Financial Statements 2017 and Information for Investors

Valmet

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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 2017

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 without deviation with the Finnish Corporate Governance Code for listed companies. The Code is publicly available at www.cgfinland.fi.

Corporate Governance and Remuneration Statements

Valmet has prepared a separate Corporate Governance Statement and a Remuneration Statement for 2017, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. The statements also cover other central areas of corporate governance. The statements have 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 as well as the auditor, their remunerations, and other matters requiring a decision by the Annual General Meeting according to the Finnish Limited Liability Companies Act that are 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 as well as 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 2017

Figures in brackets, unless otherwise stated, refer to the comparison period, i.e. the same period of the previous year.

Key figures[1]

EUR million	2017	2016	2015
Orders received	**3,272**	3,139	2,878
Order backlog[2]	**2,292**	2,283	2,074
Net sales	**3,159**	2,926	2,928
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**226**	196	182
% of net sales	**7.2%**	6.7%	6.2%
Earnings before interest, taxes and amortization (EBITA)	**209**	183	157
% of net sales	**6.6%**	6.2%	5.3%
Operating profit (EBIT)	**178**	147	120
% of net sales	**5.6%**	5.0%	4.1%
Profit before taxes	**165**	136	108
Profit / loss	**127**	82	78
Earnings per share, EUR	**0.84**	0.55	0.51
Earnings per share, diluted, EUR	**0.84**	0.55	0.51
Equity per share[2], EUR	**6.19**	5.88	5.70
Dividend per share, EUR	**0.55**[3]	0.42	0.35
Cash flow provided by operating activities	**291**	246	78
Cash flow after investments	**227**	188	-287
Return on equity (ROE)	**14%**	9%	9%
Return on capital employed (ROCE) before taxes	**15%**	12%	12%
Equity to assets ratio[2]	**39%**	37%	36%
Gearing[2]	**-11%**	6%	21%

[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.

Orders received increased 44 percent in the Paper business line in 2017

Orders received, EUR million	2017	2016	Change
Services	**1,242**	1,182	5%
Automation	**317**	299	6%
Pulp and Energy	**678**	939	-28%
Paper	**1,035**	718	44%
Total	**3,272**	3,139	4%

Orders received, comparable foreign exchange rates, EUR million[1]	2017	2016	Change
Services	**1,255**	1,182	6%
Automation	**318**	299	6%
Pulp and Energy	**679**	939	-28%
Paper	**1,054**	718	47%
Total	**3,305**	3,139	5%

[1] Indicative only. 2017 orders received in euro calculated by applying 2016 average exchange rates to the functional currency orders received values reported by entities.

Orders received, EUR million	2017	2016	Change
North America	**686**	588	17%
South America	**183**	235	-22%
EMEA	**1,508**	1,594	-5%
China	**572**	342	67%
Asia-Pacific	**323**	381	-15%
Total	**3,272**	3,139	4%

Orders received by business lines, %

Orders received by area, %

Orders received in 2017 remained at the previous year's level and were EUR 3,272 million (EUR 3,139 million). The Services and Automation business lines accounted for 48 percent (47%) of Valmet's orders received. Orders received increased in the Paper, Automation, and Services business lines and decreased in the Pulp and Energy business line. Orders received increased in China and North America and decreased in South America, Asia-Pacific and EMEA (Europe, Middle-East and Africa). Measured by orders received, the top three countries were the USA, China, and Finland, which together accounted for 43 percent of total orders received. The emerging markets accounted for 43 percent (37%) of orders received.

Changes in foreign exchange rates compared to the exchange rates in 2016 decreased orders received by approximately EUR 34 million in 2017.

During 2017 Valmet received among others an order for two containerboard machines with related automation systems to China, typically valued at EUR 100–120 million, an order for a biomass power plant and an automation system in Denmark, valued at approximately EUR 80 million, an order for a grade conversion rebuild in Belgium, typically valued at around EUR 60–80 million, and an order for a paper machine rebuild in the USA, typically valued at EUR 60–70 million.

Order backlog at the same level as at the end of year 2016

Order backlog, EUR million	As at Dec 31, 2017	2016	Change
Total	**2,292**	2,283	0%

At the end of the year the order backlog amounted to EUR 2,292 million and was at the same level as at the end of year 2016. Approximately 25 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 25% at the end of 2016).

Net sales increased 8 percent in 2017

Net sales, EUR million	2017	2016	Change
Services	**1,178**	1,163	1%
Automation	**296**	290	2%
Pulp and Energy	**929**	826	12%
Paper	**755**	647	17%
Total	**3,159**	2,926	8%

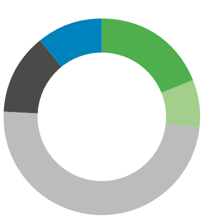
Net sales, comparable foreign exchange rates, EUR million[1]	2017	2016	Change
Services	**1,191**	1,163	2%
Automation	**297**	290	2%
Pulp and Energy	**933**	826	13%
Paper	**767**	647	19%
Total	**3,188**	2,926	9%

[1] Indicative only. 2017 net sales in euro calculated by applying 2016 average exchange rates to the functional currency net sales values reported by entities.

Net sales, EUR million	2017	2016	Change
North America	**605**	644	-6%
South America	**238**	205	16%
EMEA	**1,557**	1,369	14%
China	**417**	362	15%
Asia-Pacific	**342**	346	-1%
Total	**3,159**	2,926	8%

Net sales by business line, %

Net sales by area, %



Net sales in 2017 increased 8 percent to EUR 3,159 million (EUR 2,926 million). The Services and Automation business lines accounted for 47 percent (50%) of Valmet's net sales. Net sales increased in the Paper, and Pulp and Energy business lines, and remained at the previous year's level in Automation and Services business lines. Net sales increased in South America, China and EMEA, remained at the previous year's level in Asia-Pacific and decreased in North America. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 40 percent of total net sales. Emerging markets accounted for 41 percent (38%) of net sales.

Changes in foreign exchange rates compared to the exchange rates in 2016 decreased net sales by approximately EUR 29 million in 2017.

Comparable EBITA and operating profit

In 2017, Comparable EBITA was EUR 226 million, i.e. 7.2 percent of net sales (EUR 196 million and 6.7%). Items affecting comparability amounted to EUR -17 million (EUR -13 million). Profitability improved due to higher net sales.

Operating profit (EBIT) in 2017 was EUR 178 million, i.e. 5.6 percent of net sales (EUR 147 million and 5.0%).

Net financial income and expenses

Net financial income and expenses in 2017 were EUR -13 million (EUR -12 million).

Profit before taxes and earnings per share

Profit before taxes for 2017 was EUR 165 million (EUR 136 million). The profit attributable to owners of the parent in 2017 was EUR 127 million (EUR 83 million), corresponding to earnings per share (EPS) of EUR 0.84 (EUR 0.55).

Return on capital employed (ROCE) increased

In 2017, the return on capital employed (ROCE) before taxes was 15 percent (12%) and the return on equity (ROE) 14 percent (9%).

Business lines

Services – orders received EUR 1,242 million in 2017

Services business line	2017	2016	Change
Orders received (EUR million)	**1,242**	1,182	5%
Net sales (EUR million)	**1,178**	1,163	1%
Personnel (end of period)	**5,472**	5,339	2%

In 2017, orders received by the Services business line increased 5 percent to EUR 1,242 million (EUR 1,182 million) and accounted for 38 percent (38%) of all orders received. Orders received increased in all other areas except North America, where orders received remained at the previous year's level. Orders received increased in Energy and Environmental, Performance Parts and Mill Improvements, and remained at the previous year's level in Fabrics and Rolls.

In 2017, net sales for the Services business line amounted to EUR 1,178 million (EUR 1,163 million), corresponding to 37 percent (40%) of Valmet's net sales.

Automation – orders received EUR 317 million in 2017

Automation business line	2017	2016	Change
Orders received (EUR million)	**317**	299	6%
Net sales (EUR million)	**296**	290	2%
Personnel (end of period)	**1,708**	1,636	4%

In 2017, orders received by the Automation business line increased 6 percent to EUR 317 million (EUR 299 million). Automation business line accounted for 10 percent (10%) of Valmet's orders received. Orders received increased in China and North America, remained at the previous year's level in EMEA, and decreased in Asia-Pacific and South America. Orders received increased in Pulp and Paper, and decreased in Energy and Process.

In 2017, net sales for the Automation business line amounted to EUR 296 million (EUR 290 million), corresponding to 9 percent (10%) of Valmet's net sales.

Pulp and Energy – orders received EUR 678 million in 2017

Pulp and Energy business line	2017	2016	Change
Orders received (EUR million)	**678**	939	-28%
Net sales (EUR million)	**929**	826	12%
Personnel (end of period)	**1,727**	1,689	2%

In 2017, orders received by the Pulp and Energy business line decreased 28 percent to EUR 678 million (EUR 939 million) and accounted for 21 percent (30%) of all orders received. Orders received remained at the previous year's level in North America and decreased in all other areas. Orders received decreased both in Pulp and in Energy.

In 2017, net sales for the Pulp and Energy business line amounted to EUR 929 million (EUR 826 million), corresponding to 29 percent (28%) of Valmet's net sales.

Paper – orders received EUR 1,035 million in 2017

Paper business line	2017	2016	Change
Orders received (EUR million)	**1,035**	718	44%
Net sales (EUR million)	**755**	647	17%
Personnel (end of period)	**2,822**	2,774	2%

In 2017, orders received by the Paper business line increased 44 percent to EUR 1,035 million (EUR 718 million) and accounted for 32 percent (23%) of all orders received. Orders received increased in China, North America and EMEA and decreased in Asia-Pacific and South America. Orders received increased in both Board and Paper, and Tissue.

In 2017, net sales for the Paper business line amounted to EUR 755 million (EUR 647 million), corresponding to 24 percent (22%) of Valmet's net sales.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 291 million (EUR 246 million) in 2017. Net working capital totaled EUR -366 million (EUR -294 million) at the end of 2017. Change in net working capital in the statement of cash flows was EUR 76 million (EUR 55 million) in 2017. In the statement of cash flows, change in net working capital excludes the impact of changes in foreign exchange rates and other non-cash items, amounting to EUR -4 million in 2017. Payment schedules of large capital projects have a significant impact on net working capital development. Cash flow after investments totaled EUR 227 million (EUR 188 million) in 2017.

At the end of 2017, gearing was -11 percent (6%) and equity to assets ratio was 39 percent (37%). Interest-bearing liabilities amounted to EUR 219 million (EUR 310 million), and net interest-bearing liabilities totaled EUR -100 million (EUR 52 million) at the end of the reporting period. In October 2017, Valmet repaid in advance a term loan worth EUR 43 million. The average maturity for Valmet's non-current debt was 4.0 years, and average interest rate was 1.3 percent at the end of 2017.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 296 million (EUR 240 million) and interest-bearing available-for-sale financial assets totaling EUR 6 million (EUR 1 million). Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2023 with a 1-year extension option, and an uncommitted commercial paper program worth of EUR 200 million. Both facilities were undrawn at the end of 2017.

On April 6, 2017, Valmet paid out dividends of EUR 63 million.

Capital expenditure

Gross capital expenditure in 2017 totaled EUR 66 million (EUR 60 million), of which maintenance investments were EUR 37 million (EUR 40 million).

Acquisitions and disposals

Acquisitions

Valmet made no acquisitions in 2017.

Disposals

Valmet made no significant disposals in 2017.

Research and development

Valmet's research and development (R&D) expenses in 2017 amounted to EUR 64 million, i.e. 2.0 percent of net sales (EUR 64 million and 2.2%). Research and development work is carried out predominantly in Finland and Sweden, within the business lines' R&D organizations and pilot facilities. In addition, research and development takes place within a network of customers, suppliers, research institutes and universities. In 2017, R&D employed 421 people (440 people).

Valmet's R&D work is based on customers' needs, such as increasing production efficiency, improving competitiveness, maximizing value of raw materials, providing new revenue streams, and developing new innovations and technologies.

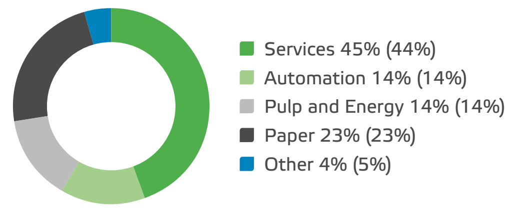
Currently, Valmet has three focus areas in its R&D work. To ensure advanced and competitive technologies and services, Valmet develops cost competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency, Valmet combines process technology,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

Number of personnel remained at the previous year's level

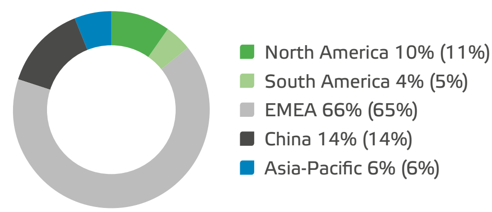
Personnel by business line	As at Dec 31, 2017	2016	Change
Services	**5,472**	5,339	2%
Automation	**1,708**	1,636	4%
Pulp and Energy	**1,727**	1,689	2%
Paper	**2,822**	2,774	2%
Other	**539**	574	-6%
Total	**12,268**	12,012	2%

Personnel by area	As at Dec 31, 2017	2016	Change
North America	**1,223**	1,274	-4%
South America	**534**	542	-1%
EMEA	**8,088**	7,806	4%
China	**1,696**	1,697	0%
Asia-Pacific	**727**	693	5%
Total	**12,268**	12,012	2%

Personnel by business line, %



Personnel by area, %



In 2017, Valmet employed an average of 12,208 people (12,261). The number of personnel at the end of December was 12,268 (12,012). Personnel expenses totaled EUR 807 million (EUR 795 million) in 2017, of which wages, salaries and remuneration amounted to EUR 631 million (EUR 619 million).

Changes in Valmet's Executive team

Valmet announced on July 28, 2017 the following changes in Valmet's Executive Team, effective as of October 1, 2017:

- Jukka Tiitinen, previously Business Line President, Services, is appointed Area President, Asia-Pacific.
- Aki Niemi, previously Area President, China, is appointed Business Line President, Services.
- Hannu T. Pietilä, previously Area President, Asia-Pacific, is appointed Vice President Sales, Asia-Pacific and thus leaves his position in the Executive Team.

In addition, Valmet announced on September 28, 2017 that Xiangdong Zhu (B.Sc. (Eng.), MBA), previously Vice President, Services, China at Valmet, is appointed Area President of Valmet's China area and member of Valmet's Executive Team as of October 1, 2017. Zhu has a long background at Valmet, spanning in total 17 years in different management positions. During his career Zhu has also worked in management positions at Stora Enso and Voith Paper in China.

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, and 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. In June 2017, the Board of Directors reconfirmed Valmet's strategy and financial targets. Valmet has the following financial targets:

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.

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 continuous improvement of gross profit.

Valmet has set a 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 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 to improve product cost competitiveness and performance. Additionally, the renewal of Valmet's ERP system will increase efficiency once implemented.

Disclosure of non-financial information

Business model and value creation

Valmet's mission is to convert renewable resources into sustainable results. Sustainability is in the core of all Valmet's operations. Valmet has an active and open dialogue with all its stakeholders. Valmet's product and service portfolio consists of technologies increasing the value of its customers' end products. Valmet works closely with its customers throughout its key processes – from product development to commercialization of new solutions. Valmet has financial strength to invest in innovations and growth.

In addition to the value for its owners, Valmet also creates economic value as an employer and taxpayer. Valmet provides employment and business opportunities to a wide range of stakeholders and indirectly builds wealth in local societies.

Valmet's technology and services enable customers to produce their products with less resources and raw materials and to improve flexibility in fuel source selection to replace fossil fuels with renewable ones. In Valmet's own operations, more efficient processes enable the use of less natural resources and lower CO_2 emissions.

Valmet strives to develop the transparency and traceability of its entire value chain from sourcing of raw materials to recycling of its products. Valmet purchases raw materials, components, energy and services.

Valmet has estimated that around 4 percent of its environmental impact arises through its supply chain and around 1 percent through its own operations. The remaining 95 percent is caused when customers use its technologies over their entire life cycles.

Materiality assessment

Valmet has assessed the most significant topics of the non-financial disclosure by conducting an internal stakeholder review. All topics have been assessed based on their importance to Valmet and its stakeholders with key experts and management. As a result of the process Valmet has defined five sustainability focus areas covering the most material sustainability topics for Valmet: sustainable supply chain; health, safety and environment; people and performance; sustainable solutions and corporate citizenship.

Valmet has a systematic method for regularly assessing the probability and impact of risks and opportunities related to sustainability. Valmet has several group-wide policies in place to mitigate these risks.

The basis of Valmet's operations is its Code of Conduct, which creates a uniform and ethical foundation for all our business transactions and work assignments. We strive for globally consistent and transparent management practices so that all our stakeholders can reliably assess the company's sustainable operations and development.

Valmet's sustainability agenda, related goals, as well as all supporting policies are owned, driven and monitored by Valmet's Executive Team. Sustainability performance is reviewed annually by the Executive Team. All Valmet's operations are responsible for ensuring that group-wide initiatives are implemented to meet Valmet's sustainability goals. Valmet ties selected sustainability topics, such as health, safety and quality as well as sustainable supply chain KPIs, to remuneration.

Materiality

Environmental impact

Valmet has defined targets for the reduction of energy and water consumption, as well as CO_2 emissions and waste by 2030. Valmet provides customers with sustainable solutions that help to improve environmental performance and their safety. Valmet continuously improves the eco-efficiency in all production facilities based on global and operation-specific HSE action plans.

