Financial Statements Review

January 1 – December 31, 2017

Valmet

Valmet's Financial Statements Review January 1 – December 31, 2017

Orders received amounted to EUR 3.3 billion and Comparable EBITA to EUR 226 million in 2017

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

October–December 2017: Comparable EBITA margin increased to 8.1 percent

- Orders received decreased to EUR 727 million (EUR 857 million).
  - Orders received increased in the Automation business line, remained at the previous year's level in the Services business line and decreased in the Pulp and Energy, and Paper business lines.
  - Orders received increased in North America, remained at the previous year's level in EMEA (Europe, Middle East and Africa) and decreased in Asia-Pacific, South America and China.
- Net sales increased to EUR 936 million (EUR 785 million).
  - Net sales increased in all business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 76 million (EUR 56 million) and the corresponding Comparable EBITA margin was 8.1 percent (7.2%).
  - Profitability improved due to higher net sales.
- Earnings per share were EUR 0.30 (EUR 0.10).
- Items affecting comparability amounted to EUR -12 million (EUR -8 million).
- Cash flow provided by operating activities was EUR 89 million (EUR 88 million).

January–December 2017: Net sales increased and profitability improved

- Orders received remained at the previous year's level and were EUR 3,272 million (EUR 3,139 million).
  - 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.
- Net sales increased to EUR 3,159 million (EUR 2,926 million).
  - Net sales increased in the Paper, and Pulp and Energy business lines and remained at the previous year's level in the Automation and Services business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 226 million (EUR 196 million), and the corresponding Comparable EBITA margin was 7.2 percent (6.7%).
  - Profitability improved due to higher net sales.
- Earnings per share were EUR 0.84 (EUR 0.55).
- Items affecting comparability amounted to EUR -17 million (EUR -13 million).
- Cash flow provided by operating activities was EUR 291 million (EUR 246 million).

Dividend proposal

The Board of Directors proposes for the Annual General Meeting that a dividend of EUR 0.55 per share be paid. The proposed dividend equals to 65 percent of the net result.

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.

President and CEO Pasi Laine: A strong year in the Paper business line

"In 2017, Valmet's orders received increased by EUR 132 million to EUR 3.3 billion. The market activity was exceptionally high in the Paper business line, where orders received increased over 40 percent and exceeded EUR 1 billion. Orders received increased also in the stable business (Services and Automation business lines). In 2017, stable business orders received increased by 6 percent to EUR 1.6 billion, i.e. almost half of total orders received.

During the four years as an independent company, Valmet has improved its profitability every year. In 2017, Comparable EBITA amounted to EUR 226 million, corresponding to a 7.2 percent margin. However, we aim higher with our target margin range of 8–10 percent. The work with profitability and efficiency continues, and I am convinced that we will reach our target.

In 2017, while celebrating 220 years of Valmet's industrial history, we strengthened our Industrial Internet offering, progressed in sustainability as well as in research and development, and made Valmet a safer workplace by reducing the total recordable incident frequency (TRIF). This, combined with an order backlog of EUR 2.3 billion, offers us a sound basis for 2018."

Key figures[1]

EUR million	Q4/2017	Q4/2016	Change	2017	2016	Change
Orders received	**727**	857	-15%	**3,272**	3,139	4%
Order backlog[2]	**2,292**	2,283	0%	**2,292**	2,283	0%
Net sales	**936**	785	19%	**3,159**	2,926	8%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**76**	56	34%	**226**	196	15%
% of net sales	**8.1%**	7.2%		**7.2%**	6.7%	
Earnings before interest, taxes and amortization (EBITA)	**63**	48	31%	**209**	183	14%
% of net sales	**6.8%**	6.1%		**6.6%**	6.2%	
Operating profit (EBIT)	**56**	40	38%	**178**	147	21%
% of net sales	**5.9%**	5.1%		**5.6%**	5.0%	
Profit before taxes	**52**	38	38%	**165**	136	22%
Profit / loss	**46**	14	>100%	**127**	82	54%
Earnings per share, EUR	**0.30**	0.10	>100%	**0.84**	0.55	53%
Earnings per share, diluted, EUR	**0.30**	0.10	>100%	**0.84**	0.55	53%
Equity per share, EUR	**6.19**	5.88	5%	**6.19**	5.88	5%
Cash flow provided by operating activities	**89**	88	0%	**291**	246	18%
Cash flow after investments	**70**	72	-2%	**227**	188	21%
Return on equity (ROE)				**14%**	9%	
Return on capital employed (ROCE) before taxes				**15%**	12%	

[1] The calculation of key figures is presented on page 41.

