INTERIM REVIEW

January 1 – June 30, 2016

Valmet

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

Good development in Services – new way to serve customers launched

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

Due to new regulation by the European Securities and Market Authority concerning alternative performance measures, Valmet has decided to replace the performance measure 'EBITA before non-recurring items' with 'Comparable EBITA'. The content of items affecting comparability, i.e. items previously disclosed as non-recurring, remain unchanged and therefore 'Comparable EBITA' equals previously disclosed 'EBITA before non-recurring items'. Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations or are incurred outside its normal course of business. Valmet discloses alternative performance measures to describe the underlying business performance and to improve comparability between reporting periods.

April–June 2016: Profitability improved

- Orders received decreased to EUR 692 million (EUR 781 million).
    - Orders received remained at the previous year's level in the Services and Automation business lines and decreased in the Pulp and Energy, and Paper business lines.
    - Orders received increased in Asia-Pacific and China.
- Net sales remained at the previous year's level at EUR 804 million (EUR 779 million).
    - Net sales increased in the Pulp and Energy, and Automation business lines, remained at the previous year's level in the Services business line and decreased in the Paper business line.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 57 million (EUR 54 million), and the corresponding Comparable EBITA margin was 7.1 percent (6.9%).
    - Profitability improved due to the higher level of net sales in the Pulp and Energy business line.
- Earnings per share were EUR 0.21 (EUR 0.14).
- Items affecting comparability amounted to EUR -1 million (EUR -12 million).
- Cash flow provided by operating activities was EUR 33 million (EUR 17 million).

January–June 2016: Orders received, net sales and profitability increased

- Orders received increased to EUR 1,495 million (EUR 1,360 million).
    - Orders received increased in the Paper and Services business lines and remained at the previous year's level in the Pulp and Energy business line.
    - The Automation business line contributed to orders received with EUR 148 million.
    - Orders received increased in South America, China and EMEA (Europe, Middle East and Africa).
- Net sales increased to EUR 1,456 million (EUR 1,340 million).
    - Net sales increased in the Paper business line and remained at the previous year's level in the Services, and Pulp and Energy business lines.
    - The Automation business line contributed to net sales with EUR 131 million.

- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 88 million (EUR 73 million), and the corresponding Comparable EBITA margin was 6.1 percent (5.5%).
    - Profitability improved due to the higher level of net sales in the Paper business line, improved gross profit, and the acquisition of Automation.
- Earnings per share were EUR 0.28 (EUR 0.19).
- Items affecting comparability amounted to EUR -3 million (EUR -12 million).
- Cash flow provided by operating activities was EUR 36 million (EUR -3 million).

Valmet reiterates its guidance for 2016

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

Due to new regulation by the European Securities and Market Authority, Valmet has decided to replace the performance measure 'EBITA before non-recurring items' with 'Comparable EBITA'. The content of items affecting comparability, i.e. items previously disclosed as non-recurring, remain unchanged and therefore 'Comparable EBITA' equals previously disclosed 'EBITA before non-recurring items' (EUR 182 million in 2015). Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations or are incurred outside its normal course of business.

Short-term outlook

General economic outlook

The outcome of the U.K. vote, which surprised global financial markets, implies the materialization of an important downside risk for the world economy. As a result, the global outlook for 2016-17 has worsened, despite the better-than-expected performance in early 2016. This deterioration reflects the expected macroeconomic consequences of a sizable increase in uncertainty, including on the political front. This uncertainty is projected to take a toll on confidence and investment, including through its repercussions on financial conditions and market sentiment more generally. (International Monetary Fund, July 19, 2016)

Short-term market outlook

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

President and CEO Pasi Laine: Strong development in stable business continued

Orders received have increased 10 percent in the first half of the year and the increase has been supported by both the stable business and the capital business. The development especially in the stable business has been strong, with all-time high orders received in the Services business line in two consecutive quarters.

After adding automation and related services to our offering in 2015, the natural next step was to start unifying our services offering and way to serve our customers. We have now renewed our services offering and unified our way to serve in order to enable better customer experience and growth in the services business.

Valmet has increased its financial targets from 2017 onwards. We now aim to grow over two times faster than the market in the stable business, while net sales growth in the capital business is targeted to exceed market growth. Our target margin range for Comparable EBITA has been both hiked and narrowed to 8–10 percent, and the Comparable ROCE target now stands at 15–20 percent. Also, the dividend payout target has been increased from at least 40 percent to at least 50 percent of net profit. The financial targets are demanding, but we have, since the demerger, strengthened our offering and market position, and succeeded in reaching good results in our internal efficiency programs. To reach the new targets, we will continue to implement our strategy with our four Must-Win initiatives, which are customer excellence, leader in technology and innovation, excellence in processes, and winning team.