Social and employment related matters

Valmet's operations provide direct and indirect employment for a wide range of stakeholders. Valmet continuously improves employee skills and capabilities, and strives to ensure a healthy and safe working environment for both its own people and partners. Valmet participates in discussions regarding its operating environment and regulations. Valmet builds trust and reputation by operating in a sustainable and profitable manner.

Respect for human rights

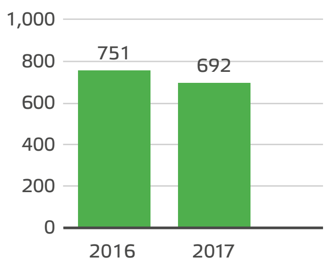
As a global technology and services supplier, Valmet operates in a highly multicultural environment. Valmet recognizes its responsibility to respect human rights and requires its business partners to do the same. Valmet is committed to international frameworks related to human rights, such as the UN Guiding Principles on Business and Human Rights. Valmet recognizes the business benefits of having a diverse workforce and aims to provide equal opportunities for everyone.

Anti-corruption and bribery

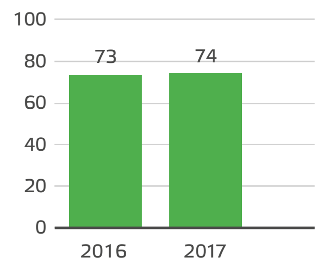
Valmet has in place several policies which guide its and its partners' operations regarding corruption, bribery and competition compliance. Valmet arranges regular training on its Code of Conduct, anti-corruption principles and competition compliance guidelines to enforce the principles set in the policies. All Valmet's suppliers are required to commit to the principles set in the sustainable supply chain policy, to which compliance is assessed by potential self-assessments and audits.

Non-financial indicators

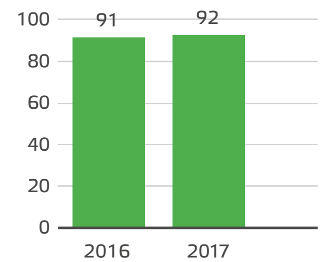
Orders received from new products and services, EUR million



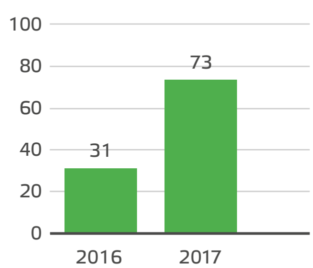
Employees covered by collective bargaining agreements, %



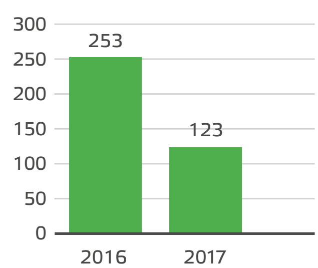
Workforce represented in formal management-worker health and safety committees, %



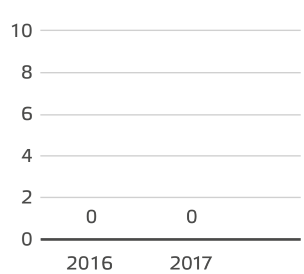
New suppliers screened over sustainability, %



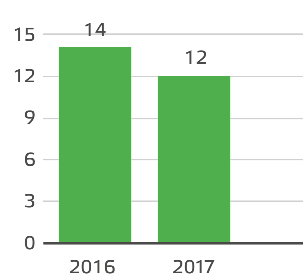
Sponsorships and donations, EUR thousand



Monetary value of significant fines for non-compliance with laws and regulations, EUR million



Number of corporate internal audits performed



Number of environmental compliance cases

There were no significant environmental incidents resulting from major permit violations, claims, compensations or media coverage in 2017. Two minor non-compliance incidents resulted in fines and immediate improvement actions have been agreed and taken into use. The Gothenburg workshop in Sweden paid EUR 500 for not meeting a reporting deadline for annual amounts of an imported chemical to the Swedish Chemical Agency. The Wuxi workshop in China paid EUR 5,000 for not meeting a reporting requirement before hazardous waste transportation. There were no significant or minor environmental non-compliance cases in 2016.

Breakdown of employees by contract type, employment type, region and gender

Number of employees by employment contract and gender

	Female		Male		Total	
	2017	2016	2017	2016	2017	2016
Permanent	**2,132**	2,076	**8,889**	8,773	**11,021**	10,849
Temporary	**358**	360	**889**	803	**1,247**	1,163
Total	**2,490**	2,436	**9,778**	9,576	**12,268**	12,012

Number of permanent employees by employment type and gender

	Female		Male		Total	
	2017	2016	2017	2016	2017	2016
Full-time	**2,018**	1,958	**8,803**	8,696	**10,821**	10,654
Part-time	**114**	118	**86**	77	**200**	195
Total	**2,132**	2,076	**8,889**	8,773	**11,021**	10,849

Workforce by region and gender

	Female		Male		Total	
	2017	2016	2017	2016	2017	2016
North America	**167**	178	**1,056**	1,096	**1,223**	1,274
South America	**88**	91	**446**	451	**534**	542
EMEA	**1,748**	1,672	**6,340**	6,134	**8,088**	7,806
China	**393**	404	**1,303**	1,293	**1,696**	1,697
Asia-Pacific	**94**	91	**633**	602	**727**	693
Total	**2,490**	2,436	**9,778**	9,576	**12,268**	12,012

Lost time incident frequency, total recordable incident frequency, number of fatalities and absentee rate, own personnel

	2017	2016
LTIF[1]	**2.6**	2.3
TRIF[2]	**5.5**	6.0
Fatalities	**0**	0
Absentee rate	**2.5%**	2.5%

[1] LTIF reflects the number of injuries resulting in an absence of at least one workday per million hours worked

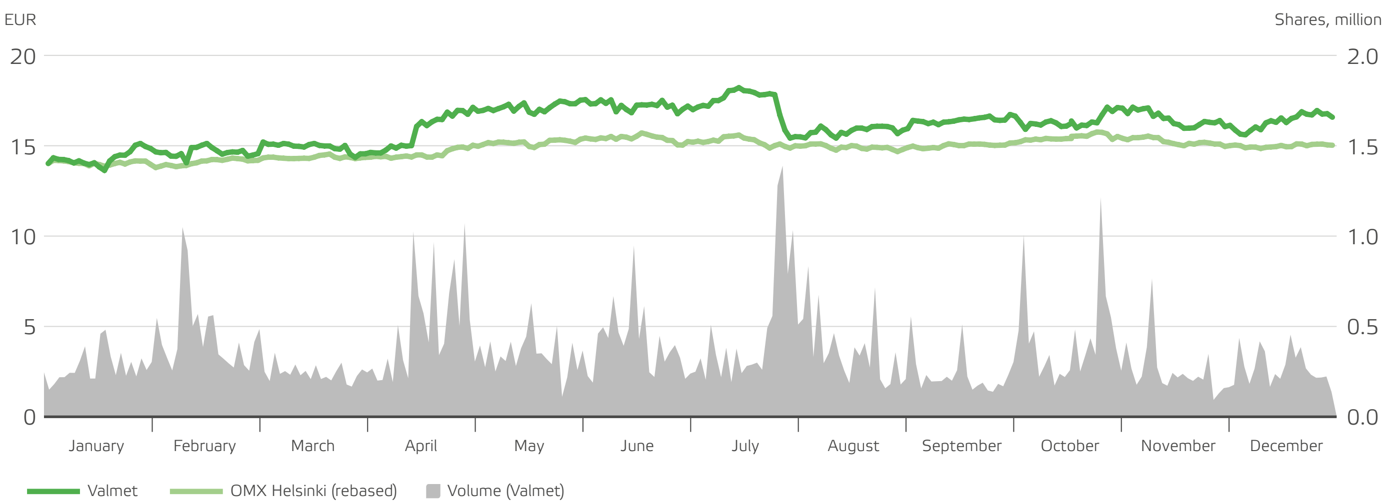
[2] LTIF+medical treatment and restricted work cases

	ENVIRONMENTAL IMPACTS	SOCIAL AND EMPLOYMENT RELATED MATTERS
Policies and standards	**International frameworks covering all topics:**	• United Nations Universal Declaration of Human Rights • UN Guiding Principles on Business and Human Rights • UN Sustainable Development Goals • Global Compact
	• Health, Safety and Environment Policy: Defines Valmet's approach and demonstrates commitment to managing health, safety and environmental issues at Valmet • Sustainable Supply Chain Policy: Describes Valmet's requirements for sustainable operating principles for suppliers concerning environmental issues • Instructions on environmental principles: Support implementing Valmet's HSE policy • Instructions on sustainable and responsible research, product development and design: Support implementing Valmet's HSE policy	• Valmet's Human Rights Statement: States Valmet's commitment and respect to human rights • Health, Safety and Environment Policy: Defines our approach and demonstrates commitment to managing health, safety and environmental issues at Valmet • Sustainable Supply Chain Policy : Describes requirements for ethical standards and sustainable business practices for suppliers • HR Policy: Framework for the management of the human resources function, which is committed to developing an engaged and performance-driven community and to continuously driving the development of Valmet employees' capabilities globally • Minimum Safety Standards: Defines minimum requirements for safety at work for specific high risk activities
Due diligence processes	• HSE incident reporting and management system is used to follow and prevent HSE related incidents and hazards • Compliance with HSE related laws and regulations is ensured by compliying with Valmet's related processes • Valmet executes internal and external audits globally to evaluate compliance to internal, legal and other HSE requirements and correct non-conformities	• HSE incident reporting and management system is used to follow and prevent HSE related incidents and hazards • Compliance with laws and regulations is ensured by complying with Valmet's related processes • Valmet executes internal and external audits globally to evaluate compliance to internal, legal and other HSE requirements and correct non-conformities
Risks and risk management	Risks: • Risks related to Valmet's suppliers can cause significant reputation or business risks • Non-compliance with environmental regulation may result in fines and cause reputation and business risks Risk management: • ISO 14001 environmental management systems in all operations • Risk management is integrated into all activities to ensure hazards and impacts are proactively identified and mitigated	Risks: • Valmet's own personnel's health and safety risks are related to work related illnesses, injuries and occupational wellbeing • Competence gaps and problems in talent attraction can impact competence levels • Risks related to Valmet's suppliers can cause significant reputation or business risks Risk management: • OHSAS 18001 health and safety management systems in all operations • HSE incident management system • Development of global training portfolio and ensuring necessary competence in place across regions • Global process for supplier sustainability • Safety committees covering all personnel
Outcomes of policies and due diligence processes	• New products and services that meet environmental requirements and help customers produce sustainable products • Supplier audits conducted globally improving suppliers' sustainability approach • Environmental targets 2030 launched including targets for energy efficiency, water consumption and waste management	• Operations free from life changing incidents, reduction in overall incident frequencies • New training programs developed to enhance skills

RESPECT FOR HUMAN RIGHTS	ANTI-CORRUPTION AND BRIBERY
• Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO) • OECD's Guidelines for Multinational Enterprises • OHSAS 18001 Occupational health and safety management system • ISO 14001 Environmental management system • ISO 9001 Quality management system	
• Valmet's Human Rights Statement: States Valmet's commitment and respect to human rights • Equal Opportunity and Diversity Policy: Defines Valmet's approach to promoting equal opportunities for all employees	• Anti-Corruption Policy: Defines Valmet's zero tolerance approach to bribery and corruption in more detail • Sustainable Supply Chain Policy: Describes Valmet's requirements for sustainable operating principles
• Valmet's comprehensive framework and monitoring system for human rights due diligence in own operations contains long-term action plans that are monitored and reported	• Risk management evaluation and audits help Valmet to find the best ways to manage risks and to train the unit's personnel to use existing tools and procedures to manage risks
Risks: • Potential violations of human and labor rights and unethical business practices can impact Valmet's reputation and thus financial position Risk management: • Valmet's comprehensive framework for human rights due diligence helps to identify and mitigate human rights risks	Risks: • Unethical business practices can impact Valmet's reputation and thus financial position Risk management: • Internal risk management audits and global process for supplier sustainability
• Valmet's new human rights statement launched • Reporting system in place for violations of Code of Conduct	• Valmet executes supplier sustainability audits globally. Business ethics are an integrated part of our audit checklist. • Reporting system in place for violations of Code of Conduct

Shares and shareholders

Development of Valmet's share price, January 1–December 31, 2017



Number of shareholders

The number of registered shareholders at the end of December 2017 was 45,890 (45,573). Shares owned by nominee-registered and non-Finnish parties equaled to 50.1 percent of the total number of shares (49.4%).

Share capital and share data[1]

	2017	2016	2015
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	149,864,220
Average number of diluted shares	**149,864,220**	149,864,220	149,864,220
Trading volume on Nasdaq Helsinki Ltd.	**89,279,591**	103,423,288	102,209,913
% of total shares for public trading	**59.6**	69.0	68.2
Earnings per share, EUR	**0.84**	0.55	0.51
Earnings per share, diluted, EUR	**0.84**	0.55	0.51
Dividend per share, EUR	**0.55**[2]	0.42	0.35
Dividend, EUR million	**82**[2]	63	52
Dividend to earnings ratio	**65%**[2]	76%	68%
Effective dividend yield	**3.3%**[2]	3.0%	3.9%
Price to earnings ratio (P/E)	**19.6**	25.4	17.3
Equity per share, December 31, EUR	**6.19**	5.88	5.70
Highest share price, EUR	**18.44**	15.06	12.47
Lowest share price, EUR	**13.45**	8.08	8.36
Volume-weighted average share price, EUR	**16.08**	11.52	10.39
Share price, December 31, EUR	**16.44**	13.98	8.90
Market capitalization[3], December 31, EUR million	**2,464**	2,095	1,334

[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.

Share capital and number of shares

At the end of December 2017, Valmet's share capital totaled EUR 100,000,000 and the number of shares was 149,864,619. Valmet held 399 treasury shares and the number of outstanding shares was 149,864,220 at the end of December.

Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	January 1– December 31, 2017	January 1– December 31, 2016
Number of shares traded	**89,279,591**	103,423,288
Total value, EUR	**1,435,304,552**	1,170,426,564
High, EUR	**18.44**	15.06
Low, EUR	**13.45**	8.08
Volume-weighted average price, EUR	**16.08**	11.52
Closing price on the final day of trading, EUR	**16.44**	13.98

The closing price of Valmet's share on the final day of trading for the reporting period, December 29, 2017, was EUR 16.44. The closing share price on the last day of trading in 2016 (December 30, 2016) was EUR 13.98. The share price increased by some 18 percent during year 2017.

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 49 million of Valmet's shares were traded on alternative marketplaces in 2017, which equals to approximately 35 percent of the share's total trade volume. (Source: Fidessa)

Market capitalization (excluding treasury shares) stood at EUR 2,464 million at the end of the reporting period.

Flagging notifications

During the review period, Valmet received the following flagging notifications referred to in the Securities Market Act:

Transaction date	Shareholder	Threshold	Direct holding, %	Indirect holding, %	Total holding, %
August 8, 2017	BlackRock, Inc.	Above 5%	3.79%	1.25%	5.04%
November 14, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 8, 2017	BlackRock, Inc.	Above 5%	4.36%	0.63%	5.00%
December 11, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 13, 2017	BlackRock, Inc.	Above 5%	4.42%	0.63%	5.05%
December 14, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 15, 2017	BlackRock, Inc.	Above 5%	4.38%	0.63%	5.01%
December 18, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 19, 2017	BlackRock, Inc.	Above 5%	4.35%	0.67%	5.03%

Board authorizations regarding share repurchase and share issue

Valmet Oyj's Annual General Meeting on March 23, 2017 authorized Valmet's Board of Directors to decide on the repurchase of the 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.

The 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 stock exchange on the date of the repurchase.

The 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 was also 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 pursuant to 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.

As at December 31, 2017, Valmet's Board of Directors has not used any of the authorizations. The authorizations shall remain in force until the next Annual General Meeting, and they cancel the Annual General Meeting's authorizations of March 23, 2016.

Share-based incentive plans

Valmet's share-based incentive plans are part of the remuneration and retention program for Valmet's key personnel. The aim of the plans is to align the objectives of shareholders and management to increase the value of the Company, to commit key personnel to the Company, and to 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 207,036.

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. For the 2013 performance period, the performance criteria were not met and therefore no rewards were paid. For the performance period 2014 a gross number of 262,980 shares were earned. The reward was paid partly in Company shares and partly in cash in March 2017.

Long-term incentive plan 2015–2017

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

Discretionary period	Incentive based on	Reward payment	Total number of shares (including the matching share rewards)
2015	EBITA % and Services orders received growth %	Was paid partly in Valmet shares and partly in cash in spring 2016	540,035
2016	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)	Was paid partly in Valmet shares and partly in cash in spring 2017	556,049
2017	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)	Will be paid partly in Valmet shares and partly in cash in spring 2018	As at December 31, 2017 a total of 390,820 shares had been allotted to participants

As part of the share-based incentive program, members of Valmet Executive Team had the possibility to receive a matching share reward for each discretionary period, provided that the Executive Team member owned or acquired Valmet shares up to a number determined by the Board of Directors by the end of each discretionary period.

Long-term incentive plan 2018–2020

Valmet announced by stock exchange release on December 11, 2017 that the Board of Directors of Valmet Oyj decided on a new long-term share-based incentive plan for Valmet's key employees. The plan includes three discretionary periods, which are the calendar years 2018, 2019 and 2020. Valmet's Board of Directors shall decide on the performance criteria and targets in the beginning of each discretionary period. The plan is directed to a total of approximately 120 participants, of which 80 are key employees in management positions (including Executive Team members), and 40 are management talents, which is a new target group in Valmet's share-based incentive plan.

