INTERIM REVIEW

January 1 – September 30, 2016

Valmet

Valmet's Interim Review January 1 – September 30, 2016

Orders received increased and profitability improved

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

July–September 2016: Comparable EBITA margin at 7.5 percent

- Orders received increased to EUR 788 million (EUR 725 million).
  - Orders received increased in the Pulp and Energy business line, remained at the previous year's level in the Services and Automation business lines and decreased in the Paper business line.
  - Orders received increased in EMEA (Europe, Middle East and Africa), South America and Asia-Pacific and decreased in China and North America.
- Net sales decreased to EUR 685 million (EUR 734 million).
  - Net sales increased in the Services business line, remained at the previous year's level in the Automation business line and decreased in the Paper and Pulp and Energy business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 52 million (EUR 47 million) and the corresponding Comparable EBITA margin was 7.5 percent (6.4%).
  - Profitability improved due to the higher level of net sales in the Services business line.
- Earnings per share were EUR 0.17 (EUR 0.14).
- Items affecting comparability amounted to EUR -2 million (EUR -4 million).
- Cash flow provided by operating activities was EUR 122 million (EUR 16 million).

January–September 2016: Orders received increased and profitability improved

- Orders received increased to EUR 2,282 million (EUR 2,085 million).
  - Orders received increased in the Pulp and Energy and Services business lines and remained at the previous year's level in the Paper business line.
  - The Automation business line contributed to orders received with EUR 221 million.
  - Orders received increased in South America and EMEA, remained at the previous year's level in Asia-Pacific and decreased in China and North America.
- Net sales remained at the previous year's level at EUR 2,141 million (EUR 2,074 million).
  - Net sales remained at the previous year's level in the Services, Paper and Pulp and Energy business lines.
  - The Automation business line contributed to net sales with EUR 196 million.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 140 million (EUR 120 million) and the corresponding Comparable EBITA margin was 6.5 percent (5.8%).
  - Profitability improved due to improved gross profit and the acquisition of Automation.
- Earnings per share were EUR 0.46 (EUR 0.33).
- Items affecting comparability amounted to EUR -5 million (EUR -16 million).
- Cash flow provided by operating activities was EUR 158 million (EUR 14 million).

Valmet reiterates its guidance for 2016

Valmet is reiterating its guidance presented on February 9, 2016 in which Valmet estimates that net sales in 2016 will remain at the same level with 2015 (EUR 2,928 million) and Comparable EBITA in 2016 will increase in comparison with 2015 (EUR 182 million).

Short-term outlook

General economic outlook

Global growth is projected to slow to 3.1 percent in 2016 before recovering to 3.4 percent in 2017. The forecast, revised down by 0.1 percentage point for 2016 and 2017 relative to April, reflects a more subdued outlook for advanced economies following the June U.K. vote in favor of leaving the European Union (Brexit) and weaker-than-expected growth in the United States. These developments have put further downward pressure on global interest rates, as monetary policy is now expected to remain accommodative for longer. (International Monetary Fund, October 4, 2016)

Short-term market outlook

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

Valmet reiterates the satisfactory short-term market outlook for services, automation and pulp.

President and CEO Pasi Laine: Orders received increased and profitability continued to improve

Orders received has increased 9 percent since the beginning of the year, supported by the stable business but also by the good progress in our energy business. In 2016, orders received in the Services business line has increased 5 percent and the Automation business line has contributed with over EUR 220 million in orders. In energy, orders received has more than doubled. We have received several large energy orders and also expanded to new geographical areas. For example, we have received our first order for a waste to energy boiler plant delivery to China.

In the third quarter of 2016, Valmet reached a Comparable EBITA margin of 7.5 percent, which is the highest figure since becoming an independent company. For the last twelve months, the margin stands at 6.8 percent. The improvement in profitability is the result of the systematic work that we have put into, for example, procurement costs. We will continue to focus on improving profitability also going forward.

Valmet has been included in the Dow Jones Sustainability Index (DJSI) for the third consecutive year. This means that we maintain our position among the world's sustainability leaders, which is an excellent achievement. It shows that we have been able to improve our sustainability performance year by year, which is a key criteria for inclusion in the index. Sustainability is very important for us and sustainability is at the core of Valmet's business strategy and operations.

Key figures[1]

EUR million	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Orders received	**788**	725	9%	**2,282**	2,085	9%
Order backlog[2]	**2,192**	2,117	4%	**2,192**	2,117	4%
Net sales	**685**	734	-7%	**2,141**	2,074	3%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**52**	47	10%	**140**	120	17%
% of net sales	**7.5%**	6.4%		**6.5%**	5.8%	
Earnings before interest, taxes and amortization (EBITA)	**49**	43	15%	**135**	104	29%
% of net sales	**7.2%**	5.9%		**6.3%**	5.0%	
Operating profit (EBIT)	**41**	33	26%	**107**	78	37%
% of net sales	**6.0%**	4.4%		**5.0%**	3.8%	
Profit before taxes	**38**	29	29%	**98**	71	38%
Profit / loss	**26**	21	25%	**69**	50	37%
Earnings per share, EUR	**0.17**	0.14	28%	**0.46**	0.33	37%
Earnings per share, diluted, EUR	**0.17**	0.14	28%	**0.46**	0.33	37%
Equity per share, EUR	**5.68**	5.40	5%	**5.68**	5.40	5%
Cash flow provided by operating activities	**122**	16	>100%	**158**	14	>100%
Cash flow after investments	**108**	13	>100%	**116**	-338	
Return on equity (ROE) (annualized)				**11%**	8%	
Return on capital employed (ROCE) before taxes (annualized)				**12%**	11%	

[1] The calculation of key figures is presented on page 37.

[2] At the end of period.

Equity to assets ratio and gearing	As at September 30, 2016	As at September 30, 2015	As at June 30, 2016
Equity to assets ratio at end of period	**38%**	35%	36%
Gearing at end of period	**15%**	28%	27%

Orders received, EUR million	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Services	**264**	252	5%	**898**	852	5%
Automation	**72**	70	3%	**221**	156	-
Pulp and Energy	**275**	206	33%	**692**	603	15%
Paper	**176**	197	-10%	**472**	474	-1%
Total	**788**	725	9%	**2,282**	2,085	9%

Order backlog, EUR million	As at September 30, 2016	As at September 30, 2015	Change	As at June 30, 2016
Total	**2,192**	2,117	4%	2,106

Net sales, EUR million	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Services	**286**	268	7%	**846**	814	4%
Automation	**65**	66	-2%	**196**	134	-
Pulp and Energy	**196**	215	-9%	**640**	668	-4%
Paper	**138**	185	-26%	**459**	459	0%
Total	**685**	734	-7%	**2,141**	2,074	3%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for analysts, investors, and media on Thursday, October 27, 2016 at 2:00 p.m. Finnish time (EET). The news conference will be held at Valmet Head Office in Keilaniemi, Keilasatama 5, 02150 Espoo, Finland. The news conference can also be followed through a live webcast at www.valmet.com/webcasts.

