year	540,032
Granted	778,183
Paid	-540,035
Forfeited	-21,099
Expired	-174,406
At end of year	582,675

Long-term incentive plan for 2012–2014

In December 2011, a share-based incentive plan including three performance periods, which were the calendar years 2012, 2013 and 2014, was approved. The reward for each performance period of the plan cannot exceed 120 percent of a participant's total annual base salary. As a rule no reward is paid if the key employee's employment or service ends before the reward payment.

For the 2012 performance period a gross number of 321,438 shares were earned by 31 participants. The reward was paid partly as company shares and partly in cash during 2015. The cash portion was dedicated to cover taxes and tax-related payments. The expense of the plan was recognized over the vesting period i.e. from the beginning of 2012 until the end of February 2015. The recognized expense of the equity portion was based on a grant date share price of EUR 8.13.

For the 2013 performance period, the performance criteria was not met and therefore no rewards were paid.

For the 2014 performance period, the plan was targeted to 40 Valmet key executives. From the performance period 2014 a gross number of 262,980 shares were earned. The reward of the plan from the performance period 2014 was based on growth in Valmet's EBITA % and growth in Services orders received. The reward will be paid at the end of an approximately two-year retention period in 2017, partly as company shares and partly in cash. The cash portion is dedicated to cover taxes and tax-related payments. The expense of the plan is recognized over the vesting period i.e. from the beginning of 2014 until the end of February 2017. The recognized expense of the equity portion is based on Valmet's average share price on the grant date of EUR 8.28.

Long-term incentive plan for 2015–2017

The Board of Directors of Valmet Oyj approved in December 2014 a new share-based incentive plan for Valmet's key employees. The Plan includes three discretionary periods, which are the calendar years 2015, 2016 and 2017. The Board of Directors has decided on the performance criteria and targets in the beginning of each discretionary period.

The reward of the plan from one discretionary period may not exceed 120 percent of the key employee's annual base salary. As a rule, no reward is paid, if the key employee's employment or service ends before the reward payment. The shares paid as reward may not be transferred during the restriction period, which will end two years from the end of the discretionary period. Should a key employee's employment or service end during the restriction period, as a rule, he or she must gratuitously return the shares given as reward to Valmet.

The reward of the plan from the discretionary period 2015 was based on EBITA % and Services orders received growth %. The reward from the discretionary period 2015 was paid partly as company shares and partly in cash in 2016. The proportion paid in cash was intended to cover taxes and tax-related costs arising from the reward to the key employee.

As part of the plan, members of Valmet's Executive Team had a possibility to receive a matching share reward for the discretionary period 2015 provided that he or she owned or acquired Valmet shares up to a number determined by the Board of Directors by December 31, 2015. Reward receipt was tied to continued employment or service of the Valmet Executive Team member upon reward payment.

The plan was directed to approximately 80 people. The rewards paid on the basis of the discretionary period 2015 corresponded to a total of 540,035 shares in Valmet including a cash payment to cover taxes and tax-related payments arising from the reward to the key employee. The expense of the discretionary period 2015 is recognized over the vesting period i.e. from the beginning of 2015 until the end of December 2017. The recognized expense of the equity portion is based on Valmet's closing share price on the grant date of EUR 11.40.

The Board of Directors of Valmet Oyj decided in December 2015 to continue the share-based incentive program for Valmet's key employees approved in December 2014. The reward of the program from the discretionary period 2016 is based on Comparable EBITA % and orders received growth % of the stable business, that is, the Services and Automation business lines. The reward of the plan from the discretionary period 2016 will be paid partly as Valmet shares and partly in cash in 2017. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key employee.

As part of the share-based incentive program members of the Valmet Executive Team have a possibility to receive a matching share reward for the discretionary period 2016 provided that he or she owned or acquired Valmet shares up to a number determined by the Board of Directors by December 31, 2016. The reward receipt is tied to the continued employment or service of the Valmet Executive Team member upon reward payment.

The plan was directed to approximately 80 people. The rewards to be paid on the basis of the discretionary period 2016 are in total an approximate maximum of 757,081 shares in Valmet. The expense of the discretionary period 2016 is recognized over the vesting period i.e. from the beginning of 2016 until the end of December 2018. The recognized expense of the equity portion is based on Valmet's closing share price on the grant date of EUR 9.14. As at December 31, 2016 a total of 582,675 shares had been allotted to participants.

The Board of Directors of Valmet Oyj decided in December 2016 to continue the share-based incentive program for Valmet's key employees approved in December 2014. The potential reward of the program from the discretionary period 2017 is based on Comparable EBITA % and orders received growth % of the stable business, that is, the Services and Automation business lines. The potential reward of the plan from the discretionary period 2017 will be paid partly as Valmet shares and partly in cash in 2018. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key employee.

As part of the share-based incentive program members of the Valmet Executive Team shall have a possibility to receive a matching share reward for the discretionary period 2017 provided that he or she owns or acquires Valmet shares up to a number determined by the Board of Directors by December 31, 2017. The reward receipt is tied to the continued employment or service of the Valmet Executive Team member upon reward payment.

The plan is directed to approximately 80 people. The rewards to be paid on the basis of the discretionary period 2017 are in total an approximate maximum of 550,000 shares in Valmet.

Costs recognized for the share ownership plans

The compensation expense for the shares, which are accounted for as equity-settled, is recognized as an employee benefit expense with corresponding entry in equity. The cost of the equity-settled portion, which will be evenly recognized during the required service period, is based on the market price of the Valmet share on the grant date. The compensation expense resulting from the cash-settled portion is recognized as an employee benefit expense with a corresponding entry in current liabilities. The cash-settled portion is fair valued at each balance sheet date based on the prevailing share price.

As at December 31, 2016 the total carrying value of the cash-settled portion was EUR 6 million (EUR 3 million).

The table below represents the costs recognized for the share-based payment plans.

EUR thousand	Plan 2012–2014	Plan 2015–2017	Total
2015	-981	-3,174	-4,155
2016	-1,267	-6,572	**-7,839**

14 Post-employment benefit obligations

Accounting principles

Pensions and coverage of pension liabilities

Valmet has various pension schemes in place in its entities in accordance with local regulations and practices in countries in which they operate. In certain countries, the pension schemes involve defined benefit plans with retirement, disability, death, and other post-retirement benefits, such as health services, and termination income benefits. Defined benefit plans are post-employment benefit plans other than defined contribution plans. In defined benefit plans the benefits are usually based on the number of service years and the salary levels of the final service year. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations.

In addition, certain entities within Valmet Group have multi-employer pension arrangements classified as defined contribution plans. The contributions to defined contribution plans and to multi-employer and insured plans are charged to profit and loss concurrently with the payment obligations. In defined contribution plans, the Group pays fixed contributions into a separate entity and the Group will have no legal or constructive obligation to pay further contributions.

In the case of defined benefit plans, the net defined benefit liability recognized from the plan is the present value of the defined benefit obligation as of the balance sheet date, adjusted by the fair value of the plan assets. Independent actuaries calculate the defined benefit obligation by applying the projected unit credit method under which the estimated future cash flows are discounted to their present value using the discount rate for maturity approximating the duration of the pension obligation. The cost of providing retirement and other post-retirement benefits to the personnel is charged to profit and loss concurrently with the service rendered by the personnel. The service cost is recorded under personnel expenses in profit and loss and the net interest is recorded under financial income and expenses. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and return on plan assets excluding interest income are recognized through OCI into shareholders' equity.

Critical accounting estimates and judgments

In accordance with IAS 19, the benefit expense for defined benefit arrangements is based on assumptions that include the following:

- The rate used to discount post-employment benefit obligations (both funded and unfunded) has been determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds have been used. The currency and term of the corporate bonds or government bonds are consistent with the currency and estimated term of the post-employment benefit obligations.
- Estimated rates of future pay increases. Actual increases may not reflect estimated future increases. Due to the significant uncertainty of the global economy, these estimates are difficult to project.

The amounts recognized as at December 31 in the statement of financial position are as follows:

	2016			2015		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Present value of funded obligation	**194**	**-**	**194**	179	-	179
Fair value of plan assets	**-147**	**-**	**-147**	-132	-	-132
Net surplus (-) / deficit (+) of funded plans	**46**	**-**	**46**	47	-	47
Present value of unfunded obligation	**-**	**104**	**104**	-	101	101
Asset (-) / liability (+) recognized in the statement of financial position	**46**	**104**	**151**	47	101	148
Amounts in the statement of financial position						
Liabilities	**47**	**104**	**151**	48	101	149
Assets	**-**	**-**	**-**	-1	-	-1
Net liability	**46**	**104**	**151**	47	101	148

The amounts recognized in the statement of income are as follows:

	Year ended Dec, 31					
		2016			2015	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Employer's current service cost	**3**	**5**	**8**	3	6	8
Net interest on net surplus / deficit	**2**	**3**	**5**	2	3	4
Settlements	**-**	**-1**	**-1**	-	-	-
Expense recognized in the statement of income	**5**	**8**	**13**	4	8	13

The changes in the present value of the defined benefit obligation are as follows:

		2016			2015	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of obligation at beginning of year	**179**	**101**	**280**	162	93	255
Other adjustments[1]	**7**	**-**	**7**	9	2	12
Employer's current service cost	**3**	**5**	**8**	3	6	8
Interest expense	**7**	**3**	**9**	6	3	9
Adjustment due to business combinations	**-**	**-**	**-**	3	3	6
Liabilities extinguished on settlements	**-**	**-1**	**-1**	-	-	-
Actuarial gain (-) / loss (+) due to change in assumptions - financial	**2**	**5**	**7**	-7	-5	-12
Actuarial gain (-) / loss (+) due to change in assumptions - demographic	**-2**	**-4**	**-6**	-3	-	-3
Actuarial gain (-) / loss (+) due to experience	**2**	**-1**	**1**	3	-	3
Benefits paid from the arrangements	**-9**	**-**	**-9**	-8	-	-8
Benefits paid directly by employer	**-**	**-4**	**-4**	-	-4	-4
Translation differences	**5**	**-2**	**3**	13	2	15
Present value of defined benefit obligation at end of year	**194**	**104**	**298**	179	101	280
- of which related to active members			**108**			104
- of which related to deferred members			**63**			54
- of which related to pensioner members			**126**			123

[1] Extension of coverage in 2015.

The changes in the fair value of the plan assets during the year are as follows:

		2016			2015	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Fair value of plan assets at beginning of year	**132**	**-**	**132**	114	-	114
Other adjustments to the fair value of assets	**7**	**-**	**7**	9	-	9
Interest income on assets	**5**	**-**	**5**	4	-	4
Return on plan assets excluding interest income	**4**	**-**	**4**	-4	-	-4
Adjustment due to business combinations	**-**	**-**	**-**	2	-	2
Employer contributions	**3**	**4**	**7**	6	4	10
Benefits paid from the arrangements	**-9**	**-**	**-9**	-8	-	-8
Benefits paid directly by employer	**-**	**-4**	**-4**	-	-4	-4
Translation differences	**4**	**-**	**4**	8	-	8
Fair value of plan assets at end of year	**147**	**-**	**147**	132	-	132

Remeasurements of the net defined benefit liability / asset reported in other comprehensive income are as follows:

	Year ended Dec, 31					
	2016			2015		
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Experience gain (-) / loss (+) on assets	**-4**	**-**	**-4**	4	-	4
Actuarial gain (-) / loss (+) on liabilities due to change in financial assumptions	**2**	**5**	**7**	-7	-5	-12
Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions	**-2**	**-4**	**-6**	-3	-	-3
Actuarial gain (-) / loss (+) on liabilities due to experience	**2**	**-1**	**1**	3	-	3
Total gain (-) / loss (+) recognized in OCI	**-3**	**1**	**-2**	-4	-4	-9

Negative movement of EUR 5 million in OCI arising from remeasurement of defined benefit plans presented in the Consolidated Statement of Comprehensive Income includes a EUR 7 million correction of the balance against taxes related to remeasurement gains and losses not reflected in the above table.

The major categories of plan assets as a percentage of total plan assets of Valmet's defined benefit plans are as follows:

	2016			2015		
As at Dec 31	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	**32%**	**-**	**32%**	37%	-	37%
Bonds	**29%**	**-**	**29%**	34%	-	34%
Other	**15%**	**24%**	**39%**	8%	21%	29%
Total	**76%**	**24%**	**100%**	79%	21%	100%

At December 31, 2016 there were no plan assets invested in affiliated companies or property occupied by affiliated companies.

The principal actuarial assumptions used to determine the defined benefit obligation (expressed as weighted averages) are as follows:

	2016			2015		
As at Dec 31	Funded	Unfunded	Total	Funded	Unfunded	Total
Discount rate	**3.6%**	**2.7%**	**3.3%**	3.7%	3.0%	3.5%
Salary increase	**2.4%**	**2.5%**	**2.4%**	2.8%	2.6%	2.7%
Pension increase	**2.0%**	**2.5%**	**2.3%**	1.9%	2.5%	2.3%
Medical cost trend rates	**-**	**7.2%**	**7.2%**	-	6.9%	6.9%

The weighted average life expectancy used for the major defined benefit plans are as follows:

	Life expectancy at age 65 for a male participant currently aged 65		Life expectancy at age 65 for a male participant currently aged 45	
Expressed in years	2016	2015	2016	2015
Sweden	**22**	23	**22**	23
Canada	**21**	21	**22**	22
USA	**21**	21	**22**	23
Finland	**21**	21	**24**	24

Life expectancy is allowed for in the assessment of the defined benefi t obligation using mortality tables which are generally based on experience within the country in which the arrangement is located with (in many cases) an allowance made for anticipated future improvements in longevity.