[2] At the end of period

Equity to assets ratio and gearing	As at Dec 31, 2017	As at Dec 31, 2016	As at Sep 30, 2017
Equity to assets ratio at end of period	**39%**	37%	38%
Gearing at end of period	**-11%**	6%	-3%

Orders received, EUR million	Q4/2017	Q4/2016	Change	2017	2016	Change
Services	**282**	284	-1%	**1,242**	1,182	5%
Automation	**91**	78	16%	**317**	299	6%
Pulp and Energy	**151**	247	-39%	**678**	939	-28%
Paper	**203**	246	-18%	**1,035**	718	44%
Total	**727**	857	-15%	**3,272**	3,139	4%

Order backlog, EUR million	As at Dec 31, 2017	As at Dec 31, 2016	Change	As at Sep 30, 2017
Total	**2,292**	2,283	0%	2,523

Net sales, EUR million	Q4/2017	Q4/2016	Change	2017	2016	Change
Services	**340**	316	7%	**1,178**	1,163	1%
Automation	**104**	94	10%	**296**	290	2%
Pulp and Energy	**260**	187	39%	**929**	826	12%
Paper	**232**	188	24%	**755**	647	17%
Total	**936**	785	19%	**3,159**	2,926	8%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for analysts, investors, and media on Tuesday, February 6, 2018 at 2:30 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 2:25 p.m. (EET), at +44 1452 555566. The participants will be asked to provide the following conference ID: 6399939.

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.

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

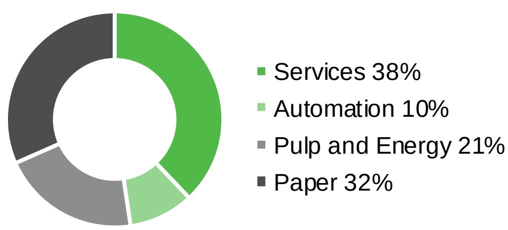
Orders received, EUR million	Q4/2017	Q4/2016	Change	2017	2016	Change
Services	**282**	284	-1%	**1,242**	1,182	5%
Automation	**91**	78	16%	**317**	299	6%
Pulp and Energy	**151**	247	-39%	**678**	939	-28%
Paper	**203**	246	-18%	**1,035**	718	44%
Total	**727**	857	-15%	**3,272**	3,139	4%

Orders received, comparable foreign exchange rates, EUR million[1]	Q4/2017	Q4/2016	Change	2017	2016	Change
Services	**294**	284	3%	**1,255**	1,182	6%
Automation	**93**	78	19%	**318**	299	6%
Pulp and Energy	**154**	247	-38%	**679**	939	-28%
Paper	**212**	246	-14%	**1,054**	718	47%
Total	**753**	857	-12%	**3,305**	3,139	5%

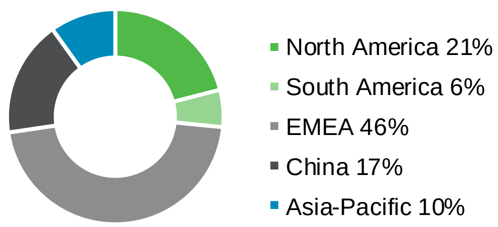
[1] Indicative only. 2017 orders received in euro calculated by applying 2016 average exchange rates to the functional currency orders received values reported by entities.

Orders received, EUR million	Q4/2017	Q4/2016	Change	2017	2016	Change
North America	**202**	177	14%	**686**	588	17%
South America	**30**	58	-49%	**183**	235	-22%
EMEA	**306**	298	3%	**1,508**	1,594	-5%
China	**132**	155	-15%	**572**	342	67%
Asia-Pacific	**57**	169	-66%	**323**	381	-15%
Total	**727**	857	-15%	**3,272**	3,139	4%

Orders received by business line, 2017



Orders received by area, 2017



October–December 2017: Orders received decreased in the Pulp and Energy, and Paper business lines

Orders received in October–December amounted to EUR 727 million, i.e. 15 percent less than in the comparison period (EUR 857 million). The Services and Automation business lines together accounted for 51 percent (42%) of Valmet's orders received. Orders received increased in the Automation business line, remained at the previous year's level in the Services business line and decreased in the Pulp and Energy, and Paper business lines. Orders received increased in North America, remained at the previous year's level in EMEA (Europe, Middle East and Africa) and decreased in Asia-Pacific, South America and China. Measured by orders received, the top three countries were the USA, China, and Finland, which together accounted for 53 percent of total orders received. The emerging markets accounted for 37 percent (44%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2016 decreased orders received by approximately EUR 26 million in October–December.

During October–December, Valmet received among others an order for a containerboard making line to China, typically valued at EUR 40–50 million, an order for board machine key technology and machine control systems to China, typically valued at EUR 30–40 million, as well as automation orders to Finland and Sweden.

January–December 2017: Orders received remained at the previous year's level

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 together 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. 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.

In addition to the above-mentioned, 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 December 31, 2017**	As at December 31, 2016	Change	As at September 30, 2017
Total	**2,292**	2,283	0%	2,523

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 2016. Approximately 25 percent of the order backlog relates to stable business (approximately 25% at the end of 2016).