Discretionary period	Incentive based on	Reward payment	Total number of shares
2018	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)	Will be paid partly in Valmet shares and partly in cash in 2019	Approximate maximum of 586,000

As part of the share-based incentive program, the members of Valmet's Executive Team are recommended to own and hold an amount of Company shares equaling to their gross annual base salary (100 percent ownership recommendation).

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

More information about share-based incentive plans can be found in Valmet's Remuneration 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 23, 2017. The Annual General Meeting adopted the Financial Statements for 2016 and discharged the members of the Board of Directors and the President and CEO from liability for the 2016 financial year. The Annual General Meeting approved the Board of Directors' proposals concerning 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 seven and appointed Bo Risberg as Chairman of Valmet Oyj's Board and Jouko Karvinen as Vice Chairman. Eriikka Söderström was appointed as a new member of the Board. Lone Fønss Schrøder, Rogério Ziviani, Aaro Cantell and Tarja Tyni 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.

PricewaterhouseCoopers Oy, authorized public accountants, was appointed 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 23, 2017 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 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 23, 2017, Valmet paid out dividends of EUR 63 million for 2016, corresponding to EUR 0.42 per share, on April 6, 2017.

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 is also a plaintiff in several lawsuits.

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 e 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. During the first quarter 2017 Valmet paid additional taxes, late payment interests and penalties in total of EUR 19 million related to the reassessment decision. Valmet considers the Finnish tax authority's decision unfounded and has appealed of 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.

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 advance 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 down 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. This includes, for example, 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 shall, as a minimum, take place 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, 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 its immediate liquidity and to ensure the flexibility of financing. The average maturity for Valmet's non-current debt is 4.0 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 it 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 2017, Valmet had EUR 614 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 Financial Statements.

Events after the reporting period

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

Guidance for 2018 to be announced in March 2018 at the latest

Following the adoption of the new principles of IFRS 15, effective as of January 1, 2018, Valmet's revenue recognition will change in 2018. As a result, Valmet will publish restated figures for 2017 in March 2018 at the latest. Valmet will announce its financial guidance for 2018 in conjunction with the restated figures.

Short-term outlook

General economic outlook

Global economic activity continues to firm up. Global output is estimated to have grown by 3.7 percent in 2017, while growth forecasts for 2018 and 2019 have been revised upward to 3.9 percent. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. Risks to the global growth forecast appear broadly balanced in the near term, but remain skewed to the downside over the medium term. If global sentiment remains strong and inflation muted, then financial conditions could remain loose into the medium term, leading to a buildup of financial vulnerabilities in advanced and emerging market economies alike. (International Monetary Fund, January 22, 2018)

Short-term market outlook

Valmet estimates that the short-term market outlook has improved to a good level in automation (previously satisfactory level).

Valmet reiterates the good short-term market outlook for services, board and paper, and tissue, the satisfactory short-term market outlook for energy, and the weak short-term market outlook for pulp.

Board of Director's proposal for the distribution of profit

Valmet Oyj's distributable funds on December 31, 2017 totaled EUR 981,381,144.37, of which the net profit for 2017 was EUR 95,536,639.34 (according to Finnish Generally Accepted Accounting Standards).

The Board of Directors proposes that a dividend of EUR 0.55 per share be paid based on the statement of financial position to be adopted for the financial year which ended December 31, 2017, 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 23, 2018 are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend will be paid on April 5, 2018. 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 6, 2018
Valmet's Board of Directors

Financial Indicators

EUR million	As at and for the twelve months ended Dec 31, 2017	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	**3,159**	2,926	2,928	2,473
Net sales change, %	**8%**	0%	18%	-5%
Operating profit	**178**	147	120	72
% of net sales	**5.6%**	5.0%	4.1%	2.9%
Profit before taxes	**165**	136	108	67
% of net sales	**5.2%**	4.6%	3.7%	2.7%
Profit	**127**	82	78	46
% of net sales	**4.0%**	2.8%	2.7%	1.9%
Profit attributable to owners of the parent	**127**	83	77	46
Amortization	**-31**	-35	-37	-22
Depreciation	**-49**	-51	-55	-51
Depreciation and amortization	**-81**	-87	-92	-72
% of net sales	**-2.6%**	-3.0%	-3.1%	-2.9%
Comparable EBITA	**226**	196	182	106
% of net sales	**7.2%**	6.7%	6.2%	4.3%
EBITA	**209**	183	157	94
% of net sales	**6.6%**	6.2%	5.3%	3.8%
Financial income and expenses, net	**-13**	-12	-10	-5
% of net sales	**-0.4%**	-0.4%	-0.3%	-0.2%
Interest expenses	**-8**	-9	-13	-12
% of net sales	**-0.2%**	-0.3%	-0.5%	-0.5%
Gross capital expenditure (incl. business acquisitions)	**-66**	-60	-368	-46
% of net sales	**-2.1%**	-2.1%	-12.6%	-1.8%
Business acquisitions, net of cash acquired	**-**	-	-323	-
Cash flow provided by operating activities	**291**	246	78	236
Cash flow after investments	**227**	188	-287	194
Research and development expenses, net	**-64**	-64	-59	-42
% of net sales	**-2.0%**	-2.2%	-2.0%	-1.7%
Total assets	**2,974**	2,958	2,894	2,412
Equity attributable to owners of the parent	**928**	881	855	804
Total equity	**933**	886	860	809
Interest-bearing liabilities	**219**	310	371	68
Net interest-bearing liabilities	**-100**	52	178	-166
Net working capital (NWC)	**-366**	-294	-238	-353
Return on equity (ROE), %	**14%**	9%	9%	6%
Return on capital employed (ROCE) before taxes, %	**15%**	12%	12%	9%
Equity to assets ratio, %	**39%**	37%	36%	42%
Gearing, %	**-11%**	6%	21%	-21%
Orders received	**3,272**	3,139	2,878	3,071
Order backlog at end of year	**2,292**	2,283	2,074	1,998
Average number of personnel	**12,208**	12,261	11,781	10,853
Personnel at end of year	**12,268**	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):

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

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

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

[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, 2017	2016
Net sales	2, 3	**3,159**	2,926
Cost of goods sold	4, 5, 12	**-2,455**	-2,259
Gross profit		**704**	667
Selling, general and administrative expenses	4, 12, 17	**-517**	-518
Other operating income	18	**18**	32
Other operating expenses	18	**-27**	-33
Share in profits and losses of associated companies, operative investments	20	**1**	1
Operating profit		**178**	147
Financial income	8, 9	**3**	3
Financial expenses	8, 9	**-16**	-15
Share in profits and losses of associated companies, financial investments	20	**1**	-
Profit before taxes		**165**	136
Current tax expense		**-44**	-56
Deferred taxes		**5**	2
Income taxes, total	15	**-39**	-54
Profit / loss		**127**	82
Attributable to:			
Owners of the parent		**127**	83
Non-controlling interests		**-**	-
Profit / loss		**127**	82
Earnings per share attributable to owners of the parent:			
Earnings per share, EUR		**0.84**	0.55
Diluted earnings per share, EUR		**0.84**	0.55

Consolidated Statement of Comprehensive Income

EUR million	Note	Year ended Dec 31, 2017	2016
Profit / loss		**127**	82
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges	6, 8, 16	**14**	1
Currency translation on subsidiary net investments	16	**-20**	-7
Income tax relating to items that may be reclassified	15	**-3**	-
		-9	-6
Items that will not be reclassified to profit or loss[1]:			
Remeasurement of defined benefit plans	14	**-4**	-5
Income tax relating to items that will not be reclassified[2]	15	**-5**	7
		-9	2
Other comprehensive income / expense		**-18**	-5
Total comprehensive income / expense		**109**	78
Attributable to:			
Owners of the parent		**109**	78
Non-controlling interests		**-**	-1
Total comprehensive income / expense		**109**	78

[1] The 2016 gross remeasurement of defined benefit plans and related taxes include a correction between the line items of EUR 7 million.

[2] Change in income taxes related to remeasurement of defined benefit plans in 2017 primarily arises from the tax reform in the USA.

Consolidated Statement of Financial Position

Assets

EUR million	Note	As at Dec 31, 2017	2016
Non-current assets			
Intangible assets			
Goodwill		**614**	624
Other intangible assets		**200**	213
Total intangible assets	4	**814**	837
Property, plant and equipment			
Land and water areas		**25**	26
Buildings and structures		**124**	133
Machinery and equipment		**170**	183
Assets under construction		**35**	32
Total property, plant and equipment	4	**354**	374
Financial and other non-current assets			
Investments in associated companies	20	**14**	12
Non-current financial assets	6, 7, 8	**22**	22
Deferred tax asset	15	**70**	80
Non-current income tax receivables		**24**	24
Other non-current assets	7	**12**	12
Total financial and other non-current assets		**142**	151
Total non-current assets		**1,310**	1,362
Current assets			
Inventories			
Materials and supplies		**56**	66
Work in progress		**303**	322
Finished products		**82**	83
Total inventories	5	**442**	471
Receivables			
Trade and other receivables	6, 7	**662**	646
Amounts due from customers under construction contracts	3	**210**	197
Other current financial assets	6, 7, 8	**29**	17
Income tax receivables		**25**	25
Total receivables		**926**	885
Cash and cash equivalents	6	**296**	240
Total current assets		**1,663**	1,596
Total assets		**2,974**	2,958

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	Note	As at Dec 31, 2017	2016
Equity			
Share capital		**100**	100
Reserve for invested unrestricted equity		**413**	407
Cumulative translation adjustments		**-8**	11
Fair value and other reserves		**7**	-3
Retained earnings		**415**	366
Equity attributable to owners of the parent	16	**928**	881
Non-controlling interests		**5**	5
Total equity		**933**	886
Liabilities			
Non-current liabilities			
Non-current debt	6	**201**	262
Post-employment benefits	14	**150**	151
Provisions	10	**20**	20
Other non-current financial liabilities	6, 8	**3**	6
Deferred tax liability	15	**56**	62
Total non-current liabilities		**431**	501
Current liabilities			
Current portion of non-current debt	6	**18**	48
Trade and other payables	6, 11	**817**	754
Provisions	10	**119**	108
Advances received		**261**	245
Amounts due to customers under construction contracts	3	**336**	332
Other current financial liabilities	6, 8	**11**	23
Income tax liabilities		**48**	61
Total current liabilities		**1,610**	1,572
Total liabilities		**2,041**	2,073
Total equity and liabilities		**2,974**	2,958

Consolidated Statement of Cash Flows

EUR million	Note	Year ended Dec 31, 2017	2016
Cash flows from operating activities			
Profit / loss		**127**	82
Adjustments			
Depreciation and amortization	4	**81**	87
Dividend income and net interests	9	**13**	12
Income taxes	15	**39**	54
Other non-cash items		**22**	4
Change in net working capital			
Inventories		**8**	33
Trade and other receivables		**-53**	-72
Amounts due to / from customers under construction contracts, net		**1**	75
Trade and other payables		**120**	19
Interest paid		**-12**	-14
Interest received		**4**	6
Dividends received		**-**	1
Income taxes paid		**-58**	-40
Net cash provided by (+) / used in (-) operating activities		**291**	246
Cash flows from investing activities			
Capital expenditures on fixed assets	4	**-66**	-60
Proceeds from sale of fixed assets		**2**	2
Net cash provided by (+) / used in (-) investing activities		**-64**	-58
Cash flows from financing activities			
Redemption of own shares		**-2**	-2
Dividends paid		**-63**	-52
Principal payments of non-current debt		**-90**	-62
Proceeds from available-for-sale financial assets		**-6**	9
Net cash provided by (+) / used in (-) financing activities		**-161**	-108
Net increase (+) / decrease (-) in cash and cash equivalents		**67**	80
Effect of changes in exchange rates on cash and cash equivalents		**-10**	-5
Cash and cash equivalents at beginning of year	6	**240**	165
Cash and cash equivalents at end of year		**296**	240

Reconciliation of liabilities arising from financing activities:

EUR million	As at Dec 31, 2016	Cash flows	Non-cash changes	As at Dec 31, 2017
Non-current debt	262	-61	-	**201**
Current portion of non-current debt	48	-29	-	**18**
Total interest-bearing liabilities	**310**	**-90**	**-**	**219**

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, 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 or 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
Transactions with owners in their capacity as owners								
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
Balance at Jan 1, 2017	**100**	**407**	**11**	**-3**	**366**	**881**	**5**	**886**
Profit / loss	-	-	-	-	127	**127**	-	**127**
Other comprehensive income / expense								
Cash flow hedges								
Fair value gains / losses, net of tax	-	-	-	10	-	**10**	-	**10**
Transferred to Other operating income / expenses in profit or loss, net of tax	-	-	-	1	-	**1**	-	**1**
Currency translation on subsidiary net investments	-	-	-19	-	-	**-19**	-	**-20**
Remeasurement of defined benefit plans, net of tax	-	-	-	-	-9	**-9**	-	**-9**
Other comprehensive income / expense total	-	-	-19	11	-9	**-17**	-	**-18**
Total comprehensive income / expense	-	-	-19	11	118	**109**	-	**109**
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-63	**-63**	-	**-63**
Purchase of treasury shares	-	-	-	-	-2	**-2**	-	**-2**
Share-based payments, net of tax	-	6	-	-	-3	**3**	-	**3**
Balance at Dec 31, 2017	**100**	**413**	**-8**	**7**	**415**	**928**	**5**	**933**

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 6, 2018 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 millions of 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.

Intercompany transactions, balances and unrealized gains and losses arising from transactions between Group companies are eliminated.

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 or 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 or 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 financial statements of each of Valmet Group's 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 'Consolidated 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 or 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 or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or 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	
		2017	**2016**	**2017**	**2016**
USD	(US dollar)	**1.1307**	1.1021	**1.1993**	1.0541
SEK	(Swedish krona)	**9.6392**	9.4496	**9.8438**	9.5525
BRL	(Brazilian real)	**3.6271**	3.8571	**3.9729**	3.4305
CNY	(Chinese yuan)	**7.6299**	7.3199	**7.8044**	7.3202

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 note 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
- Debt — 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. The Group's Chief Operating Decision Maker (CODM) is the President and CEO of Valmet. Valmet's four business lines are highly integrated through complementing product and service offering and joint customer projects. Thus, the operations and profitability of Valmet is reported on as a single reportable segment with the key operative decisions being made by the CODM at the 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 CODM. One key indicator of performance reviewed is EBITA (Earnings before interest, taxes and amortization). The performance is also assessed through Comparable EBITA, i.e. with EBITA excluding items of income and expense, 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.

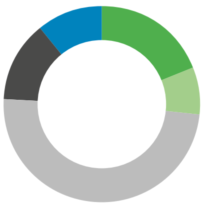
Reconciliation between Comparable EBITA, EBITA and operating profit:

	Year ended Dec 31,	
EUR million	**2017**	**2016**
Comparable EBITA	**226**	196
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**-2**	-8
Other items affecting comparability	**-7**	-
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	**-3**	-1
Other items affecting comparability	**-1**	-
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	**-4**	-4
Other items affecting comparability	**-**	-
EBITA	**209**	183
Amortization included in cost of sales		
Other intangibles	**-2**	-2
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-23**	-26
Other intangibles	**-7**	-8
Operating profit	**178**	147

Entity-wide information

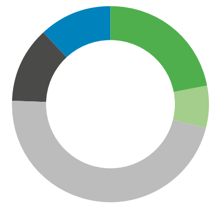
Valmet has operations in over 35 countries, on all continents. The main market areas are Europe and North America accounting for 65 percent of net sales in 2017 and 66 percent in 2016.

Net sales by destination 2017, EUR 3,159 million



- North America EUR 605 million
- South America EUR 238 million
- EMEA EUR 1,557 million
- China EUR 417 million
- Asia-Pacific EUR 342 million

Net sales by destination 2016, EUR 2,926 million



- North America EUR 644 million
- South America EUR 205 million
- EMEA EUR 1,369 million
- China EUR 362 million
- Asia-Pacific EUR 346 million

Non-current assets by location:

EUR million	Finland	North America	South America	EMEA excluding Finland	China	Asia-Pacific	Non-allocated	Total
2017	**202**	**90**	**19**	**83**	**83**	**20**	**709**	**1,206**
2016	198	105	23	80	93	16	732	1,248

Non-current assets comprise intangible assets, property, plant and equipment and investments in associated companies and joint ventures. Non-allocated assets include mainly goodwill, non-current income tax receivables 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
2017	**3**	**1**	**48**	**6**	**7**	**66**
2016	3	4	39	8	7	60

Major customers

Valmet enters into large long-term construction contracts, which however individually rarely contribute more than 10 percent of annual revenue. In 2017 and 2016 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 turnkey 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 creditworthiness 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 cost-to-cost or the milestone-method. In the expectation of adopting the new standard governing revenue recognition as at January 1, 2018, for contracts that started in 2017, cost-to-cost has been used as the primary method for measuring progress in customer contracts where revenue is recognized in proportion to the stage of completion of contract activity. For some contracts, this change has deferred recognition of revenue in the beginning of the project. Under the cost-to-cost method, the amount of revenue recognized is determined based on costs incurred as at each reporting date relative to total estimated costs. 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 or loss in proportion to recorded sales.

Subcontractor materials, labor and equipment, are included in 'Net sales' and 'Cost 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 spare parts and deliveries of consumables 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 or loss, when it becomes known. The estimated revenues, the costs and profits, together with the planned delivery schedule of the projects are subject to regular revisions as the contracts progress to completion. Impact on profit arising from revision of estimates is charged through profit or 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.