It is also possible to take part in the news conference through a conference call. Conference call participants are requested to dial in at least five minutes prior to the start of the conference, at 1:55 p.m. (EET), at +44 2071 928000. The participants will be asked to provide the following conference ID: 93428439.

During the webcast and the conference call, all questions should be presented in English. After the webcast and the conference call, media has a possibility to interview the management in Finnish.

The event can also be followed on Twitter at www.twitter.com/valmetir.

Valmet's Interim Review January 1 – September 30, 2016

Automation has been consolidated into Valmet's financials since April 1, 2015, when the acquisition of Automation was completed.

Valmet has implemented regulatory changes related to alternative performance measures

With reference to guidelines issued under Article 16 of the European Securities and Markets Authority (ESMA) Regulation on alternative performance measures, the following is to clarify the alternative performance measures (APMs) published by Valmet, their components and the basis of calculation thereof.

As part of regulated financial information published by Valmet, management has utilized earnings before interest, taxes and amortization (EBITA) and EBITA excluding items referred to as 'non-recurring' as measures of performance. These key indicators of performance, also reviewed by Valmet's management on a regular basis, have been published to enable users of the financial information to analyze Valmet's performance without items of income and expenses, including non-cash items that reduce the comparability of financial results between periods.

Management sees that continuation of providing users of the financial information with these additional measures of performance is useful. To further improve transparency, Valmet has adopted certain changes (as detailed below) for the reporting of alternative performance measures for the first time in its January–March 2016 Interim Review.

Going forward, the measure of performance previously known as 'EBITA before non-recurring items' will be referred to as 'Comparable EBITA'. The content of items affecting comparability, i.e. items previously disclosed as non-recurring, remain unchanged consisting of following items:

1. Income and expenses arising from activities that amend the capacity of Valmet's operations, such as:
    - Costs incurred in connection with acquisitions
    - Gains and losses on sale of businesses or non-current assets
    - Restructuring costs (costs arising from closure of locations or discontinuation of operations or adjustment of workforce)
2. Items affecting comparability incurred outside Valmet's normal course of business
    - Income and expenses arising from settlement payments to/from third parties (other than customers), such as penalties incurred as a result of tax audits or settlements to close law suits
    - Impairments

Valmet will continue publishing EBITA as a measure of performance as well as providing analysis of return on capital employed (ROCE), on an annualized and rolling 12 month basis, calculated without items affecting comparability. Refer to page 37 for formula for calculating these performance indicators.

The reconciliation between Comparable EBITA, EBITA and operating profit as reported in the Financial Statements and Interim Financial Statements of Valmet is disclosed on page 32.

Orders received increased in Q3/2016

Orders received, EUR million	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Services	**264**	252	5%	**898**	852	5%
Automation	**72**	70	3%	**221**	156	-
Pulp and Energy	**275**	206	33%	**692**	603	15%
Paper	**176**	197	-10%	**472**	474	-1%
Total	**788**	725	9%	**2,282**	2,085	9%

Orders received, comparable foreign exchange rates, EUR million[1]	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Services	**263**	252	5%	**906**	852	6%
Automation	**73**	70	3%	**224**	156	-
Pulp and Energy	**271**	206	31%	**697**	603	15%
Paper	**177**	197	-10%	**473**	474	0%
Total	**783**	725	8%	**2,299**	2,085	10%

[1] Indicative only. January to September 2016 orders received in the functional currency of the contracting entity converted to euro with January–September 2015 average monthly exchange rates.

Orders received, EUR million	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
North America	**153**	170	-10%	**411**	555	-26%
South America	**31**	22	39%	**177**	110	61%
EMEA	**487**	248	97%	**1,295**	893	45%
China	**39**	224	-82%	**187**	324	-42%
Asia-Pacific	**78**	61	27%	**212**	204	4%
Total	**788**	725	9%	**2,282**	2,085	9%

July–September 2016: Orders received increased in Pulp and Energy business line

Orders received in July–September amounted to EUR 788 million, i.e. 9 percent more than in the comparison period (EUR 725 million). The stable business (Services and Automation business lines together) accounted for 43 percent of Valmet's orders received (44%). Orders received increased in the Pulp and Energy business line, remained at the previous year's level in the Services and Automation business lines and decreased in the Paper business line. Orders received increased in EMEA, South America and Asia-Pacific and decreased in China and North America. Measured by orders received, the top three countries were Denmark, the USA and Sweden, which together accounted for 51 percent of total orders received (China, the USA and Poland, which together accounted for 62%). The emerging markets accounted for 30 percent (50%) of orders received.

In July–September, changes in foreign exchange rates increased orders received by approximately EUR 5 million compared with the exchange rates for July–September 2015.

During July–September, Valmet received an order for a biomass-fired boiler plant and related biofuel storage and conveyor systems to Denmark, valued at over EUR 150 million, and a biofuel boiler and related environmental systems to Sweden, valued at about EUR 60 million. Valmet also received an order for key technologies for a new board machine in Vietnam, typically valued at EUR 15–20 million, and an order for paper machine modifications and a new winder to Austria, typically valued at EUR 5–10 million.

January–September 2016: Orders received increased in the Pulp and Energy and Services business lines

Orders received in January–September amounted to EUR 2,282 million, i.e. 9 percent more than in the comparison period (EUR 2,085 million). The stable business (Services and Automation business lines together) accounted for 49 percent of Valmet's orders received (48%). Orders received increased in the Pulp and Energy and Services business lines and remained at the previous year's level in the Paper business line. The Automation business line contributed to orders received with EUR 221 million. Orders received increased in South America and EMEA, remained at the previous year's level in Asia-Pacific and decreased in China and North America. Measured by orders received, the top three countries were the USA, Finland and Sweden, which together accounted for 36 percent of total orders received (the USA, Finland and China, which together accounted for 55%). The emerging markets accounted for 35 percent (36%) of orders received.

In January–September, changes in foreign exchange rates decreased orders received by approximately EUR 17 million compared with the exchange rates for January–September 2015.

During January–September, Valmet has in addition to the above-mentioned, received among others an order in Finland for three boiler plants and automation system, valued at around EUR 100 million, an order in Chile for a white liquor plant, usually valued at EUR 70–80 million, and an order in Italy for an OptiConcept M boardmaking line and mill-wide automation system, typically valued at EUR 60–80 million.

Order backlog EUR 85 million higher than at the end of June 2016

Order backlog, EUR million	**As at September 30, 2016**	As at September 30, 2015	Change	As at June 30, 2016
Total	**2,192**	2,117	4%	2,106

At the end of September 2016, the order backlog was EUR 2,192 million, which was 4 percent higher than at the end of June 2016 at which time the order backlog was EUR 2,106 million and 4 percent higher than at the end of the comparison period (EUR 2,117 million). Approximately 30 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 30% at the end of September 2015).