Sensitivity analysis on present value of defined benefit obligation:

	2016			2015		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Discount rate						
Increase of 0.25%	**-6**	**-4**	**-10**	-6	-4	-9
Decrease of 0.25%	**6**	**5**	**11**	6	4	11
Salary increase rate						
Increase of 0.25%	**1**	**3**	**3**	1	2	3
Decrease of 0.25%	**-1**	**-2**	**-3**	-1	-2	-2
Pension increase rate						
Increase of 0.25%	**1**	**2**	**4**	1	2	3
Decrease of 0.25%	**-1**	**-2**	**-4**	-1	-3	-3
Medical cost trend						
Increase of 1%	**-**	**1**	**1**	-	1	1
Decrease of 1%	**-**	**-1**	**-1**	-	-1	-1
Life expectancy						
Increase of one year	**6**	**3**	**9**	5	3	8
Decrease of one year	**-6**	**-3**	**-9**	-5	-3	-8

Weighted average duration of defined benefit obligation:

	2016			2015		
Expressed in years	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
As at December 31	**13**	**18**	**15**	14	17	15

Valmet sponsors both defined benefit contribution and defined benefit arrangements. Valmet operates various defined benefit pension and other long term employee benefit arrangements pursuant to local conditions, practices and collective bargaining agreements in the countries in which it operates.

The majority of Valmet's defined benefit liabilities relate to arrangements that are funded through payments to either insurance companies or to independently administered funds based on periodic actuarial calculations. Other arrangements are unfunded with benefits being paid directly by Valmet as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions.

Valmet's defined benefit pension arrangements in the US, Canada and Sweden together represent 83% of Valmet's defined benefit obligation and 76% of its pension assets. These arrangements provide income in retirement which is substantially based on salary and service at or near retirement.

In the US and Canada annual valuations are carried out to determine whether cash funding contributions are required in accordance with local legislation.

Defined benefit pension arrangements in Sweden are offered in accordance with collective labor agreements and are unfunded. The liability recorded on Valmet's balance sheet and cash contributions to funded arrangements are sensitive to the assumptions used to measure the liabilities, the extent to which actual experience differs to the assumptions made and the returns on plan assets. Therefore, Valmet is exposed to the risk that balance sheet liabilities and/or cash contributions increase based on these influences.

Assets of Valmet's funded arrangements are managed by external fund managers. The allocation of assets is reviewed regularly by those responsible for managing Valmet's arrangements based on local legislation, professional advice and consultation with Valmet, based on acceptable risk tolerances.

The expected contributions to defined benefit type arrangements in 2017 are EUR 4 million.

15 Income taxes

Accounting principles

Tax expenses in the profit and loss comprise current and deferred taxes. Taxes are recognized in the profit and loss except when they are associated with items recognized in 'Other comprehensive income' or directly in shareholders' equity. Current taxes are calculated on the taxable income on the basis of the tax rate stipulated for each country as at the balance sheet date. Additionally, non-recoverable foreign taxes, which are not based on taxable profits, are reported in current taxes. These include for example foreign taxes and/or equivalent payments paid under circumstances where Double Tax Treaties are not in force. Taxes are adjusted for the taxes of previous financial periods, if applicable. Management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. No liability is recognized when it is considered probable that items reported to tax authorities can be sustained on examination. The tax provisions recognized in such situations are based on evaluations by the management.

Deferred taxes are calculated on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred taxes are calculated on goodwill impairment that is not deductible in taxation and no deferred taxes are recognized on the undistributed profits of subsidiaries to the extent that the difference is unlikely to be reversed in the foreseeable future. Deferred taxes have been calculated using the statutory tax rates or the tax rates enacted or substantively enacted by the balance sheet date. Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilized. The most significant temporary differences arise from differences between the revenue recognized from construction contracts using the percentage of completion method and taxable income, depreciation differences relating to property, plant and equipment, defined benefit pension plans, provisions deductible at a later date, fair value measurement of assets and liabilities in connection with business combinations and unused tax losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Critical accounting estimates and judgments

Deferred tax assets and liabilities are recognized for all temporary items. They are expected to be realized through the income statement over extended periods of time in the future. Valmet management has made certain assumptions regarding future tax consequences and used certain estimates when calculating differences between carrying amounts of assets and liabilities and their tax basis. Key assumptions underlying tax calculations include e.g. estimate on that recoverability periods for tax loss carryforwards will not change, and that existing tax laws and rates remain unchanged into foreseeable future. At the end of each balance sheet date deferred tax assets are assessed for recoverability and when circumstances indicate that is no longer probable that deferred tax assets can be recovered, balances are revised accordingly.

Liabilities and assets are recognized with respect to income tax amounts management is expecting to pay and recover, respectively. Valmet entities are subject to tax audits on an ongoing basis. Complex and constantly changing regulations in multiple jurisdictions where Valmet operates create uncertainties relating to tax obligations towards authorities. Changes in the tax authorities' interpretations could have unfavorable impact on Valmet's financials.

The differences between income tax expense computed at the Finnish statutory rate (20.0% in 2015 and 2016) and income tax expense recognized in profit and loss are as follows:

	Year ended Dec 31,	
EUR million	**2016**	**2015**
Income before taxes	**136**	108
Taxes calculated according to tax rate in Finland	**-27**	-22
Impact of changes in tax rates	**1**	-
Income tax for prior years	**-12**	4
Effect of different tax rates in foreign subsidiaries	**-4**	-4
Utilization of tax losses carried forward	**1**	2
Non-recoverable foreign taxes	**-5**	-3
Effect of tax free income and non-deductible expenses	**-3**	-5
Other	**-4**	-2
Income tax expense	**-54**	-30
Effective tax rate, (%)	**39.4%**	28.0%
Effective tax rate, (%) excluding income tax for prior years	**30.4%**	31.4%

Valmet received a reassessment decision from the Finnish tax authority for Valmet Technologies Oy in 2016. The reassessment decision was a result of a tax audit carried out in the company, concerning tax years 2010–2012. The Finnish tax authority has requested Valmet to pay additional taxes, late payment interest and penalties in total of EUR 19 million. The decision concerns compensation charged by Valmet Technologies Oy from its foreign subsidiaries.

In this context Valmet has recognized an income tax liability in the full amount of EUR 19 million and an income tax receivable of EUR 14 million, with net income tax expense impact of EUR 5 million in 2016. The receivable arises from several different tax jurisdictions. Additionally, a prior year tax expense of EUR 4 million was recognized arising from tax loss carryforwards utilized in reassessment period.

Valmet entities are subject to routine tax audits on an ongoing basis. Liabilities and assets are recognized with respect to income tax amounts management is expecting to pay and recover, respectively. No liability is recognized when it is considered probable that items reported to tax authorities can be sustained on examination.

Tax effects of components in other comprehensive income:

	Year ended Dec 31,					
	2016			2015		
EUR million	**Before taxes**	**Tax**	**After taxes**	**Before taxes**	**Tax**	**After taxes**
Cash flow hedges	**1**	**-**	**1**	-2	-	-2
Remeasurement of defined benefit plans[1]	**-5**	**7**	**2**	8	-1	7
Currency translation on subsidiary net investments	**-7**	**-**	**-7**	10	-	10
Total comprehensive income / expense	**-11**	**6**	**-5**	16	-1	15
Deferred tax	**-**	**6**	**-**	-	-1	-
Total	**-**	**6**	**-**	-	-1	-

[1] Remeasurement of defined benefit plans includes a EUR 7 million correction between before taxes and tax balances 2016.

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to other comprehensive income[3]	Acquired in business combination	Translation differences	Balance at end of year
2016						
Deferred tax assets						
Tax losses carried forward	17	-6	-	-	2	**13**
Fixed assets	21	-5	-	-	-1	**15**
Inventory	4	-1	-	-	-2	**2**
Provisions	19	2	-	-	1	**23**
Accruals	11	3	-	-	1	**16**
Employee benefits	26	1	-2	-	1	**25**
Other	5	4	-	-	-3	**6**
Total deferred tax assets	104	-3	-2	-	-	**99**
Offset against deferred tax liabilities[1]	-19	-	-	-	-	**-19**
Net deferred tax assets	**85**	**-3**	**-2**	**-**	**-**	**80**
Deferred tax liabilities						
Purchase price allocations	78	-5	-	-	-2	**71**
Fixed assets	1	-	-	-	-	**1**
Other	11	-	-	-	-1	**10**
Total deferred tax liabilities	90	-5	-	-	-3	**82**
Offset against deferred tax assets[1]	-19	-	-	-	-	**-19**
Net deferred tax liabilities	**70**	**-5**	**-**	**-**	**-3**	**62**
2015						
Deferred tax assets						
Tax losses carried forward	28	-10	-	-	-2	17
Fixed assets	21	-	-	1	-	21
Inventory	4	1	-	-	-1	4
Provisions	18	2	-	-	-1	19
Accruals	11	-1	-	-	1	11
Employee benefits	26	-1	-1	-	4	26
Other	2	2	-	3	-1	5
Total deferred tax assets	109	-7	-1	5	-	104
Offset against deferred tax liabilities[1]	-24	4	-	-	-	-19
Net deferred tax assets	86	-3	-1	5	-1	85
Deferred tax liabilities						
Purchase price allocations[2]	35	-7	-	47	3	78
Fixed assets	1	-	-	-	-	1
Other	10	-1	-	-	2	11
Total deferred tax liabilities	46	-8	-	47	5	90
Offset against deferred tax assets[1]	-24	4	-	-	-	-19
Net deferred tax liabilities	22	-4	-	47	5	70

[1] Deferred tax assets and liabilities are offset when there is legally enforceable right to offset tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority.
[2] Changes in deferred tax liabilities relates mainly to Automation acquisition. More information on acquisition on Note 19.
[3] Please refer to Note 14 for further information on employee benefits related adjustments made in 2016.

A deferred tax liability on undistributed profits of Valmet's legal entities located in countries where distribution generates tax consequences is recognized when it is likely that earnings will be distributed in the near future. For the years ended December 31, 2016 and 2015, earnings of EUR 57 million and EUR 79 million, respectively, would have been subject to recognition of a deferred tax liability, had Valmet regarded a distribution in the near future as likely.

A deferred tax asset is recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. There were no material tax loss carryforwards for which a deferred tax asset had not been recognized. Valmet has tax loss carryforwards of EUR 7 million that will expire within the following five years.

16 Equity

Share capital and number of shares

Valmet Oyj's registered share capital was EUR 100,000,000 as at December 31, 2016 and EUR 100,000,000 as at December 31, 2015. The share capital is fully paid.

Valmet's total number of shares is 149,864,619 and the number of outstanding shares as at December 31, 2016 was 149,864,220 (149,864,220 shares). The number of shares held by Valmet Oyj was 399 (399 shares).

The average number of shares outstanding amounted to 149,864,220 (149,864,220) during the financial year ended at December 31, 2016.

Valmet Oyj has one series of shares. The shares of Valmet Oyj do not have a nominal value. In 2016, there has been no changes in the number of outstanding shares or share capital.

Treasury shares

As at December 31, 2016 Valmet Oyj held 399 of its own shares. These shares were acquired through a purchase on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd) on April 2, 2014 for a price of EUR 7.5880 per share.

Valmet has entered into an agreement with a third-party service provider concerning the administration of the share-based incentive programs for key personnel. As at December 31, 2016, the number of shares held within the administration plan was 467,258.

Dividends

The Board of Directors proposes that a dividend of EUR 0.42 per share will be paid out based on the 'Consolidated Statement of Financial Position' to be adopted for the financial year ended December 31, 2016, and that the remaining part of the retained earnings will be carried forward in Valmet Oyj's unrestricted equity. These financial statements do not reflect this dividend payable of EUR 63 million. Dividends paid relating to the year ended December 31, 2015 were 0.35 EUR per share totaling EUR 52 million.

Fair value and other reserves

Hedge reserve includes effective portion of fair value movements related to derivative financial instruments which qualify for hedge accounting.

Fair value reserve includes the change in fair values of financial assets classified as available-for-sale.

Legal reserve consists of restricted equity, which has been transferred from distributable funds under the Articles of Association, local company law or by a decision of the shareholders.

Reserve for invested unrestricted equity

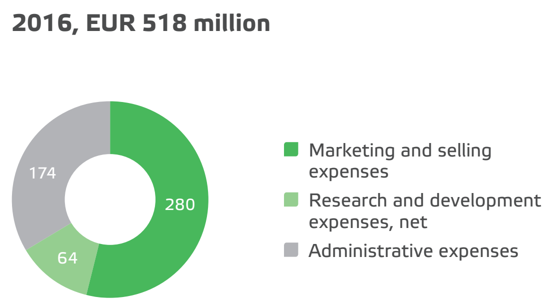
Reserve for invested unrestricted equity includes other equity-related investments and share subscription prices to the extent not designated to be included in share capital.

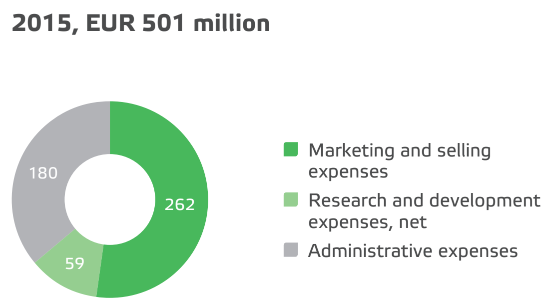
The reserve for invested non-restricted equity fund in Valmet's 'Consolidated Statement of Financial Position' consists of the fund held by the parent company Valmet Oyj.