Net sales increased 8 percent in 2017

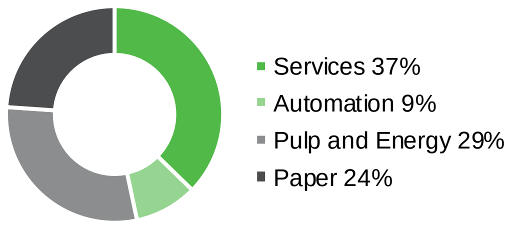
Net sales, EUR million	Q4/2017	Q4/2016	Change	2017	2016	Change
Services	**340**	316	7%	**1,178**	1,163	1%
Automation	**104**	94	10%	**296**	290	2%
Pulp and Energy	**260**	187	39%	**929**	826	12%
Paper	**232**	188	24%	**755**	647	17%
Total	**936**	785	19%	**3,159**	2,926	8%

Net sales, comparable foreign exchange rates, EUR million[1]	Q4/2017	Q4/2016	Change	2017	2016	Change
Services	**352**	316	11%	**1,191**	1,163	2%
Automation	**106**	94	12%	**297**	290	2%
Pulp and Energy	**264**	187	41%	**933**	826	13%
Paper	**239**	188	27%	**767**	647	19%
Total	**960**	785	22%	**3,188**	2,926	9%

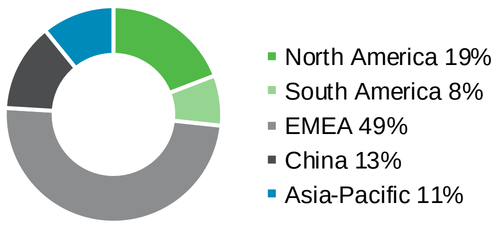
[1] *Indicative only. 2017 net sales in euro calculated by applying 2016 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	Q4/2017	Q4/2016	Change	2017	2016	Change
North America	**169**	167	1%	**605**	644	-6%
South America	**59**	47	25%	**238**	205	16%
EMEA	**472**	407	16%	**1,557**	1,369	14%
China	**131**	83	59%	**417**	362	15%
Asia-Pacific	**104**	81	27%	**342**	346	-1%
Total	**936**	785	19%	**3,159**	2,926	8%

Net sales by business line, 2017



Net sales by area, 2017



October–December 2017: Net sales increased in all business lines

Net sales increased 19 percent to EUR 936 million in October–December (EUR 785 million). The Services and Automation business lines together accounted for 47 percent (52%) of Valmet's net sales. Net sales increased in all business lines, and in all areas except North America, where net sales remained at the previous year's level. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 41 percent of total net sales. Emerging markets accounted for 40 percent (38%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2016 decreased net sales by approximately EUR 24 million in October–December.

January–December 2017: Net sales increased in the capital business

Net sales in 2017 increased 8 percent to EUR 3,159 million (EUR 2,926 million). The Services and Automation business lines together 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 October–December, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 76 million, i.e. 8.1 percent of net sales (EUR 56 million and 7.2%). Items affecting comparability amounted to EUR -12 million (EUR -8 million). Profitability improved due to higher net sales.

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 October–December was EUR 56 million, i.e. 5.9 percent of net sales (EUR 40 million and 5.1%).

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 October–December were EUR -3 million (EUR -2 million).

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 October–December was EUR 52 million (EUR 38 million). The profit attributable to owners of the parent in October–December was EUR 45 million (EUR 14 million), corresponding to earnings per share (EPS) of EUR 0.30 (EUR 0.10).

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 remained at the previous year's level and net sales increased in Q4/2017

Services business line	Q4/2017	Q4/2016	Change	2017	2016	Change
Orders received (EUR million)	**282**	284	-1%	**1,242**	1,182	5%
Net sales (EUR million)	**340**	316	7%	**1,178**	1,163	1%
Personnel (end of period)				**5,472**	5,339	2%

In October–December, orders received by the Services business line remained at the previous year's level at EUR 282 million (EUR 284 million) and accounted for 39 percent of all orders received (33%). Orders received increased in Asia-Pacific, remained at the previous year's level in EMEA and decreased in North America, China and South America. Orders received increased in Performance Parts, and Energy and Environmental, remained at the previous year's level in Mill Improvements and decreased in Rolls, and Fabrics.

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 of all orders received (38%). 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 October–December, net sales for the Services business line amounted to EUR 340 million (EUR 316 million), corresponding to 36 percent (40%) of Valmet's net sales.

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 and net sales increased in Q4/2017

Automation business line	Q4/2017	Q4/2016	Change	2017	2016	Change
Orders received (EUR million)	**91**	78	16%	**317**	299	6%
Net sales (EUR million)	**104**	94	10%	**296**	290	2%
Personnel (end of period)				**1,708**	1,636	4%

In October–December, orders received by the Automation business line increased 16 percent to EUR 91 million (EUR 78 million) and accounted for 13 percent (9%) of Valmet's orders received. Orders received increased in China, North America and EMEA and decreased in Asia-Pacific and South America. Orders received increased in both Pulp and Paper, and Energy and Process.

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 October–December, net sales for the Automation business line amounted to EUR 104 million (EUR 94 million), corresponding to 11 percent (12%) of Valmet's net sales.