Assets and liabilities included in the statement of financial position related to uncompleted projects at December 31 are as follows:

EUR million	Cost and earnings of uncompleted projects	Billings of projects	Net
2017			
Projects where cost and earnings exceed billings	**1,770**	**1,559**	**210**
Projects where billings exceed cost and earnings	**1,212**	**1,548**	**336**
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

Analysis of net sales by category:

EUR million	Year ended Dec 31, 2017	2016
Sale of services and automation	**1,474**	1,453
Sale of projects, equipment and goods	**1,684**	1,473
Total	**3,159**	2,926

Net sales recognized under the percentage of completion method amounted to EUR 1,613 million, or 51 percent of net sales, in 2017.

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

4 Intangible assets and property, plant and equipment

Accounting principles

Fixed assets consist of 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. The recoverable amount of an asset is the higher of its fair value and its value in use. An asset is impaired if its carrying amount exceeds its recoverable amount, at which time an impairment loss is immediately recognized in profit or loss in 'Other operating expenses'.

The 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) that 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 rate approximating the weighted average cost of capital (WACC).

The WACC 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 licenses	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
Carrying value at end of year	624	9	13	191	837

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
2017					
Acquisition cost at beginning of year	624	34	74	436	**1,168**
Capital expenditure	-	-	-	19	**19**
Acquired in business combination	-	-	-	-	**-**
Retirements	-	-3	-	-1	**-5**
Reclassifications	-	2	4	-5	**-**
Translation differences	-10	-	-	-3	**-14**
Other changes and disposals	-	-	-	-	**-**
Acquisition cost at end of year	614	33	77	446	**1,169**
Accumulated amortization at beginning of year	-	-25	-61	-245	**-331**
Amortization charges for the year	-	-2	-5	-24	**-31**
Impairment losses	-	-1	-	-	**-1**
Retirements	-	3	-	1	**5**
Translation differences	-	-	-	2	**3**
Other changes and accumulated amortization of disposals	-	-	-	-	**-**
Accumulated amortization at end of year	-	-25	-65	-266	**-355**
Carrying value at end of year	**614**	**8**	**12**	**180**	**814**

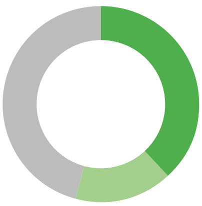
Property, plant and equipment:

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
Carrying value at end of year	26	133	183	32	374

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2017					
Acquisition cost at beginning of year	26	399	906	32	**1,363**
Capital expenditure	-	-	5	41	**46**
Disposals	-	-1	-7	-	**-8**
Retirements	-	-1	-34	-	**-35**
Reclassifications	-	11	23	-34	**-**
Translation differences	-	-11	-24	-3	**-38**
Other changes	-	-	-2	-	**-2**
Acquisition cost at end of year	25	398	867	35	**1,325**
Accumulated depreciation at beginning of year	-	-266	-723	-	**-989**
Depreciation charges for the year	-	-13	-37	-	**-49**
Impairment losses	-	-	-	-	**-**
Disposals	-	-	6	-	**6**
Retirements	-	1	34	-	**35**
Translation differences	-	6	18	-	**24**
Other changes	-	-2	4	-	**1**
Accumulated depreciation at end of year	-	-274	-697	-	**-971**
Carrying value at end of year	**25**	**124**	**170**	**35**	**354**

As at December 31, 2017 and 2016 there were no material assets leased under financial lease arrangements included in property, plant and equipment.

Depreciation and amortization 2017, EUR 81 million



Depreciation and amortization 2016, EUR 87 million

Depreciation and amortization by function are as follows:

	Year ended Dec 31,	
EUR million	**2017**	**2016**
Cost of goods sold	**-39**	-41
Selling, general and administrative expenses		
Marketing and selling	**-11**	-12
Research and development	**-4**	-5
Administrative	**-26**	-29
Total	**-81**	-87

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 and/or liabilities of the acquiree are assigned to the CGU or CGUs.

In both 2017 and 2016 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. The third CGU consists of Valmet's Automation business line.

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, 2017 and 2016 and the key assumptions applied in the value in use calculations (in both financial years, testing was performed as at September 30).

Allocation of Goodwill:

EUR million	As at Dec 31, 2017	2016
Paper business line and the paper business related part of Valmet's service business	**163**	171
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**287**	289
Automation business line	**164**	164
Total	**614**	624

Key assumptions applied:

	2017	2016
Long-term growth rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**1.7%**	1.7%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**1.2%**	1.2%
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	**9.4%**	8.6%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**10.3%**	8.9%
Automation business line	**8.7%**	7.5%

The key assumptions are based on past performance and management's and Board of Directors' expectations 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 development and product mix.

As a result of the annual impairment in tests, no impairment loss was recognized on goodwill in 2017, nor in 2016.

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.

Sensitivities on key assumptions:

	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 25 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 41 percent
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	increase to more than 16 percent
Automation business line	increase to more than 18 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 obsolescence provision:

EUR million	2017	2016
Balance at beginning of year	**21**	18
Translation differences	**-1**	-
Additions charged to profit / loss	**12**	7
Used reserve	**-**	-3
Reversals	**-5**	-4
Other changes	**3**	2
Balance at end of year	**29**	21

The cost of inventories recognized as expense was EUR 2,416 million and EUR 2,219 million for the years ended December 31, 2017 and 2016 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, 2017, the 'Work in progress' amounted to EUR 303 million (EUR 322 million) and 'Total inventories' valued to EUR 442 million (EUR 471 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 or 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 12 months.

Assets and liabilities at fair value through profit or loss

Derivative financial instruments to which hedge accounting is not applied are measured at fair value through profit or 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 'Other comprehensive income' (OCI) in the fair value reserve. Gains and losses on disposal and impairment, if any, are recorded in the profit or 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 or 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 or 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'.

Debt

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 judgment 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 or loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value	Fair value level
2017							
Non-current assets							
Available-for-sale financial assets	-	-	-	3	3	3	1, 3
Loan receivables	-	-	17	-	17	17	2
Trade receivables[1]	-	-	2	-	2	2	2
Derivative financial instruments	-	1	-	-	2	2	2
Total	**-**	**1**	**19**	**3**	**24**	**24**	
Current assets							
Available-for-sale financial assets	-	-	-	6	6	6	1
Trade receivables	-	-	546	-	546	546	2
Derivative financial instruments	7	16	-	-	23	23	2
Cash and cash equivalents	296	-	-	-	296	296	2
Total	**303**	**16**	**546**	**6**	**871**	**871**	

[1] Non-current trade receivables are non-interest-bearing and presented as 'Other non-current assets' in Valmet's balance sheet.

EUR million	Financial liabilities at fair value through profit or loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value	Fair value level
2017						
Non-current liabilities						
Loans from financial institutions	-	-	201	201	203	2
Derivative financial instruments	-	2	-	2	2	2
Total	**-**	**2**	**201**	**203**	**206**	
Current liabilities						
Current portion of non-current debt	-	-	18	18	18	2
Trade payables	-	-	287	287	287	2
Derivative financial instruments	3	7	-	11	11	2
Total	**3**	**7**	**305**	**316**	**316**	

EUR million	Financial assets at fair value through profit or 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	Financial liabilities at fair value through profit or 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	

The 'Available-for-sale financial assets' comprise EUR 1 million listed shares (EUR 1 million) and EUR 6 million current interest-bearing financial assets (EUR 1 million), which are all valued at their market value. The remaining EUR 2 million as at December 31, 2017 (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 221 million (EUR 200 million), investments to commercial paper EUR 26 million (EUR 10 million) and other short-term investments with maturity less than three months EUR 49 million (EUR 30 million).

The hierarchy of fair value levels is presented in Note 19. For more information on Derivative financial instruments, see Note 8.

7 Interest-bearing and non-interest-bearing receivables

	As at Dec 31,					
	2017			2016		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Interest-bearing receivables						
Loan receivables	**17**	**-**	**17**	17	-	17
Total	**17**	**-**	**17**	17	-	17
Non-interest-bearing receivables						
Trade receivables	**2**	**546**	**548**	-	561	561
Prepaid expenses and accrued income	**-**	**27**	**27**	-	32	32
Other receivables	**4**	**89**	**93**	6	53	59
Total	**6**	**662**	**668**	6	646	653

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

Allowance for trade receivables has changed as follows:

	Year ended Dec 31,	
EUR million	2017	2016
Balance at beginning of year	**14**	19
Translation differences	**-1**	-
Additions charged to profit / loss	**5**	7
Used reserve	**-1**	-6
Reversals	**-5**	-7
Other changes	**3**	-
Balance at end of year	**16**	14

Analysis of trade receivables by age:

	As at Dec 31,	
EUR million	2017	2016
Trade receivables, not due at reporting date	**364**	374
Trade receivables 1–30 days overdue	**100**	109
Trade receivables 31–60 days overdue	**24**	40
Trade receivables 61–90 days overdue	**17**	10
Trade receivables 91–180 days overdue	**9**	15
Trade receivables more than 180 days overdue	**35**	15
Total	**548**	561

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 or 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. 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 or loss concurrently with the underlying hedged transaction. The gain or loss relating to the ineffective portion of the derivatives hedging operative items is reported under 'Other operating income and expenses' in profit or loss. Respectively, the ineffective portion of derivatives hedging non-operative items are reported under 'Financial income and expenses' in profit or 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 or loss.

Interest rate swaps have been designated as hedging instruments to hedge future changes in cash flows arising from Valmet's floating rate debt. The fair value of the interest rate swap contracts is calculated as the present value of the estimated future cash flows arising from the contract. The gain or loss related to the ineffective portion of hedging instrument is expensed immediately and is reported under 'Financial income and expenses'. Interest arising from interest rate swaps is reported under 'Financial income and expenses' concurrently with interest expense arising from hedged floating rate debt.

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 or 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.

For highly probable future purchases of electricity, Valmet hedges related price changes with electricity forwards and hedge accounting is applied to this hedge relationship. 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'.

Derivatives at fair value through profit or loss

Certain foreign exchange and commodity derivatives do not qualify for hedge accounting and change in fair value is recorded through profit or loss. Gains or losses arising from derivatives hedging operative items are recognized in 'Other operating income and expenses'. However, when the foreign exchange derivatives hedge exchange rate risks arising from foreign currency denominated non-operative financial items such as debt, loans receivable and cash, gains and losses 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 inflows 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 inflows or outflows 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 revenue for a firm customer commitment qualifies for accounting 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 as revenue. 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
2017				
Forward exchange contracts[1]				
Under hedge accounting	**907**	**17**	**-8**	**9**
Not qualifying for hedge accounting	**632**	**7**	**-4**	**3**
Total	**1,539**	**24**	**-12**	**12**
Electricity forward contracts[2]				
Under hedge accounting	**82**	**-**	**-**	**-**
Not qualifying for hedge accounting	**77**	**-**	**-**	**-**
Total	**159**	**-**	**-**	**-**
Nickel commodity swaps[3]				
Not qualifying for hedge accounting	**18**	**-**	**-**	**-**
Interest rate swaps[1]				
Under hedge accounting	**30**	**-**	**-1**	**-1**
Total		**24**	**-13**	**11**
Netting fair values of derivative financial instruments subject to ISDAs[4]		**-12**	**12**	**-**
Total, net		**12**	**-1**	**11**
2016				
Forward exchange contracts[1]				
Under hedge accounting	1,148	11	-21	-10
Not qualifying for hedge accounting	551	7	-6	2
Total	1,699	18	-26	-8
Electricity forward contracts[2]				
Under hedge accounting	121	-	-1	-1
Not qualifying for hedge accounting	-	-	-	-
Total	121	-	-1	-1
Interest rate swaps[1]				
Under hedge accounting	30	-	-2	-2
Total		18	-29	-10
Netting fair values of derivative financial instruments subject to ISDAs[4]		-16	16	-
Total, net		3	-13	-10

[1] Notional amount in EUR million
[2] Notional amount in GWh
[3] Notional amount in metric tons
[4] 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:

	2018	2019	2020	2021	2022 and later
2017					
Notional amounts					
Forward exchange contracts[1]	**1,424**	**111**	**3**	**-**	**-**
Electricity forward contracts[2]	**84**	**57**	**18**	**-**	**-**
Interest rate swaps[1]	**-**	**-**	**-**	**-**	**30**
Nickel commodity swaps[3]	**18**	**-**	**-**	**-**	**-**
Fair values, EUR million					
Forward exchange contracts	**12**	**-**	**-**	**-**	**-**
Electricity forward contracts	**-**	**-**	**-**	**-**	**-**
Interest rate swaps	**-**	**-**	**-**	**-**	**-1**
Nickel commodity swaps	**-**	**-**	**-**	**-**	**-**

	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

[1] Notional amount in EUR million
[2] Notional amount in GWh
[3] Notional amount in metric tons

9 Financial income and expenses

EUR million	Year ended Dec 31, 2017	2016
Dividends received	**-**	1
Interest income on financial assets	**3**	3
Financial income total	**3**	3
Interest expenses on financial liabilities at amortized cost	**-4**	-4
Net interest from defined benefit plans	**-4**	-5
Net loss from foreign exchange	**-2**	-
Interest component from forward contracts	**-5**	-4
Other financial expenses	**-2**	-3
Financial expenses total	**-16**	-15
Financial income and expenses, net	**-13**	-12

'Interest expenses on financial liabilities at amortized cost' include interest expenses on interest-bearing loans and interest rate swaps. In 2017 'Financial income and expenses' includes EUR -6 million exchange rate gains and losses from non-operative items (EUR 13 million) and EUR 4 million from related derivatives measured at fair value through profit or loss (EUR -13 million), net balance of these amounts to EUR -2 million (EUR 0 million).

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.

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.

Provisions for expected contract losses

Onerous contract provision is recognized when the Group has a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is either the lower of the costs of fulfilling contractual obligations or penalties arising from the failure to fulfill those obligations.

Other provisions

Other provisions comprise provisions related to environment, personnel, legal and tax related processes.

Specification of changes in provisions:

	Year ended Dec 31, 2017				
EUR million	Warranty and guarantee liabilities	Restructuring provisions	Provisions for expected contract losses	Other provisions	Total
Balance at beginning of year	**110**	**6**	**8**	**3**	**128**
Translation differences	**-4**	**-**	**-**	**-**	**-4**
Addition charged to profit / loss	**84**	**3**	**12**	**7**	**106**
Used reserve	**-43**	**-3**	**-7**	**-**	**-53**
Reversal of reserve / other changes	**-36**	**-1**	**-1**	**-**	**-38**
Balance at end of year	**112**	**6**	**11**	**10**	**139**
Non-current	16	1	-	3	20
Current	96	4	11	8	119

Provisions for expected contract losses relate primarily to long-term construction contracts. The Group has no material environmental and product liabilities as at December 31, 2017 or December 31, 2016.

Critical accounting estimates and judgments

Under contractual warranty clauses, Valmet generally guarantees the performance levels agreed to 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.

11 Trade and other payables

EUR million	As at Dec 31, 2017	2016
Trade payables	**287**	226
Accrued interest	**2**	2
Accrued personnel costs	**122**	119
Accrued project costs	**302**	322
Other payables	**105**	85
Trade and other payables total	**817**	754

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

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

12 Personnel expenses and the number of personnel

Personnel expenses:

EUR million	Year ended Dec 31, 2017	2016
Salaries and wages	**-625**	-611
Pension costs, defined contribution plans	**-62**	-62
Pension costs, defined benefit plans[1]	**-8**	-8
Other post-employment benefits[1]	**-4**	-3
Share-based payments[2]	**-5**	-8
Other indirect employee costs	**-102**	-103
Total	**-807**	-795

[1] For more information, see Note 14.
[2] For more information, see Note 13.

Number of personnel:

	2017	2016
Personnel at end of year	**12,268**	12,012
Average number of personnel during the year	**12,208**	12,261

13 Share-based payments

Accounting principles

Valmet's share-based incentive plans are part of the remuneration and retention program for Valmet's key personnel. Equity-settled share based awards are valued based on the market price of 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 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 or loss with corresponding adjustment to equity and current liabilities, as appropriate.

Granted share amounts of the share-based incentive plans:

	2017
Plan 2012–2014	
At beginning of year	262,980
Paid	-262,980
At end of year	-
Plan 2015–2017	
At beginning of year	582,675
Granted	520,040
Paid	-556,049
Forfeited	-25,575
Expired	-130,271
At end of year	390,820

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 could not exceed 120 percent of a participant's total annual base salary. As a rule, no reward was paid if the key employee's employment or service ended before the reward payment.

From the performance period 2014 a gross number of 262,980 shares were earned. The reward was paid partly in Company shares and partly in cash in March 2017. The cash portion was 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 share-based incentive plan for Valmet's key employees. The Plan included three performance periods, which were the calendar years 2015, 2016 and 2017. The Board of Directors decided on the performance criteria and targets in the beginning of each performance period. The plan has been directed to approximately 80 key employees.

The rewards from the plan are paid partly in Company shares and partly in cash. The cash portion is dedicated to cover taxes and tax-related payments arising from the reward to the key employee. The reward of the plan from one performance 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 after the end of each performance 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.

As part of the share-based incentive program, members of Valmet Executive Team have had the possibility to receive a matching share reward for each performance period, provided that the Executive Team member owned or acquired Valmet shares up to a number determined by the Board of Directors by the end of each performance period. Reward receipt is tied to continued employment or service of the Valmet Executive Team member upon reward payment.

The expense of the plan is recognized over the vesting period of each performance period. The below table summarizes the key attributes of the 2015–2017 long-term incentive plan.