Cumulative translation adjustments

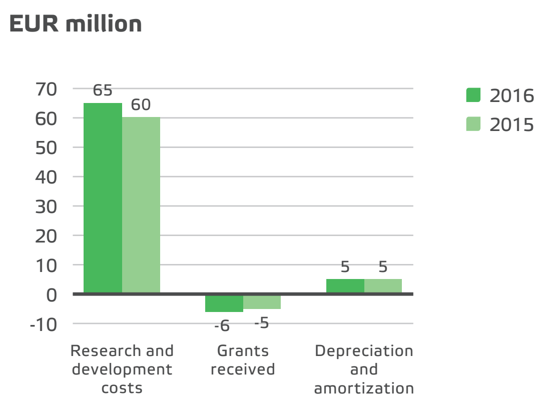
Cumulative translation adjustments consist of currency translation differences, which relate to translation of foreign operations from their functional currencies to Valmet Group's reporting currency euro.

17 Selling, general and administrative expenses





Research and development expenses, net consists of following:



18 Other operating income and expenses

EUR million	Year ended Dec 31, 2016	2015
Gain on sale of fixed assets	**1**	2
Royalty income	**2**	2
Rental income	**1**	1
Foreign exchange gains[1]	**14**	17
Other income[2]	**14**	8
Other operating income, total	**32**	29
Loss on sale of subsidiaries and businesses	**-1**	-
Loss on sale of fixed assets	**-1**	-
Impairment of fixed assets	**-3**	-6
Foreign exchange losses[1]	**-19**	-22
Other expenses[2,3]	**-10**	-18
Other operating expenses, total	**-33**	-47
Other operating income and expenses, net	**-2**	-18

[1] Includes foreign exchange gains and losses resulting from trade receivables and payables and related derivatives.
[2] Other income and other expenses include EUR 7 million and EUR -7 million, respectively from changes in allowance for doubtful receivables in 2016.
[3] EUR 5 million of the 2015 amount relates to transfer tax paid in connection with acquisition of the Automation business.

19 Business combinations and disposals of businesses

Business combinations

Valmet made no acquisitions during 2016.

Acquisition of Process Automation Systems

On April 1, 2015, the Group completed its acquisition of Process Automation Systems. The final purchase consideration was EUR 312 million in cash. Process Automation Systems supplies process automation and information management systems and related applications and services to the pulp, paper, energy and other process industries. Control in the acquiree was obtained through a series of share deals financed through long-term borrowings. Goodwill of EUR 164 million arising from the acquisition is attributable to the assembled workforce and synergies expected to arise subsequent to the acquisition. Majority of the goodwill recognized is not expected to be deductible for income tax purposes.

As a result of the acquisition, Valmet will become a stronger and unique technology and services company in its field, with a full automation offering.

The acquisition strengthens Valmet's competitiveness by combining paper, pulp and power plant technology offering services, process know-how and automation into one customer value-adding entity.

The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition.

The below amounts include EUR 2 million of net receivables from Valmet that were settled at closing.

EUR million	As at April 1, 2015
Non-current assets	
Goodwill	164
Other intangible assets	166
Property, plant and equipment	26
Financial and other non-current assets	13
Total non-current assets	369
Current assets	
Inventories	51
Trade receivables	45
Other current assets	70
Cash and cash equivalents	48
Total current assets	213
Non-current liabilities	
Deferred tax liability	47
Other non-current liabilities	7
Total non-current liabilities	53
Current liabilities	
Current debt	65
Trade and other payables	51
Advances received	75
Other current liabilities	26
Total current liabilities	216
Net assets acquired	312

Acquisition related costs of EUR 2 million have been charged to 'Selling, general and administrative expenses' in the 'Consolidated Statement of Income' for the 12 months ended December 31, 2015.

From the date of acquisition, Process Automation Systems contributed EUR 229 million of revenue and EUR 19 million to profit of the Group. If the acquisition had occurred on January 1, 2015, management estimates that the combined statement of income would show net sales of EUR 2,983 million and profit of EUR 64 million. These pro-forma amounts, include estimated interest expenses and income taxes as well as the fair value adjustments, determined as at December 31, 2015, for the January–March period.

The following table presents the cash flows associated with the acquisition of the Process Automation Systems business.

EUR million	
Consideration transferred	-312
Cash and cash equivalents acquired	48
Loan repayments at closing	-54
Net cash outflow	**-318**

Acquisition of MC Paper Machinery and Focus Rewinding business

On August 6, 2015, the Group completed its acquisition of the MC Paper Machinery and Focus Rewinding business, through purchase of 100 percent of the share capital of Valmet Pescia S.r.l.. The purchase consideration paid and final goodwill arising from the transaction amounted to EUR 5 million and EUR 6 million, respectively. This acquisition had no material effect on Valmet's financial statements for the August–December 2015 period.

Disposals of businesses

Valmet made no significant disposals during 2015 or 2016.

20 Financial risk management

As a global company, Valmet is exposed to a variety of business and financial risks. Financial risks are managed centrally by the Corporate Treasury (hereafter the Treasury) under annually reviewed written policies approved by Valmet's Board of Directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries. The Treasury functions as a counterparty to the subsidiaries, manages centrally external funding and is responsible for the management of financial assets and appropriate hedging measures. The objective of financial risk management is to mitigate potential adverse effects of financial risks on Valmet's financial performance.

Sensitivity analysis

Sensitivity analysis presented in connection with various financial risks are based on the risk exposures at the balance sheet date. Sensitivities are calculated by assuming a change in one of the risk factors of a financial instrument, such as interest rate or currency. When calculating the sensitivity, commonly used market conventions have been chosen in assuming a variation of 1 percentage point (100 basis points) in interest rates, a 10 percent change in foreign exchange rates and in commodity prices.

Liquidity and refinancing risk management

Liquidity or refinancing risk arises when a company is not able to arrange funding at terms and conditions corresponding to its creditworthiness. Cautious maturity distribution of debt portfolio and sufficient cash, short-term investments and committed and uncommitted credit facilities are maintained to protect short-term liquidity and to manage refinancing risk.

Diversification of funding among different markets and an adequate number of financial institutions are used to safeguard the availability of liquidity at all times. The Treasury monitors bank account structures, cash balances and forecasts of the subsidiaries and manages the utilization of the consolidated cash resources.

At the end of 2016 'Cash and cash equivalents' amounted to EUR 240 million (EUR 165 million) and available-for-sale interest bearing financial assets to EUR 1 million (EUR 7 million). In addition Valmet had a committed revolving credit facility of EUR 200 million which matures in 2022, committed overdraft limits of EUR 14 million and uncommitted domestic commercial paper program of EUR 200 million which were all unused at the end of the reporting period.

Net working capital management is an integral part of the liquidity risk management. The Treasury monitors and forecasts net working capital fluctuations in close co-operation with the subsidiaries. Net working capital decreased to EUR -294 million (EUR -238 million) due to e.g. impact of the large capital projects' milestone payment schedules on net working capital.

Valmet's refinancing risk is managed by balancing the proportion of 'Current and non-current debt' and average maturity of

'Non-current debt' including committed undrawn credit facility. The average maturity of 'Non-current debt' including 'Current portion of non-current debt' and committed undrawn credit facility was 3.9 years (3.4 years). The amount of 'Current debt' including 'Current portion of non-current debt' was 15 percent (17%) of total debt portfolio. The tables below present undiscounted cash flows on the repayments and interests on Valmet's debt by the remaining maturities from the balance sheet date to the contractual maturity date. The maturities of the derivatives are presented in Note 8.

EUR million	2017	2018	2019	2020	2021 and later
Loans from financial institutions					
Repayments	48	47	53	39	123
Interests	3	3	2	2	3
Trade and other payables	754	-	-	-	-
Total	**805**	**49**	**56**	**41**	**126**

As at December 31, 2016 there were no material liabilities under finance lease obligations and other debt.

Capital structure management

The capital structure management seeks to safeguard the ongoing business operations, to ensure flexible access to capital markets and to secure adequate funding at a competitive rate. Capital structure management in Valmet comprises both equity and total debt. As of December 31, 2016 the 'Total equity' was EUR 886 million (EUR 860 million) and the amount of 'Total debt' was EUR 310 million (EUR 371 million).

Valmet has not disclosed any long-term financial ratio for its capital structure. However, the objective of Valmet is to maintain strong capital structure in order to secure customers, investors, creditors and market confidence. The capital structure is assessed regularly by the Board of Directors and managed operationally by the Treasury. Loan facility agreements include customary covenants and Valmet is in clear compliance with the covenants at the balance sheet date. Valmet has no credit rating at December 31, 2016.

EUR million	As at Dec 31, 2016	2015
Total interest bearing liabilities	**310**	371
Cash and cash equivalents	**240**	165
Available-for-sale interest bearing financial assets	**1**	7
Other interest bearing receivables	**17**	21
Interest bearing net debt	**52**	178
Total equity	**886**	860
Gearing ratio	**6%**	21%

Interest rate risk

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing items. The interest rate risk is managed and controlled by the Treasury. The interest rate risks are managed through balancing the ratio between fixed and floating interest rates and duration of debt and investment portfolios. Additionally, Valmet may use derivative instruments such as forward rate agreements, swaps, options and futures contracts to mitigate the risks arising from 'Interest bearing assets and liabilities'. The ratio of fixed rate debt of the 'Total debt' is accepted to stay within the 10-60% range including the interest rate derivatives. The duration of the 'Non-current debt' including the 'Current portion of non-current debt' and the interest rate derivatives is accepted to deviate between 6–42 months.

The fixed rate interest proportion of total debt portfolio was 29 percent (27%), the duration was 1.5 years (1.5 years) and the EUR denominated debt was 100 percent (100%) of the entire gross debt at the end of 2016.

The basis for the interest rate risk sensitivity analysis is an aggregate Group level interest rate exposure, composed of interest bearing assets, interest bearing liabilities and interest rate swaps, which are used to hedge the underlying exposures. The sensitivity analysis does not include interest rate impact from foreign exchange derivatives when an impact of 1 percentage point change in interest rates is not significant, assuming similar change in all currency pairs at the same time. For all interest bearing debt, assets and interest rate derivatives to be fixed during the next 12 months a change of 1 percentage point upwards or downwards in interest rates with all other variables held constant would have an effect, net of taxes:

EUR million	2016	2015
Profit/loss	**+/- 0.0**	-/+ 0.8
Equity	**+/- 1.9**	+/- 2.0

Valmet has used the interest rate derivatives to hedge the interest rate risk of debt portfolio. All interest rate swaps have been accounted in accordance with the principles of hedge accounting as cash flow hedges. The nominal and fair values of the outstanding interest rate derivative contracts are presented in Note 8.

Foreign exchange risk

Valmet operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decrease the significance of any individual currency. Substantial proportion of Valmet's net sales and costs are generated in euros (EUR), US dollars (USD), Swedish crowns (SEK) and Chinese yuans (CNY).

Transaction exposure

Foreign exchange transaction exposure arises when a subsidiary has commercial or financial transactions and payments in another currency than its own functional currency and when related cash inflow and outflow amounts are not equal or concurrent.

In accordance with the Treasury Policy, subsidiaries are required to hedge in full the foreign currency exposures on consolidated statement of financial position and other firm commitments. Cash flows denominated in a currency other than the functional currency of the subsidiary are hedged with internal forward exchange contracts with the Treasury for periods, which do not usually exceed two years. Subsidiaries also carry out hedging directly with the banks in countries, where the regulation does not allow corporate internal cross-border contracts.

The Treasury monitors the net position of each currency and decides to what extent a currency position is to be closed. The Treasury is responsible for entering into an external forward transaction corresponding to the internal forward whenever a subsidiary applies hedge accounting. Valmet's Treasury Policy defines upper limits on the open currency exposures managed by the Treasury; limits have been calculated on the basis of their potential profit and loss impact. To manage the foreign currency exposure the Treasury may use forward exchange contracts and foreign exchange options.

Valmet is exposed to foreign currency risk arising from both on- and off-balance sheet items. The foreign currency exposure is composed of all assets and liabilities denominated in foreign currencies and their counter values in local currencies. Calculation includes short- and long-term sales and purchase contracts, projected cash flows for unrecognized firm commitments and financial items, net of respective hedges. The table below illustrates the Group's outstanding foreign currency risk at the end of the reporting period:

	As at Dec 31, 2016				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	**-15**	**-139**	**180**	**-27**	**1**
of which trade and other receivables	**33**	**-84**	**36**	**7**	**8**
of which trade and other payables	**-28**	**19**	**-**	**-2**	**11**
Financial items	**44**	**-140**	**83**	**-10**	**23**
Hedges	**-20**	**278**	**-257**	**27**	**-29**
Total exposure	**9**	**-1**	**6**	**-9**	**-5**

	As at Dec 31, 2015				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	-78	-134	198	-27	41
of which trade and other receivables	-12	-46	40	13	4
of which trade and other payables	-10	11	-4	-11	13
Financial items	148	-214	97	-35	3
Hedges	-75	341	-287	62	-41
Total exposure	-5	-7	8	-	3

This Group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. Assuming euro to appreciate or depreciate 10 percent against all other currencies, the impact on cash flows, net of taxes, would be:

	As at Dec 31, 2016				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	**+/- 0.1**	**-/+ 0.5**	**+/- 0.7**	**+/- 0.4**	**+/- 0.7**

	As at Dec 31, 2015				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	+/- 0.5	-/+ 0.7	-/+ 0.0	-/+ 0.2	-/+ 0.4

The sensitivity analysis as required by IFRS 7, includes financial instruments, such as 'Trade and other receivables', 'Trade and other payables', interest bearing liabilities, deposits, 'Cash and cash equivalents' and derivative financial instruments.

The table below presents the effects, net of taxes, of a +/- 10 percent change in EUR against all other currencies:

EUR million	2016	2015
Profit / loss	**+/- 1.4**	+/- 0.3
Equity	**+/- 0.8**	+/- 3.8

The effect in 'Equity' is the fair value change in derivative contracts qualifying as cash flow hedges for firm sales and purchase contracts. The effect in profit and loss is the fair value change for all other financial instruments exposed to foreign exchange risk. With respect to sales and purchase contracts, this includes derivatives, which qualify as cash flow hedges, to the extent the underlying sales transaction, recognized under the percentage of completion method, has been recognized as revenue.