Key figures[1]

EUR million	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Orders received	692	781	-11%	1,495	1,360	10%
Order backlog[2]	2,106	2,208	-5%	2,106	2,208	-5%
Net sales	804	779	3%	1,456	1,340	9%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	57	54	6%	88	73	21%
% of net sales	7.1%	6.9%		6.1%	5.5%	
Earnings before interest, taxes and amortization (EBITA)	55	42	32%	85	61	39%
% of net sales	6.9%	5.4%		5.8%	4.6%	
Operating profit (EBIT)	47	32	45%	66	46	45%
% of net sales	5.8%	4.1%		4.5%	3.4%	
Profit before taxes	44	31	43%	60	42	44%
Profit / loss	31	21	45%	43	29	46%
Earnings per share, EUR	0.21	0.14	45%	0.28	0.19	44%
Earnings per share, diluted, EUR	0.21	0.14	45%	0.28	0.19	44%
Equity per share, EUR	5.58	5.38	4%	5.58	5.38	4%
Cash flow provided by operating activities	33	17	92%	36	-3	
Cash flow after investments	16	-321		8	-351	
Return on equity (ROE) (annualized)				10%	7%	
Return on capital employed (ROCE) before taxes (annualized)				11%	9%	

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

[2] At the end of period.

Equity to assets ratio and gearing	As at June 30, 2016	As at June 30, 2015	As at March 31, 2016
Equity to assets ratio at end of period	36%	35%	35%
Gearing at end of period	27%	29%	24%

Orders received, EUR million	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Services	321	307	5%	634	600	6%
Automation	82	85	-4%	148	85	-
Pulp and Energy	180	259	-31%	417	397	5%
Paper	109	129	-15%	295	278	6%
Total	692	781	-11%	1,495	1,360	10%

Order backlog, EUR million	**As at June 30, 2016**	As at June 30, 2015	Change	As at March 31, 2016
Total	**2,106**	2,208	-5%	2,207

Net sales, EUR million	**Q2/2016**	Q2/2015	Change	**Q1–Q2/ 2016**	Q1–Q2/ 2015	Change
Services	**304**	304	0%	**561**	546	3%
Automation	**73**	68	8%	**131**	68	-
Pulp and Energy	**262**	231	14%	**443**	453	-2%
Paper	**165**	177	-7%	**321**	273	18%
Total	**804**	779	3%	**1,456**	1,340	9%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for investment analysts, investors, and media on Thursday, July 28, 2016 at 4:00 p.m. Finnish time (EET). The news conference will be held at Valmet Head Office in Keilaniemi, Keilasatama 5, 02150 Espoo, Finland. The news conference can also be followed through a live webcast at www.valmet.com/webcasts.

It is also possible to take part in the news conference through a conference call. Conference call participants are requested to dial in at least five minutes prior to the start of the conference, at 3:55 p.m. (EET), at +44 1452 560304. The participants will be asked to provide the following conference ID: 30049930.

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 in Twitter at www.twitter.com/valmetir.

Valmet’s Interim Review January 1 – June 30, 2016

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

Valmet has implemented regulatory changes related to alternative performance measures

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

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

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

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

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

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

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

Stable business[1] orders received at the previous year's level in Q2/2016

Orders received, EUR million	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Services	**321**	307	5%	**634**	600	6%
Automation	**82**	85	-4%	**148**	85	-
Pulp and Energy	**180**	259	-31%	**417**	397	5%
Paper	**109**	129	-15%	**295**	278	6%
Total	**692**	781	-11%	**1,495**	1,360	10%

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

Orders received, comparable foreign exchange rates, EUR million[2]	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Services	**327**	307	6%	**643**	600	7%
Automation	**84**	85	-2%	**151**	85	-
Pulp and Energy	**180**	259	-31%	**426**	397	7%
Paper	**110**	129	-15%	**296**	278	7%
Total	**700**	781	-10%	**1,517**	1,360	11%

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

Orders received, EUR million	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
North America	**152**	196	-23%	**259**	385	-33%
South America	**37**	38	-2%	**146**	88	66%
EMEA	**364**	443	-18%	**809**	645	25%
China	**59**	45	30%	**148**	99	48%
Asia-Pacific	**80**	58	38%	**134**	143	-6%
Total	**692**	781	-11%	**1,495**	1,360	10%

April–June 2016: All-time high orders received in Services business line

Orders received in April–June amounted to EUR 692 million, i.e. 11 percent less than in the comparison period (EUR 781 million). The stable business (Services and Automation business lines together) accounted for 58 percent of Valmet's orders received (50%). Orders received remained at the previous year's level in the Services and Automation business lines and decreased in the Pulp and Energy, and Paper business lines. Orders received increased in Asia-Pacific and China, remained at the previous year's level in South America and decreased in North America and EMEA. Measured by orders received, the top three countries were Finland, the USA and Sweden, which together accounted for 37 percent of total orders received (Finland, the USA, and Sweden, which together accounted for 60%). The emerging markets accounted for 40 percent (21%) of orders received.