Stable business[1] accounted for more than half of net sales in Q3/2016

Net sales, EUR million	**Q3/2016**	Q3/2015	Change	**Q1–Q3/ 2016**	Q1–Q3/ 2015	Change
Services	**286**	268	7%	**846**	814	4%
Automation	**65**	66	-2%	**196**	134	-
Pulp and Energy	**196**	215	-9%	**640**	668	-4%
Paper	**138**	185	-26%	**459**	459	0%
Total	**685**	734	-7%	**2,141**	2,074	3%

[1] Stable business = Services and Automation business lines.

Net sales, comparable foreign exchange rates, EUR million[2]	**Q3/2016**	Q3/2015	Change	**Q1–Q3/ 2016**	Q1–Q3/ 2015	Change
Services	**286**	268	7%	**854**	814	5%
Automation	**66**	66	-1%	**199**	134	-
Pulp and Energy	**196**	215	-9%	**644**	668	-4%
Paper	**139**	185	-25%	**460**	459	0%
Total	**687**	734	-6%	**2,158**	2,074	4%

[2] Indicative only. January to September 2016 net sales in the functional currency of the contracting entity converted to euro with January–September 2015 average monthly exchange rates.

Net sales, EUR million	**Q3/2016**	Q3/2015	Change	**Q1–Q3/ 2016**	Q1–Q3/ 2015	Change
North America	**140**	158	-11%	**477**	448	6%
South America	**52**	50	5%	**158**	222	-29%
EMEA	**320**	366	-13%	**963**	916	5%
China	**92**	82	12%	**279**	202	38%
Asia-Pacific	**81**	79	3%	**265**	287	-8%
Total	**685**	734	-7%	**2,141**	2,074	3%

July–September 2016: Net sales increased in the Services business line

Net sales in July–September amounted to EUR 685 million, i.e. 7 percent less than in the comparison period (EUR 734 million). The stable business (Services and Automation business lines together) accounted for 51 percent of Valmet's net sales (46%). Net sales increased in the Services business line, remained at the previous year's level in Automation business line and decreased in the Paper and Pulp and Energy business lines. Net sales increased in China and South America, remained at the previous year's level in Asia-Pacific and decreased in EMEA and North America. Measured by net sales, the top three countries were Finland, the USA and China, which together accounted for 52 percent of total net sales (the USA, Finland and Sweden, which together accounted for 47%). Emerging markets accounted for 36 percent (36%) of net sales.

In July–September, changes in foreign exchange rates decreased net sales by approximately EUR 2 million compared with the exchange rates for July–September 2015.

January–September 2016: Net sales remained at the previous year's level

Net sales in January–September amounted to EUR 2,141 million, i.e. 3 percent more than in the comparison period (EUR 2,074 million). The stable business (Services and Automation business lines together) accounted for 49 percent of Valmet's net sales (46%). Net sales remained at the previous year's level in the Services, Paper and Pulp and Energy business lines. The Automation business line contributed to net sales with EUR 196 million. Net sales increased in China, North America and EMEA and decreased in South America and Asia-Pacific. Measured by net sales, the top three countries were the USA, Finland and China, which together accounted for 46 percent of total net sales (the USA, Finland and Sweden, which together accounted for 43%). Emerging markets accounted for 39 percent (41%) of net sales.

In January–September, changes in foreign exchange rates decreased net sales by approximately EUR 17 million compared with the exchange rates for January–September 2015.

Comparable EBITA and operating profit

In July–September, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 52 million, i.e. 7.5 percent of net sales (EUR 47 million and 6.4%). Profitability improved due to the higher level of net sales in the Services business line.

In the first three quarters of the year, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 140 million, i.e. 6.5 percent of net sales (EUR 120 million and 5.8%). Profitability improved due to improved gross profit and the acquisition of Automation.

Operating profit (EBIT) in July–September was EUR 41 million, i.e. 6.0 percent of net sales (EUR 33 million and 4.4%). Items affecting comparability amounted to EUR -2 million (EUR -4 million).

Operating profit (EBIT) in the first three quarters of the year was EUR 107 million, i.e. 5.0 percent of net sales (EUR 78 million and 3.8%). Items affecting comparability amounted to EUR -5 million (EUR -16 million).

Net financial income and expenses

Net financial income and expenses in July–September were EUR -4 million (EUR -4 million).

Net financial income and expenses in the first three quarters of the year were EUR -9 million (EUR -7 million).

Profit before taxes and earnings per share

Profit before taxes for July–September was EUR 38 million (EUR 29 million). The profit attributable to owners of the parent in July–September was EUR 26 million (EUR 20 million), corresponding to earnings per share (EPS) of EUR 0.17 (EUR 0.14).

Profit before taxes for the first three quarters of the year was EUR 98 million (EUR 71 million). The profit attributable to owners of the parent in the first three quarters of the year was EUR 68 million (EUR 50 million), corresponding to earnings per share (EPS) of EUR 0.46 (EUR 0.33).

Return on capital employed (ROCE) increased

In the first three quarters of the year, the annualized return on capital employed (ROCE) before taxes was 12 percent (11%) and annualized return on equity (ROE) 11 percent (8%).

Business lines

Services – orders received at the previous year's level and net sales increased in Q3/2016

Services business line	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Orders received (EUR million)	**264**	252	5%	**898**	852	5%
Net sales (EUR million)	**286**	268	7%	**846**	814	4%
Personnel (end of period)				**5,373**	5,337	1%

In July–September, orders received by the Services business line remained at the previous year's level at EUR 264 million (EUR 252 million) and accounted for 34 percent of all orders received (35%). Orders received increased in China, Asia-Pacific and South America and remained at the previous year's level in EMEA and North America. Orders received increased in Energy and Environmental, Rolls, and Performance Parts, remained at the previous year's level in Fabrics, and decreased in Mill Improvements.

During the first three quarters of the year, orders received by the Services business line increased 5 percent to EUR 898 million (EUR 852 million) and accounted for 39 percent of all orders received (41%). Orders received increased in South America, Asia-Pacific and China and remained at the previous year's level in EMEA and North America. Orders received increased in Energy and Environmental, and Mill Improvements and remained at the previous year's level in Rolls, Performance Parts, and Fabrics.

In July–September, net sales for the Services business line amounted to EUR 286 million (EUR 268 million), corresponding to 42 percent of Valmet's net sales (36%).

During the first three quarters of the year, net sales for the Services business line amounted to EUR 846 million (EUR 814 million), corresponding to 40 percent of Valmet's net sales (39%).

Automation – orders received and net sales at the previous year's level in Q3/2016

Automation business line	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Orders received (EUR million)	**72**	70	3%	**221**	156	-
Net sales (EUR million)	**65**	66	-2%	**196**	134	-
Personnel (end of period)				**1,637**	1,627	1%

The acquisition of Process Automation Systems was completed on April 1, 2015 and the acquired business forms the Automation business line. In July–September, orders received by the Automation business line remained at the previous year's level at EUR 72 million (EUR 70 million) and accounted for 9 percent of all orders received (10%). Orders received increased in North America, South America and China, remained at the previous year's level in EMEA and decreased in Asia-Pacific. Orders received increased in Energy and Process and decreased in Pulp and Paper.