Performance period	2015	2016	2017
Incentive based on	EBITA % and Services orders received growth %	Comparable EBITA % and orders received growth % of the stable business	Comparable EBITA % and orders received growth % of the stable business
Reward payment	in Spring 2016	in Spring 2017	in Spring 2018
Total gross number of shares earned (including the matching share rewards)	540,035 shares	556,049 shares	As at December 31, 2017 a total of 390,820 shares has been allotted to participants
Valmet's closing share price as at the grant date	EUR 11.40	EUR 9.14	EUR 14.39
Vesting period	February 2015 to December 2017	February 2016 to December 2018	February 2017 to December 2019

Long-term incentive plan for 2018–2020

The Board of Directors of Valmet Oyj has decided on a new long-term share-based incentive plan for Valmet's key employees. The plan includes three performance periods, which are the calendar years 2018, 2019 and 2020. Valmet's Board of Directors shall decide on the performance criteria and targets in the beginning of each performance period. The plan is directed to a total of approximately 120 participants, of which 80 are key employees in management positions (including Executive Team members), and 40 are management talents, which is a new target group in Valmet's share based incentive plan.

Furthermore, the members of Valmet's Executive Team are recommended to own and hold an amount of Company shares equaling to their gross annual base salary (100 percent ownership recommendation).

The rewarded shares may not be transferred during the restriction period, which will end two years after the end of the performance period. As a rule, no reward is paid if the key employee's employment or service at Valmet ends before the reward payment. Should a key employee's employment or service end during the restriction period, he or she must, as a rule, gratuitously return the shares given as reward to the Company.

The potential reward from the performance period 2018 is based on Valmet's Comparable EBITA margin and orders received growth (%) of the stable business, that is, the Services and Automation business lines. The potential reward from the performance period 2018 will be paid partly in Company shares and partly in cash in 2019. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key employee. The rewards to be paid based on the performance period 2018 are capped to an approximate maximum of 586,000 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 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, 2017 the total carrying value of the cash-settled portion related liability was EUR 2 million (EUR 6 million).

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

EUR thousand	2017	2016
Plan 2012–2014	**-289**	-1,267
Plan 2015–2017	**-5,048**	-6,572
Total	**-5,338**	-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 Group operates. 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 multiemployer pension arrangements classified as defined contribution plans. The contributions to defined contribution plans and to multi-employer and insured plans are charged to profit or 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 or loss concurrently with the service rendered by the personnel. The service cost is recorded as part of personnel expenses in profit or 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 'Other comperehensive income' (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) 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:

	2017			2016		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Present value of funded obligation	**183**	**-**	**183**	194	-	194
Fair value of plan assets	**-146**	**-**	**-146**	-147	-	-147
Net surplus (-) / deficit (+) of funded plans	**36**	**-**	**36**	46	-	46
Present value of unfunded obligation	**-**	**114**	**114**	-	104	104
Asset (-) / liability (+) recognized in the statement of financial position	**36**	**114**	**150**	46	104	151
Amounts in the statement of financial position						
Liabilities	**36**	**114**	**150**	47	104	151
Assets	**-**	**-**	**-**	-	-	-
Net liability	**36**	**114**	**150**	47	104	151

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

	Year ended Dec 31,					
		2017			2016	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Employer's current service cost	2	6	8	3	5	8
Net interest on net surplus / deficit	2	3	4	2	3	5
Settlements	-	-	-	-	-1	-1
Expense recognized in the statement of income	4	8	12	5	8	13

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

		2017			2016	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of obligation at beginning of year	194	104	298	179	101	280
Other adjustments	-	1	1	7	-	7
Employer's current service cost	2	6	8	3	5	8
Interest expense	6	3	9	7	3	9
Liabilities extinguished on settlements	-	-	-	-	-1	-1
Actuarial gain (-) / loss (+) due to change in financial assumptions	10	7	17	2	5	7
Actuarial gain (-) / loss (+) due to change in demographic assumptions	-1	-	-1	-2	-4	-6
Actuarial gain (-) /loss (+) due to experience	-4	1	-3	2	-1	1
Benefits paid from the arrangements	-8	-	-8	-9	-	-9
Benefits paid directly by employer	-	-4	-4	-	-4	-4
Translation differences	-17	-4	-21	5	-2	3
Present value of defined benefit obligation at end of year	183	114	296	194	104	298
- of which related to active members			114			108
- of which related to deferred members			60			63
- of which related to pensioner members			123			126

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

		2017			2016	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Fair value of plan assets at beginning of year	147	-	147	132	-	132
Other adjustments to the fair value of assets	-	-	-	7	-	7
Interest income on assets	5	-	5	5	-	5
Return on plan assets excluding interest income	9	-	9	4	-	4
Employer contributions	6	4	10	3	4	7
Benefits paid from the arrangements	-8	-	-8	-9	-	-9
Benefits paid directly by employer	-	-4	-4	-	-4	-4
Translation differences	-13	-	-13	4	-	4
Fair value of plan assets at end of year	146	-	146	147	-	147

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

	Year ended Dec 31,					
	2017			2016		
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Experience gain (-) / loss (+) on assets	**-9**	**-**	**-9**	-4	-	-4
Actuarial gain (-) / loss (+) on liabilities due to change in financial assumptions	**10**	**7**	**17**	2	5	7
Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions	**-1**	**-**	**-1**	-2	-4	-6
Actuarial gain (-) / loss (+) on liabilities due to experience	**-4**	**1**	**-3**	2	-1	1
Total gain (-) / loss (+) recognized in OCI	**-4**	**8**	**4**	-3	1	-2

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

	2017			2016		
As at Dec 31	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	**45%**	**-**	**45%**	32%	-	32%
Bonds	**30%**	**-**	**30%**	29%	-	29%
Other	**2%**	**23%**	**25%**	15%	24%	39%
Total	**77%**	**23%**	**100%**	76%	24%	100%

At December 31, 2017 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:

	2017			2016		
As at Dec 31	Funded	Unfunded	Total	Funded	Unfunded	Total
Discount rate	**3.2%**	**2.6%**	**2.9%**	3.6%	2.7%	3.3%
Salary increase	**2.5%**	**2.7%**	**2.6%**	2.4%	2.5%	2.4%
Pension increase	**2.0%**	**2.6%**	**2.5%**	2.0%	2.5%	2.3%
Medical cost trend rates	**-**	**6.7%**	**6.7%**	-	7.2%	7.2%

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	2017	2016	2017	2016
Sweden	**22**	22	**22**	22
Canada	**21**	21	**22**	22
USA	**21**	21	**22**	22
Finland	**21**	21	**24**	24

Life expectancy is allowed for in the assessment of the defined benefit 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:

	2017			2016		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Discount rate						
Increase of 0.25%	**-6**	**-5**	**-11**	-6	-4	-10
Decrease of 0.25%	**6**	**5**	**11**	6	5	11
Salary increase rate						
Increase of 0.25%	**1**	**3**	**4**	1	3	3
Decrease of 0.25%	**-1**	**-3**	**-4**	-1	-2	-3
Pension increase rate						
Increase of 0.25%	**1**	**3**	**4**	1	2	4
Decrease of 0.25%	**-1**	**-3**	**-4**	-1	-2	-4
Medical cost trend						
Increase of 1%	**-**	**1**	**1**	-	1	1
Decrease of 1%	**-**	**-1**	**-1**	-	-1	-1
Life expectancy						
Increase of one year	**6**	**4**	**10**	6	3	9
Decrease of one year	**-5**	**-4**	**-9**	-6	-3	-9

The table above presents value of the defined benefit obligation when major assumptions are changed while holding the others constant.

Weighted average duration of defined benefit obligation:

	2017			2016		
Expressed in years	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
As at December 31	**14**	**18**	**15**	13	18	15

Valmet sponsors both defined 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 USA, Canada and Sweden together represent 83% of Valmet's defined benefit obligation and 77% of its pension assets. These arrangements provide income in retirement, which is substantially based on salary and service at or near retirement.

In the USA 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 2018 are EUR 0.4 million in respect of Finnish plans and EUR 8 million in respect of foreign plans.

Valmet paid contributions of EUR 62 million (EUR 62 million) to defined contribution arrangements during 2017.

15 Income taxes

Accounting principles

Tax expenses in the profit or loss comprise current and deferred taxes. Taxes are recognized in the profit or 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 rates stipulated for each country as at the balance sheet date. Additionally, non-recoverable foreign taxes on financing transaction or transactions with shareholders, which are not based on taxable profits, are reported in current taxes. Non-recoverable withholding taxes and foreign taxes on operative items are reported in 'Other operating income and expenses'. These non-recoverable foreign taxes 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. Interest that is calculated based on unpaid tax amounts, are reported as part of financial expense. 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 non-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 differences 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 it 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. Management has chosen not to discount non-current tax balances. 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 2016 and 2017) and income tax expense recognized in profit or loss are as follows:

	Year ended Dec 31,	
EUR million	**2017**	**2016**
Income before taxes	**165**	136
Taxes calculated according to tax rate in Finland	**-33**	-27
Impact of changes in tax rates	**5**	1
Income tax for prior years	**-2**	-12
Effect of different tax rates in foreign subsidiaries	**-1**	-4
Utilization of tax losses carried forward	**-1**	1
Non-recoverable foreign taxes	**-4**	-5
Effect of tax free income and non-deductible expenses	**-2**	-3
Other	**-**	-4
Income tax expense	**-39**	-54
Effective tax rate, (%)	**23.3%**	39.4%
Effective tax rate, (%) excluding income tax for prior years	**22.1%**	30.4%

The decline in income taxes in 2017 primarily arises from changes in deferred tax balances in the USA resulting from the local tax reform. In 2016 Valmet received a reassessment decision from the Finnish Tax Authority for Valmet Technologies Oy as a result of a tax audit carried out concerning years 2010–2012. The decision concerned compensation charged by Valmet Technologies Oy from its foreign subsidiaries. In this context Valmet recognized an income tax liability in the 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. Valmet entities are subject to routine tax audits on an ongoing basis. 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,					
	2017			2016		
EUR million	**Before taxes**	**Tax**	**After taxes**	**Before taxes**	**Tax**	**After taxes**
Cash flow hedges	**14**	**-3**	**11**	1	-	1
Remeasurement of defined benefit plans	**-4**	**-5**	**-9**	-5	7	2
Currency translation on subsidiary net investments	**-20**	**-**	**-20**	-7	-	-7
Total comprehensive income / expense	**-10**	**-8**	**-18**	-11	6	-5
Deferred tax	**-**	**-8**	**-**	-	6	-
Total	**-**	**-8**	**-**	-	6	-

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to other comprehensive income[2]	Translation differences	Balance at end of year
2017					
Deferred tax assets					
Tax losses carried forward	13	-	-	-2	**11**
Fixed assets	15	-2	-	-	**14**
Inventory	2	-2	-	-	**-**
Provisions	23	1	-	-1	**23**
Accruals	16	-5	-	-1	**9**
Employee benefits	25	-	-5	-1	**19**
Other	6	2	-3	1	**6**
Total deferred tax assets	99	-6	-8	-4	**82**
Offset against deferred tax liabilities[1]	-19	7	-	-	**-12**
Net deferred tax assets	**80**	**1**	**-8**	**-4**	**70**
Deferred tax liabilities					
Purchase price allocations	71	-5	-	-5	**61**
Fixed assets	1	-	-	-	**-**
Other	10	3	-	-5	**7**
Total deferred tax liabilities	82	-2	-	-11	**68**
Offset against deferred tax assets[1]	-19	7	-	-	**-12**
Net deferred tax liabilities	**62**	**5**	**-**	**-11**	**56**
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

[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] Please refer to 'Consolidated statement of comprehensive income' 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, 2017 and 2016, earnings of EUR 21 million and EUR 57 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 6 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 both as at December 31, 2017 and as at December 31, 2016. 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, 2017 was 149,864,220 (149,864,220 shares total). 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, 2017.

Valmet Oyj has one series of shares. The shares of Valmet Oyj do not have a nominal value. In 2017, there has been no changes in the number of outstanding shares or share capital.

Treasury shares

As at December 31, 2017 Valmet Oyj held 399 (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, 2017, the number of shares held within the administration plan was 207,036.

Dividends

The Board of Directors proposes that a dividend of EUR 0.55 per share will be paid out based on the 'Consolidated Statement of Financial Position' to be adopted for the financial year ended December 31, 2017, 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 82 million. Dividends paid relating to the year ended December 31, 2016 were EUR 0.42 per share totaling EUR 63 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.

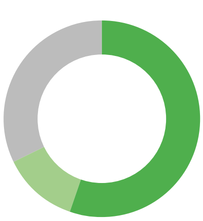
The reserve for invested non-restricted equity fund in Valmet's 'Consolidated Statement of Financial Position' consists of the fund held by the parent company Valmet Oyj.

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.

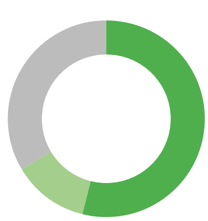
17 Selling, general and administrative expenses

Selling, general and administrative expenses 2017, EUR 517 million



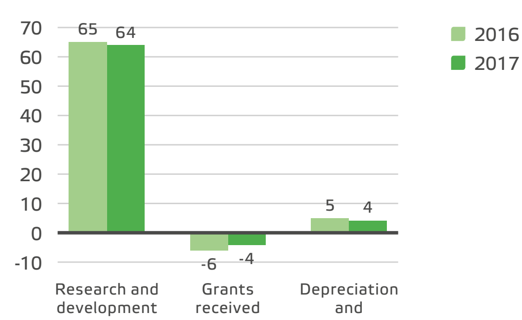
- Marketing and selling expenses EUR 287 million
- Research and development expenses, net EUR 64 million
- Administrative expenses EUR 166 million

Selling, general and administrative expenses 2016, EUR 518 million



- Marketing and selling expenses EUR 280 million
- Research and development expenses, net EUR 64 million
- Administrative expenses EUR 174 million

Research and development expenses, EUR million



18 Other operating income and expenses

EUR million	Year ended Dec 31, 2017	2016
Gain on sale of fixed assets	**2**	1
Royalty income	**-**	2
Rental income	**1**	1
Foreign exchange gains[1]	**-**	14
Reversal of allowance for doubtful receivables	**5**	7
Other income[2]	**10**	7
Other operating income, total	**18**	32
Loss on sale of subsidiaries and businesses	**-3**	-1
Loss on sale of fixed assets	**-1**	-1
Impairment of fixed assets	**-1**	-3
Foreign exchange losses[1]	**-**	-17
Interest component from forward contracts	**-3**	-2
Non-recoverable foreign taxes	**-3**	-1
Allowance for doubtful receivables	**-6**	-7
Other expenses[2]	**-10**	-2
Other operating expenses, total	**-27**	-33
Other operating income and expenses, net	**-10**	-2

[1] Valmet has amended the presentation of foreign exchange gains and losses arising from derivatives and revaluation of accounts receivable and payable. In 2017 these have been reported on net basis under 'Foreign exchange losses' with exchange rate gains and losses arising from revaluation of accounts receivable and payable amounting to EUR -7 million and exchange gains and losses from derivatives to EUR 8 million. In 2016 these gains and losses, amounting to EUR 5 million and EUR -8 million, respectively, were reported on as part of operating income and expenses on gross basis.

[2] Includes indirect tax related income and expenses, registeration fees and costs arising from legal processes.

19 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. The Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries. The Treasury functions as 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 is 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 2017 'Cash and cash equivalents' amounted to EUR 296 million (EUR 240 million) and available-for-sale interest-bearing financial assets to EUR 6 million (EUR 1 million). Due to the global nature of operations, some of the Valmet subsidiaries are located in countries in which currency is subject to limited exchangeability or capital controls. Given Valmet's total liquidity position, related balances are considered to be immaterial. In addition, Valmet had a committed revolving credit facility of EUR 200 million which matures in 2023, committed overdraft limits of EUR 14 million and an 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 -366 million (EUR -294 million) as at December 31, 2017 due to e.g. the impact of 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 as at December 31, 2017, was 4.0 years (3.9 years). The amount of 'Current debt' including 'Current portion of non-current debt' was 8 percent (15%) 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.

As at December 31, 2017 there were no material liabilities under finance lease obligations and other debt.

EUR million	2018	2019	2020	2021	2022 and later
Loans from financial institutions					
Repayments	18	39	39	30	93
Interests	2	2	2	1	1
Trade and other payables	817	-	-	-	-
Total	838	41	41	31	94

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 at Valmet comprises both equity and total debt. As of December 31, 2017, the 'Total equity' was EUR 933 million (EUR 886 million) and the amount of 'Total debt' was EUR 219 million (EUR 310 million).

Valmet has not disclosed any long-term financial ratio target 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, 2017.

EUR million	As at Dec 31, 2017	2016
Total interest-bearing liabilities	**219**	310
Cash and cash equivalents	**296**	240
Available-for-sale interest-bearing financial assets	**6**	1
Other interest-bearing receivables	**17**	17
Interest-bearing net debt	**-100**	52
Total equity	**933**	886
Gearing ratio	**-11%**	6%

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 required to stay within the 10–60 percent 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 allowed to deviate between 6–42 months.

The fixed rate interest proportion of total debt portfolio was 38 percent (29%), the duration was 1.7 years (1.5 years) and the EUR denominated debt was 100 percent (100%) of the entire gross debt at the end of 2017.