The nominal and fair values of the outstanding foreign exchange derivative contracts are presented in Note 8.

Translation or equity exposure

Foreign exchange translation exposure arises when the 'Equity', 'Goodwill' and fair value step up of a subsidiary is denominated in currency other than the functional currency of the parent company. The total non-EUR denominated 'Equity', 'Goodwill' and fair value step up of the subsidiaries were EUR 413 million (EUR 482 million). The major translation exposures were EUR 160 million (EUR 202 million) in SEK and EUR 116 million (EUR 144 million) in CNY. Valmet is currently not hedging any equity exposure.

Commodity risk

Valmet is exposed to risk in variations of the prices of raw materials and of supplies including energy. Subsidiaries have identified their commodity price hedging needs and hedges have been executed through the Treasury using approved counterparties and instruments. For commodity risks separate overall hedging limits are defined and approved. Hedging is done on a rolling basis with a declining hedging level over time.

Electricity exposure in the Nordic subsidiaries has been hedged with electricity forwards and fixed price physical contracts, which are designated as hedges of highly probable future electricity purchases. Hedging is focused on the estimated energy consumption for the next two-year period with some contracts extended to approximately five years. The execution of electricity hedging has been outsourced to an external broker. As at December 31, 2016 Valmet had outstanding electricity forwards amounting to 121 GWh (216 GWh) and 228 GWh (153 GWh) under fixed price purchase agreements.

Valmet may reduce its exposure to the surcharge for certain metal alloys (Alloy Adjustment Factor) by entering into average-price swap agreements for nickel. As at December 31, 2016 Valmet had no outstanding average-price swap agreements for nickel.

The following table presenting the sensitivity analysis of the commodity prices based on financial instruments comprises the net aggregate amount of commodities bought through forward contracts and swaps but excludes the anticipated future consumption of electricity.

A 10 percent change upwards or downwards in electricity prices would have the following effects, net of taxes:

EUR million	2016	2015
Profit / loss	**+/- 0.1**	+/- 0.1
Equity	**+/- 0.2**	+/- 0.3

Cash flow hedge accounting has been applied for electricity forward contracts. The effective portion of derivatives is recognized in equity and the ineffective portion is recognized through profit and loss.

Credit and counterparty risk

Credit or counterparty risk is defined as the possibility of a customer, subcontractor or a financial counterparty not fulfilling its commitments towards Valmet. Subsidiaries are primarily responsible for credit risks pertaining to sales and procurement activities. The subsidiaries assess the credit standing of their customers, by taking into account their financial position, past experience and other relevant factors. Advance payments, letters of credit and third party guarantees are actively used to mitigate credit risks. The Treasury provides centralized services related to trade, project and customer financing and seeks to ensure that the principles of the Treasury Policy are adhered to with respect to terms of payment and required collateral. Valmet has no significant concentrations of credit risks due to the large number and geographic dispersion of companies that comprise the Group's customer base.

The maximum credit risk equals the carrying value of 'Trade and other receivables'. The credit risk quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in Note 7.

Counterparty risk arises also from financial transactions agreed upon with banks, financial institutions and corporations. The risk is managed by careful selection of banks and other counterparties and by applying counterparty specific limits and netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association). When measuring the financial credit risk exposure, all open exposures such as cash at bank accounts, investments, deposits and other financial transactions, for example derivative contracts, are included. The compliance with financial counterparty limits are regularly monitored by the management.

Fair value estimation

For those financial assets and liabilities which have been recognized at fair value in the 'Consolidated Statement of Financial Position', the following measurement hierarchy and valuation methods have been applied:

Level 1

Quoted unadjusted prices at the balance sheet date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include debt and equity investments classified as financial instruments available-for-sale.

Level 2

The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Level 2 financial instruments include over-the-counter derivatives classified as financial assets/liabilities at fair value through profit and loss or qualified for hedge accounting.

Level 3

A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data.

The tables below present Valmet's financial assets and liabilities that are measured at fair value. There have been no transfers between fair value levels during 2016. Fair value levels of other financial assets and liabilities are shown in Note 6.

	As at Dec 31, 2016		
EUR million	**Level 1**	**Level 2**	**Level 3**
Assets			
Derivatives at fair value through profit and loss	**-**	**7**	**-**
Derivatives qualified for hedge accounting	**-**	**11**	**-**
Available-for-sale financial assets	**2**	**-**	**2**
Total assets	**2**	**18**	**2**
Liabilities			
Derivatives at fair value through profit and loss	**-**	**6**	**-**
Derivatives qualified for hedge accounting	**-**	**23**	**-**
Total liabilities	**-**	**29**	**-**

	As at Dec 31, 2015		
EUR million	**Level 1**	**Level 2**	**Level 3**
Assets			
Derivatives at fair value through profit and loss	-	6	-
Derivatives qualified for hedge accounting	-	8	-
Available-for-sale financial assets	8	-	2
Total assets	8	15	2
Liabilities			
Derivatives at fair value through profit and loss	-	4	-
Derivatives qualified for hedge accounting	-	13	-
Total liabilities	-	16	-

There were no changes in level 3 instruments for the 12 months ended December 31, 2016.

21 Investments in associates and joint ventures

Valmet Group included the following associated companies and joint ventures:

Company name	Place of incorporation and principal place of business	Share of ownership Dec 31, 2016	Dec 31, 2015	Measurement method
Allimand S.A.	France	**35.8%**	35.8%	Equity
Valpro gerenciamento de obras Ltda	Brazil	**51.0%**	51.0%	Equity
Nanjing SAC Metso Control System Co., Ltd.	China	**21.95%**	21.95%	Equity

Allimand S.A. is a French company that provides products and services for the paper industry and its main focus is on specialty paper- and mid-size board machines. Allimand S.A. is an associated company for Valmet. Management reassessed the nature of its interest in Allimand S.A. in 2015 concluding that its interest in this associate is of an investing rather than operating in nature, and consequently, reporting of Valmet's share of profit and losses in Allimand S.A. below operating profit is appropriate.

Valpro gerenciamento de obras Ltda is a joint venture between Valmet and Progen which attends exclusively to Valmet projects in the South American pulp, paper and energy market. Valpro gerenciamento de obras Ltda was established in 2013 in order to strengthen and diversify activities in Brazil. The joint venture supplies specialized technical services in the field of construction and erection management.

Valpro gerenciamento de obras Ltda is classified as joint venture, because Valmet has, together with the other shareholder, joint power to govern the company.

Nanjing SAC Metso Control System Co., Ltd. (SAC) is a company established in 2011 between Metso Automation Co., Ltd. and Guodian Nanjing Automation Co., Ltd. SAC, Guodian Nanjing Automation Co., Ltd is a public company majority owned by Huadian Power International Corporation Limited, one of the five biggest power producing companies in China. The ownership of Metso Automation Co., Ltd. transferred to Valmet when the Group completed its acquisition of Process Automation Systems on April 1, 2015. Nanjing SAC Metso Control System Co., Ltd. concentrates on developing new technology, products and solutions to the digital power plant concepts by combining the resources of the parties. The associated company is focusing especially on the Chinese market.

Allimand S.A., Valpro gerenciamento de obras Ltda and Nanjing SAC Metso Control System Co., Ltd. are private companies and there are no quoted market prices available for their shares. There are no contingent liabilities relating to Valmet's interest in Allimand S.A., Valpro gerenciamento de obras Ltda or Nanjing SAC Metso Control System Co., Ltd.

Summarized financial information of Allimand S.A. and Nanjing SAC Metso Control System Co., Ltd. is set out below. The summarized financial information below represents amounts shown in Allimand S.A.'s and Nanjing SAC Metso Control System Co., Ltd.'s financial statements.

The current and non-current assets and liabilities, revenues and results of Valpro gerenciamento de obras Ltda are not material.

	Allimand S.A. As at Aug 31,		SAC As at Dec 31,	
EUR million	2016	2015	2016	2015
Non-current assets	**8**	8	**13**	13
Current assets	**29**	28	**81**	82
Non-current liabilities	**10**	5	**-**	-
Current liabilities	**19**	24	**55**	55
Net assets	**8**	7	**40**	40
Valmet's share of net assets	**3**	3	**9**	9

EUR million	Allimand S.A. Year ended Dec 31, 2016[1]	2015[2]	SAC Year ended Dec 31, 2016	2015[3]
Revenue	**50**	23	**52**	45
Profit / loss	**1**	1	**3**	7

[1] Period Sep 2015–Aug 2016
[2] Period Jan–Aug 2015
[3] Period Apr–Dec 2015

Carrying value of investments in associates and joint ventures:

EUR million	Year ended Dec 31, 2016	2015
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	**8**	1
Acquired in business combination	**-**	8
Acquisition cost at end of year	**8**	8
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	**3**	4
Share of results, operative investments	**1**	2
Share of results, financial investments	**-**	-2
Dividend income	**-1**	-
Equity adjustments at end of year	**4**	3
Carrying value at end of year	**12**	12

22 Audit fees

In 2016, the Annual General Meeting of Valmet Oyj elected Authorised Public Accountants PricewaterhouseCoopers Oy (PwC) as Valmet Oyj's auditor.

	Year ended Dec 31,			
	2016		2015	
EUR million	Paid to PwC	Paid to other auditors	Paid to PwC	Paid to other auditors
Audit	**-1.3**	**-0.2**	-1.1	-0.2
Tax consulting	**-0.7**	**-0.2**	-0.5	-0.2
Other services	**-0.1**	**-0.3**	-0.3	-0.3
Total	**-2.1**	**-0.8**	-1.9	-0.8

23 Lease contracts

Valmet leases offices, manufacturing and warehouse space under various non-cancellable leases. Certain contracts contain renewal options for various periods of time.

Minimum annual rental expenses for leases in effect at December 31 are shown in the table below:

EUR million	2016	2015
Not later than 1 year	**17**	18
Later than 1 year and not later than 2 years	**13**	14
Later than 2 years and not later than 3 years	**9**	9
Later than 3 years and not later than 4 years	**5**	6
Later than 4 years and not later than 5 years	**3**	3
Later than 5 years	**5**	6
Total minimum lease payments	**51**	56

Total rental expenses amounted to EUR 21 million in 2016 and EUR 22 million in 2015.

As at December 31, 2016 and 2015 there were no material assets leased under financial lease arrangements. Payments under operating leases are expensed as incurred.

24 Contingencies and commitments

Valmet Oyj, with its subsidiaries, and financial institutions have guaranteed commitments arising from the ordinary course of business of Valmet Group up to a maximum of EUR 853 million and EUR 771 million as at December 31, 2016 and 2015, respectively.

On September 16, 2016 Valmet announced by stock exchange release of arbitration proceedings initiated by Suzano Papel e Celulose S.A. (Suzano) against three Valmet legal entities related to the construction of a green field pulp mill in Imperatriz, Brazil, claiming approximately EUR 80 million. Valmet management disputes the claims brought on by Suzano and is of the opinion that as at December 31, 2016, it is more likely that no present obligation exists than that it would exist, and therefore, no provision has been recognized related to the arbitration in these annual financial statements. Valmet is actively pursuing claims of its own against Suzano for breach by Suzano of its obligations under the agreement.

25 Related party information

Valmet's related parties include Valmet Group companies (see Note 26) and associated companies and joint ventures (see Note 21) as well as the members of Valmet's Board of Directors and Executive Team.

Remuneration of Chief Executive Officer and other Executive Team members

The table below presents the expenses related to management compensation that have been recognized in profit and loss. More information about share-based payments is presented in Note 13.

EUR thousand	Salaries and other short-term benefits	Performance bonus	Share-based payment	Post-retirement benefits	Termination benefits	Total
2016						
President and CEO	-511	-182	-709	-252	-	**-1,654**
Other Executive Team members	-3,213	-866	-3,083	-1,219	-	**-8,381**
Total	**-3,724**	**-1,048**	**-3,792**	**-1,471**	**-**	**-10,035**
2015						
President and CEO	-506	-260	-411	-233	-	-1,411
Other Executive Team members	-2,972	-761	-1,581	-1,093	-291	-6,698
Total	-3,478	-1,021	-1,992	-1,326	-291	-8,109

The President and CEO is entitled to retire when reaching 63 years of age. All other Executive Team members belong to the pension systems of their country of residence and have a statutory retirement age. The President and CEO and members of the Executive Team belong to supplementary defined contribution pension plans.

Contributions to the plans are 15–20 percent of the employee's annual salary. Expenses are included in the post-retirement benefits together with statutory pension benefits presented in the table above. The final benefit received by the employee depends on the return on the plan's investments.

Remuneration paid to members of the Board of Directors

EUR thousand	2016
Bo Risberg, Chairman	**-120**
Mikael von Frenckell, Vice Chairman	**-69**
Aaro Cantell, Member since March 22, 2016	**-53**
Friederike Helfer, Member	**-68**
Jouko Karvinen, Member since March 22, 2016	**-61**
Tarja Tyni, Member since March 22, 2016	**-56**
Lone Fønss Schrøder, Member	**-69**
Rogério Ziviani, Member	**-74**
Eija Lahti-Jäntti, Personnel Representative	**-6**
Total	**-577**

As at December 31, 2016, the aggregate shareholding of the Board of Directors, the President and CEO and other Executive Team members was 441,806 shares (293,214 shares as at December 31, 2015).