During the first three quarters of the year, orders received by the Automation business line amounted to EUR 221 million and accounted for 10 percent of all orders received. EMEA accounted for approximately 60 percent and North America for approximately 25 percent of orders received. Pulp and Paper accounted for approximately 70 percent and Energy and Process for approximately 30 percent of orders received.

In July–September, net sales for the Automation business line amounted to EUR 65 million (EUR 66 million), corresponding to 10 percent of Valmet's net sales (9%).

During the first three quarters of the year, net sales for the Automation business line amounted to EUR 196 million, corresponding to 9 percent of Valmet's net sales.

Pulp and Energy – orders received increased and net sales decreased in Q3/2016

Pulp and Energy business line	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Orders received (EUR million)	275	206	33%	692	603	15%
Net sales (EUR million)	196	215	-9%	640	668	-4%
Personnel (end of period)				1,687	1,763	-4%

In July–September, orders received by the Pulp and Energy business line increased 33 percent to EUR 275 million (EUR 206 million) and accounted for 35 percent of all orders received (28%). Orders received increased in EMEA, Asia-Pacific and South America and decreased in China and North America. Orders received increased in Energy and decreased in Pulp.

During the first three quarters of the year, orders received by the Pulp and Energy business line increased 15 percent to EUR 692 million (EUR 603 million) and accounted for 30 percent of all orders received (29%). Orders received increased in South America, EMEA and Asia-Pacific and decreased in North America and China. Orders received increased in Energy and decreased in Pulp.

In July–September, net sales for the Pulp and Energy business line amounted to EUR 196 million (EUR 215 million), corresponding to 29 percent (29%) of Valmet's net sales.

During the first three quarters of the year, net sales for the Pulp and Energy business line amounted to EUR 640 million (EUR 668 million), corresponding to 30 percent (32%) of Valmet's net sales.

Paper – orders received and net sales decreased in Q3/2016

Paper business line	Q3/2016	Q3/2015	Change	Q1–Q3/ 2016	Q1–Q3/ 2015	Change
Orders received (EUR million)	176	197	-10%	472	474	-1%
Net sales (EUR million)	138	185	-26%	459	459	0%
Personnel (end of period)				2,876	3,050	-6%

In July–September, orders received by the Paper business line decreased 10 percent to EUR 176 million (EUR 197 million) and accounted for 22 percent of all orders received (27%). Orders received increased in EMEA and decreased in China, North America and Asia-Pacific. Orders received decreased in both Board and Paper, and Tissue.

During the first three quarters of the year, orders received by the Paper business line remained at the previous year's level at EUR 472 million (EUR 474 million) and accounted for 21 percent of all orders received (23%). Orders received increased in EMEA and decreased in North America, China, Asia-Pacific and South America. Orders received remained at the previous year's level in both Tissue, and Board and Paper.

In July–September, net sales for the Paper business line amounted to EUR 138 million (EUR 185 million), corresponding to 20 percent (25%) of Valmet's net sales.

During the first three quarters of the year, net sales for the Paper business line amounted to EUR 459 million (EUR 459 million), corresponding to 21 percent (22%) of Valmet's net sales.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 122 million (EUR 16 million) in July–September and EUR 158 million (EUR 14 million) in the first three quarters of the year. Net working capital was EUR -265 million (EUR -244 million) at the end of September 2016. Change in net working capital, net of effect from business combinations and disposals in the statement of cash flows was EUR 81 million (EUR -31 million) in July–September and EUR 25 million (EUR -110 million) in the first three quarters of the year. Payment schedules of large capital projects have significant impact on net working capital development. Cash flow after investments was EUR 108 million (EUR 13 million) in July–September and EUR 116 million (EUR -338 million) in the first three quarters of the year.

At the end of September, gearing was 15 percent (28%) and equity to assets ratio was 38 percent (35%). Interest-bearing liabilities were EUR 310 million (EUR 399 million) and net interest-bearing liabilities totaled to EUR 126 million (EUR 229 million) at the end of the reporting period. The average maturity for Valmet's non-current debt was 3.0 years and average interest rate was 1.3 percent.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents totaling to EUR 166 million (EUR 139 million) and interest-bearing available-for-sale financial assets totaling to EUR 1 million (EUR 10 million). Valmet's liquidity was additionally secured by an unused revolving credit facility agreement worth EUR 200 million, that is committed by the banks and matures in 2018 and an uncommitted EUR 200 million commercial paper program, of which none was outstanding at the end of September.

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

Investments excluding acquisitions increased

Gross capital expenditure in July–September was EUR -14 million (EUR -11 million). Maintenance investments were EUR -10 million (EUR -7 million).

Gross capital expenditure in the first three quarters of the year was EUR -43 million (EUR -30 million). Maintenance investments were EUR -31 million (EUR -24 million).

Acquisitions and disposals

Acquisitions

Valmet made no acquisitions during the nine-month period ended September 30, 2016.

Disposals

Valmet made no material disposals during the nine-month period ended September 30, 2016.

Number of personnel remained at the previous year's level

Personnel by business line	As at September 30, 2016	As at September 30, 2015	Change	As at June 30, 2016
Services	**5,373**	5,337	1%	5,523
Automation	**1,637**	1,627	1%	1,649
Pulp and Energy	**1,687**	1,763	-4%	1,749
Paper	**2,876**	3,050	-6%	3,026
Other	**565**	519	9%	545
Total (end of period)	**12,138**	12,296	-1%	12,492

Personnel by area	As at September 30, 2016	As at September 30, 2015	Change	As at June 30, 2016
North America	**1,294**	1,357	-5%	1,334
South America	**536**	520	3%	536
EMEA	**7,819**	7,714	1%	8,006
China	**1,799**	1,999	-10%	1,887
Asia-Pacific	**690**	706	-2%	729
Total (end of period)	**12,138**	12,296	-1%	12,492

In January–September, Valmet employed an average of 12,314 people (11,623). The number of personnel at the end of September was 12,138 (12,296). In January–September, personnel expenses totaled to EUR 589 million (EUR 541 million) of which wages, salaries and remuneration equaled to EUR 455 million (EUR 420 million).

Strategic goals and their implementation

Valmet is the leading global developer and supplier of technologies, automation and services for the pulp, paper and energy industries. Valmet focuses on delivering technology and services globally to industries that use bio-based raw materials. Valmet's main customer industries are pulp, paper and energy. All of these are 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 on operational excellence, Valmet is in the process of renewing its ERP system. The purpose 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. Valmet's strategy and higher financial targets were confirmed by the Board of

Directors in June 2016 (Stock exchange release on June 21, 2016). Valmet has the following financial targets from 2017 onwards:

Financial targets from 2017 onwards

- 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, such as sales process management, project management and project execution, procurement and quality, and technology, R&D and modernization of the ERP platform.

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 the 'Valmet Way to Serve' – a shift towards more unified and customer oriented services.

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

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

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

Progress in sustainability

Valmet maintains its position among the world's sustainability leaders. In September 2016, Valmet was included in the Dow Jones Sustainability Index (DJSI) for the third consecutive year among the 316 most sustainable companies in the world. Valmet was listed both in the Dow Jones Sustainability World and Europe indices.