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 component of foreign exchange derivatives since the impact of a one 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 one percentage point upwards or downwards in interest rates with all other variables held constant would have following effect, net of taxes:

EUR million	2017	2016
Profit / loss	**+/- 0.9**	+/- 0.0
Equity	**+/- 1.7**	+/- 1.9

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 decreases the significance of any individual currency. Substantial proportion of Valmet's net sales and costs are generated in euros (EUR), US dollars (USD), Swedish krona (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 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 or 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 external and internal 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, 2017				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	**21**	**-181**	**218**	**-34**	**-23**
of which trade and other receivables	**13**	**-89**	**60**	**11**	**4**
of which trade and other payables	**-36**	**42**	**-1**	**-12**	**7**
Financial items	**121**	**-105**	**-4**	**-39**	**28**
Hedges	**-150**	**280**	**-205**	**79**	**-5**
Total exposure	**-8**	**-6**	**9**	**5**	**-**

	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

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, 2017				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	**+/- 0.5**	**-/+ 0.7**	**-/+ 0.4**	**+/- 0.0**	**-/+ 0.6**

	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

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	2017	2016
Profit / loss	**-/+ 1.2**	+/- 1.4
Equity	**-/+ 2.9**	+/- 0.8

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 or 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. As at December 31, 2017 the total non-EUR denominated 'Equity', 'Goodwill' and fair value step up of the subsidiaries were EUR 382 million (EUR 413 million). The major translation exposures were EUR 164 million (EUR 160 million) in SEK and EUR 88 million (EUR 116 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, 2017 Valmet had outstanding electricity forwards amounting to 159 GWh (121 GWh) and 206 GWh (228 GWh) under fixed price purchase agreements.

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Valmet has entered into average-price swap agreements for nickel. The Alloy Adjustment factor is based on monthly average-prices of its components of which nickel is the most significant. As at December 31, 2017 Valmet had outstanding average-price swap agreements for nickel amounting to 18 metric tons (0 metric tons).

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 raw materials and electricity.

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

EUR million	2017	2016
Electricity – effect in profit / loss	**+/- 0.1**	+/- 0.1
Electricity – effect in equity	**+/- 0.2**	+/- 0.2
Nickel – effect in profit / loss	**+/- 0.0**	-

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 or loss. Hedge accounting is not applied to nickel agreements and the change in the fair value is recorded through profit or 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), see note 8. 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 is 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 (OTC) derivatives classified as financial assets/liabilities at fair value through profit or 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 2017. Fair value levels of other financial assets and liabilities are shown in Note 6.

	As at Dec 31, 2017		
EUR million	**Level 1**	**Level 2**	**Level 3**
Assets			
Derivatives at fair value through profit or loss	**-**	**7**	**-**
Derivatives qualified for hedge accounting	**-**	**17**	**-**
Available-for-sale financial assets	**7**	**-**	**2**
Total assets	**7**	**24**	**2**
Liabilities			
Derivatives at fair value through profit or loss	**-**	**4**	**-**
Derivatives qualified for hedge accounting	**-**	**9**	**-**
Total liabilities	**-**	**13**	**-**

	As at Dec 31, 2016		
EUR million	**Level 1**	**Level 2**	**Level 3**
Assets			
Derivatives at fair value through profit or 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 or loss	-	6	-
Derivatives qualified for hedge accounting	-	23	-
Total liabilities	-	29	-

There were no changes in Level 3 instruments for the 12 months ended December 31, 2017.

20 Investments in associates and joint ventures

Valmet Group has the following associated companies and joint ventures:

Company name	Place of incorporation and principal place of business	Share of ownership Dec 31, 2017	Share of ownership Dec 31, 2016	Measurement method
Allimand S.A.	France	**35.8%**	35.8%	Equity
Valpro gerenciamento de obras Ltda	Brazil	**51.0%**	51.0%	Equity
Nanjing SAC Valmet Automation 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 established in 1850 and Valmet has been a shareholder since 1979. Allimand S.A. is an associated company that management has classified as financial investment since 2015.

Valpro gerenciamento de obras Ltda is a joint venture between Valmet and Progen, with the company attending exclusively to Valmet's 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) was renamed Nanjing SAC Valmet Automation Co., Ltd. in 2017. It 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 Valmet Automation 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 Valmet Automation 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 Valmet Automation Co., Ltd.

Summarized financial information for Allimand S.A. and Nanjing SAC Valmet Automation Co., Ltd. is set out below. The summarized financial information below represents amounts shown in Allimand S.A.'s and Nanjing SAC Valmet Automation 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	2017	2016	2017	2016
Non-current assets	**10**	8	**13**	13
Current assets	**36**	29	**81**	81
Non-current liabilities	**14**	10	**-**	-
Current liabilities	**22**	19	**52**	55
Net assets	**9**	8	**42**	40
Valmet's share of net assets	**3**	3	**9**	9

	Allimand S.A.		SAC	
	Year ended Dec 31,		Year ended Dec 31,	
EUR million	**2017**[1]	**2016**[2]	**2017**	**2016**
Revenue	**49**	50	**64**	52
Profit / loss	**2**	1	**5**	3

[1] Period Sep 2016–Aug 2017
[2] Period Sep 2015–Aug 2016

Carrying value of investments in associates and joint ventures:

	Year ended Dec 31,	
EUR million	**2017**	**2016**
Investments in associated companies and joint ventures		
Acquisition cost at beginning and end of year	**8**	8
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	**4**	3
Share of results, operative investments	**1**	1
Share of results, financial investments	**1**	-
Dividend income	**-**	-1
Equity adjustments at end of year	**5**	4
Carrying value at end of year	**14**	12

21 Audit fees

In 2017, the Annual General Meeting of Valmet Oyj elected Authorised Public Accountants PricewaterhouseCoopers Oy (PwC) as Valmet Oyj's auditor.

	Year ended Dec 31,			
	2017		2016	
EUR million	**Paid to PwC**	**Paid to other auditors**	**Paid to PwC**	**Paid to other auditors**
Audit	**-1.5**	**-0.2**	-1.3	-0.2
Tax consulting	**-0.4**	**-0.5**	-0.7	-0.2
Other services	**-0.5**	**-0.1**	-0.1	-0.3
Total	**-2.3**	**-0.8**	-2.1	-0.8

In 2017 PricewaterhouseCoopers Oy has provided non-audit services to entities of Valmet Group in total of EUR 0.4 million with the services consisting of auditors' statements, tax and other services.

22 Lease contracts

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

EUR million	2017	2016
Not later than 1 year	**26**	17
Later than 1 year and not later than 2 years	**16**	13
Later than 2 years and not later than 3 years	**10**	9
Later than 3 years and not later than 4 years	**5**	5
Later than 4 years and not later than 5 years	**3**	3
Later than 5 years	**2**	5
Total minimum lease payments	**63**	51

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

Total rental expenses amounted to EUR 33 million in 2017 and EUR 21 million in 2016.

As at December 31, 2017 and 2016 there were no material assets leased under financial lease arrangements. Payments under operating leases are expensed as incurred.

23 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 872 million and EUR 853 million as at December 31, 2017 and 2016, 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. In 2017, a payment of EUR 23 million was released by the bank to Suzano from on-demand performance bonds provided by Valmet as performance security. Valmet management disputes the claims brought by Suzano and their right to the funds. Management has determined not to disclose any further information on the case on the grounds that it can be expected to seriously prejudice the ongoing legal procedures.

As at December 31, 2017, Valmet entities are subject to tax audits in several jurisdictions. 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. 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 an unfavorable impact on Valmet's financials.

24 Related party information

Valmet's related parties include Valmet Group companies (see Note 25) and associated companies and joint ventures (see Note 20) 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 or loss. More information about share-based payments is presented in Note 13.

EUR thousand	Salaries and other short-term benefits	Performance bonuses	Share-based payments	Post-retirement benefits	Total
2017					
President and CEO	-638	-280	-446	-265	**-1,629**
Other Executive Team members	-3,176	-1,019	-2,134	-1,253	**-7,581**
Total	**-3,814**	**-1,299**	**-2,580**	**-1,519**	**-9,211**
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

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	2017
Bo Risberg, Chairman	**-128**
Jouko Karvinen, Vice Chairman	**-85**
Aaro Cantell, Member	**-62**
Mikael von Frenckell, Vice Chairman until March 23, 2017	**-2**
Friederike Helfer, Member until March 23, 2017	**-4**
Lone Fønss Schrøder, Member	**-69**
Eriikka Söderström, Member since March 23, 2017	**-63**
Tarja Tyni, Member	**-65**
Rogério Ziviani, Member	**-74**
Eija Lahti-Jäntti, Personnel Representative	**-6**
Total	**-559**

As at December 31, 2017, the aggregate shareholding of the Board of Directors, the President and CEO and other Executive Team members was 505,350 shares (441,806 shares as at December 31, 2016).

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

25 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	Manufacturing	-	100.0
Valmet Paper (Shanghai) Co., Ltd.	China	Manufacturing	-	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 S.r.l	Italy	Manufacturing	-	100.0
Valmet Pescia S.r.l	Italy	Manufacturing	-	100.0
Valmet SpA	Italy	Manufacturing	-	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
Valmet AS	Norway	Sales	-	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

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
AO Valmet	Russia	Sales	-	100.0
Valmet Automation JSC	Russia	Sales	-	100.0
Valmet Pte. Ltd	Singapore	Sales	-	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 Valmet Automation Co., Ltd.	China	Manufacturing	-	21.95

26 Events after the reporting period

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

27 New accounting standards

New and amended standards adopted by the Group

In the current year, the Group has adopted new standards and interpretations into its accounting and reporting, including but not limited to amendments to IAS 12 – Income taxes, and IAS 7 – Cash flow statements. These amendments did not have a material impact on the results or financial position of Valmet Group, or the presentation of Financial Statements.

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:

IFRS15 – Revenue from contracts with customers

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, including amendments, 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 the customers in an amount that reflects the consideration to which the entity expects to be entitled to 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

Analysis on the impact of the implementation of the above key concepts of the new standard into Valmet's revenue streams is provided below.

Identification of performance obligations

In long-term capital projects, involving delivery of both equipment and services, one or more performance obligations are identified under the new standard. The identification of performance obligations depends on the scope of the project and terms of the contract and will largely follow the level at which quotes are being requested by the customers on capital projects.

In short-term service contracts that involve delivery of combination of equipment and services, depending on the scope of the contract and terms attached thereto, one or more performance obligations are identified. When scope of the contract involves services provided at the customer site, such as installation, maintenance, technical support or mechanical audits, these are typically considered a separate performance obligation from delivery of significant equipment and services provided off-site. On the other hand, when services in the scope of the contract are performed at Valmet premises only, such as workshop services, material and services typically cannot be identified separately, and consistently only one performance obligation is identified.

In long-term service contracts where Valmet's activities are largely performed at the customer's site, depending on the contract and terms attached thereto, one or more performance obligations are identified. When the scope of the contract involves various service elements that are separately sold on stand-alone basis, these elements would typically be determined to consist of performance obligations on their own.

Recognition of revenue

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.

When Valmet determines that control on goods or services is transferred over time, this is typically based on either that customer simultaneously receives and consumes benefits as Valmet performs, or that Valmet's performance creates an asset with no alternative use throughout the duration of a contract and Valmet has enforceable right to payment for performance completed to date.

Deliverables within Valmet's product offering that have the characteristics of the first criterion include mill maintenance services or other field services provided under long-term contracts, in which the receipt and simultaneous consumption by the customer of the benefits of Valmet's performance can be readily identified. Deliverables with the characteristics of the second criterion include capital projects where the scope of the contract involves design and construction of an asset according to customer specifications. The assets created in these projects do not have alternative use because the design is based on specific customer needs. When revenue is recognized over time, progress toward complete satisfaction of the performance obligation is measured 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 customer contracts where revenue is currently recognized upon transfer of risks and rewards associated with the deliverable to the customer, there is no 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.

Recognition of revenue at a point in time is applicable, among others, in contracts where services are performed at Valmet's premises and deliveries of spare parts and components.

Other steps of the revenue recognition model

Valmet management does not expect the new guidance on identification of a customer contract or allocation of the transaction price to the performance obligations identified in the contract to significantly affect the amount or timing of revenue and cost recognition.

However, Valmet's contracts often involve elements of variable consideration and management estimates that the reassessment of the transaction prices at each reporting date, requiring significant amount of judgment, will affect the timing of revenue recognition following the adoption of the new standard.

Transition

Valmet management selected the full retrospective method with practical expedients when adopting the new revenue guidance as of January 1, 2018. The cumulative effect of applying IFRS 15 will therefore be recognized in opening balance of retained earnings as at January 1, 2017. Under practical expedients permitted by the standard, contracts that begin and end within 2017, and contracts that were completed prior to January 1, 2017, are not restated. Management will use the transaction price at the date when the contract is completed when restating revenues across comparative reporting periods, rather than estimating revenue amounts for historic dates for contracts completed by the end of 2017. The aggregated effect of all the modifications that occurred before the beginning of January 1, 2017, are reflected in adjustment of the opening balance of retained earnings as at that date. Additionally, management is not expecting to disclose the amount of the transaction price allocated to remaining performance obligations for the periods presented before the date of initial application.

Arising primarily from the change in the method of measuring project progress in capital projects where revenue is recognized over time and transition into recognizing revenue at a performance obligation level, a transition adjustment amounting to EUR 9 million is recognized to opening balance of retained earnings as at January 1, 2017. This decrease in net equity is split between a decrease in 'Profit before taxes' and a reduction in tax expense of EUR 13 million and EUR 4 million, respectively. Decline in 'Profit before taxes' is the net effect of revenue deferred in projects where revenue based on the cost-to-cost method of measuring progress towards complete satisfaction of the performance obligation remains behind that recognized based on the milestone-method, and acceleration of revenue recognition in projects where based on the cost-to-cost method revenue recognition is ahead of that based on the milestone-method.

Main balance sheet items affected by application of new standard are 'Project cost accruals', 'Amounts due from customers under construction contracts', 'Amounts due to customers under constructions contracts' and 'Work in Progress'. Valmet management is in process of preparing restated 2017 financials.

IFRS 9 – Financial instruments

IFRS 9 – Financial instruments, includes guidance for recognition and derecognition, classification and measurement, and impairment of financial assets and liabilities within the standard's scope as well as hedge accounting. Application of the new standard is mandatory for accounting periods beginning on or after January 1, 2018 and it replaces current guidance included in IAS 39.

IFRS 9 establishes three separate measurement categories for financial assets, including amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). 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 continues with the two categories of amortized cost and fair value through profit or loss similar to current practice. For Valmet, the new classification and measurement guidance presents changes in terminology used for financial instruments, however impact on financial reporting is limited. There is no transition adjustment recognized in opening balance of retained earnings arising from new classification and measurement guidance for financial assets as of January 1, 2018.

Changes in classification of financial assets under IFRS 9 are as follows:

	Classification under IAS 39	Classification under IFRS 9
Equity investments[1]	Available-for-sale	FVTPL or FVTOCI
Interest-bearing investments	Available-for-sale	FVTOCI
Trade and other receivables	Loans and receivables	Amortized cost
Derivatives	FVTPL	FVTPL
Cash and cash equivalents	FVTPL	Amortized cost

[1] Valmet applies fair value through other comprehensive income option to certain equity investment.

The new impairment model presents the most significant changes arising from implementation of IFRS 9. The new model is based on expected credit losses while the current model is based on incurred losses, resulting in an increase in allowance for doubtful trade receivables and contract assets recognized at transition. IFRS 9 includes a simplification from the general impairment model for trade receivables and contract assets, under which allowance amounting to lifetime expected credit losses is recognized at the time of the initial recognition of the asset. The majority of Valmet's financial assets within the new impairment model's scope are subject to abovementioned simplification. Due to the implementation of the new model, an adjustment amounting to EUR -5 million is recognized to opening balance of retained earnings at transition as at January 1, 2018.

Hedge accounting requirements in IFRS 9 allow 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. When hedging for future changes in commodity prices, option to designate one or more risk components of non-financial items as hedged risks will both expand utilization of hedge accounting and decrease volatility in profit or loss due to increased hedge effectiveness. For Valmet, the implementation of IFRS 9 does not have material impact on accounting policy when hedging for foreign exchange rate and interest rate risk. Application of the new hedge accounting guidance has no impact on opening balance of retained earnings at transition.

Valmet's management has decided not to restate prior periods due to the implementation of IFRS 9, and the total adjustment of EUR -5 million is recognized to opening balance of retained earnings at transition as at January 1, 2018.

IFRS 16 – Leases

IFRS 16 – Leases, issued in January 2016 will replace IAS 17 – Leases and related interpretations. The standard, endorsed by the EU on October 31, 2017, is effective for annual periods beginning on or after January 1, 2019. 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 12 months or less and low-value assets.

The right-of-use asset is initially measured at cost and is subject 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 future lease payments that are not yet paid. In subsequent periods, the lease liability is measured using the effective interest rate method, so that the carrying value of the lease liability is measured on an amortized cost basis and the interest expense is allocated over the lease term. The interest expense is presented in financial expenses.

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 Group has not yet assessed the impact of IFRS 16 on its consolidated financial statements.