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 decreased and net sales increased in Q4/2017

Pulp and Energy business line	Q4/2017	Q4/2016	Change	2017	2016	Change
Orders received (EUR million)	**151**	247	-39%	**678**	939	-28%
Net sales (EUR million)	**260**	187	39%	**929**	826	12%
Personnel (end of period)				**1,727**	1,689	2%

In October–December, orders received by the Pulp and Energy business line decreased 39 percent to EUR 151 million (EUR 247 million) and accounted for 21 percent of all orders received (29%). Orders received increased in North America, EMEA and China and decreased in Asia-Pacific and South America. Orders received decreased in both Pulp and in Energy.

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 of all orders received (30%). Orders received remained at the previous year's level in North America and decreased in all other areas. Orders received decreased in both Pulp and in Energy.

In October–December, net sales for the Pulp and Energy business line amounted to EUR 260 million (EUR 187 million), corresponding to 28 percent (24%) of Valmet's net sales.

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 decreased and net sales increased in Q4/2017

Paper business line	Q4/2017	Q4/2016	Change	2017	2016	Change
Orders received (EUR million)	**203**	246	-18%	**1,035**	718	44%
Net sales (EUR million)	**232**	188	24%	**755**	647	17%
Personnel (end of period)				**2,822**	2,774	2%

In October–December, orders received by the Paper business line decreased 18 percent to EUR 203 million (EUR 246 million) and accounted for 28 percent of all orders received (29%). Orders received increased in North America and decreased in all other areas. Orders received remained at the previous year's level in Tissue and decreased in Board and Paper.

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 of all orders received (23%). 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 October–December, net sales for the Paper business line amounted to EUR 232 million (EUR 188 million), corresponding to 25 percent (24%) of Valmet's net sales.

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 89 million (EUR 88 million) in October–December and 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 18 million (EUR 31 million) in October–December, and 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 70 million (EUR 72 million) in October–December and 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 October–December totaled EUR 20 million (EUR 17 million), of which maintenance investments were EUR 8 million (EUR 9 million).

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.

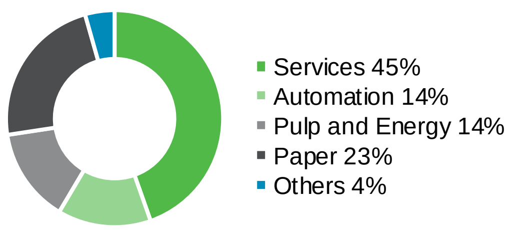
Currently, Valmet has three focus areas in its R&D work. To ensure advanced and competitive technologies and services, Valmet develops cost competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency, Valmet combines process technology, 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

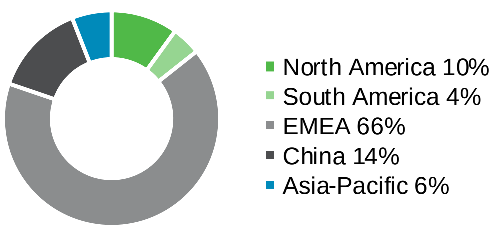
Personnel by business line	**As at December 31, 2017**	As at December 31, 2016	Change	As at September 30, 2017
Services	**5,472**	5,339	2%	5,434
Automation	**1,708**	1,636	4%	1,697
Pulp and Energy	**1,727**	1,689	2%	1,735
Paper	**2,822**	2,774	2%	2,802
Other	**539**	574	-6%	578
Total	**12,268**	12,012	2%	12,246

Personnel by area	**As at December 31, 2017**	As at December 31, 2016	Change	As at September 30, 2017
North America	**1,223**	1,274	-4%	1,240
South America	**534**	542	-1%	537
EMEA	**8,088**	7,806	4%	8,057
China	**1,696**	1,697	0%	1,693
Asia-Pacific	**727**	693	5%	719
Total	**12,268**	12,012	2%	12,246

Personnel by business line as at December 31, 2017



Personnel by area as at December 31, 2017



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 Business Line.
- 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.

Progress in sustainability

In 2017, Valmet maintained its position among the world's sustainability leaders. In September, Valmet was included in the Dow Jones Sustainability Index (DJSI) for the fourth consecutive year among the 320 most sustainable companies in the world. Valmet was listed both in the Dow Jones Sustainability World and Europe indices. Valmet was also included in the Ethibel Sustainability Index (ESI) Excellence Europe. The index contains 200 European stock listed companies that display the best performance in terms of corporate social responsibility. In October, Valmet maintained its leadership position in CDP's climate program ranking by achieving the second-best A- rating. Valmet reports annually on its sustainability performance according to the Global Reporting Initiative (GRI) Core option, with selected indicators assured by an independent third party.

Valmet's Sustainability360° agenda covers all aspects of its business and value chain, and integrates Valmet's sustainability work with the strategic targets and Must-Wins. The sustainability agenda focuses on five core areas: sustainable supply chain; health, safety and environment; people and performance; sustainable solutions, and corporate citizenship. In 2017, Valmet progressed with the actions defined in the agenda, and continued to focus on the three-year action plan for 2016–2018. Valmet's sustainability work, with special focus on globally sustainable supply chain and continuous improvement of the HSE culture, progressed according to plan.