In July–September 2016, Valmet progressed with the actions defined in its Sustainability360˚ agenda. Valmet continued to implement the global processes to ensure its suppliers operate in a sustainable manner. By the end of September 2016, Valmet together with an authorized third party, had conducted 51 out of 53 sustainability audits planned for this year in Brazil, China, Croatia, India, Indonesia, Lithuania, Mexico, Poland and Thailand.

During the first three quarters of the year, Valmet's lost time incident frequency rate (LTIF) of own employees continued to decrease and was 2.5 at the end of September. Valmet continued to implement a site safety management standard with focus on securing improvements in contractors' preventive work regarding safety. At the beginning of October 2016, a Valmet subcontractor was fatally injured in a rebuild project in a customer mill in the USA. An investigation of the accident is ongoing and improvement actions are implemented continuously.

Valmet is systematically working towards its energy consumption and CO_2 emissions reduction target of 20 percent. Local energy efficiency actions are systematically implemented and in July–September 2016 these actions included for example investments in LED lightning in workshops and the installation of approximately 900 m^2 of solar panels on the roof of Valmet's Lentokentänkatu facilities in Tampere, Finland.

Lawsuits and claims

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

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

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

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

Corporate Governance Statement

Valmet has prepared a separate Corporate Governance Statement for 2015 which complies with the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers other central areas of corporate governance. The statement has been published on Valmet's website, separately from the Report by Board of Directors, at www.valmet.com/governance.

Shares and shareholders

Share capital and number of shares

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

Treasury shares and Board authorizations

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

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

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

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

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

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

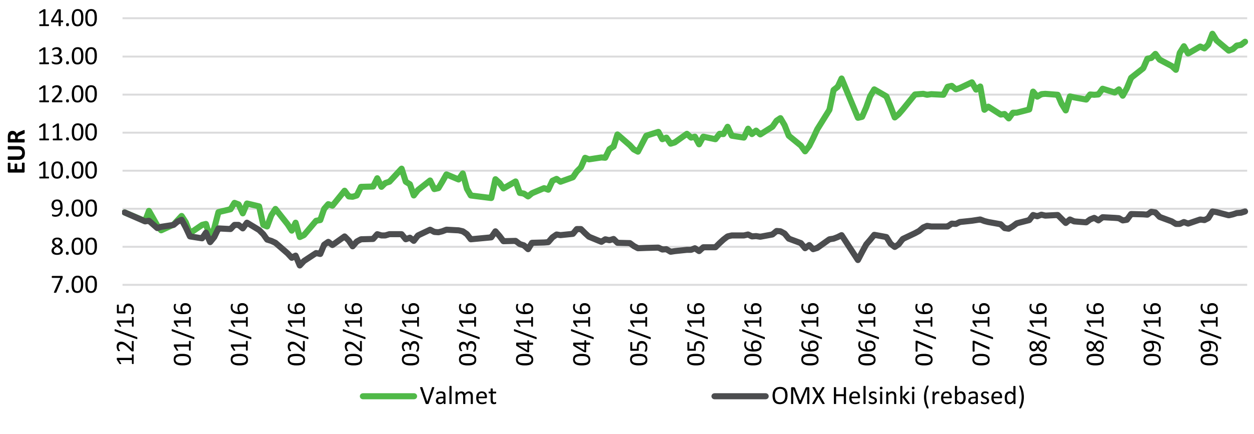
Trading in shares

The closing price of Valmet's share on the final day of trading for the reporting period, September 30, 2016, was EUR 13.39. The closing share price on the last day of trading in 2015 (December 30, 2015) was EUR 8.90. The share price increased by some 50 percent during the reporting period. The highest price for the share during the reporting period was EUR 13.63, the lowest was EUR 8.08 and the volume-weighted average price was EUR 10.75. The number of shares traded on Nasdaq Helsinki Ltd during January–September was approximately 80 million. The value of trading was approximately EUR 852 million. (Source: Nasdaq)

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Chi-X and BATS. A total of approximately 12 million of Valmet's shares were traded on alternative marketplaces in January–September, which equals to approximately 17 percent of the share's total trade volume. Of the alternative exchanges, Valmet's shares were traded especially on Chi-X. (Source: VWD, Six)

Market capitalization (excluding treasury shares) stood at EUR 2,007 million at the end of the reporting period.

Development of Valmet's share price, December 30, 2015 – September 30, 2016



Number of shareholders

The number of registered shareholders at the end of September 2016 was 46,138 (47,907). Shares owned by nominee-registered and non-Finnish parties equaled to 47.9 percent of the total number of shares at the end of September 2016 (52.1%).

Flagging notifications

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

Stock exchange release on March 7, 2016

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

Share-based incentive plans

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

Valmet has entered into an agreement with a third-party service provider concerning the administration of the share-based incentive programs for key personnel. At the end of the reporting period, the number of shares held within the administration plan was 465,227.

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 partly as company shares and partly in cash during 2015. For the 2013 performance period, the performance criteria were not met and therefore no rewards was paid for the 2013 performance period.

From the performance period 2014 a gross number of 268,003 shares were earned. The reward will be paid partly as company shares and partly in cash in 2017.

Long-term incentive plan 2015–2017

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

The reward of the plan from the discretionary period 2015 was based on EBITA % and Services orders received growth %. The reward was paid partly as company shares and partly in cash in 2016. As part of the plan, members of Valmet's Executive Team had the possibility to receive a matching share reward for the discretionary period 2015 provided that he or she owned or acquired Valmet shares up to a number determined by the Board of Directors by December 31, 2015. A gross number of 540,032 shares, including the matching share reward, in Valmet Corporation have been allotted to participants on the basis of the discretionary period 2015.

The potential reward of the program from the discretionary period 2016 is based on EBITA % and orders received growth % of the stable business, that is, the Services and Automation business lines. The potential reward of the plan from the discretionary period 2016 will be paid partly as Valmet shares and partly in cash in 2017. As part of the share-based incentive program members of the Valmet Executive Team have the possibility to receive a matching share reward for the discretionary period 2016 provided that he or she owns or acquires Valmet shares up to a number determined by the Board of Directors by December 31, 2016. The rewards to be paid on the basis of the discretionary period 2016, including the matching share reward, are in total an approximate maximum of 850,000 shares in Valmet Corporation.

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

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

Resolutions of Valmet Corporation’s Annual General Meeting

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

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

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

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

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

Risks and business uncertainties

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

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

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

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

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

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

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

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

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

Management of project business risks important

An important part of Valmet's business consists of project business. Pulp business projects in particular are large, thus project-specific risk management is crucial. Key risks related to projects are project cost estimation, scheduling, project risk management, quality and performance risks, and materials management risks. Risk analysis 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, and through good customer service and a local presence.

Availability of financing crucial

Securing the continuity of Valmet's operations requires that sufficient funding is available under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure the company's immediate liquidity and to ensure the flexibility of financing. The average maturity for Valmet's non-current debt is 3.0 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 the company is well-positioned to keep capital expenditure at the level of total depreciation.