Valmet has no loan receivables from the Executive Team or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

26 Group companies

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
Valmet Automation Pty Ltd	Australia	Sales	100.0	100.0
Valmet Pty Ltd	Australia	Sales	-	100.0
Valmet GesmbH	Austria	Sales	-	100.0
Valmet Celulose Papel e Energia Ltda	Brazil	Manufacturing	-	100.0
Valmet Fabrics Tecidos Técnicos Ltda	Brazil	Manufacturing	-	100.0
Valmet Ltd.	Canada	Sales	-	100.0
Valmet S.A.	Chile	Sales	-	100.0
Valmet (China) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Automation (Shanghai) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Fabrics (China) Co., Ltd.	China	Sales	-	100.0
Valmet Paper (Shanghai) Co., Ltd.	China	Sales	-	100.0
Valmet Paper Technology (China) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Paper Technology (Guangzhou) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Paper Technology (Xi'an) Co., Ltd.	China	Manufacturing	-	75.0
Valmet Technologies Co., Ltd.	China	Sales	-	100.0
Valmet d.o.o.	Croatia	Manufacturing	-	100.0
Valmet Automation s.r.o.	Czech Republic	Sales	-	100.0
Valmet s.r.o.	Czech Republic	Manufacturing	-	100.0
Valmet Technologies Oü	Estonia	Sales	-	100.0
Valmet Automation Oy	Finland	Manufacturing	100.0	100.0
Valmet Kauttua Oy	Finland	Manufacturing	-	100.0
Valmet Technologies Oy	Finland	Manufacturing	100.0	100.0
Valmet Automation SAS	France	Sales	-	100.0
Valmet SAS	France	Manufacturing	-	100.0
Valmet Automation GmbH	Germany	Sales	-	100.0
Valmet Deutschland GmbH	Germany	Holding	-	100.0
Valmet GmbH	Germany	Sales	-	100.0
Valmet Plattling GmbH	Germany	Sales	-	100.0
Valmet Automation Limited	India	Manufacturing	-	100.0
Valmet Chennai Pvt. Ltd.	India	Manufacturing	-	100.0
PT Valmet	Indonesia	Sales	-	100.0
PT Valmet Automation Indonesia	Indonesia	Sales	-	100.0
PT Valmet Technology Center	Indonesia	Sales	-	100.0
Valmet Como Srl	Italy	Manufacturing	-	100.0
Valmet Pescia Srl	Italy	Manufacturing	-	100.0
Valmet SpA	Italy	Manufacturing	-	100.0
Valmet Automation K.K.	Japan	Sales	-	100.0
Valmet K.K.	Japan	Sales	-	100.0
Valmet Technologies Sdn Bhd	Malaysia	Sales	-	100.0
Valmet Technologies S. de R.L. de C.V.	Mexico	Sales	-	100.0
Valmet Automation BV	Netherlands	Sales	-	100.0

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
Valmet Automation AS	Norway	Sales	-	100.0
Valmet AS	Norway	Manufacturing	-	100.0
Valmet Automation Sp. z o.o.	Poland	Manufacturing	-	100.0
Valmet Technologies Sp. z o.o.	Poland	Manufacturing	-	100.0
Valmet Lda	Portugal	Manufacturing	-	100.0
Valmet Automation Limited	Republic of Korea	Sales	-	100.0
Valmet Inc.	Republic of Korea	Sales	-	100.0
AO Valmet	Russia	Sales	-	100.0
Valmet Automation JSC	Russia	Sales	-	100.0
Valmet Pte. Ltd	Singapore	Sales	-	100.0
Valmet Automation Pte. Ltd.	Singapore	Sales	-	100.0
Valmet Automation (Pty) Ltd	South Africa	Manufacturing	-	100.0
Valmet South Africa (Pty) Ltd	South Africa	Sales	-	100.0
Valmet Technologies, S.A.U.	Spain	Manufacturing	-	100.0
Valmet Technologies Zaragoza, S.L.	Spain	Manufacturing	-	81.0
Valmet AB	Sweden	Manufacturing	100.0	100.0
Valmet Automation AB	Sweden	Manufacturing	-	100.0
Valmet Automation Co., Ltd.	Thailand	Sales	-	100.0
Valmet Co. Ltd.	Thailand	Sales	-	100.0
Valmet Seluloz Kagit Enerji Teknolojileri A.S.	Turkey	Sales	-	100.0
Valmet Automation Limited	United Kingdom	Sales	-	100.0
Valmet Ltd	United Kingdom	Manufacturing	-	100.0
Valmet, Inc.	USA	Sales	90.0	100.0
Allimand S.A.	France	Manufacturing	-	35.8
Valpro gerenciamento de obras Ltda	Brazil	Manufacturing	-	51.0
Nanjing SAC Metso Control System Co., Ltd.	China	Manufacturing	-	21.95

27 Events after the reporting period

There were no subsequent events after the review period that required recognition or disclosure.

28 New accounting standards

New and amended standards adopted by the Group

In the current year, the Group has adopted number of amendments to existing standards forming part of IASB's annual improvement project. The adoption of these amendments did not have a material impact on the Group's financial position.

New standards and interpretations not yet adopted

The following new standards issued by IASB are expected to be relevant to the Group's operations and financial position:

- IFRS 15, Revenue from contracts with customers, issued in May 2014 will replace IAS 11, Construction contracts, IAS 18, Revenue, and related interpretations. The standard, endorsed by EU in September 2016, is effective for annual periods beginning on or after January 1, 2018.

  The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

  Step 1: Identification of the contract(s) with a customer
  Step 2: Identification of the performance obligations in the contract
  Step 3: Determination of the transaction price attached to the contract
  Step 4: Allocation of the transaction price to the performance obligations identified in the contract
  Step 5: Recognition of revenue when (or as) the entity satisfies a performance obligation.

  Under IFRS 15, revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service, either over time or at a point in time.

  In long-term capital projects, depending on the scope of the project and terms of the contract, Valmet management expects to identify only one or more performance obligations under the new standard. Revenue on these performance obligations is expected to be recognized over time with the progress towards complete satisfaction of the performance obligations being measured by using the cost-to-cost method. The cost-to-cost method is estimated to result in a revenue profile that best depicts the transfer of control on the deliverables to the customer.

  In short-term service contracts that involve delivery of combination of equipment and services, Valmet management expects mostly to recognize two-performance obligations, one for delivery of equipment and another on for rendering of services. Revenue on these two-performance obligation is expected to be recognized at the point in time when control on the deliverables is determined to have transferred to the customer.

  In long-term service contracts where Valmet's activities are largely performed at the customer site, depending on the scope of the contract and terms attached thereto, Valmet management expects to identify one or more performance obligations. Depending on the nature of the services provided, revenue on these performance obligations is recognized either over time or at a point in time. When revenue is recognized over time, progress toward complete satisfaction of the performance obligation is measured using the cost-to-cost method.

  In customer contracts where revenue is currently recognized upon transfer of risks and rewards associated with the deliverable to the customer, Valmet management does not expect to see a significant change in the amount of revenue or gross profit recognized in any interim reporting period when moving into recognizing revenue upon transfer of control.

  Valmet management does not expect step one or step four of the five step revenue recognition model to affect the amount or timing of revenue and cost recognition. However, in contracts where elements of variable consideration are present, reassessment of the transaction prices at each reporting date, could affect the timing of revenue recognition.

  Valmet management has selected the full retrospective restatement approach when adopting to the new revenue guidance as of January 1, 2018. The cumulative effect of applying IFRS15 will therefore be recognized in retained earnings as at January 1, 2017. Under practical expedients permitted by the standard, management does not expect to restate contracts that begin and end within 2017, or contracts that were completed prior to January 1, 2017. Additionally, management will use the transaction price at the date when a contract is completed when restating revenues across comparative reporting periods, rather than estimating revenue amounts for historic dates.

  In the expectation of adopting the new standard governing revenue recognition, Valmet management has decided to no longer use the milestone method as the preferred method for measuring progress in contracts where revenue is recognized in proportion to the stage of completion of contract activity. As of January 1, 2017 the cost-to-cost method will be Valmet's primary method for measuring progress of contract activity. Management estimates that for some contracts this change will defer revenue recognition in the beginning of the project. This is however, not expected to have a significant impact on the amount of gross profit recognized in any interim reporting period.

- The complete version of IFRS 9, issued in July 2014, replaces the guidance previously included in IAS 39. IFRS 9 establishes three separate measurement categories for financial assets, including amortized cost, fair value through OCI and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under IFRS 9 classification and measurement of financial liabilities is based on current IAS 39 principles in material aspects. IFRS 9 includes new credit loss model which focuses on expected credit losses, whereas the current model in IAS 39 is based on incurred credit losses.

  IFRS 9 allows entities to better reflect risk management activities in the financial statements by requiring economic relationship to be demonstrated between hedged item and hedging instrument, instead of current bright line hedge effectiveness tests. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. The standard has been endorsed by the EU in November, 2016. Valmet has started the process of assessing the impact of IFRS 9 implementation on its consolidated financial statements. At this stage, most significant changes are expected to arise from implementing new impairment model and hedge accounting requirements.

- IFRS 16, Leases, was issued in January 2016 and it will replace the current guidance in IAS 17. The standard introduces a single lessee accounting model and requires a lessee to recognize right-of-use assets and corresponding liabilities for all leases except for leases with a term of less than 12 months and small value assets.

  The new standard requires each separate lease component to be identified and accounted for separately. If the components in contracts with both lease and non-lease components are not separated, the whole contract is accounted for as a lease and is recognized to balance sheet.

  The right-of-use asset is initially measured at cost and is object to straight-line depreciation by class of underlying asset. In addition, the requirements in IAS 36 'Impairment of assets' must be applied to the right-of-use asset. The lease liability is initially measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. In subsequent periods the lease liability is measured using the effective interest rate method. The interest expense on the lease liability is presented in financial expenses.

  The standard applies to annual periods beginning on or after January 1, 2019. It has not yet been endorsed by the EU, but this is predicted to take place during H1 2017. The Group has not yet assessed the impact of IFRS 16 on its consolidated financial statements.

Parent Company Statement of Income, FAS

		Year ended Dec 31,	
EUR	Note	2016	2015
Other operating income		**11,763,928.20**	11,441,188.39
Personnel expenses	2	**-12,561,651.24**	-10,859,380.87
Depreciation and amortization		**-723,715.29**	-733,113.16
Other operating expenses	3	**-6,505,972.27**	-14,030,718.83
Operating profit / loss		**-8,027,410.60**	-14,182,024.47
Financial income and expenses, net	5	**75,264,455.97**	32,861,181.57
Profit / loss before appropriations and taxes		**67,237,045.37**	18,679,157.10
Group contributions		**55,732,000.00**	-
Income taxes	7	**-9,320,245.39**	2,914,054.83
Profit / loss		**113,648,799.98**	21,593,211.93

Parent Company Statement of Financial Position, FAS

Assets

EUR	Note	As at Dec 31, 2016	2015
Non-current assets			
Intangible assets	8	**142,937.79**	207,923.29
Property, plant and equipment	8	**6,328,944.28**	6,989,084.00
Equity investments	9	**1,407,347,718.42**	1,448,890,170.84
Non-current receivables	11, 12	**84,639,371.57**	106,917,241.69
Total non-current assets		**1,498,485,972.06**	1,563,004,419.82
Current assets			
Current receivables	11, 12	**163,354,220.86**	103,204,432.69
Available-for-sale financial assets	12	**-**	6,029,640.00
Cash and cash equivalents		**122,389,223.40**	68,004,827.90
Total current assets		**285,743,444.26**	177,238,900.59
Total assets		**1,784,229,416.32**	1,740,243,320.41

Equity and liabilities

EUR	Note	As at Dec 31, 2016	2015
Equity	13		
Share capital		**100,000,000.00**	100,000,000.00
Reserve for invested unrestricted equity		**412,235,760.65**	409,654,428.44
Fair value and other reserves		**-1,281,392.43**	-392,688.26
Retained earnings		**418,729,913.58**	451,747,728.03
Profit / loss		**113,648,799.98**	21,593,211.93
Total equity		**1,043,333,081.78**	982,602,680.14
Liabilities			
Non-current liabilities	12, 14	**267,278,676.20**	311,269,789.14
Current liabilities	12, 15	**473,617,658.34**	446,370,851.13
Total liabilities		**740,896,334.54**	757,640,640.27
Total equity and liabilities		**1,784,229,416.32**	1,740,243,320.41

Parent Company Statement of Cash Flows, FAS

	Year ended Dec 31,	
EUR thousand	**2016**	**2015**
Cash flows from operating activities:		
Profit / loss before appropriations and taxes	**67,237**	18,679
Adjustments		
Depreciation and amortization	**724**	733
Financial income and expenses, net	**-75,264**	-32,861
Other non-cash items	**507**	380
Total adjustments	**-74,034**	-31,748
Increase (-) / decrease (+) in current non-interest bearing receivables	**-14,170**	32,972
Increase (+) / decrease (-) in current non-interest bearing liabilities	**13,900**	-30,678
Change in working capital	**-270**	2,294
Interest and other financial expenses paid	**-21,573**	-13,211
Dividends received	**76,582**	35,007
Interest received	**12,573**	7,675
Income taxes paid	**-460**	-676
Group contribution received	**-**	10,340
Net cash provided by operating activities	**60,055**	28,360
Cash flows from investing activities:		
Investments in tangible and intangible assets	**-**	-23
Proceeds from sale of tangible and intangible assets	**1**	-
Net increase (+) / decrease (-) in loan receivables from Group companies	**36,774**	72,857
Investments in subsidiaries	**-417**	-317,489
Repayment of capital reserve	**41,933**	-
Other investments	**8,628**	26,221
Net cash used in investing activities	**86,919**	-218,434
Cash flows from financing activities:		
Net borrowings (+) / payments (-) of debt from Group companies	**-16,999**	-165,300
Net borrowings (+) / payments (-) of non-current debt	**-60,857**	305,159
Issue of treasury shares to management	**2,075**	1,547
Purchase of treasury shares	**-2,329**	-7,499
Dividends paid	**-52,282**	-37,348
Net increase (+) / decrease (-) in Group pool accounts	**37,803**	76,294
Net cash provided by (+) / used in (-) financing activities	**-92,590**	172,853
Net increase (+) / decrease (-) in bank and cash	**54,384**	-17,221
Cash and cash equivalents at beginning of year	**68,005**	85,226
Cash and cash equivalents at end of year	**122,389**	68,005

Notes to Parent Company Financial Statements

1 Accounting principles

The parent company's financial statements have been prepaid in accordance with the Finnish Generally Accepted Accounting Principles.