In April–June, changes in foreign exchange rates decreased orders received by approximately EUR 8 million compared with the exchange rates for April–June 2015.

During April–June, Valmet received an order for an extensive board machine rebuild in India, typically valued at EUR 30–40 million, a wood pellet heating plant in Finland, valued at over EUR 20 million, and a brown stock washing plant modernization in Sweden, usually valued below EUR 10 million. Valmet also received an order for an Advantage DCT tissue production line, a sulfuric acid plant and a demonstration scale plant for dissolving pulp cooking. In Automation business line, Valmet received orders for IQ quality control systems, steam turbine and motor-driven turbo compressor control systems, technology for energy recovery facility and an automation system replacement.

January–June 2016: Orders received increased in the Paper and Services business lines

Orders received in January–June amounted to EUR 1,495 million, i.e. 10 percent more than in the comparison period (EUR 1,360 million). The stable business (Services and Automation business lines together) accounted for 52 percent of Valmet's orders received (50%). Orders received increased in the Paper and Services business lines and remained at the previous year's level in the Pulp and Energy business line. Automation business line contributed to orders received with EUR 148 million. Orders received increased in South America, China and EMEA, and decreased in North America and Asia-Pacific. Measured by orders received, the top three countries were Finland, the USA and China, which together accounted for 40 percent of total orders received (the USA, Finland and Sweden, which together accounted for 56%). The emerging markets accounted for 37 percent (28%) of orders received.

In January–June, changes in foreign exchange rates decreased orders received by approximately EUR 22 million compared with the exchange rates for January–June 2015.

In addition to the above-mentioned, during January–June, Valmet received an order for three boiler plants and automation system, valued at around EUR 100 million, in Finland, an order for a new white liquor plant in Chile, and an order for an OptiConcept M boardmaking line and mill-wide automation system in Italy. Valmet also received orders for key technology for two container board machines in China, two new tissue production lines in China, two separate paper machine wet end rebuilds in Finland and in India, and automation technology in Finland.

Order backlog EUR 101 million lower than at the end of March 2016

Order backlog, EUR million	**As at June 30, 2016**	As at June 30, 2015	Change	As at March 31, 2016
Total	**2,106**	2,208	-5%	2,207

At the end of June 2016, the order backlog was EUR 2,106 million, which was 5 percent lower than at the end of March 2016 (EUR 2,207 million at the end of March 2016) and 5 percent lower than at the end of the comparison period (EUR 2,208 million). Approximately 55 percent of the order backlog, i.e. EUR 1.2 billion, is expected to be recognized as net sales in 2016. Approximately 30 percent of the order backlog relates to stable business (Services and Automation business lines, 30% at the end of June 2015).

Net sales increased in the Pulp and Energy, and Automation business lines in Q2/2016

Net sales, EUR million	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Services	**304**	304	0%	**561**	546	3%
Automation	**73**	68	8%	**131**	68	-
Pulp and Energy	**262**	231	14%	**443**	453	-2%
Paper	**165**	177	-7%	**321**	273	18%
Total	**804**	779	3%	**1,456**	1,340	9%

Net sales, comparable foreign exchange rates, EUR million[1]	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Services	**309**	304	2%	**567**	546	4%
Automation	**75**	68	10%	**133**	68	-
Pulp and Energy	**266**	231	15%	**448**	453	-1%
Paper	**166**	177	-6%	**321**	273	18%
Total	**816**	779	5%	**1,471**	1,340	10%

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

Net sales, EUR million	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
North America	**181**	166	9%	**336**	290	16%
South America	**61**	69	-13%	**105**	172	-39%
EMEA	**351**	334	5%	**643**	550	17%
China	**97**	79	23%	**187**	120	56%
Asia-Pacific	**114**	131	-13%	**184**	208	-12%
Total	**804**	779	3%	**1,456**	1,340	9%

April–June 2016: Net sales increased in the Pulp and Energy and Automation business lines

Net sales in April–June remained at the previous year's level at EUR 804 million (EUR 779 million). The stable business (Services and Automation business lines together) accounted for 47 percent of Valmet's net sales (48%). Net sales increased in the Pulp and Energy, and Automation business lines, remained at the previous year's level in the Services business line and decreased in the Paper business line. Net sales increased in China and North America, remained at the previous year's level in EMEA, and decreased in Asia-Pacific and South America. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 42 percent of total net sales (the USA, Finland and Sweden, which together accounted for 42%). Emerging markets accounted for 41 percent (43%) of net sales.

In April–June, changes in foreign exchange rates decreased net sales by approximately EUR 13 million compared with the exchange rates for April–June 2015.