Parent Company Statement of Income, FAS

EUR	Note	Year ended Dec 31, 2017	2016
Other operating income		**12,127,238.74**	11,763,928.20
Personnel expenses	2	**-15,028,538.93**	-12,561,651.24
Depreciation and amortization		**-728,168.27**	-723,715.29
Other operating expenses	3	**-8,243,227.63**	-6,505,972.27
Operating profit / loss		**-11,872,696.09**	-8,027,410.60
Financial income and expenses, net	5	**48,188,595.51**	75,264,455.97
Profit / loss before appropriations and taxes		**36,315,899.42**	67,237,045.37
Group contributions		**70,740,000.00**	55,732,000.00
Income taxes	7	**-11,519,260.08**	-9,320,245.39
Profit / loss		**95,536,639.34**	113,648,799.98

Parent Company Statement of Financial Position, FAS

Assets

EUR	Note	2017	As at Dec 31, 2016
Non-current assets			
Intangible assets	8	**77,952.30**	142,937.79
Property, plant and equipment	8	**5,978,494.88**	6,328,944.28
Equity investments	9	**1,407,511,428.81**	1,407,374,718.42
Non-current receivables	11, 12	**90,430,344.35**	84,639,371.57
Total non-current assets		**1,503,998,220.34**	1,498,485,972.06
Current assets			
Current receivables	11, 12	**146,337,422.75**	163,354,220.86
Cash and cash equivalents		**165,443,618.85**	122,389,223.40
Total current assets		**311,781,041.60**	285,743,444.26
Total assets		**1,815,779,261.94**	1,784,229,416.32

Equity and liabilities

EUR	Note	2017	As at Dec 31, 2016
Equity	13		
Share capital		**100,000,000.00**	100,000,000.00
Reserve for invested unrestricted equity		**418,279,316.60**	412,235,760.65
Hedge and other reserves		**-904,179.28**	-1,281,392.43
Retained earnings		**467,565,188.43**	418,729,913.58
Profit / loss		**95,536,639.34**	113,648,799.98
Total equity		**1,080,476,965.09**	1,043,333,081.78
Liabilities			
Non-current liabilities	12, 14	**203,472,159.01**	267,278,676.20
Current liabilities	12, 15	**531,830,137.84**	473,617,658.34
Total liabilities		**735,302,296.85**	740,896,334.54
Total equity and liabilities		**1,815,779,261.94**	1,784,229,416.32

Parent Company Statement of Cash Flows, FAS

EUR thousand	Year ended Dec 31, 2017	2016
Cash flows from operating activities:		
Profit / loss before appropriations and taxes	**36,316**	67,237
Adjustments		
Depreciation and amortization	**728**	724
Financial income and expenses, net	**-48,189**	-75,264
Other non-cash items	**1,904**	507
Total adjustments	**-45,557**	-74,034
Increase (-) / decrease (+) in current non-interest-bearing receivables	**9,407**	-14,170
Increase (+) / decrease (-) in current non-interest-bearing liabilities	**-9,328**	13,900
Change in working capital	**78**	-270
Interest and other financial expenses paid	**-12,121**	-21,573
Dividends received	**50,067**	76,582
Interest and other financial income received	**23,081**	12,573
Income taxes paid	**-7,311**	-460
Group contribution received	**55,732**	-
Net cash provided by (+) / used in (-) operating activities	**100,285**	60,055
Cash flows from investing activities:		
Investments in tangible and intangible assets	**-313**	-
Proceeds from sale of tangible and intangible assets	**4**	1
Net increase (-) / decrease (+) in loan receivables from Group companies	**6,365**	36,774
Investments in subsidiaries	**-**	-417
Repayment of capital reserve	**-**	41,933
Other investments	**-137**	8,628
Net cash provided by (+) / used in (-) investing activities	**5,920**	86,919
Cash flows from financing activities:		
Net borrowings (+) / payments (-) of debt from Group companies	**21,126**	-16,999
Net borrowings (+) / payments (-) of non-current debt	**-89,429**	-60,857
Issue of treasury shares to Group companies	**4,609**	2,075
Purchase of treasury shares	**-1,954**	-2,329
Dividends paid	**-62,859**	-52,282
Net increase (+) / decrease (-) in Group pool accounts	**65,358**	37,803
Net cash provided by (+) / used in (-) financing activities	**-63,150**	-92,590
Net increase (+) / decrease (-) in bank and cash	**43,055**	54,384
Cash and cash equivalents at beginning of year	**122,389**	68,005
Cash and cash equivalents at end of year	**165,444**	122,389

Notes to Parent Company Financial Statements

1 Accounting principles

The parent company's financial statements have been prepaid in accordance with the Finnish Accounting Standards (FAS).

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	10 years
Buildings and structures	12–30 years
Machinery and equipment	5–10 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 lower 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 the '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 electricity and nickel are measured at fair value. The change in the fair value of electricity derivatives is recognized as 'Other operating income and expenses' in the 'Statement of income'. The fair value of commodity derivatives is based on quoted market prices at the balance sheet date.

Cash flow hedge accounting is applied to interest rate swaps hedging future changes in cash flows arising from floating rate debt. The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows arising from the contract. The gain or loss related to the ineffective portion of hedging instrument is expensed immediately and is reported under 'Financial income and expenses'. Interest arising from interest rate swaps is reported under 'Financial income and expenses' concurrently with interest expense arising from hedged floating rate debt.

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 plans 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 operating 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

EUR thousand	Year ended Dec 31, 2017	2016
Salaries and wages	**-12,601**	-10,106
Pension costs	**-2,017**	-1,938
Other indirect employee costs	**-411**	-518
Total	**-15,029**	-12,562

Remuneration paid to Management:

EUR thousand	Year ended Dec 31, 2017	2016
Chief Executive Officer	**-1,629**	-1,654
Members of the Board	**-559**	-577
Total	**-2,188**	-2,231

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 24 of the Consolidated financial statements.

Number of personnel:

	2017	2016
Personnel at end of year	**94**	89
Average number of personnel during the year	**93**	90

3 Other operating expenses

EUR thousand	Year ended Dec 31, 2017	2016
Consulting and other services	**-6,522**	-6,273
IT	**-1,499**	-1,478
Valuation of derivatives	**1,759**	3,173
Other	**-1,981**	-1,928
Total	**-8,243**	-6,506

4 Audit fees

EUR thousand	Year ended Dec 31, 2017	2016
Audit	**-430**	-380
Tax consulting	**-47**	-248
Other services	**-286**	-73
Total	**-763**	-701

5 Financial income and expenses

EUR thousand	Year ended Dec 31, 2017	2016
Dividends received		
Group companies	**49,714**	76,575
Others	**353**	613
Interest income		
Group companies	**9,378**	10,025
Others	**1,389**	3,512
Other financial income		
Group companies	**5,286**	25,097
Others	**53,113**	55,461
Interest expenses		
Group companies	**-1,500**	-1,476
Others	**-9,301**	-11,331
Other financial expenses		
Group companies	**-22,607**	-17,199
Others	**-37,636**	-66,012
Total	**48,189**	75,264

6 Changes in fair value recognized in income statement

EUR thousand	Year ended Dec 31, 2017	2016
Other operating expenses		
Changes in fair value of derivatives	**1,759**	3,173
Other financial expenses		
Changes in fair value of derivatives	**-1,030**	-16,818

7 Income taxes

EUR thousand	Year ended Dec 31, 2017	2016
Income tax for the financial period	**-11,334**	-4,794
Income tax for prior years	**-188**	-
Change in deferred taxes	**3**	-4,526
Total	**-11,519**	-9,320

8 Intangible assets and property, plant and equipment

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 year	331	810	8,160	682	557	10,209	10,540
Disposals	-	-1	-	-	-	-	-
Acquisition cost at end of year	331	809	8,160	682	557	10,209	10,540
Accumulated depreciation at beginning of year	-123	-	-2,815	-301	-104	-3,220	-3,343
Depreciation charges for the year	-64	-	-515	-121	-25	-661	-725
Accumulated depreciation at end of year	-187	-	-3,330	-422	-129	-3,881	-4,068
Carrying value at end of year	143	809	4,830	260	428	6,329	6,472

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2017							
Acquisition cost at beginning of year	331	809	8,160	682	557	10,209	**10,540**
Additions	-	-	313	-	-	313	**313**
Disposals	-	-	-	-90	-	-90	**-90**
Acquisition cost at end of year	331	809	8,473	592	557	10,432	**10,763**
Accumulated depreciation at beginning of year	-187	-	-3,330	-422	-129	-3,881	**-4,068**
Depreciation charges for the year	-65	-	-520	-117	-25	-662	**-728**
Disposals	-	-	-	90	-	90	**90**
Accumulated depreciation at end of year	-252	-	-3,850	-449	-154	-4,453	**-4,705**
Carrying value at end of year	**78**	**809**	**4,623**	**143**	**403**	**5,978**	**6,056**

9 Investments

	Shares		
EUR thousand	**Group companies**	**Others**	**Investments total**
2016			
Acquisition cost at beginning of year	1,447,528	1,362	1,448,890
Additions	-41,515	-	-41,515
Acquisition cost at end of year	1,406,013	1,362	1,407,375
Carrying value at end of year	1,406,013	1,362	1,407,375

	Shares		
EUR thousand	**Group companies**	**Others**	**Investments total**
2017			
Acquisition cost at beginning of year	1,406,013	1,362	**1,407,375**
Additions	-	137	**137**
Acquisition cost at end of year	**1,406,013**	**1,498**	**1,407,511**
Carrying value at end of year	**1,406,013**	**1,498**	**1,407,511**

10 Shareholdings in Group companies

Company name	**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, 2017	2016
Loan receivables from Group companies	**88,189**	82,009
Deferred tax asset	**674**	765
Derivatives	**1,567**	1,865
Non-current receivables total	**90,430**	84,639

Current receivables:

EUR thousand	As at Dec 31, 2017	2016
Trade receivables from		
Group companies	**7,011**	6,998
Others	**-**	115
Total	**7,011**	7,113
Loan receivables from		
Group companies	**21,800**	47,995
Group pool accounts	**8,051**	4,341
Total	**29,851**	52,336
Prepaid expenses and accrued income from		
Group companies	**85,580**	85,180
Others	**23,822**	18,678
Total	**109,402**	103,858
Other receivables	**74**	47
Current receivables total	**146,337**	163,354
Current receivables from Group companies total	**122,441**	144,514

Specification of prepaid expenses and accrued income:

EUR thousand	As at Dec 31, 2017	2016
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	**70,740**	55,732
Accrued interest income	**3,058**	2,695
Derivatives	**11,627**	26,197
Other	**154**	556
Total	**85,580**	85,180
Other prepaid expenses and accrued income		
Derivatives	**22,474**	16,064
Other accrued items	**1,349**	2,614
Total	**23,822**	18,678

12 Financial assets and liabilities recognized at fair value

EUR thousand	2016			
	Notional amount	Fair value Dec 31	Changes in fair value recognized in profit or loss	Changes in fair value recognized in hedge reserve
Forward exchange contracts[1]				
With Group companies	1,480	12,144	17,387	-
Others	1,690	-8,245	-33,272	-
Interest rate swaps[1]				
Others	30	-1,602	-380	-1,602
Electricity forward contracts[2]				
Others	121	-705	2,620	-

EUR thousand	2017			
	Notional amount	Fair value Dec 31	Changes in fair value recognized in profit or loss	Changes in fair value recognized in hedge reserve
Forward exchange contracts[1]				
With Group companies	**1,338**	**-9,042**	**-21,997**	**-**
Others	**1,528**	**12,394**	**22,600**	**-**
Interest rate swaps[1]				
Others	**30**	**-1,130**	**-418**	**-1,130**
Electricity forward contracts[2]				
Others	**159**	**-161**	**544**	**-**
Nickel commodity swaps[3]				
With group companies	**18**	**-37**	**-37**	**-**
Others	**18**	**37**	**37**	**-**

[1] Notional amount in EUR million
[2] Notional amount in GWh
[3] Notional amount in metric tons

13 Statement of changes in equity

EUR thousand	Year ended Dec 31, 2017	2016
Share capital at beginning of year	**100,000**	100,000
Share capital at end of year	**100,000**	100,000
Reserve for invested unrestricted equity at beginning of year	**412,236**	409,654
Share-based payments	**6,044**	2,582
Reserve for invested unrestricted equity at end of year	**418,279**	412,236
Hedge and other reserves at beginning of year	**-1,281**	-393
Additions	**377**	-888
Hedge and other reserves at end of year	**-904**	-1,281
Retained earnings at beginning of year	**532,379**	473,341
Dividends paid	**-62,859**	-52,282
Purchase of Treasury shares	**-1,954**	-2,329
Retained earnings at end of year	**467,565**	418,730
Profit / loss	**95,537**	113,649
Total equity at end of year	**1,080,477**	1,043,333

Statement of distributable funds:

EUR	As at Dec 31, 2017	2016
Invested non-restricted equity fund	**418,279,316.60**	412,235,760.65
Retained earnings	**467,565,188.43**	418,729,913.58
Profit / loss	**95,536,639.34**	113,648,799.98
Total distributable funds	**981,381,144.37**	944,614,474.21

14 Non-current liabilities

EUR thousand	As at Dec 31, 2017	2016
Loans from financial institutions	**201,000**	261,857
Derivatives	**2,472**	5,422
Non-current liabilities total	**203,472**	267,279

15 Current liabilities

EUR thousand	As at Dec 31, 2017	2016
Current portion of non-current loans	**18,000**	46,571
Trade payables to		
Group companies	**795**	978
Others	**1,680**	1,976
Total	**2,474**	2,954
Accrued expenses and deferred income to		
Group companies	**20,822**	14,533
Others	**22,670**	30,978
Total	**43,492**	45,511
Other current interest-bearing debt to		
Group companies	**48,935**	28,568
Group pool accounts	**418,666**	349,597
Total	**467,601**	378,165
Other liabilities	**264**	416
Current liabilities total	**531,830**	473,618
Current liabilities to Group companies total	**489,217**	393,676

Specification of accrued expenses and deferred income:

EUR thousand	As at Dec 31, 2017	2016
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	**116**	290
Derivatives	**20,706**	14,053
Other accrued items	**-**	190
Total	**20,822**	14,533
Accrued expenses and deferred income to others		
Accrued interest expenses	**1,557**	1,866
Derivatives	**10,429**	23,060
Accrued salaries, wages and social costs	**2,617**	2,371
Other accrued items	**8,067**	3,681
Total	**22,670**	30,978

16 Other contingencies

Guarantees:

EUR thousand	As at Dec 31, 2017	2016
Guarantees on behalf of subsidiaries	**863,840**	830,926

Lease commitments:

EUR thousand	As at Dec 31, 2017	2016
Payments in the following year	**734**	776
Payments later	**145**	787
Total	**879**	1,563

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 transactions	01, 02, 03, 04, 05, AA	In electronic format
Bank transactions	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 transactions	33	In electronic format
Journal vouchers	30, 51, 52, 53, 54, 55, 59, 64, 67, 68, 71, 72, 75, 79	In electronic format
Financing transactions	34, 35	In electronic format

Signatures of Board of Directors' Report and Financial Statements

Espoo, February 6, 2018

Bo Risberg
Chairman of the Board

Jouko Karvinen
Vice Chairman of the Board

Aaro Cantell
Member of the Board

Lone Fønss Schrøder
Member of the Board

Eriikka Söderström
Member of the Board

Tarja Tyni
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.

Helsinki, February 6, 2018

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 position and financial performance and cash flows 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.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Valmet Oyj (business identity code 2553019-8) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, statement of income, 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.

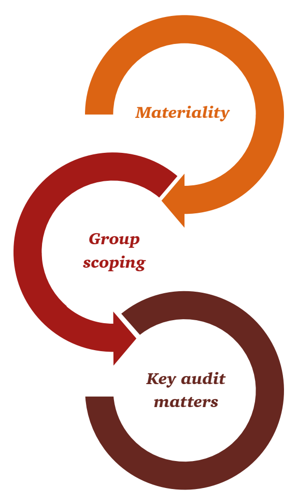
Independence

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.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 21 to the Financial Statements.

Our Audit Approach

Overview



- Overall group materiality: 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	€ 8 million (previous year € 7 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.

Accounting of long-term projects 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 group's capital business 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 claims.

We tested certain key internal controls relating to revenue recognition and IT systems which support the project management and accounting. We performed detailed procedures focusing on significant projects and higher risk projects. This includes challenging management's estimates and assumptions and substantiating transactions with underlying documents and performing recalculations of management's models used to determine project revenue recognition. We used contracts and other relevant documentation as well as revenue and costs forecasts prepared by management. 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, provisions for loss making projects and compliance with the policies in terms of applicable accounting standards.

In addition, we have compared management's historical estimates to actual outcomes recognized 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 group has several revenue streams relating to service and automation business. Sales contracts include also various types of sales price components and different characteristics. Certain of these streams include also revenue recognized based on percentage of completion.

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

How our audit addressed the key audit matter

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 groups's obligations under the sales agreements and assessing compliance with the policies in terms of applicable accounting standards.

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

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 2017 the group's goodwill balance is valued at 614 million euro. Under IFRS the group 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 group'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 2017 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.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated and 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 a 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 to 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 about 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 with 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

Appointment

We were first appointed as auditors by the annual general meeting on 26 March 2014. Our appointment represents a total period of uninterrupted engagement of 4 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have 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 other information that we obtained prior to the date of this auditor's report, 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 6 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant (KHT)

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 Management AB
Vice Chairman of the Board in Grundfos Holding A/S
Board Member of Trelleborg AB and Stäubli Holding AG

Jouko Karvinen
born 1957, Finnish citizen

Valmet Board Member since 2016
Vice Chairman of the Board since 2017
Member of the Board's Remuneration and HR Committee
Independent of the company and independent of significant shareholders
M.Sc. (Tech)
Member of the Board of Finnair Group, International Advisory Board of Komatsu Corporation of Japan, and Foundation Board and Supervisory Board of IMD Business School

Aaro Cantell
born 1964, Finnish citizen

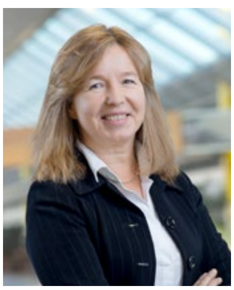
Valmet Board Member since 2016
Member of the Board's Remuneration and HR Committee
Independent of the company and not independent of significant shareholders due to board membership in Solidium Oy
M.Sc. (Tech.)
Chairman of the Board in Normet Group Oy and VTT Technical Research Centre of Finland Ltd
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.