Non-current assets

Tangible and intangible assets are measured at historical cost, less accumulated depreciation according to plan. Land and water areas are not depreciated.

Depreciation and amortization is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Other intangible assets	5–10 years
Buildings and structures	20–25 years
Machinery and equipment	3–5 years
Other tangible assets	20 years

Investments in subsidiaries and other companies are measured at acquisition cost, or fair value in case the fair value is less than cost.

Financial Instruments

Valmet's financial risk management is carried out by a central treasury department (the Group Treasury) under the policies approved by the Board of Directors. The Group Treasury functions in co-operation with the operating units to minimize financial risks to both the parent company and the Group.

The Group's external and internal forward exchange contracts are measured at fair value. The change in the fair value of the instruments used in hedging of operational activities is recognized as 'Other income and expenses' in Statement of income. The change in the fair value of the instruments used in hedging of the foreign currency financial items is recognized in the 'Financial income and expenses' in the 'Statement of income'. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The derivative contracts used to hedge the commodity risk related to the electricity price risk are measured at fair value. The change in the fair value of electricity derivatives is recognized as 'Other income and expenses' in the Statement of income. The fair value of electricity derivatives is based on quoted market prices at the balance sheet date.

Principles of hedge accounting are applied in accounting for interest rate risks arising from floating rate debt. The derivative financial instruments used to hedge the interest rate risk are measured at fair value.

The gain or loss relating to the effective portion of interest rate swaps is recognized in the hedge reserve of the shareholders' equity in the Statement of financial position. The gain or loss relating to the ineffective portion of interest rate swaps is reported under 'Financial income and expenses' in the Statement of income. The fair value on the interest rate swap contract is calculated as the present value of the estimated future cash flows arising from the contract.

Available-for-sale financial assets are measured at fair value. The change in the fair value is recognized in the 'Fair value reserve' of the shareholder's equity in the Statement of financial position. The fair value of available-for-sale financial assets is determined using market rates as at the balance sheet date.

Pensions

An external pension insurance company manages the parent company's statutory and voluntary pension plan that are all of defined contribution in nature. Contributions are expensed to the statement of income as incurred.

Deferred taxes

A deferred tax liability or asset has been calculated for all temporary differences between tax bases of assets and liabilities and their amounts in financial reporting, using the tax rates enacted or substantially enacted by the balance sheet date. The deferred tax liabilities are recognized in the statement of financial position in full, and the deferred tax assets are recognized when it is probable that there will be sufficient taxable profit against which the asset can be utilized.

Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the individual transaction. Foreign currency denominated monetary items recognized in the 'Statement of the financial position' have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains and losses related to business operations are recognized as other income and expenses in the statement of income. Exchange gains and losses related to financing operations are recognized under financial income and expenses.

Receivables

Loan receivables are initially recognized at nominal amounts. Subsequently they are measured at amortized cost, less provision for impairment.

Share-based incentive plan

Rewards arising from share-based incentive plans are settled partly in shares and partly in cash. The shares to be transferred as part of the plan are obtained in public trading. The acquisition of shares is recognized as decrease in 'Retained earnings' and transfer of shares as increase in 'reserve for invested unrestricted equity' and 'Personnel expenses'. The part settled in cash is recognized in the 'Statement of income' under 'Personnel expenses' at the time of payment.

2 Personnel expenses

	Year ended Dec 31,	
EUR thousand	**2016**	**2015**
Salaries and wages	**-10,106**	-8,639
Pension costs	**-1,938**	-1,783
Other indirect employee costs	**-518**	-437
Total	**-12,562**	-10,859

Remuneration paid to Management:

	Year ended Dec 31,	
EUR thousand	**2016**	**2015**
Chief Executive Officer	**-1,654**	-1,411
Members of the Board	**-557**	-504
Total	**-2,231**	-1,914

The President and CEO is entitled to retire when reaching 63 years of age. The President and CEO belongs to a supplementary defined contribution plan. The contribution to the plan is 20 percent of his annual salary. Expenses are included in the remuneration paid to management table above. Additional information on management remuneration is presented in Note 25 of the Consolidated financial statements.

Number of personnel:

	2016	**2015**
Personnel at end of year	**89**	84
Average number of personnel during the year	**90**	84

3 Other operating expenses

EUR thousand	Year ended Dec 31, 2016	2015
Consulting and other services	**-6,273**	-8,703
IT	**-1,478**	-1,845
Valuation of derivatives	**3,173**	-1,790
Other	**-1,928**	-1,693
Total	**-6,506**	-14,031

4 Audit fees

EUR thousand	Year ended Dec 31, 2016	2015
Audit	**-380**	-331
Tax consulting	**-248**	-198
Other services	**-73**	-298
Total	**-701**	-827

5 Financial income and expenses

	Year ended Dec 31,					
	2016			2015		
EUR thousand	Group companies	Other companies	Total	Group companies	Other companies	Total
Dividends received	**76,575**	**613**	**77,188**	35,000	7	35,007
Interest income	**10,025**	**3,512**	**13,537**	6,855	166	7,021
Other financial income	**25,097**	**55,461**	**80,558**	22,091	42,024	64,115
Interest expenses	**-1,476**	**-11,331**	**-12,807**	-1,108	-7,663	-8,771
Other financial expenses	**-17,199**	**-66,012**	**-83,211**	-30,425	-34,086	-64,511
Total			**75,264**			32,861

6 Changes in fair value recognized in income statement

	Year ended Dec 31,	
EUR thousand	2016	2015
Other operating expenses		
Changes in fair value of derivatives	**3,173**	-1,790
Other financial expenses		
Changes in fair value of derivatives	**-16,818**	1,869

7 Income taxes

	Year ended Dec 31,	
EUR thousand	2016	2015
Income tax for the financial period	**-4,794**	-35
Income tax for prior years	**-**	-2
Change in deferred taxes	**-4,526**	2,951
Total	**-9,320**	2,914

8 Intangible assets, Property, plant and equipment

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2015							
Acquisition cost at beginning of financial period	308	810	8,160	782	557	10,309	10,617
Disposals	-	-	-	-100	-	-100	-100
Additions	23	-	-	-	-	-	23
Acquisition cost as at Dec 31	331	810	8,160	682	557	10,209	10,540
Accumulated depreciation at beginning of financial period	-60	-	-2,300	-272	-77	-2,649	-2,709
Other changes and accumulated depreciation of disposals	-	-	-	99	-	99	99
Depreciation charges for the financial period	-63	-	-515	-128	-27	-670	-733
Accumulated depreciation as at Dec 31	-123	-	-2,815	-301	-104	-3,220	-3,343
Net book value as at Dec 31	208	810	5,345	381	453	6,989	7,197

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2016							
Acquisition cost at beginning of financial period	331	810	8,160	682	557	10,209	**10,540**
Disposals	-	-1	-	-	-	-	**-**
Additions	-	-	-	-	-	-	**-**
Acquisition cost as at Dec 31	331	809	8,160	682	557	10,209	**10,540**
Accumulated depreciation at beginning of financial period	-123	-	-2,815	-301	-104	-3,220	**-3,343**
Depreciation charges for the financial period	-64	-	-515	-121	-25	-661	**-725**
Accumulated depreciation as at Dec 31	-187	-	-3,330	-422	-129	-3,881	**-4,068**
Net book value as at Dec 31	**143**	**809**	**4,830**	**260**	**428**	**6,329**	**6,472**

9 Investments

EUR thousand	Shares Group companies	Others	Investments total
2015			
Acquisition cost at beginning of financial period	1,130,040	1,362	1,131,401
Disposals	317,488	-	317,488
Acquisition cost as at Dec 31	1,447,528	1,362	1,448,890
Net book value as at Dec 31	1,447,528	1,362	1,448,890

EUR thousand	Shares Group companies	Others	Investments total
2016			
Acquisition cost at beginning of financial period	1,447,528	1,362	**1,448,890**
Acquisitions	-41,515	-	**-41,515**
Acquisition cost as at Dec 31	**1,406,013**	**1,362**	**1,407,375**
Net book value as at Dec 31	**1,406,013**	**1,362**	**1,407,375**

10 Shareholdings

	Domicile	Ownership %
Valmet Technologies Oy	Finland, Helsinki	100.0
Valmet AB	Sweden, Sundsvall	100.0
Valmet, Inc.	USA, Duluth	90.0
Valmet Automation Oy	Finland, Helsinki	100.0
Valmet Automation PTY Ltd	Australia, Melbourne	100.0

11 Specification of receivables

Non-current receivables:

EUR thousand	As at Dec 31, 2016	2015
Loan receivables from Group companies	**82,009**	97,102
Deferred tax asset	**765**	5,069
Derivatives	**1,865**	2,130
Other receivables	**-**	2,616
Non-current receivables total	**84,639**	106,917

Current receivables:

EUR thousand	As at Dec 31, 2016	2015
Trade receivables from		
Group companies	**6,998**	5,189
Others	**115**	4
Total	**7,113**	5,193
Loan receivables from		
Group companies	**47,995**	65,997
Group pool accounts	**4,341**	1,537
Total	**52,336**	67,534
Prepaid expenses and accrued income from		
Group companies	**85,180**	14,747
Others	**18,678**	15,725
Total	**103,858**	30,472
Other receivables	**47**	5
Current receivables total	**163,354**	103,204
Current receivables from Group companies total	**144,514**	87,470

Specification of prepaid expenses and accrued income:

EUR thousand	As at Dec 31, 2016	2015
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	**55,723**	-
Accrued interest income	**2,695**	2,072
Derivatives	**26,197**	12,345
Other	**556**	330
Total	**85,180**	14,747
Other prepaid expenses and accrued income		
Derivatives	**16,064**	12,270
Other accrued items	**2,614**	3,455
Total	**18,678**	15,725

12 Financial assets and liabilities recognized at fair value

EUR thousand	2016 Fair value Dec 31	2016 Changes in fair value recognized in profit or loss	2016 Changes in fair value recognized in fair value reserve or hedge reserve	2015 Fair value Dec 31	2015 Changes in fair value recognized in profit or loss	2015 Changes in fair value recognized in fair value reserve or hedge reserve
Forward exchange contracts						
With Group companies	**12,144**	**17,387**	**-**	1,471	6,684	-
Others	**-8,245**	**-33,272**	**-**	2,417	-7,680	-
Forward commodity contracts (electricity)						
Others	**-705**	**2,620**	**-**	-3,325	-794	-
Forward contracts (interest rate swap)						
Others	**-1,602**	**-380**	**-1,602**	-509	-85	509
Available-for-sale financial assets						
Others	**-**	**29**	**-**	6,030	103	-10

13 Statement of changes in equity

EUR thousand	As at Dec 31, 2016	2015
Share capital as at Jan 1	**100,000**	100,000
Share capital as at Dec 31	**100,000**	100,000
Reserve for invested unrestricted equity as at Jan 1	**409,654**	407,727
Share-based payments	**2,582**	1,927
Reserve for invested unrestricted equity as at Dec 31	**412,236**	409,654
Fair value and other reserves as at Jan 1	**-393**	22
Additions	**-888**	-415
Fair value reserve as at Dec 31	**-1,281**	-393
Retained earnings as at Jan 1	**480,840**	496,595
Dividends paid	**-52,282**	-37,348
Purchase of treasury shares	**-9,829**	-7,499
Retained earnings as at Dec 31	**418,730**	451,748
Profit / loss	**113,649**	21,593
Total equity as at Dec 31	**1,043,334**	982,603

Statement of distributable funds:

EUR	As at Dec 31, 2016	2015
Invested non-restricted equity fund	**412,235,760.65**	409,654,428.44
Retained earnings	**418,729,913.58**	451,747,728.03
Profit / loss	**113,648,799.98**	21,593,211.93
Total distributable funds	**994,614,474.21**	882,995,368.40

14 Non-current liabilities

EUR thousand	As at Dec 31, 2016	2015
Loans from financial institutions	**261,857**	308,429
Derivatives	**5,422**	2,841
Non-current liabilities total	**267,279**	311,270

15 Current liabilities

EUR thousand	As at Dec 31, 2016	2015
Current portion of non-current loans	**46,571**	60,857
Trade payables to		
Group companies	**978**	286
Others	**1,976**	1,348
Total	**2,954**	1,634
Accrued expenses and deferred income to		
Group companies	**14,533**	11,027
Others	**30,978**	18,246
Total	**45,511**	29,273
Other current interest bearing debt to		
Group companies	**28,568**	45,234
Group pool accounts	**349,597**	308,991
Total	**378,165**	354,225
Other current non-interest bearing debt to others	**416**	382
Current liabilities total	**473,618**	446,371
Current liabilities to Group companies total	**393,676**	365,538

Specification of accrued expenses and deferred income:

EUR thousand	As at Dec 31, 2016	2015
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	**290**	153
Derivatives	**14,053**	10,874
Other accrued items	**190**	-
Total	**14,533**	11,027
Accrued expenses and deferred income to others		
Accrued interest expenses	**1,866**	1,767
Derivatives	**23,060**	12,975
Accrued salaries, wages and social costs	**2,371**	3,002
Other accrued items	**3,681**	502
Total	**30,978**	18,246

16 Other contingencies

Guarantees:

EUR thousand	As at Dec 31, 2016	2015
Guarantees on behalf of subsidiaries	**830,926**	766,392

Lease commitments:

EUR thousand	As at Dec 31, 2016	2015
Payments in the following year	**776**	786
Payments later	**787**	1,376
Total	**1,563**	2,162

List of Account Books Used in Parent Company

	Voucher class	
General journal and general ledger		In electronic format
Specifications of accounts receivable and payable		In electronic format
Fixed assets entries	01, 03, 04, AA	In electronic format
Bank entries	10, 16, 17, 20, 26, 27, 36, 42	In electronic format
Sales invoices	RV	In electronic format
Purchase invoices	23	In electronic format
Travel invoices	32	In electronic format
Salary entries	33	In electronic format
Journal vouchers	30, 51, 52, 53, 54, 55, 59, 64, 67, 68, 71, 72, 75, 79	In electronic format
Financing entries	34, 35	In electronic format

Signatures of Board of Directors' Report and Financial Statements

Espoo, February 8, 2017

Bo Risberg
Chairman of the Board

Mikael von Frenckell
Vice Chairman of the Board

Aaro Cantell
Member of the Board

Friederike Helfer
Member of the Board

Jouko Karvinen
Member of the Board

Tarja Tyni
Member of the Board

Lone Fønss Schrøder
Member of the Board

Rogério Ziviani
Member of the Board

Pasi Laine
President and CEO

The Auditor's Note

Our auditor's report has been issued today.