January–June 2016: Net sales increased in the Paper business line

Net sales in January–June increased 9 percent to EUR 1,456 million (EUR 1,340 million). The stable business (Services and Automation business lines together) accounted for 47 percent of Valmet's net sales (46%). Net sales increased in the Paper business line and remained at the previous year's level in the Services and Pulp and Energy business lines. Automation business line contributed to net sales with EUR 131 million. Net sales increased in China, EMEA and North America and decreased in South America and Asia-Pacific. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 44 percent of total net sales (the USA, Finland and Brazil, which together accounted for 41%). Emerging markets accounted for 40 percent (44%) of net sales.

In January–June, changes in foreign exchange rates decreased net sales by approximately EUR 15 million compared with the exchange rates for January–June 2015.

Profitability improved

In April–June, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 57 million, i.e. 7.1 percent of net sales (EUR 54 million and 6.9%). Profitability improved due to the higher level of net sales in the Pulp and Energy business line.

In the first half of the year, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 88 million, i.e. 6.1 percent of net sales (EUR 73 million and 5.5%). Profitability improved due to the higher level of net sales in the Paper business line, improved gross profit, and the acquisition of Automation.

Operating profit (EBIT) in April–June was EUR 47 million, i.e. 5.8 percent of net sales (EUR 32 million and 4.1%). Items affecting comparability amounted to EUR -1 million (EUR -12 million).

Operating profit (EBIT) in the first half of the year was EUR 66 million, i.e. 4.5 percent of net sales (EUR 46 million and 3.4%). Items affecting comparability amounted to EUR -3 million (EUR -12 million).

Net financial income and expenses

Net financial income and expenses in April–June were EUR -3 million (EUR -2 million).

Net financial income and expenses in the first half of the year were EUR -6 million (EUR -4 million).

Profit before taxes and earnings per share

Profit before taxes for April–June was EUR 44 million (EUR 31 million). The profit attributable to owners of the parent in April–June was EUR 31 million (EUR 21 million), corresponding to earnings per share (EPS) of EUR 0.21 (EUR 0.14).

Profit before taxes for the first half of the year was EUR 60 million (EUR 42 million). The profit attributable to owners of the parent in the first half of the year was EUR 42 million (EUR 29 million), corresponding to earnings per share (EPS) of EUR 0.28 (EUR 0.19).

Return on capital employed (ROCE) increased

In the first half of the year, the annualized return on capital employed (ROCE) before taxes was 11 percent (9%) and annualized return on equity (ROE) 10 percent (7%).

Business lines

Services – orders received and net sales at the previous year's level in Q2/2016

Services business line	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Orders received (EUR million)	**321**	307	5%	**634**	600	6%
Net sales (EUR million)	**304**	304	0%	**561**	546	3%
Personnel (end of period)				**5,523**	5,411	2%

In April–June, orders received by the Services business line remained at the previous year's level at EUR 321 million (EUR 307 million) and accounted for 46 percent of all orders received (39%). Orders received increased in Asia-Pacific, South America and North America, remained at the previous year's level in EMEA and decreased in China. Orders received increased in Energy and Environmental, and Mill Improvements and remained at the previous year's level in Fabrics, Rolls, and Performance Parts.

During the first half of the year, orders received by the Services business line increased 6 percent to EUR 634 million (EUR 600 million) and accounted for 42 percent of all orders received (44%). Orders received increased in South America and Asia-Pacific, and remained at the previous year's level in EMEA, North America and China.

In April–June, net sales for the Services business line amounted to EUR 304 million (EUR 304 million), corresponding to 38 percent of Valmet's net sales (39%).

During the first half of the year, net sales for the Services business line amounted to EUR 561 million (EUR 546 million), corresponding to 39 percent of Valmet's net sales (41%).

Automation – orders received at the previous year's level and net sales increased in Q2/2016

Automation business line	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Orders received (EUR million)	**82**	85	-4%	**148**	85	-
Net sales (EUR million)	**73**	68	8%	**131**	68	-
Personnel (end of period)				**1,649**	1,638	1%

The acquisition of Process Automation Systems was completed on April 1, 2015 and the acquired business forms the Automation business line. In April–June, orders received by the Automation business line remained at the previous year's level at EUR 82 million (EUR 85 million) and accounted for 12 percent of all orders received (11%). Orders received increased in Asia-Pacific and South America, remained at the previous year's level in EMEA and decreased in North America and China. Orders received remained at the previous year's level in Pulp and Paper and decreased in Energy and Process.

During the first half of the year, orders received by the Automation business line amounted to EUR 148 million (EUR 85 million) and accounted for 10 percent of all orders received (6%). EMEA accounted for approximately 60 percent and North America for approximately 20 percent of orders received. Pulp and Paper accounted for approximately 70 percent and Energy and Process for approximately 30 percent of orders received.