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

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

At the end of September 2016, Valmet had EUR 620 million (EUR 615 million) of goodwill on its statement of financial position. Valmet assesses the value of its goodwill for impairment annually or more frequently if facts and circumstances indicate that a risk of impairment exists. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Annual Report.

Events after the reporting period

As announced by stock exchange release on October 20, 2016, Valmet has signed a new EUR 200 million syndicated revolving credit facility agreement, which matures in 2022 and refinances an existing EUR 200 million credit facility and will be used for general corporate purposes.

Valmet reiterates its guidance for 2016

Valmet is reiterating its guidance presented on February 9, 2016 in which Valmet estimates that net sales in 2016 will remain at the same level with 2015 (EUR 2,928 million) and Comparable EBITA in 2016 will increase in comparison with 2015 (EUR 182 million).

Short-term outlook

General economic outlook

Global growth is projected to slow to 3.1 percent in 2016 before recovering to 3.4 percent in 2017. The forecast, revised down by 0.1 percentage point for 2016 and 2017 relative to April, reflects a more subdued outlook for advanced economies following the June U.K. vote in favor of leaving the European Union (Brexit) and weaker-than-expected growth in the United States. These developments have put further downward pressure on global interest rates, as monetary policy is now expected to remain accommodative for longer. (International Monetary Fund, October 4, 2016)

Short-term market outlook

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

Valmet reiterates the satisfactory short-term market outlook for services, automation and pulp.

In Espoo on October 27, 2016

Valmet’s Board of Directors

Consolidated Statement of Income

EUR million	**Q3/2016**	Q3/2015	**Q1–Q3/ 2016**	Q1–Q3/ 2015
Net sales	**685**	734	**2,141**	2,074
Cost of goods sold	**-528**	-580	**-1,652**	-1,627
Gross profit	**157**	154	**489**	447
Selling, general and administrative expenses	**-116**	-120	**-379**	-360
Other operating income and expenses, net	**1**	-2	**-3**	-10
Share in profits and losses of associated companies, operative investments	**-**	-	**-**	1
Operating profit	**41**	33	**107**	78
Financial income and expenses, net	**-4**	-4	**-9**	-7
Share in profits and losses of associated companies, financial investments	**-**	-	**-**	-
Profit before taxes	**38**	29	**98**	71
Income taxes	**-12**	-8	**-29**	-21
Profit / loss	**26**	21	**69**	50
Attributable to:				
Owners of the parent	**26**	20	**68**	50
Non-controlling interests	**-**	-	**-**	-
Profit / loss	**26**	21	**69**	50
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.17**	0.14	**0.46**	0.33
Diluted earnings per share, EUR	**0.17**	0.14	**0.46**	0.33

Consolidated Statement of Comprehensive Income

EUR million	**Q3/2016**	Q3/2015	**Q1–Q3/ 2016**	Q1–Q3/ 2015
Profit / loss	**26**	21	**69**	50
Items that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedges	**4**	-5	**3**	-2
Currency translation on subsidiary net investments	**-10**	-12	**-17**	3
Income tax relating to items that may be reclassified	**-1**	1	**-1**	-
	-7	-16	**-14**	1
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**-11**	-3	**-16**	-3
Income tax on items that will not be reclassified	**7**	1	**13**	1
	-4	-2	**-3**	-2
Other comprehensive income / expense	**-11**	-18	**-18**	-1
Total comprehensive income / expense	**15**	3	**51**	49
Attributable to:				
Owners of the parent	**15**	3	**51**	49
Non-controlling interests	**-**	-	**-**	-
Total comprehensive income / expense	**15**	3	**51**	49

Consolidated Statement of Financial Position

Assets

EUR million	As at September 30, 2016	As at September 30, 2015	As at December 31, 2015
Non-current assets			
Intangible assets			
Goodwill	**620**	615	624
Other intangible assets	**217**	242	235
Total intangible assets	**837**	857	859
Property, plant and equipment			
Land and water areas	**26**	23	26
Buildings and structures	**134**	146	138
Machinery and equipment	**182**	196	196
Assets under construction	**29**	24	25
Total property, plant and equipment	**371**	390	385
Financial and other non-current assets			
Investments in associated companies	**12**	13	12
Non-current financial assets	**21**	30	25
Deferred tax asset	**90**	97	85
Other non-current assets	**12**	20	13
Total financial and other non-current assets	**135**	160	134
Total non-current assets	**1,344**	1,407	1,378
Current assets			
Inventories			
Materials and supplies	**71**	95	82
Work in progress	**345**	392	350
Finished products	**83**	67	76
Total inventories	**499**	553	508
Receivables			
Trade and other receivables	**560**	549	575
Amounts due from customers under construction contracts	**229**	201	216
Other current financial assets	**11**	18	21
Income tax receivables	**28**	33	31
Total receivables	**827**	801	842
Cash and cash equivalents	**166**	139	165
Total current assets	**1,492**	1,493	1,516
Total assets	**2,836**	2,901	2,894

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	As at September 30, 2016	As at September 30, 2015	As at December 31, 2015
Equity			
Share capital	**100**	100	100
Reserve for invested unrestricted equity	**407**	404	404
Cumulative translation adjustments	**2**	12	18
Fair value and other reserves	**-2**	-4	-4
Retained earnings	**345**	298	336
Equity attributable to owners of the parent	**852**	810	855
Non-controlling interests	**6**	5	6
Total equity	**858**	815	860
Liabilities			
Non-current liabilities			
Non-current debt	**262**	309	309
Post-employment benefits	**159**	153	149
Provisions	**8**	11	10
Other non-current financial liabilities	**6**	3	3
Deferred tax liability	**68**	78	70
Total non-current liabilities	**502**	555	542
Current liabilities			
Current portion of non-current debt	**48**	80	62
Current debt	**-**	10	-
Trade and other payables	**723**	705	767
Provisions	**94**	99	98
Advances received	**245**	245	248
Amounts due to customers under construction contracts	**322**	348	276
Other current financial liabilities	**19**	18	13
Income tax liabilities	**25**	27	27
Total current liabilities	**1,476**	1,531	1,491
Total liabilities	**1,978**	2,086	2,033
Total equity and liabilities	**2,836**	2,901	2,894