Espoo, February 8, 2017

PricewaterhouseCoopers Oy
Authorised Public Accountant Firm

Jouko Malinen
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Valmet Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of Valmet Oyj (business identity code 2553019-8) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

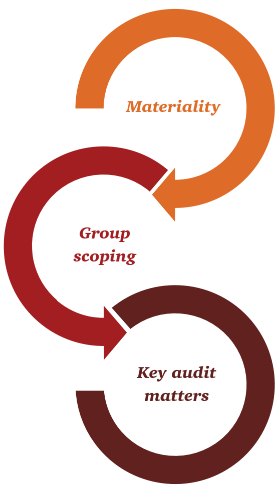
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our Audit Approach

Overview



- Overall group materiality: 6,8 million €, which represents 5% of profit before tax
- We conducted audit work in all major countries covering all key reporting units. The focus of our work was on the most significant reporting units in Finland, Sweden, USA, Brazil and China.
- Accounting of long-term capital projects
- Revenue recognition for service contracts and automation business related contracts
- Goodwill valuation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 6.8 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	Profit before tax is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We conducted audit work in all key countries covering all key reporting units. The group audit scope was focused on the most significant reporting units in Finland, Sweden, USA, Brazil, and China, where we performed an audit of the complete financial information due to their size and their risk characteristics. We also carried out specific audit procedures over group functions and areas of significant judgement, including taxation, goodwill and material litigation. For the remaining reporting units, we performed other procedures to confirm there were no significant risks of material misstatement in the group financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group

Accounting of long-term capital projects

Refer to note 3 to the consolidated financial statements for the related disclosures.

Project revenue recognition is significant to the financial statements based on the quantitative materiality and the degree of management judgment required to account for revenue recognition. The complexity and judgments are mainly related to estimation of the cost to complete the projects and the percentage of completion which the group applies for recognizing revenues and assessing provisions for projects and potential loss making contracts.

The total amount of revenue and profit to be recognized under a contract can be affected by changes in conditions and circumstances over time, such as:

- variations to the original contract
- uncertainties and changes in cost estimates and cost overruns
- scope changes, delays or other circumstances that require further negotiation and settlement.

How our audit addressed the key audit matter

We have met regularly with business line management to identify high risk projects, projects with large work in progress balances or ongoing litigations.

We tested certain key internal controls relating to revenue recognition and IT systems which support the project management and accounting. We performed detailed procedures on individually significant projects and high risk projects. This includes challenging management's estimates and assumptions and substantiating transactions with underlying documents and performing recalculations of management's models to determine project revenue recognition. We used among others contracts and other client documentation as well as internal revenue and cost forecasts. In addition, we discussed the progress of projects with business line management and project management representatives.

With the outcome of those discussions and the results of our audit procedures, we assessed management's assumptions in the determination of the percentage of completion of a projects and estimates to complete for both revenue and costs and provisions for loss making projects.

In addition, we have compared management's historical estimates to actual outcomes booked for a sample of projects, reflecting the accuracy of the estimation process.

Revenue recognition for service contracts and automation business related contracts

Refer to note 3 to the consolidated financial statements for the related disclosures.

The company has several revenue streams relating to service and automation contracts. Sales contracts include also various types of sales price components and different characteristics. Certain of these streams include revenue recognized based on percentage of completion.

We focused on this area because of these different factors effecting revenue recognition, the significant portion of the group net sales arising from these business and the level management judgment required in regards of timing and accuracy of the net sales.

How our audit addressed the key audit matter

Our procedures included understanding of certain management's controls around the completeness and accuracy of the revenue recognized in the accounting systems. We also agreed the recorded amounts during the year to contractual evidence on a sample basis.

Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies including those relating to various types of sales price components, fulfillment of the Group's obligations under the sales agreements and assessing compliance with the policies in terms of applicable accounting standards. We tested on sample basis the correct timing of revenue recognition and traced sample of the delivery terms to the agreements made with the customers.

We assessed sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year end date to assess whether that revenue has been recognized in the correct period.

Goodwill valuation

Refer to note 4 to the consolidated financial statements for the related disclosures.

At 31 December 2016 the group's goodwill balance is valued at 624 million euro. Under IFRS the company is required to annually test goodwill for impairment.

Goodwill valuation was important to our audit due to the size of the goodwill balance and because the assessment of the value in use of the group's Cash Generating Units s is complex, involving judgement about the future results of the business by estimating future EBITDAs and inflation rates and determining the discount rate for the calculations. We focused on the risk that goodwill may be overstated.

Based on the annual goodwill impairment test management concluded that no goodwill impairment was needed.

How our audit addressed the key audit matter

We evaluated management's future cash flow forecasts and the process by which they were drawn up, including comparing them to the latest Board approved budgets, and testing the underlying calculations. We evaluated and challenged the company's future cash flow forecasts in a discussion with management of the business involved, and the process by which they were drawn up, and tested the underlying value in use calculations. We compared the current year actual results to the estimates for the financial year ended 31 December 2016 included in the prior year impairment models to consider whether any forecasts included assumptions that, have proven to be optimistic.

We evaluated and challenged the discount rate used.

We assessed the sensitivity analysis that had been performed by management around the key drivers of the cash flow forecasts, which were:

- the discount rate
- the projected EBITDAs

to identify how much each of these key drivers needed to change, either individually or collectively, before the goodwill was impaired.

We also evaluated the likelihood of such a movement in those key assumptions that would require for goodwill to be impaired.

We assessed the adequacy of the disclosures in note 4, by checking that they were compliant with IFRSs and that their presentation was consistent with our understanding of the key issues and sensitivities in the valuation.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 8 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant

Board of Directors

Bo Risberg
born 1956, Swedish citizen

Valmet Board Member and Chairman of the Board since 2015
Chairman of the Board's Remuneration and HR Committee
Independent of the company and independent of significant shareholders
BSc (Mech. Eng), MBA
Chairman of the Board in Piab Group Holding AB
Vice Chairman of the Board in Grundfos Holding A/S
Board Member of Nordstjernan AB, Trelleborg AB, Poul due Jensen Foundation and Stäubli Holding AG

Mikael von Frenckell
born 1947, Finnish citizen

Valmet Board Member and Vice Chairman of the Board since 2013
Member of the Board's Remuneration and HR Committee
Independent of the company and independent of significant shareholders
M.Sc. (Soc.)
Board Member of Antti Ahlströmin Perilliset Oy, Sponsor Capital Oy and Sponsor Capital Partners Oy

Aaro Cantell
born 1964, Finnish citizen

Valmet Board Member since 2016
Independent of the company and not independent of significant shareholders
M.Sc. (Tech.)
Chairman of the Board in Normet Group Oy, VTT Technical Research Centre of Finland Ltd and Affecto Oyj
Board Member of Federation of Finnish Technology Industries and Solidium Oy

Lone Fønss Schrøder
born 1960, Danish citizen

Valmet Board Member since 2014
Chairman of the Board's Audit Committee
Independent of the company and independent of significant shareholders
M.Sc. (Econ.), Accounting; LL.M
Board Member of Saxobank A/S, Volvo PV AB, Schneider SE, Bilfinger Berger SE, INGKA Holding B.V, Akastor ASA, Canada Steamship Lines and Credit Suisse London

Friederike Helfer
born 1976, Austrian citizen

Valmet Board Member since 2013
Member of the Board's Audit Committee
Independent of the company and independent of significant shareholders
M.Sc. Real Estate Development, Diplom-Ingenieur in Urban Planning, CFA charterholder
Main occupation: Partner at Cevian Capital

Jouko Karvinen
born 1957, Finnish citizen

Valmet Board Member since 2016
Member of the Board's Remuneration and HR Committee
Independent of the company and independent of significant shareholders
M.Sc. (Tech)
Board Member of Finnair Group, International Advisory Board of Komatsu Corporation of Japan, and Foundation Board and Supervisory Board of IMD Business School

Tarja Tyni
born 1957, Finnish citizen

Valmet Board member since 2016
Member of the Board's Audit Committee
Independent of the company and independent of significant shareholders
LL.M.
Chairman of the Board of Innova Oy and Mandatum Life Investment Services Ltd
Board Member of Euroben Life & Pension Limited

Rogério Ziviani
born 1956, Brazilian citizen

Valmet Board Member since 2013
Independent of the company and independent of significant shareholders
B.Sc. in Business Management, MBA
Board Member of Innovatech Negócios Florestais

Eija Lahti-Jäntti
born 1963, Finnish citizen

Personnel representative since 2014
MBA
Main occupation: Project coordinator at Valmet
Personnel representative Eija Lahti-Jäntti will participate as an invited expert in meetings of the Board of Directors.
Employed by Valmet since 1988

Erkki Pehu-Lehtonen was Member of Valmet's Board and Member of the Board's Audit Committee and Remuneration and HR Committee until March 22, 2016.

More information about Valmet's Board of Directors: **www.valmet.com/management**

Executive Team

Pasi Laine
born 1963

President and CEO

M.Sc. (Eng.)

Finnish citizen

Jukka Tiitinen
born 1965

Business Line President,
Services

M.Sc. (Eng.)

Finnish and US citizen

Sakari Ruotsalainen
born 1955

Business Line President,
Automation

M.Sc. (Eng.)

Finnish citizen

Bertel Karlstedt
born 1962

Business Line President,
Pulp and Energy

M.Sc. (Eng.)

Finnish citizen

Jari Vähäpesola
born 1959

Business Line President,
Paper

M.Sc. (Eng.)

Diploma in International
Marketing Management

Finnish citizen

David (Dave) King
born 1956

Area President, North America
from November 15, 2017

B.Sc. (Eng)

US citizen

Celso Tacla
born 1964

Area President,
South America

MBA

Production Engineer
Chemical Engineer

Brazilian citizen

Vesa Simola
born 1967

Area President, EMEA

M.Sc. (Eng.)

Finnish citizen

Aki Niemi
born 1969

Area President, China

M.Sc. (Eng.)

Finnish citizen

Hannu T Pietilä
born 1962

Area President, Asia Pacific

B.Sc. (Mechanical Engineering)

Finnish citizen

Juha Lappalainen
born 1962

Senior Vice President,
Strategy and Operational
Development

M.Sc. (Eng.)

Finnish citizen

Julia Macharey
born 1977

Senior Vice President,
Human Resources

B.A. (Intercultural
Communication)

M.Sc. (Econ.)

Finnish citizen

Kari Saarinen
born 1961

CFO

M.Sc. (Accounting and Finance)

Finnish citizen

Anu Salonsaari-Posti
born 1968

Senior Vice President,
Marketing and Communications

M.Sc. (Econ.), MBA

Finnish citizen

William (Bill) Bohn was Area president, North America until November 15, 2016.

More information about Valmet's Executive Team: **www.valmet.com/management**

Shares and Shareholders

Valmet share

The trading in Valmet Oyj's shares commenced on Nasdaq Helsinki on January 2, 2014. Valmet's share capital amounts to EUR 100,000,000 and the aggregate number of Valmet shares is 149,864,619. Valmet has one series of shares and its shares have no nominal value. Each share carries one vote at the general meeting of shareholders.

The volume of Valmet shares traded in Nasdaq Helsinki during 2016 was 103,423,288, which represents approximately 80 percent of the total volume of traded Valmet shares. In addition to Nasdaq Helsinki, Valmet shares are also traded on other market places, for example Chi-X and BATS. During 2016, the volume of Valmet shares traded on the alternative market places was 26,044,128, which represents approximately 20 percent of the total volume of traded Valmet shares. Of the alternative exchanges, Valmet's shares were traded especially on Chi-X. (Source: Nasdaq, VWD, Six)

Valmet Oyj held 399 Valmet shares on December 31, 2016.