In April–June, net sales for the Automation business line amounted to EUR 73 million (EUR 68 million), corresponding to 9 percent of Valmet's net sales (9%).

During the first half of the year, net sales for the Automation business line amounted to EUR 131 million (EUR 68 million), corresponding to 9 percent of Valmet's net sales (5%).

Pulp and Energy – orders received decreased and net sales increased in Q2/2016

Pulp and Energy business line	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Orders received (EUR million)	**180**	259	-31%	**417**	397	5%
Net sales (EUR million)	**262**	231	14%	**443**	453	-2%
Personnel (end of period)				**1,749**	1,827	-4%

In April–June, orders received by the Pulp and Energy business line decreased 31 percent to EUR 180 million (EUR 259 million) and accounted for 26 percent of all orders received (33%). Orders received increased in China and decreased in all other areas. Orders received increased in Energy and decreased in Pulp.

During the first half of the year, orders received by the Pulp and Energy business line remained at the previous year's level at EUR 417 million (EUR 397 million) and accounted for 28 percent of all orders received (29%). Orders received increased in China, South America and EMEA, and decreased in North America and Asia-Pacific. Orders received increased in Energy and decreased in Pulp.

In April–June, net sales for the Pulp and Energy business line amounted to EUR 262 million (EUR 231 million), corresponding to 33 percent (30%) of Valmet's net sales.

During the first half of the year, net sales for the Pulp and Energy business line amounted to EUR 443 million (EUR 453 million), corresponding to 30 percent (34%) of Valmet's net sales.

Paper – orders received and net sales decreased in Q2/2016

Paper business line	Q2/2016	Q2/2015	Change	Q1–Q2/ 2016	Q1–Q2/ 2015	Change
Orders received (EUR million)	**109**	129	-15%	**295**	278	6%
Net sales (EUR million)	**165**	177	-7%	**321**	273	18%
Personnel (end of period)				**3,026**	3,119	-3%

In April–June, orders received by the Paper business line decreased 15 percent to EUR 109 million (EUR 129 million) and accounted for 16 percent of all orders received (16%). Orders received increased in Asia-Pacific, North America, and China, and decreased in EMEA. Orders received decreased in both Board and Paper, and Tissue.

During the first half of the year, orders received by the Paper business line increased 6 percent to EUR 295 million (EUR 278 million) and accounted for 20 percent of all orders received (20%). Orders received increased in China and EMEA, and decreased in South America, Asia-Pacific and North America. Orders received increased in Tissue and remained at the previous year's level in Board and Paper.

In April–June, net sales for the Paper business line amounted to EUR 165 million (EUR 177 million), corresponding to 20 percent (23%) of Valmet's net sales.

During the first half of the year, net sales for the Paper business line amounted to EUR 321 million (EUR 273 million), corresponding to 22 percent (20%) of Valmet's net sales.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 33 million (EUR 17 million) in April–June and EUR 36 million (EUR -3 million) in the first half of the year. Net working capital was EUR -181 million (EUR -265 million) at the end of June 2016. Change in net working capital, net of effect from business combinations and disposals in the statement of cash flows was EUR -16 million (EUR -30 million) in April–June and EUR -57 million (EUR -79 million) in the first half of the year. Payment schedules of large capital projects have significant impact on net working capital development. Cash flow after investments was EUR 16 million (EUR -321 million) in April–June and EUR 8 million (EUR -351 million) in the first half of the year.

Gearing was 27 percent (29%) at the end of June and equity to assets ratio was 36 percent (35%). Interest-bearing liabilities were EUR 351 million (EUR 428 million) and net interest-bearing liabilities totaled to EUR 231 million (EUR 238 million) at the end of the reporting period. The average maturity for Valmet's non-current debt was 3.1 years and average interest rate was 1.2 percent.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents totaling to EUR 103 million (EUR 161 million) and interest-bearing available-for-sale financial assets totaling to EUR 1 million (EUR 10 million). Valmet's liquidity was additionally secured by an unused revolving credit facility agreement worth EUR 200 million, that is committed by the banks and matures in 2018, and an uncommitted EUR 200 million commercial paper program, of which EUR 20 million was outstanding at the end of June.

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

Investments excluding acquisitions increased

Gross capital expenditure in April–June was EUR 18 million (EUR 9 million), of which approximately EUR 4 million related to the renewal of the Enterprise Resource Planning (ERP) platform. Maintenance investments were EUR 11 million (EUR 7 million).

Gross capital expenditure in the first half of the year was EUR 29 million (EUR 19 million). Maintenance investments were EUR 21 million (EUR 17 million).

Acquisitions and disposals

Acquisitions

Valmet made no acquisitions during the six-month period ended June 30, 2016.

Disposals

Valmet made no material disposals during the six-month period ended June 30, 2016.