Supply chain process strengthened

To effectively manage risks in the supply chain, Valmet has a comprehensive approach and global processes for sustainable supply chain management. Valmet's global supplier evaluation process is automated, including sustainability gates as an integral part of the process. In 2017, 73% of all new direct suppliers were automatically screened on sustainability. Together with an independent third party, Valmet conducted 56 sustainability audits during 2017 in Brazil, Chile, China, Estonia, India, Indonesia, Mexico, Poland, Thailand, Turkey, USA, Hungary, Romania and Sweden. Furthermore, Valmet continued to train its procurement professionals in risk areas on responsible procurement practices.

A continuous focus on health, safety and environment (HSE)

Valmet constantly emphasizes risk management, prevention, leadership, and learning as it aims to achieve the goal of zero harm. In 2017, Valmet's operations were fatality-free and the total recordable incident frequency (TRIF) rate for own employees decreased to 5.5 (6.0). Valmet's lost time incident frequency rate (LTIF) for own employees increased slightly and was 2.6 at the end of 2017 (2.3 in 2016). Valmet engages in an active and open dialog on HSE with its customers, suppliers and other partners. Valmet believes that effective collaboration, common rules and good co-ordination are fundamental in achieving safety on shared worksites.

Employee engagement increased

In 2017, Valmet conducted its employee engagement survey, which shows positive trends in all three indices: engagement, performance excellence and values. In total, 87% of Valmet employees participated in the survey (up from 81% in 2015).

Valmet made good progress with its global training portfolio, running seven programs in 2017 including two new programs for sales and innovation. Of Valmet's employees, a total of 99.8 percent have completed a Code of Conduct training following the update of Valmet's Code in 2015.

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.

Corporate Governance Statement

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

Shares and shareholders

Share capital, number of shares and shareholders

	As at December 31, 2017	As at December 31, 2016
Share capital, EUR	**100,000,000**	100,000,000
Number of shares	**149,864,619**	149,864,619
Treasury shares	**399**	399
Shares outstanding	**149,864,220**	149,864,220
Market capitalization, EUR million[1]	**2,464**	2,095
Number of shareholders	**45,890**	45,573

[1] *Excluding treasury shares*

Shareholder structure as at December 31, 2017

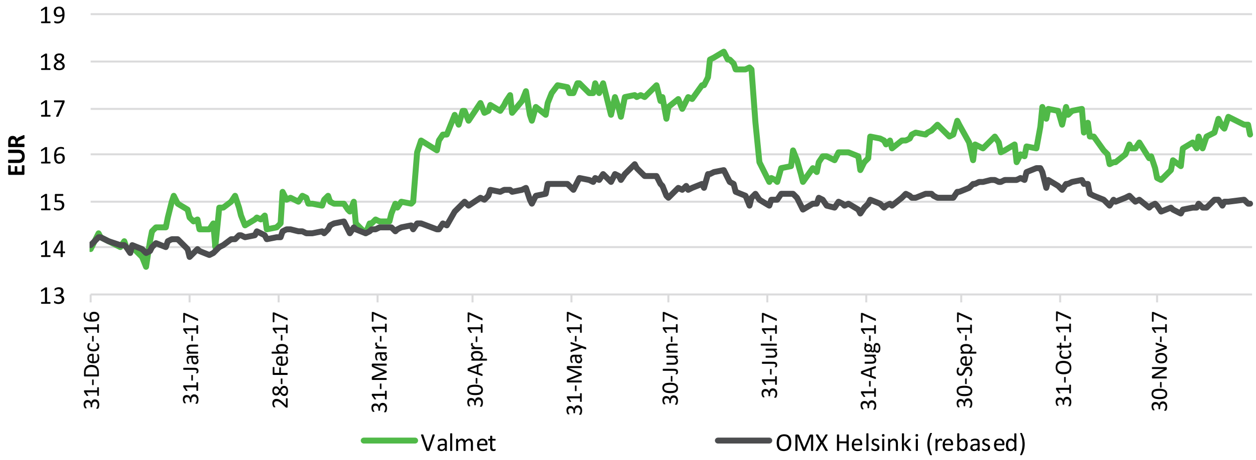
Trading of shares

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)

Development of Valmet's share price, December 31, 2016 – December 31, 2017



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%

More information on flagging notifications can be found at www.valmet.com/flagging-notifications/.

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'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.