Condensed Consolidated Statement of Cash Flows

EUR million	Q3/2016	Q3/2015	Q1–Q3/ 2016	Q1–Q3/ 2015
Cash flows from operating activities				
Profit / loss	**26**	21	**69**	50
Adjustments				
Depreciation and amortization	**21**	24	**66**	68
Financial income and expenses	**4**	2	**10**	4
Income taxes	**12**	8	**29**	21
Other non-cash items	**-4**	5	**-2**	7
Change in net working capital, net of effect from business combinations and disposals	**81**	-31	**25**	-110
Net interests and dividends received	**-2**	-2	**-6**	-3
Income taxes paid	**-16**	-10	**-32**	-23
Net cash provided by (+) / used in (-) operating activities	**122**	16	**158**	14
Cash flows from investing activities				
Capital expenditure on fixed assets	**-14**	-11	**-43**	-30
Proceeds from sale of fixed assets	**1**	1	**1**	2
Business combinations, net of cash acquired and loan repayments	**-**	7	**-**	-323
Net cash provided by (+) / used in (-) investing activities	**-14**	-3	**-42**	-351
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-2**	-7
Dividends paid	**-**	-	**-52**	-37
Net borrowings (+) / payments (-) on current and non-current debt	**-41**	-29	**-61**	322
Net investments in available-for-sale financial assets	**-**	-	**9**	24
Other	**-**	-2	**-**	-15
Net cash provided by (+) / used in (-) financing activities	**-41**	-30	**-107**	286
Net increase (+) / decrease (-) in cash and cash equivalents	**67**	-16	**9**	-52
Effect of changes in exchange rates on cash and cash equivalents	**-4**	-5	**-8**	-2
Cash and cash equivalents at beginning of period	**103**	161	**165**	192
Cash and cash equivalents at end of period	**166**	139	**166**	139

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**	Non-controlling interests	**Total equity**
Balance at January 1, 2016	**100**	**404**	**18**	**-4**	**336**	**855**	**6**	**860**
Profit / loss	-	-	-	-	68	**68**	-	**69**
Other comprehensive income / expense	-	-	-16	2	-3	**-17**	-	**-18**
Total comprehensive income / expense	-	-	-16	2	65	**51**	-	**51**
Dividends	-	-	-	-	-52	**-52**	-	**-52**
Purchase of treasury shares	-	-	-	-	-2	**-2**	-	**-2**
Share-based payments, net of tax	-	3	-	-	-1	**1**	-	**1**
Balance at September 30, 2016	**100**	**407**	**2**	**-2**	**345**	**852**	**6**	**858**
Balance at January 1, 2015	100	403	9	-3	296	804	5	809
Profit / loss	-	-	-	-	50	50	1	50
Other comprehensive income / expense	-	-	3	-2	-2	-1	-	-1
Total comprehensive income / expense	-	-	3	-2	48	49	1	50
Dividends	-	-	-	-	-37	-37	-	-37
Purchase of treasury shares	-	-	-	-	-7	-7	-	-7
Share-based payments, net of tax	-	2	-	-	-1	1	-	1
Other	-	-	-	-	-	1	-	1
Balance at September 30, 2015	100	404	12	-4	298	810	5	815

Accounting principles

General information

Valmet Oyj (the "Company" or the "parent 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 pulp, paper and energy generation 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.

These Condensed Consolidated Interim Financial Statements were approved for issue on October 27, 2016.

Basis of preparation

These Condensed Consolidated Interim Financial Statements for the nine months ended September 30, 2016 have been prepared in accordance with IAS 34, 'Interim financial reporting' and in conformity with IFRS as adopted by the European Union. The financial information presented in these Condensed Consolidated Interim Financial Statements has not been audited. The Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group's Annual Consolidated Financial Statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS.

In the Condensed Consolidated Interim Financial Statements the figures are presented in million euros subject to rounding, which may cause some rounding inaccuracies in aggregate column and row totals.

Accounting principles

Since the beginning of 2016 the Group has applied the amended IAS 1 'Presentation of financial statements' standard to its interim reporting. The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statement and the disclosure of accounting principles. The presentation of primary statements and notes in these Interim Financial Statements has therefore been revised in order to improve disclosure. All other accounting policies adopted in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with those followed in the preparation of the Group's Annual Consolidated Financial Statements for the year ended December 31, 2015.

Reporting segment and geographic information

Valmet’s operations and profitability is reported as a single reportable segment as operative decisions have been made by the President and CEO of Valmet as Valmet's Chief Operating Decision Maker at Valmet Group level. One key indicator of performance reviewed is EBITA (Earnings before interest, taxes and amortization). The performance is also analyzed by excluding from EBITA items, 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.

EUR million	**Q3/2016**	Q3/2015	**Q1–Q3/ 2016**	Q1–Q3/ 2015
Net sales	**685**	734	**2,141**	2,074
Comparable EBITA	**52**	47	**140**	120
% of net sales	**7.5%**	6.4%	**6.5%**	5.8%
Operating profit	**41**	33	**107**	78
% of net sales	**6.0%**	4.4%	**5.0%**	3.8%
Amortization	**-8**	-11	**-28**	-26
Depreciation	**-13**	-14	**-38**	-41
Gross capital expenditures (including business combinations)	**-14**	-4	**-43**	-353
Non-cash write-downs	**-2**	-2	**-5**	-4
Capital employed, end of period			**1,167**	1,214
Orders received	**788**	725	**2,282**	2,085
Order backlog, end of period			**2,192**	2,117

Reconciliation between Comparable EBITA, EBITA and operating profit

EUR million	**Q1–Q3/ 2016**	Q1–Q3/ 2015	2015	2014
Comparable EBITA	**140**	120	182	106
Items affecting comparability in cost of sales				
Expensing of fair value adjustments recognized in business combinations	**-**	-4	-7	-
Expenses related to capacity adjustments	**-3**	-2	-3	-4
Other items affecting comparability	**-**	-	-1	-
Items affecting comparability in selling, general and administrative expenses				
Expenses related to capacity adjustments	**-1**	-1	-2	-3
Costs related to acquisitions	**-**	-3	-3	-1
Items affecting comparability in other operating income and expenses				
Impairments	**-**	-	-5	-
Expenses related to capacity adjustments	**-2**	-5	-5	-2
Other items affecting comparability	**-**	-	-	-2
EBITA	**135**	104	157	94
Amortization included in cost of sales				
Other intangibles	**-1**	-1	-1	-2
Amortization included in selling, general and administrative expenses				
Intangibles recognized in business combinations	**-21**	-20	-28	-13
Other intangibles	**-7**	-5	-7	-6
Operating profit	**107**	78	120	72

Entity-wide information

Valmet's businesses are present in over 35 countries and on all continents. The main market areas are Europe and North America accounting for 65 percent of net sales in Q1–Q3/2016 and 64 percent in Q1–Q3/2015.