Number of personnel remained at the previous year’s level

Personnel by business line	As at June 30, 2016	As at June 30, 2015	Change	As at March 31, 2016
Services	**5,523**	5,411	2%	5,395
Automation	**1,649**	1,638	1%	1,619
Pulp and Energy	**1,749**	1,827	-4%	1,741
Paper	**3,026**	3,119	-3%	3,003
Other	**545**	529	3%	539
Total (end of period)	**12,492**	12,524	0%	12,297

Personnel by area	As at June 30, 2016	As at June 30, 2015	Change	As at March 31, 2016
North America	**1,334**	1,348	-1%	1,353
South America	**536**	526	2%	533
EMEA	**8,006**	7,897	1%	7,757
China	**1,887**	2,043	-8%	1,937
Asia-Pacific	**729**	710	3%	717
Total (end of period)	**12,492**	12,524	0%	12,297

In January–June, Valmet employed an average of 12,328 people (11,299). The number of personnel at the end of June was 12,492 (12,524). In January–June, personnel expenses totaled to EUR 407 million (EUR 366 million) of which wages, salaries and remuneration equaled to EUR 314 million (EUR 285 million).

Strategic goals and their implementation

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

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

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

In order to improve on operational excellence, Valmet is in the process of renewing its ERP system. The purpose is to renew and improve Valmet’s operational capability through process harmonization and standardization, renewal and modernization of the ERP platform, and improving data and reporting quality.

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

Financial targets

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

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

Continued focus on improving profitability

Valmet aims to improve product margin by focusing on improving sales and project management. By harmonizing processes and tools, localization of competencies, better selection of sales cases and developing project management, Valmet believes it can improve product margin.

In order to reduce quality costs and lead times Valmet is adopting Lean principles and methodology. A common quality development approach along with different quality tools and processes is applied in various quality initiatives, where also empowerment and accountability of personnel is highlighted. In 2016 Valmet focuses on delivering results in the ongoing Lean projects and on enhancing continuous improvement activities by further training personnel.

To improve profitability, Valmet also focuses on procurement savings. These can be achieved by increasing sourcing from cost-competitive countries, by increasing the use of sub-contracting and by consolidating the shipment and warehouse network. Valmet also aims to find savings by focusing on design-to-cost together with suppliers. In 2016, Valmet focuses, among other things, on supplier relationship management and developing and leading collaboration with selected suppliers.

Valmet is constantly focusing on improving product competitiveness in order to increase gross profit and reduce customer investment costs. Valmet focuses on cost efficient design, modularity and standardization, and product-based improvement programs.

Following the acquisition of the automation business, Valmet believes it can increase profitability by providing customer benefits by combining process technology, automation and services. Valmet can use common sales lead activation and a harmonized project execution model. Valmet can also utilize low-cost automation engineering and manufacturing optimization and focus on product competitiveness development.

Progress in sustainability

In the first half of 2016, Valmet progressed with the actions defined in its Sustainability360˚ agenda.

Valmet continued to implement the global processes to ensure its suppliers operate in a sustainable manner. By the end of June 2016, Valmet together with an authorized third party, had conducted 24 out of 53 sustainability audits for risk suppliers in China, Croatia, India, Lithuania, Poland and Thailand.

In order to ensure compliance with changes in regulatory environment, such as updates to the Restriction of Hazardous Substances Directive (RoHS) and the European Union regulation for Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Valmet started a specific development program to further develop its existing processes and controls in 2015. By the end of June 2016, related training was organized in all concerned Valmet functions.

During the first half of 2016, Valmet’s lost time incident frequency rate (LTIF) of own employees continued to decrease and was 2.8 at the end of June.

In June 2016, an employee of Valmet's subcontractor was fatally injured in a lifting operation during installation activities at a project site in Sweden. Investigation of the accident is ongoing and corrective actions are implemented to continuously improve processes and routines. During the first half of 2016, Valmet continued to implement a site safety management standard with focus on securing improvements in contractors’ preventive work regarding safety.

In the second quarter of 2016, Valmet defined and began implementing its values roadmap. The company also conducted a Talent Review process, which works to identify and strengthen its successor pool, to assess managerial capability and potential, and to ensure it is developing the high potentials in the best possible way.

In May 2016, almost 1,500 Valmet employees joined the 100-days Global Corporate Challenge (GCC), which is a workplace health and engagement program aimed at improving the performance of employees around the world.

By the end of June 2016, 99.8 percent of Valmet’s employees had 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 announced by stock exchange release on February 20, 2015, that Andritz Oy had filed a summons application with the Stockholm District Court against Valmet AB, a subsidiary of Valmet Corporation, regarding patent infringement. As Valmet announced by stock exchange release on April 8, 2016, the Swedish Court of Patent Appeals has on March 23, 2016 decided to revoke Andritz's patent challenged by Valmet. An appeal of the decision made by the Swedish Court of Patent Appeals has been filed by Andritz to the Supreme Administrative Court by May 23, 2016. For an appeal, a leave to appeal is required.