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 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

Consolidated Statement of Income

EUR million	**Q4/2017**	Q4/2016	**2017**	2016
Net sales	**936**	785	**3,159**	2,926
Cost of goods sold	**-734**	-607	**-2,455**	-2,259
Gross profit	**201**	178	**704**	667
Selling, general and administrative expenses	**-140**	-139	**-517**	-518
Other operating income and expenses, net	**-6**	1	**-10**	-2
Share in profits and losses of associated companies, operative investments	**1**	1	**1**	1
Operating profit	**56**	40	**178**	147
Financial income and expenses, net	**-3**	-2	**-13**	-12
Share in profits and losses of associated companies, financial investments	**-**	-	**1**	-
Profit before taxes	**52**	38	**165**	136
Income taxes	**-7**	-24	**-39**	-54
Profit / loss	**46**	14	**127**	82
Attributable to:				
Owners of the parent	**45**	14	**127**	83
Non-controlling interests	**-**	-1	**-**	-
Profit / loss	**46**	14	**127**	82
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.30**	0.10	**0.84**	0.55
Diluted earnings per share, EUR	**0.30**	0.10	**0.84**	0.55

Consolidated Statement of Comprehensive Income

EUR million	Q4/2017	Q4/2016	2017	2016
Profit / loss	**46**	14	**127**	82
Items that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedges	**-1**	-2	**14**	1
Currency translation on subsidiary net investments	**-3**	9	**-20**	-7
Income tax relating to items that may be reclassified	**-**	-	**-3**	-
	-3	8	**-9**	-6
Items that will not be reclassified to profit or loss[1]:				
Remeasurement of defined benefit plans	**-3**	12	**-4**	-5
Income tax on items that will not be reclassified[2]	**-4**	-6	**-5**	7
	-7	5	**-9**	2
Other comprehensive income / expense	**-11**	13	**-18**	-5
Total comprehensive income / expense	**35**	27	**109**	78
Attributable to:				
Owners of the parent	**35**	28	**109**	78
Non-controlling interests	**-**	-	**-**	-1
Total comprehensive income / expense	**35**	27	**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 Q4/2017 primarily arising from the tax reform in the USA.*

Consolidated Statement of Financial Position

Assets

EUR million	As at December 31, 2017	As at December 31, 2016
Non-current assets		
Intangible assets		
Goodwill	**614**	624
Other intangible assets	**200**	213
Total intangible assets	**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	**354**	374
Financial and other non-current assets		
Investments in associated companies	**14**	12
Non-current financial assets	**22**	22
Deferred tax asset	**70**	80
Non-current income tax receivables	**24**	24
Other non-current assets	**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	**442**	471
Receivables		
Trade and other receivables	**662**	646
Amounts due from customers under construction contracts	**210**	197
Other current financial assets	**29**	17
Income tax receivables	**25**	25
Total receivables	**926**	885
Cash and cash equivalents	**296**	240
Total current assets	**1,663**	1,596
Total assets	**2,974**	2,958

Consolidated Statement of Financial Position

EUR million	As at December 31, 2017	As at December 31, 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	**928**	881
Non-controlling interests	**5**	5
Total equity	**933**	886
Liabilities		
Non-current liabilities		
Non-current debt	**201**	262
Post-employment benefits	**150**	151
Provisions	**20**	20
Other non-current financial liabilities	**3**	6
Deferred tax liability	**56**	62
Total non-current liabilities	**431**	501
Current liabilities		
Current portion of non-current debt	**18**	48
Trade and other payables	**817**	754
Provisions	**119**	108
Advances received	**261**	245
Amounts due to customers under construction contracts	**336**	332
Other current financial liabilities	**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

Condensed Consolidated Statement of Cash Flows

EUR million	Q4/2017	Q4/2016	2017	2016
Cash flows from operating activities				
Profit / loss	**46**	14	**127**	82
Adjustments				
Depreciation and amortization	**20**	21	**81**	87
Financial income and expenses	**3**	2	**13**	12
Income taxes	**7**	24	**39**	54
Other non-cash items	**3**	6	**22**	4
Change in net working capital	**18**	31	**76**	55
Net interests and dividends received	**-1**	-1	**-8**	-8
Income taxes paid[1]	**-7**	-8	**-58**	-40
Net cash provided by (+) / used in (-) operating activities	**89**	88	**291**	246
Cash flows from investing activities				
Capital expenditure on fixed assets	**-20**	-17	**-66**	-60
Proceeds from sale of fixed assets	**2**	1	**2**	2
Net cash provided by (+) / used in (-) investing activities	**-18**	-16	**-64**	-58
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-2**	-2
Dividends paid	**-**	-	**-63**	-52
Net borrowings (+) / payments (-) on current and non-current debt	**-43**	-1	**-90**	-62
Net investments in available-for-sale financial assets	**16**	-	**-6**	9
Net cash provided by (+) / used in (-) financing activities	**-26**	-1	**-161**	-108
Net increase (+) / decrease (-) in cash and cash equivalents	**44**	71	**67**	80
Effect of changes in exchange rates on cash and cash equivalents	**-**	3	**-10**	-5
Cash and cash equivalents at beginning of period	**252**	166	**240**	165
Cash and cash equivalents at end of period	**296**	240	**296**	240

[1] *During Q1/2017 Valmet has paid additional taxes, late payment interests and penalties in total of EUR 19 million related to the reassessment decision from the Finnish tax authority.*