Net sales to unaffiliated customers by destination:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q3/2016	**477**	**158**	**963**	**279**	**265**	**2,141**
Q1–Q3/2015	448	222	916	202	287	2,074

Gross capital expenditure (excluding business combinations) by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q3/2016	**2**	**3**	**29**	**5**	**4**	**43**
Q1–Q3/2015	3	1	18	4	3	30

Analysis of net sales by category:

EUR million	Q1–Q3/2016	Q1–Q3/2015
Sale of services and automation	**1,042**	948
Sale of projects, equipment and goods	**1,099**	1,127
Total	**2,141**	2,074

Intangible assets and property, plant and equipment

Intangible assets

EUR million	Q1–Q3/2016	Q1–Q3/2015	2015
Carrying value at beginning of period	**859**	537	537
Capital expenditure	**12**	5	7
Acquired in business combinations	**1**	337	342
Amortization	**-28**	-26	-37
Impairment losses	**-1**	-1	-1
Translation differences and other changes	**-7**	5	11
Carrying value at end of period	**837**	857	859

Property, plant and equipment

EUR million	Q1–Q3/2016	Q1–Q3/2015	2015
Carrying value at beginning of period	**385**	381	381
Capital expenditure	**31**	25	37
Acquired in business combinations	**-**	25	26
Depreciation	**-38**	-41	-55
Impairment losses	**-**	-	-5
Translation differences and other changes	**-6**	-	2
Carrying value at end of period	**371**	390	385

Financial instruments

Derivative financial instruments

As at September 30, 2016	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts, EUR million	**1,480**	**11**	**20**	**-10**
Interest rate swaps, EUR million	**30**	**-**	**3**	**-3**
Electricity forward contracts[1]	**145**	**-**	**1**	**-1**

As at September 30, 2015	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts, EUR million	1,425	13	17	-3
Interest rate swaps, EUR million	30	-	1	-1
Electricity forward contracts[1]	252	-	3	-3

[1] *Notional amount in GWh and fair values in EUR million*

The notional amounts give an indication of the volume of derivative contracts entered into but do not provide an indication of the exposure to risk.

Interest bearing and non-interest bearing financial instruments

EUR million	**As at September 30, 2016**	As at September 30, 2015	As at December 31, 2015
Non-current financial assets			
Interest bearing	**17**	26	20
Non-interest bearing	**5**	4	6
Total	**21**	30	25

EUR million	**As at September 30, 2016**	As at September 30, 2015	As at December 31, 2015
Other current financial assets			
Interest bearing	**1**	5	8
Non-interest bearing	**10**	13	13
Total	**11**	18	21

Setting aside non-current debt, current portion of non-current debt and current debt, the Group does not carry other interest bearing liabilities.

Provisions

EUR million	Q1–Q3/2016	Q1–Q3/2015	2015
Balance at beginning of period	**108**	107	107
Translation differences	**-1**	1	1
Addition charged to profit / loss	**56**	55	87
Acquired in business combinations	**-**	3	9
Used reserve	**-46**	-33	-57
Reversal of reserve / other changes	**-16**	-23	-40
Balance at end of period	**102**	109	108
Non-current	**8**	11	10
Current	**94**	99	98

Contingencies and commitments

EUR million	As at September 30, 2016	As at September 30, 2015	As at December 31, 2015
Guarantees on behalf of Valmet Group	**850**	1,005	771
Lease commitments	**49**	52	56

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. Valmet management disputes the claims brought on by Suzano and is of the opinion that as at September 30, 2016, it is more likely that no present obligation exists than that it would exist and therefore, no provision has been recognized related to the arbitration in these interim financial statements. Valmet is actively pursuing claims of its own against Suzano for breach by Suzano of its obligations under the agreement.

Complex and constantly changing regulations in multiple jurisdictions where Valmet operates create uncertainties relating to tax obligations towards authorities. Valmet entities are subject to routine tax audits in several jurisdictions on an ongoing basis. As at September 30, 2016, it is considered probable that items reported to tax authorities can be sustained on examination. Changes in the tax authorities' interpretations could however have unfavorable impact on Valmet's financials.

The most significant commitments and contingencies of Valmet relate to guarantees provided by Valmet Oyj, its subsidiaries, and financial institutions to customer and suppliers in the ordinary course of business, as disclosed in the above table.

Key ratios

	Q1–Q3/2016	Q1–Q3/2015
Earnings per share, EUR	**0.46**	0.33
Diluted earnings per share, EUR	**0.46**	0.33
Equity per share at end of period, EUR	**5.68**	5.40
Return on equity (ROE), % (annualized)	**11%**	8%
Return on capital employed (ROCE) before taxes, % (annualized)	**12%**	11%
Equity to assets ratio at end of period, %	**38%**	35%
Gearing at end of period, %	**15%**	28%
Cash flow provided by operating activities, EUR million	**158**	14
Cash flow after investments, EUR million	**116**	-338
Gross capital expenditure (excl. business combinations), EUR million	**-43**	-30
Gross capital expenditure (incl. business combinations), EUR million	**-43**	-353
Depreciation and amortization, EUR million	**-66**	-68
Number of outstanding shares at end of period	**149,864,220**	149,864,220
Average number of outstanding shares	**149,864,220**	149,864,220
Average number of diluted shares	**149,864,220**	149,864,220
Net interest-bearing liabilities at end of period, EUR million	**126**	229

Key exchange rates

		Average rates		**Period-end rates**	
		Q1–Q3/ 2016	Q1–Q3/ 2015	**Q3/2016**	Q3/2015
USD	(US dollar)	**1.1115**	1.1220	**1.1161**	1.1203
SEK	(Swedish krona)	**9.3673**	9.3656	**9.6210**	9.4083
BRL	(Brazilian real)	**3.9617**	3.5476	**3.6210**	4.4808
CNY	(Chinese yuan)	**7.3103**	7.0101	**7.4463**	7.1206

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)[1]:

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

[1] Measure of performance also calculated on a comparable basis, i.e. without items affecting comparability.

Return on capital employed (ROCE) before taxes and items affecting comparability, % (rolling 12 months):

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

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)

Quarterly information

EUR million	Q3/2016	Q2/2016	Q1/2016	Q4/2015	Q3/2015
Net sales	**685**	804	652	854	734
Comparable EBITA	**52**	57	31	63	47
% of net sales	**7.5%**	7.1%	4.8%	7.3%	6.4%
Operating profit / loss	**41**	47	19	41	33
% of net sales	**6.0%**	5.8%	2.9%	4.9%	4.4%
Profit before taxes	**38**	44	17	37	29
% of net sales	**5.5%**	5.5%	2.5%	4.3%	4.0%
Profit / loss	**26**	31	12	28	21
% of net sales	**3.8%**	3.9%	1.8%	3.2%	2.8%
Earnings per share, EUR	**0.17**	0.21	0.08	0.18	0.14
Earnings per share, diluted, EUR	**0.17**	0.21	0.08	0.18	0.14
Amortization	**-8**	-9	-11	-11	-11
Depreciation	**-13**	-13	-13	-14	-14
Research and development expenses, net	**-14**	-16	-16	-19	-13
% of net sales	**-2.0%**	-2.0%	-2.4%	-2.2%	-1.8%
Items affecting comparability:					
in cost of goods sold	**-2**	-	-1	-4	-3
in selling, general and administrative expenses	**-**	-	-1	-1	-1
in other operating income and expenses, net	**-**	-1	-	-5	-
Total items affecting comparability	**-2**	-1	-2	-10	-4
Gross capital expenditures (excluding business combinations)	**-14**	-18	-11	-15	-11
Gross capital expenditures (including business combinations)	**-14**	-18	-11	-15	-4
Business combinations, net of cash acquired	**-**	-	-	-	7
Non-cash write-downs	**-2**	-	-2	-12	-2
Capital employed, end of period	**1,167**	1,194	1,184	1,231	1,214
Orders received	**788**	692	803	793	725
Order backlog, end of period	**2,192**	2,106	2,207	2,074	2,117