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 presented for them, provisions made, insurance coverage in force and the extent of Valmet’s total business activities. Valmet is also a plaintiff in several lawsuits.

Corporate Governance Statement

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

Shares and shareholders

Share capital and number of shares

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

Treasury shares and Board authorizations

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

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

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

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

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

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

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

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

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

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

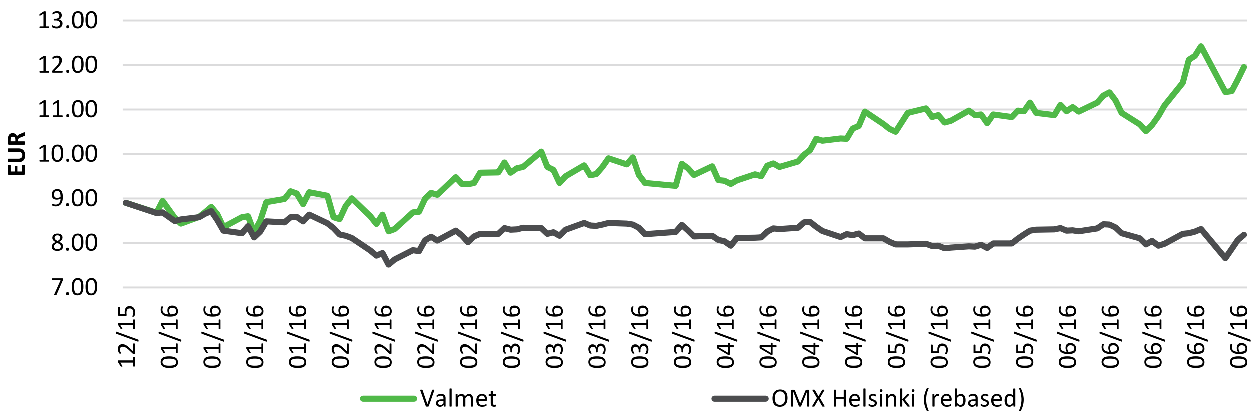
Trading in shares

The closing price of Valmet's share on the final day of trading for the reporting period, June 30, 2016, was EUR 11.95. The closing share price on the last day of trading in 2015 (December 30, 2015) was EUR 8.90. The share price increased by some 34 percent during the reporting period. The highest price for the share during the reporting period was EUR 12.51, the lowest was EUR 8.08 and the volume-weighted average price was EUR 9.95. The number of shares traded on Nasdaq Helsinki Ltd during January–June was approximately 57 million. The value of trading was approximately EUR 560 million. (Source: Nasdaq)

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Chi-X and BATS. A total of approximately 9 million of Valmet's shares were traded on alternative marketplaces in January–June, which equals to approximately 15 percent of the share's total trade volume. Of the alternative exchanges, Valmet's shares were traded especially on Chi-X. (Source: VWD, Six)

Market capitalization (excluding treasury shares) stood at EUR 1,791 million at the end of the reporting period.

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



Number of shareholders

The number of registered shareholders at the end of June 2016 was 46,488 (47,580). Shares owned by nominee-registered parties and by non-Finnish parties equaled to 47.8 percent of the total number of shares at the end of June 2016 (54.0%).

Flagging notifications

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

Stock exchange release on March 7, 2016

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

Share-based incentive plans

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

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

Long-term incentive plan 2012–2014

In December 2011, a share-based incentive plan including three performance periods, which were the calendar years 2012, 2013 and 2014, was approved.

The reward for the 2012 performance period was paid partly as company shares and partly in cash during 2015. For the 2013 performance period, the performance criteria were not met and therefore no rewards was paid for the 2013 performance period.

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

Long-term incentive plan 2015–2017

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

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

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

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

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

Resolutions of Valmet Corporation's Annual General Meeting

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

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

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

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

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

Risks and business uncertainties

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

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

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

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

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

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

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

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

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

Management of project business risks important

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

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

Availability of financing crucial

Securing the continuity of Valmet's operations requires that sufficient funding is available under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure the company's immediate liquidity and to ensure the flexibility of financing. The average maturity for Valmet's non-current debt is 3.1 years. Loan facilities include customary covenants and Valmet is in clear compliance with the covenants at the balance sheet date.

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

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

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

At the end of June 2016, Valmet had EUR 622 million (EUR 624 million) of goodwill on its statement of financial position. Valmet assesses the value of its goodwill for impairment annually or more frequently if facts and circumstances indicate that a risk of impairment exists. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Annual Report.