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, 2017	**100**	**407**	**11**	**-3**	**366**	**881**	**5**	**886**
Profit / loss	-	-	-	-	127	**127**	-	**127**
Other comprehensive income / expense	-	-	-19	11	-9	**-17**	-	**-18**
Total comprehensive income / expense	-	-	-19	11	118	**109**	-	**109**
Dividends	-	-	-	-	-63	**-63**	-	**-63**
Purchase of treasury shares	-	-	-	-	-2	**-2**	-	**-2**
Share-based payments, net of tax	-	6	-	-	-3	**3**	-	**3**
Balance at December 31, 2017	**100**	**413**	**-8**	**7**	**415**	**928**	**5**	**933**
Balance at January 1, 2016	100	404	18	-4	336	855	6	860
Profit / loss	-	-	-	-	83	83	-	82
Other comprehensive income / expense	-	-	-7	1	2	-4	-	-5
Total comprehensive income / expense	-	-	-7	1	84	78	-1	78
Dividends	-	-	-	-	-52	-52	-	-52
Purchase of treasury shares	-	-	-	-	-2	-2	-	-2
Share-based payments, net of tax	-	3	-	-	-1	2	-	2
Balance at December 31, 2016	100	407	11	-3	366	881	5	886

Accounting policies

General information

Valmet Oyj (the “Company” or the “parent company”) and its subsidiaries (together “Valmet”, “Valmet Group” or the “Group”) form a global developer and supplier of process technologies, automation and services for 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.

These Condensed Consolidated Interim Financial Statements were approved for issue on February 6, 2018.

Basis of presentation

These Condensed Consolidated Interim Financial Statements for the twelve months ended December 31, 2017 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, 2016, which have been prepared in accordance with IFRS.

Since January 1, 2017, 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 however, have a material impact on the results or financial position of Valmet Group or the presentation of these Interim Financial Statements.

Setting aside new pronouncements, the accounting policies applied 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, 2016.

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.

New accounting standards

IFRS 15 – 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, 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.*

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. 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, implementation of IFRS 9 does not have material impact to accounting policy when hedging for foreign exchange rate and interest rate risk. Application of the new hedge accounting guidance has no impact to opening balance of retained earnings at transition.

Valmet's management has decided not to restate prior periods due to 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.

Key exchange rates

		Average rates		**Period-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

Reporting segment and geographic information

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. 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, 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	**Q4/2017**	Q4/2016	**2017**	2016
Net sales	**936**	785	**3,159**	2,926
Comparable EBITA	**76**	56	**226**	196
% of net sales	**8.1%**	7.2%	**7.2%**	6.7%
Operating profit	**56**	40	**178**	147
% of net sales	**5.9%**	5.1%	**5.6%**	5.0%
Amortization	**-8**	-8	**-31**	-35
Depreciation	**-12**	-13	**-49**	-51
Gross capital expenditure	**-20**	-17	**-66**	-60
Non-cash write-downs	**-7**	-2	**-10**	-6
Capital employed, end of period			**1,152**	1,195
Orders received	**727**	857	**3,272**	3,139
Order backlog, end of period			**2,292**	2,283

Reconciliation between Comparable EBITA, EBITA and operating profit

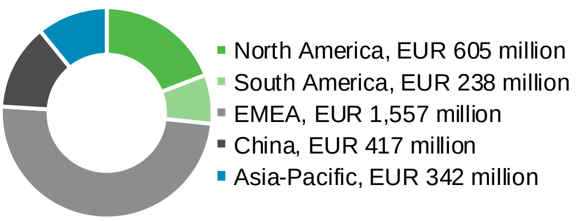
EUR million	2017	2016
Comparable EBITA	**226**	196
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**-2**	-8
Other items affecting comparability	**-7**	-
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity 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

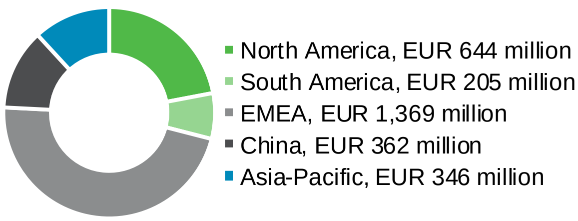
Valmet has operations in over 35 countries, on all continents. The main market areas are Europe and North America accounting for 65 percent of net sales in 2017 and 66 percent in 2016.