Closing price

December 31, 2015:
EUR 8.90

December 30, 2016:
EUR 13.98

Change:
+57%

Market capitalization of shares

December 31, 2015:
EUR 1,333,795,109

December 31, 2016:
EUR 2,095,107,374

Change:
EUR 761,312,265

High, low and average price during the review period

High: **EUR 15.06**

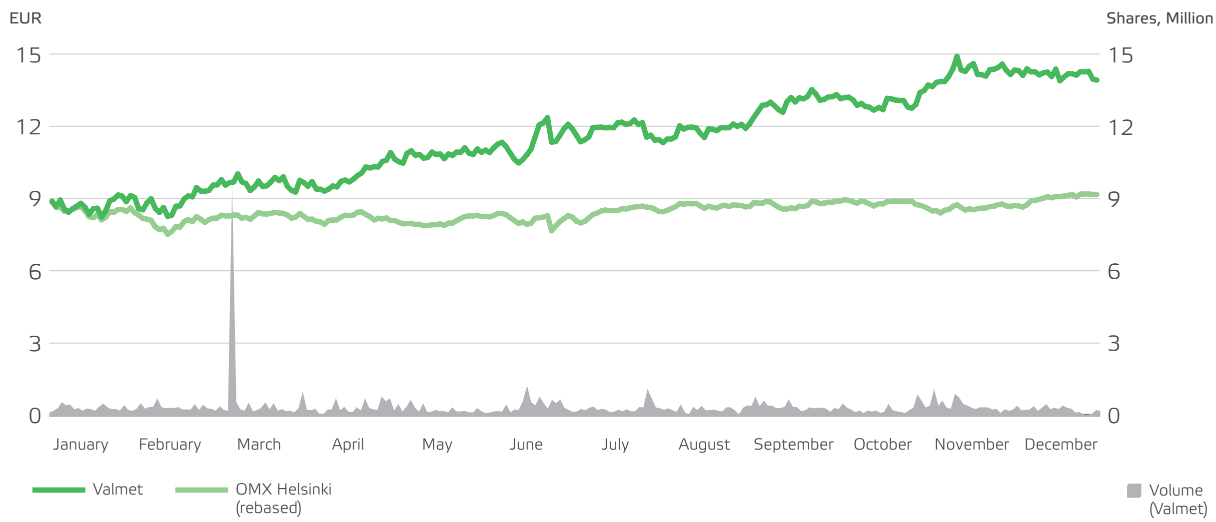
Low: **EUR 8.08**

Volume-weighted average share price:
EUR 11.52

Volume

Total:
129,467,416

% of outstanding:
86%



Basic information on Valmet share

- Listed: Nasdaq Helsinki
- First day of listing: January 2, 2014
- Trading currency: euro
- Industry classification: Large corporations
- Trading code: VALMT
- ISIN code: FI4000074984
- Reuters ticker symbol: VALMT.HE
- Bloomberg ticker symbol: VALMT FH

Indices

In 2016, Valmet was included among others in the following indices:

- OMX Helsinki Benchmark
- OMX Helsinki 25
- OMX Helsinki Industrials
- OMX Helsinki Large Cap
- NASDAQ OMX Nordic 120
- Dow Jones Sustainability World (DJSI World) and Europe (DJSI Europe)
- OMX GES Ethical Nordic Index

Shareholders

The number of registered shareholders at the end of December 2016 was 45,573 (47,952 on December 31, 2015).

Shares owned by nominee-registered parties and by non-Finnish parties equaled 49.4 percent of the total number of shares at the end of December 2016 (51.3% on December 31, 2015).

Largest shareholders

Valmet's largest shareholders according to Euroclear Finland are listed below.

	Largest shareholders (Euroclear)	Holdings	% of holdings
1	Solidium Oy[1]	16,695,287	11.14
2	Varma Mutual Pension Insurance Company	5,065,465	3.38
3	Elo Pension Insurance Company	3,810,000	2.54
4	Ilmarinen Mutual Pension Insurance Company	3,388,055	2.26
5	The State Pension Fund	1,545,000	1.03
6	Keva	1,502,166	1.00
7	Nordea Fennia Fund	1,165,130	0.78
8	Mandatum Life Insurance Company Limited	922,537	0.62
9	Odin Finland	915,239	0.61
10	Nordea Pro Finland Fund	753,168	0.50
11	Danske Invest Finnish Institutional Equity Fund	740,000	0.49
12	OP-Finland Small Firms Fund	708,000	0.47
13	OP-Finland Value Fund	659,279	0.44
14	Evli Finnish Small Cap Fund	635,253	0.42
15	Sigrid Jusélius Foundation	610,865	0.41

[1] Solidium Oy is wholly owned by the Finnish state.

Holdings of the Board of Directors and CEO in Valmet on December 31, 2016

		Holdings	Holdings of interest parties
Risberg, Bo	Chairman of the Board	7,663	0
Von Frenckell, Mikael	Vice Chairman of the Board	110,234	0
Cantell, Aaro	Member of the Board	1,796	0
Helfer, Friederike	Member of the Board	5,983	0
Karvinen, Jouko Alvar	Member of the Board	1,796	0
Schrøder, Lone Fønss	Member of the Board	7,480	0
Tyni, Tarja Hannele	Member of the Board	1,796	0
Ziviani, Rogério	Member of the Board	5,983	0
Laine, Pasi Kalevi	President and CEO	70,031	0

Distribution of holdings by number of shares on December 31, 2016

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1–100	19,448	42.7	994,794	0.7
101–1,000	21,631	47.5	7,953,608	5.3
1,001–10,000	4,114	9.0	10,527,880	7.0
10,001–100,000	311	0.7	8,051,087	5.4
100,001–	69	0.2	122,328,810	81.6
Total	**45,573**	**100.00**	**149,856,179**	**100.0**
Nominee registered	**10**	**0.02**	**72,133,207**	**48.1**
Treasury shares held by the parent company	**1**	**0.0**	**399**	**0.0**
On shared account	**0**	**0.0**	**8,440**	**0.0**

Distribution of holdings by group on December 31, 2016

	Number of shareholders	Number of shares	% of share capital
Nominee registered and non-Finnish holders	302	74,077,916	49.4
Finnish institutions, companies and foundations	2,350	38,917,031	26.0
Solidium Oy[1]	0	16,695,287	11.1
Finnish private investors	42,921	20,174,385	13.5
Total	**45,573**	**149,864,619**	**100.0**

[1] Solidium Oy is wholly owned by the Finnish state.

The ownership structure is based on the sector classifications of Statistics Finland. The classification specifies institutions that invest in compulsory insurance, such as pension insurance companies, in the public sector. Life and accident insurance companies, among others, are defined as finance and insurance institutions.

Investor Relations

Valmet arranged a customer site visit to Sappi's mill in Kirkniemi, where Valmet has delivered three paper production lines, a multi-fuel boiler, services and automation.

Mission and goal

The main task of Valmet's Investor Relations is to ensure that the markets have correct and sufficient information in order to determine the value of Valmet's share. Investor Relations is responsible for planning and executing financial and investor communications, and all investor requests are processed centrally through Valmet's Investor Relations.

In addition to Financial Statements and Interim Reviews, the investor website, stock exchange releases and press releases, Valmet's investor communication involves investor meetings, seminars, webcasts, news conferences of result publications, site visits and general meetings. Valmet also arranges Capital Markets Days for investors and analysts.

Valmet's Investor Relations is also responsible for gathering and analyzing market information and investor feedback to be used by Valmet's management and the Board of Directors.

Closed window and silent period

Valmet complies with the Nasdaq Helsinki Guidelines for Insiders. Valmet's managers (i.e. Valmet's Board of Directors, the CEO and the Valmet Executive Team, as defined in the EU-wide Market Abuse Regulation "MAR") are not permitted to trade in Valmet's issued securities during the "closed window", i.e. 30 days immediately prior to the publication of financial results. By Valmet's decision, the closed window also applies to certain named Valmet employees having continuous access to the company's financial reporting systems.

Valmet observes a 21-day silent period prior to the publication of financial results. During this time, Valmet does not comment on the company's financial situation, markets or future outlook, and Valmet's executives and employees do not meet with representatives of capital markets or financial media.

Investor Relations in 2016

During 2016, Valmet's Investor Relations actively arranged different events for investors and analysts. Valmet participated in approximately 230 investor meetings, seminars or conference calls. In addition to investor relations, also the CEO, CFO, Business Line Presidents and Area Presidents participated in investor events. Valmet's site visits offered institutional investors and analysts a chance to meet

Valmet's customer site visit to Sappi's mill in Kirkniemi was arranged in March.

Valmet's site visit to Saica's paper mill in Manchester, the United Kingdom in June.

Valmet hosted its Capital Markets Day in Helsinki in September.

Pasi Laine, President and CEO, presenting at Valmet's Capital Markets Day.

Jukka Tiitinen, Business Line President, Services, presenting at Valmet's Capital Markets Day.

local business management. Altogether, Valmet was on roadshows for a total of 28 days in 13 different countries, such as the United Kingdom, France, Germany, Switzerland, Sweden, Denmark, Netherlands, Japan, Singapore, the United States, and Canada.

Valmet arranged news conferences for Interim Reviews, where the CEO and CFO presented the results for the previous quarter. It was possible to follow these events at Valmet headquarters in Espoo, via a live webcast on Valmet's investor website, a conference call or on Twitter. Recordings and transcripts of these events are available on Valmet's investor website.

During 2016, Valmet arranged two site visits for institutional investors and analysts. The purpose of these visits was to give a better insight into Valmet's businesses. The first visit, on March 17, was to Sappi's mill in Kirkniemi, Finland, where Valmet has delivered three paper production lines, a multi-fuel boiler, services and automation. Therefore, the visit offered a great opportunity to see Valmet's technology in customer use. After the customer site visit, the visitor group had lunch with Valmet's CFO, who presented Valmet's investment highlights and development in Valmet's business areas.

The second visit, on June 14, was to Saica's mill in Manchester, the United Kingdom. Valmet's on-site services operations, mill maintenance outsourcing and key account management were introduced to the visitor group. The highlights of both site visits are presented in the IR Director's blog and in summary videos in the IR Video Gallery, both available on Valmet's investor website.

In September, Valmet arranged its Capital Markets Day for institutional investors and analysts. The aim of the event was to provide information on Valmet's strategy and business outlook, and to give a better insight into how Valmet will reach the new financial targets.

During the year Valmet also participated in different events for private investors, such as the Börskväll event in Helsinki, Finland, the Pörssi-ilta event in Kuopio, Finland, and the Sijoitus-Invest 2016 event in Helsinki, Finland. Valmet also conducted sales briefings for brokers based mainly in Finland and the USA.

Valmet was actively present also in social media. Interesting topics for investors, for example highlights of the site visits and questions related to Interim Reviews, are discussed in the IR Director's blog on Valmet's investor website. Valmet's Investor Relations has a Twitter account, which is used to share updates from different events, such as Valmet's news conferences for result publications. Investors can also order Valmet's IR Newsletter, which is published four times a year to summarize the highlights of each quarter.

Investor events in 2016

JANUARY
- SEB Nordic Seminar, Copenhagen

FEBRUARY
- Publication of Financial Statements Review for 2015 and webcast
- Q4 presentation for Finnish institutions, Helsinki
- Roadshow
  – Singapore
  – Tokyo

MARCH
- Nordic Capital Goods seminar, Stockholm
- Site visit, Kirkniemi
- Annual General Meeting
- Roadshow
  – Zurich
  – Oslo
  – Paris
  – London

APRIL
- Publication of Interim Review January–March and webcast
- Q1 presentation for Finnish institutions, Helsinki

MAY
- Goldman Sachs European Small & Mid Cap Symposium, London
- Nordea Paper and Forest Products Seminar, Helsinki
- Paper Symposium 2016, Geneva
- Berenberg European Conference USA, New York
- Roadshow
  – Edinburgh
  – London
  – Madrid
  – Copenhagen
  – Chicago
  – Boston
  – Montreal

JUNE
- Berenberg Energy Efficiency & Construction Conference, Zurich
- Handelsbanken's Mid/Small Cap seminar, Stockholm
- Site visit, Manchester

JULY
- Publication of Interim Review January–June and webcast

AUGUST
- Q2 presentation for Finnish institutions, Helsinki
- Roadshow
  – Paris
  – London

SEPTEMBER
- Capital Markets Day 2016, Helsinki
- Finnish Industrials Day, Valmet head office, Espoo

OCTOBER
- Publication of Interim Review January–September and webcast
- Q3 presentation for Finnish institutions, Helsinki

NOVEMBER
- Börskväll event, Helsinki
- Pörssi-ilta event, Kuopio
- Sijoitus Invest 2016 event, Helsinki
- Roadshow
  – New York
  – Boston
  – London
  – Frankfurt
  – Amsterdam

DECEMBER

Investors met	Meetings and events	Countries visited	Days of roadshow
~380	~230	13	28

Analyst coverage

During 2016, at least eleven analysts had coverage on Valmet. Of the analysts, seven are located in Helsinki, two in London, one in Stockholm and one in Frankfurt. Analyst contact information and consensus estimates are available on Valmet's investor website. Valmet does not take any responsibility for the content, accuracy or completeness of the views of the capital market representatives.

According to Valmet's knowledge, at least the following bank and brokerage firms have regular coverage on Valmet share:

Helsinki
Carnegie Investment Bank
Danske Markets Equities
Evli
SEB
Inderes
Nordea
OP Corporate Bank

Rest of Europe
Berenberg
DnB NOR
Kepler Cheuvreux
UBS

Valmet's investors website

Valmet's investor website offers investors information about Valmet as an investment and Valmet's operating environment. The website provides various tools for monitoring the development of Valmet's share, such as an interactive share monitor and a closing price search function. The pages also offer information on the company's insiders and their holdings, as well as monthly updated information on the holdings of Valmet's top shareholders and the ownership structure. In addition, the investor website provides financial reports, presentation material and webcast recordings of Valmet's result publication news conferences. The IR Director's blog features Valmet-related posts aimed at investors.

Financial calendar 2017

February 8, 2017	Financial Statements Review 2016
March 23, 2017	Annual General Meeting
April 4, 2017	Silent period begins
April 25, 2017	Publication of Interim Review for January–March 2017
July 6, 2017	Silent period begins
July 27, 2017	Publication of Interim Review for January–June 2017
October 3, 2017	Silent period begins
October 24, 2017	Publication of Interim Review for January–September 2017

The calendar is available on Valmet's investor website.

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