Eriikka Söderström
born 1968, Finnish citizen

Valmet Board Member since 2017
Member of the Board's Audit Committee
Independent of the company and independent of significant shareholders
M.Sc. (Econ.)



Tarja Tyni
born 1964, 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

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

Mikael von Frenckell was Member of Valmet's Board, Vice Chairman of the Board and Member of the Board's Remuneration and HR Committee until March 23, 2017.
Friederike Helfer was Member of Valmet's Board and Member of the Board's Audit Committee until March 23, 2017.

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

Aki Niemi
born 1969

Business Line President, Services from October 1, 2017 (previously Area President, China)

M.Sc. (Eng.)

Finnish 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

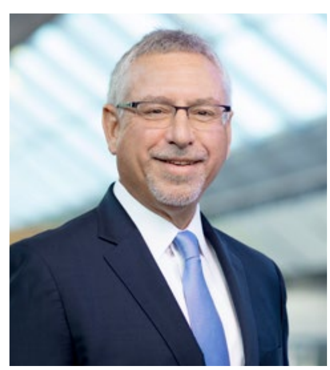
Jari Vähäpesola
born 1959

Business Line President, Paper

M.Sc. (Eng.)

Diploma in International Marketing Management

Finnish citizen



Dave King
born 1956

Area President, North America

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

Jukka Tiitinen
born 1965

Area President, Asia Pacific from October 1, 2017 (previously Business Line President, Services)

M.Sc. (Eng.)

Finnish and US citizen

Xiangdong Zhu
born 1967

Area President, China from October 1, 2017

B.Sc. (Eng)

MBA

Chinese 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

Hannu T Pietilä was Area President, Asia Pacific until September 30, 2017.

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

Shares and Shareholders

Valmet share

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 trading of Valmet Oyj's shares commenced on Nasdaq Helsinki on January 2, 2014. The volume of Valmet shares traded in Nasdaq Helsinki during 2017 was approximately 89 million, which represents approximately 60 percent of the total volume of traded Valmet shares. In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 49 million of Valmet's shares were traded on alternative marketplaces in year 2017, which equals to approximately 35 percent of the share's total trade volume. (Source: Nasdaq, Fidessa)

Valmet Oyj held 399 Valmet shares on December 31, 2017.

BASIC INFORMATION ON VALMET SHARE

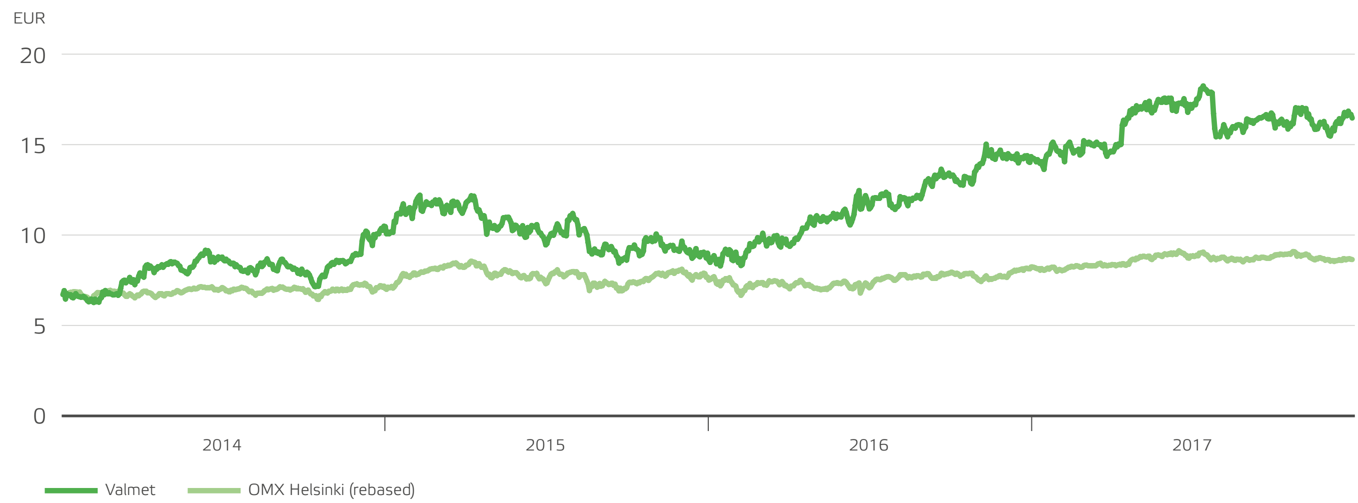
- Listed: Nasdaq Helsinki
- First day of listing: January 2, 2014
- Trading currency: euro
- Segment: Large Cap
- Industry classification: Industrials
- Trading code: VALMT
- ISIN code: FI4000074984
- Reuters ticker symbol: VALMT.HE
- Bloomberg ticker symbol: VALMT FH

Share capital and share data[1]

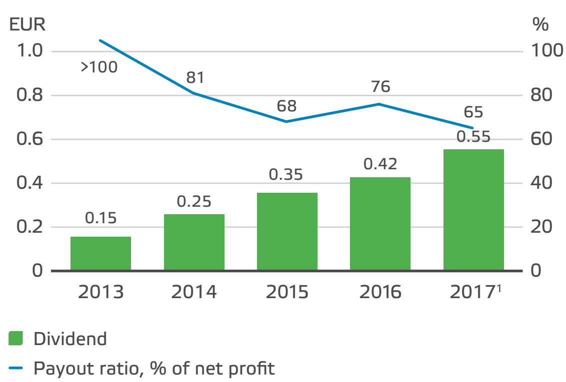
	2017	2016	2015
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,864,220**	149,864,220	149,864,220
Treasury shares held by the Parent Company	**399**	399	399
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,864,220**	149,864,220	149,864,220
Average number of diluted shares	**149,864,220**	149,864,220	149,864,220
Trading volume on Nasdaq Helsinki Ltd.	**89,279,591**	103,423,288	102,209,913
% of total shares for public trading	**59.6**	69.0	68.2
Earnings per share, EUR	**0.84**	0.55	0.51
Earnings per share, diluted, EUR	**0.84**	0.55	0.51
Dividend per share, EUR	**0.55**[2]	0.42	0.35
Dividend, EUR million	**82**[2]	63	52
Dividend to earnings ratio	**65%**[2]	76%	68%
Effective dividend yield	**3.3%**[2]	3.0%	3.9%
Price to earnings ratio (P/E)	**19.6**	25.4	17.3
Equity per share, December 31, EUR	**6.19**	5.88	5.70
Highest share price, EUR	**18.44**	15.06	12.47
Lowest share price, EUR	**13.45**	8.08	8.36
Volume-weighted average share price, EUR	**16.08**	11.52	10.39
Share price, December 31, EUR	**16.44**	13.98	8.90
Market capitalization[3], December 31, EUR million	**2,464**	2,095	1,334

[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.

Development of Valmet's share price, January 2, 2014–December 31, 2017



Dividend per share, EUR and payout ratio, %



[1] Board of Directors' proposal.

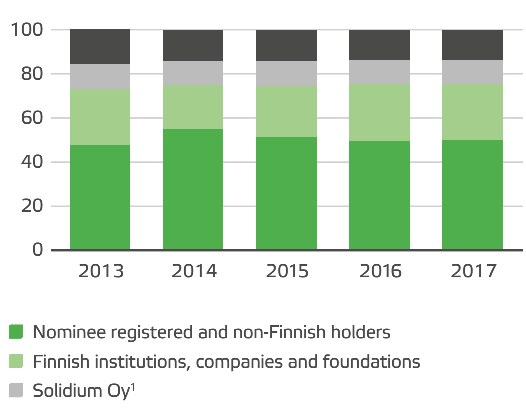
Valmet was included in the world's most recognized sustainability index, the Dow Jones Sustainability Index (DJSI World and Europe) for the fourth consecutive year.

Shareholders

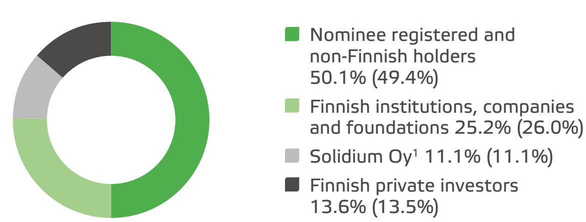
The number of registered shareholders at the end of December 2017 was 45,890 (45,573).

Shares owned by nominee-registered and non-Finnish parties equaled 50.1 percent of the total number of shares at the end of December 2017 (49.4%).

Development of shareholder structure, %



Distribution of holdings by sector on December 31, %



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

Distribution of holdings by sector on December 31, 2017

	Number of shareholders	% of shareholders	Number of shares	% of share capital
Nominee registered and non-Finnish holders	312	0.7	75,094,795	50.1
Finnish institutions, companies and foundations	2,390	5.2	37,751,535	25.2
Solidium Oy[1]	0	-	16,695,287	11.1
Finnish private investors	43,188	94.1	20,314,922	13.6
On shared account	0	-	8,080	0.0
Total	**45,890**	**100.0**	**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.

Distribution of holdings by number of shares on December 31, 2017

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1–100	19,675	42.9	985,485	0.7
101–1,000	21,692	47.3	8,002,323	5.3
1,001–10,000	4,139	9.0	10,632,569	7.1
10,001–100,000	317	0.7	8,255,791	5.5
100,001–	67	0.1	121,980,371	81.4
Total	**45,890**	**100.0**	**149,856,539**	**100.0**
Nominee registered	**10**	**0.0**	**73,152,725**	**48.8**
Treasury shares held by the parent company	**1**	**0.0**	**399**	**0.0**
On shared account	**0**	**0.0**	**8,080**	**0.0**

Largest shareholders on December 31, 2017

		Holdings	% of share capital
1	Solidium Oy[1]	16,695,287	11.14
2	Elo Mutual Pension Insurance Company	4,210,000	2.81
3	Varma Mutual Pension Insurance Company	4,165,465	2.78
4	Ilmarinen Mutual Pension Insurance Company	3,103,000	2.07
5	OP Funds	2,862,937	1.91
6	The State Pension Fund	1,545,000	1.03
7	Keva	1,502,166	1.00
8	Mandatum Life Insurance Company Limited	922,537	0.62
9	Nordea Funds	888,210	0.59
10	Odin Funds	883,115	0.59
11	Danske Invest Funds	857,348	0.57
12	Evli Funds	780,053	0.52
13	SEB Finlandia Investment Fund	711,474	0.47
14	Sigrid Jusélius Foundation	610,865	0.41
15	Kaleva Mutual Insurance Company	526,490	0.35

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

Flagging notifications in 2017

Transaction date	Shareholder	Threshold	Direct holding, %	Indirect holding, %	Total holding, %
August 8, 2017	BlackRock, Inc.	Above 5%	3.79%	1.25%	5.04%
November 14, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 8, 2017	BlackRock, Inc.	Above 5%	4.36%	0.63%	5.00%
December 11, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 13, 2017	BlackRock, Inc.	Above 5%	4.42%	0.63%	5.05%
December 14, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 15, 2017	BlackRock, Inc.	Above 5%	4.38%	0.63%	5.01%
December 18, 2017	BlackRock, Inc.	Below 5%	n.a.	n.a.	n.a.
December 19, 2017	BlackRock, Inc.	Above 5%	4.35%	0.67%	5.03%

Holdings of the Board of Directors in Valmet Oyj on December 31, 2017

		Holdings
Risberg, Bo	Chairman of the Board	10,018
Karvinen, Jouko Alvar	Vice Chairman of the Board	3,209
Cantell, Aaro	Member of the Board	2,926
Schrøder, Lone Fønss	Member of the Board	8,610
Söderström, Eriikka	Member of the Board	1,130
Tyni, Tarja Hannele	Member of the Board	2,926
Ziviani, Rogério	Member of the Board	7,113
Total		**35,932**
% of outstanding shares		**0.02%**

Holdings of the Executive Team in Valmet Oyj on December 31, 2017

		Holdings
Laine, Pasi Kalevi	President and CEO	101,997
Saarinen, Kari Juhani	CFO	26,753
Karlstedt, Bertel Evald	Business Line President, Pulp and Energy	27,045
King, David	Area President, North America	11,517
Lappalainen, Juha Tapani	SVP, Strategy and Operational Development	25,597
Macharey, Julia Irene	SVP, Human Resources	17,984
Niemi, Aki Petri	Business Line President, Services	36,690
Ruotsalainen, Jussi Sakari	Business Line President, Automation	21,088
Salonsaari-Posti, Anu Maarit	SVP, Marketing and Communications	13,342
Simola, Vesa Tuomas	Area President, EMEA	26,249
Tacla, Celso Luiz	Area President, South America	56,449
Tiitinen, Jukka Heikki	Area President, Asia-Pacific	60,288
Vähäpesola, Jari	Business Line President, Paper	35,175
Zhu, Xiangdong	Area President, China	9,244
Total		**469,418**
% of outstanding shares		**0.31%**

Investor Relations

Valmet's site visit to Karlstad, Sweden in November 2017.

Valmet's site visit to Tampere, Finland in March 2017.

Investors met

~340

Meetings and events

~215

Roadshow days

30

Countries visited

13

Mission and goal

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

In addition to Financial Statements, 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 institutional investors and analysts. Furthermore, Valmet's Investor Relations is also responsible for gathering and analyzing market information and investor feedback for Valmet's management and the Board of Directors.

Closed window and silent period

Valmet complies with Nasdaq Helsinki Guidelines for Insiders. Valmet's managers (i.e. Valmet's Board of Directors, President and CEO and 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 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 neither do Valmet's executives or employees meet with representatives of capital markets or financial media.

Investor Relations in 2017

During 2017, Valmet's Investor Relations arranged various events for investors and analysts. Valmet interacted with investors in approximately 215 meetings, seminars or conference calls. In addition to Investor Relations, the President and CEO, CFO as well as other business management participated in investor events. During 2017, Valmet was on roadshows for a total of 30 days, in 13 different countries: Austria, Belgium, Denmark, France, Germany, Italy, Japan, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States. Valmet's Investor Relations also organized site visits to Tampere, Finland and Karlstad, Sweden, offering institutional investors and analysts a chance to discuss with local business management from Services and Paper business lines respectively.

Valmet's investor website and recognition in investor communications

Valmet's investor website provides a comprehensive set of information about Valmet's business environment, trends, strategy, business lines and financial performance, among others. In addition to financial reports, presentations and webcasts, as well as interactive share and ownership monitors, the website features the IR Director's blog and an IR Video Gallery for topics tailored to investors' interests and inquiries.

Valmet's vision is to become the global champion in serving our customers, and this sets the bar also for the Investor Relations team. In April, Valmet's investor website won the 'Best investor website' contest arranged by the Finnish Foundation for Share Promotion and the Finnish Society of Financial Analysts, in the category of Large Cap companies. In June, IR Magazine, a distinguished publication in the field of Investor Relations, awarded Valmet with 'Best use of multimedia for IR' at the IR Magazine Awards Europe. Furthermore, Valmet's Investor relations received an award for 'Best overall communication of company investment proposition' at the IR Society Best Practice Awards 2017 in November.

Analyst coverage

During 2017, at least eleven analysts had coverage on Valmet. Of the analysts, seven were 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, the following banks and brokerage firms have regular coverage on Valmet share:

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

Rest of Europe
Berenberg
DnB NOR
Kepler Cheuvreux
UBS

Financial calendar 2018

February 6, 2018	Financial Statements Review 2017
March 21, 2018	Annual General Meeting
April 6, 2018	Silent period begins
April 27, 2018	Publication of Interim Review for January–March 2018
July 4, 2018	Silent period begins
July 25, 2018	Publication of Half Year Financial Review for January–June 2018
October 2, 2018	Silent period begins
October 23, 2018	Publication of Interim Review for January–September 2018

The calendar is available on Valmet's investor website.

Valmet Investor Relations

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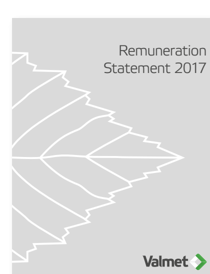
Valmet reports 2017

ANNUAL REVIEW 2017
The report describes Valmet's market environment and the progress of its strategy, operations and sustainability in 2017.

FINANCIAL STATEMENTS 2017 AND INFORMATION FOR INVESTORS
The report includes Valmet's Financial Statements for 2017 and information about its shares, shareholders and management.

GRI SUPPLEMENT 2017
The report includes Valmet's sustainability reporting indicators and principles, and its alignment with the Global Reporting Initiative (GRI) Standards framework.

CORPORATE GOVERNANCE STATEMENT 2017
The report covers Valmet's governance principles and activities, Board and management in 2017.



REMUNERATION STATEMENT 2017
The report covers Valmet's remuneration principles and remuneration in 2017.

About this report

This report is made from paper and pulp that were produced on Valmet machinery and equipment. It is printed on Maxioffset paper, which is certified according to the PEFC standard and the Nordic Ecolabel.

This report is from sustainably managed forests and controlled sources. PEFC certification requires that the forests are managed well with regard to biodiversity, forest health and maintenance, as well as recreational use. The PEFC logo promotes responsible consumption.

The Nordic Ecolabel ensures that products that are used in printed matter fulfill certain criteria. Inks are mineral-oil free, and for all other materials, those that are recyclable and environmentally friendly are preferred.

DESIGN AND PRODUCTION
Miltton Oy

PAPER
Maxioffset 250 g
Maxioffset 120 g

PRINTING
Grano Oy

PEFC/02-31-128

4041 0955
Printed matter

220

With 220 years of industrial history, we are committed to moving our customers performance forward – every day.

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