Net sales to unaffiliated customers by destination:

2017: 3,159 EUR million



2016: 2,926 EUR million



Gross capital expenditure 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

Analysis of net sales by category:

EUR million	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

Intangible assets and property, plant and equipment

Intangible assets

EUR million	2017	2016
Carrying value at beginning of period	**837**	859
Capital expenditure	**19**	15
Acquired in business combinations	**-**	1
Amortization	**-31**	-35
Impairment losses	**-1**	-1
Translation differences and other changes	**-11**	-2
Carrying value at end of period	**814**	837

Property, plant and equipment

EUR million	2017	2016
Carrying value at beginning of period	**374**	385
Capital expenditure	**46**	45
Acquired in business combinations	**-**	-
Depreciation	**-49**	-51
Impairment losses	**-**	-2
Translation differences and other changes	**-17**	-3
Carrying value at end of period	**354**	374

Financial instruments

Derivative financial instruments

As at December 31, 2017	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts, EUR million	**1,539**	**24**	**-12**	**12**
Interest rate swaps, EUR million	**30**	**-**	**-1**	**-1**
Electricity forward contracts[1]	**159**	**-**	**-**	**-**
Nickel forward contracts[2]	**18**	**-**	**-**	**-**

As at December 31, 2016	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts, EUR million	1,699	18	-26	-8
Interest rate swaps, EUR million	30	-	-2	-2
Electricity forward contracts[1]	121	-	-1	-1

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

[2] *Notional amount in tons 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 December 31, 2017**	As at December 31, 2016
Non-current financial assets		
Interest-bearing	**17**	17
Non-interest-bearing	**5**	5
Total	**22**	22

EUR million	**As at December 31, 2017**	As at December 31, 2016
Other current financial assets		
Interest-bearing	**6**	1
Non-interest-bearing	**23**	16
Total	**29**	17

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	2017	2016
Balance at beginning of period	128	108
Effect of change in classification	-	35
Translation differences	-4	1
Addition charged to profit / loss	106	96
Used reserve	-53	-86
Reversal of reserve / other changes	-38	-25
Balance at end of period	**139**	**128**
Non-current	20	20
Current	119	108

Movements in provisions in 2016 included opening balance adjustment of EUR 35 million consisting of reclassification of warranty and guarantee provisions for ongoing projects previously presented as part of accrued project costs into provision.

Income taxes

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 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.

Contingencies and commitments

EUR million	As at December 31, 2017	As at December 31, 2016
Guarantees on behalf of Valmet Group	872	853
Lease commitments	63	51

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

On December 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 unfavorable impact on Valmet's financials.

Key ratios

	2017	2016
Earnings per share, EUR	**0.84**	0.55
Diluted earnings per share, EUR	**0.84**	0.55
Equity per share at end of period, EUR	**6.19**	5.88
Return on equity (ROE), %	**14%**	9%
Return on capital employed (ROCE) before taxes, %	**15%**	12%
Equity to assets ratio at end of period, %	**39%**	37%
Gearing at end of period, %	**-11%**	6%
Cash flow provided by operating activities, EUR million	**291**	246
Cash flow after investments, EUR million	**227**	188
Gross capital expenditure, EUR million	**-66**	-60
Depreciation and amortization, EUR million	**-81**	-87
Amortization	**-31**	-35
Depreciation	**-49**	-51
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
Interest-bearing liabilities at end of period, EUR million	**219**	310
Net interest-bearing liabilities at end of period, EUR million	**-100**	52

Formulas for Calculation of Indicators

EBITA:
Operating profit + amortization

Comparable EBITA:
Operating profit + amortization +/- items affecting comparability

Earnings per share:

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

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), %:

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

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

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

Comparable return on capital employed (ROCE) before taxes, %[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)

Quarterly information

EUR million	Q4/2017	Q3/2017	Q2/2017	Q1/2017	Q4/2016
Net sales	**936**	748	803	671	785
Comparable EBITA	**76**	59	57	35	56
% of net sales	**8.1%**	7.9%	7.1%	5.1%	7.2%
Operating profit / loss	**56**	45	48	30	40
% of net sales	**5.9%**	6.0%	6.0%	4.4%	5.1%
Profit before taxes	**52**	41	45	26	38
% of net sales	**5.6%**	5.5%	5.6%	3.9%	4.8%
Profit / loss	**46**	30	33	18	14
% of net sales	**4.9%**	4.0%	4.1%	2.7%	1.8%
Earnings per share, EUR	**0.30**	0.20	0.22	0.12	0.10
Earnings per share, diluted, EUR	**0.30**	0.20	0.22	0.12	0.10
Amortization	**-8**	-8	-8	-8	-8
Depreciation	**-12**	-12	-12	-13	-13
Research and development expenses, net	**-20**	-13	-17	-14	-18
% of net sales	**-2.1%**	-1.8%	-2.1%	-2.2%	-2.3%
Items affecting comparability:					
in cost of goods sold	**-8**	-	-1	-	-5
in selling, general and administrative expenses	**-3**	-	-	-	-
in other operating income and expenses, net	**-1**	-6	-	3	-3
Total items affecting comparability	**-12**	-6	-1	3	-8
Gross capital expenditure	**-20**	-16	-15	-14	-17
Non-cash write-downs	**-7**	-1	-1	-1	-2
Capital employed, end of period	**1,152**	1,159	1,154	1,122	1,195
Orders received	**727**	743	796	1,005	857
Order backlog, end of period	**2,292**	2,523	2,551	2,613	2,283

Valmet's financial reporting in 2018

April 27, 2018 - Interim Review for January-March 2018
July 25, 2018 - Half Year Financial Review for January-June 2018
October 23, 2018 - Interim Review for January-September 2018

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