Events after the reporting period

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

Valmet reiterates its guidance for 2016

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

Due to new regulation by the European Securities and Market Authority, Valmet has decided to replace the performance measure 'EBITA before non-recurring items' with 'Comparable EBITA'. The content of items affecting comparability, i.e. items previously disclosed as non-recurring, remain unchanged and therefore 'Comparable EBITA' equals previously disclosed 'EBITA before non-recurring items' (EUR 182 million in 2015). Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations or are incurred outside its normal course of business.

Short-term outlook

General economic outlook

The outcome of the U.K. vote, which surprised global financial markets, implies the materialization of an important downside risk for the world economy. As a result, the global outlook for 2016-17 has worsened, despite the better-than-expected performance in early 2016. This deterioration reflects the expected macroeconomic consequences of a sizable increase in uncertainty, including on the political front. This uncertainty is projected to take a toll on confidence and investment, including through its repercussions on financial conditions and market sentiment more generally. (International Monetary Fund, July 19, 2016)

Short-term market outlook

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

In Espoo on July 28, 2016

Valmet's Board of Directors

Consolidated Statement of Income

EUR million	Q2/2016	Q2/2015	Q1–Q2/ 2016	Q1–Q2/ 2015
Net sales	**804**	779	**1,456**	1,340
Cost of goods sold	**-621**	-599	**-1,124**	-1,047
Gross profit	**183**	180	**332**	293
Selling, general and administrative expenses	**-133**	-136	**-263**	-239
Other operating income and expenses, net	**-3**	-12	**-3**	-8
Share in profits and losses of associated companies, operative investments	**-**	1	**-**	1
Operating profit	**47**	32	**66**	46
Financial income and expenses, net	**-3**	-2	**-6**	-4
Share in profits and losses of associated companies, financial investments	**-**	-	**-**	-
Profit before taxes	**44**	31	**60**	42
Income taxes	**-13**	-9	**-18**	-13
Profit / loss	**31**	21	**43**	29
Attributable to:				
Owners of the parent	**31**	21	**42**	29
Non-controlling interests	**-**	-	**1**	-
Profit / loss	**31**	21	**43**	29
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.21**	0.14	**0.28**	0.19
Diluted earnings per share, EUR	**0.21**	0.14	**0.28**	0.19

Consolidated Statement of Comprehensive Income

EUR million	Q2/2016	Q2/2015	Q1–Q2/ 2016	Q1–Q2/ 2015
Profit / loss	**31**	21	**43**	29
Items that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedges	**-3**	8	**-1**	4
Currency translation on subsidiary net investments	**-**	-9	**-7**	15
Income tax relating to items that may be reclassified	**1**	-2	**-**	-1
	-2	-3	**-7**	17
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**-7**	-	**-6**	-
Income tax on items that will not be reclassified	**7**	-	**6**	-
	-	-	**1**	-
Other comprehensive income / expense	**-2**	-3	**-7**	17
Total comprehensive income / expense	**29**	18	**36**	47
Attributable to:				
Owners of the parent	**29**	18	**36**	47
Non-controlling interests	**-**	-	**-**	-
Total comprehensive income / expense	**29**	18	**36**	47

Consolidated Statement of Financial Position

Assets

EUR million	As at June 30, 2016	As at June 30, 2015	As at December 31, 2015
Non-current assets			
Intangible assets			
Goodwill	**622**	624	624
Other intangible assets	**224**	245	235
Total intangible assets	**846**	869	859
Property, plant and equipment			
Land and water areas	**26**	27	26
Buildings and structures	**134**	149	138
Machinery and equipment	**188**	204	196
Assets under construction	**29**	24	25
Total property, plant and equipment	**376**	404	385
Financial and other non-current assets			
Investments in associated companies	**12**	13	12
Non-current financial assets	**21**	30	25
Deferred tax asset	**90**	83	85
Other non-current assets	**9**	19	13
Total financial and other non-current assets	**132**	144	134
Total non-current assets	**1,354**	1,417	1,378
Current assets			
Inventories			
Materials and supplies	**75**	99	82
Work in progress	**363**	397	350
Finished products	**86**	72	76
Total inventories	**525**	568	508
Receivables			
Trade and other receivables	**606**	622	575
Amounts due from customers under construction contracts	**255**	205	216
Other current financial assets	**10**	18	21
Income tax receivables	**23**	24	31
Total receivables	**893**	869	842
Cash and cash equivalents	**103**	161	165
Total current assets	**1,520**	1,598	1,516
Total assets	**2,874**	3,015	2,894

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	As at June 30, 2016	As at June 30, 2015	As at December 31, 2015
Equity			
Share capital	**100**	100	100
Reserve for invested unrestricted equity	**407**	404	404
Cumulative translation adjustments	**12**	24	18
Fair value and other reserves	**-5**	-	-4
Retained earnings	**323**	279	336
Equity attributable to owners of the parent	**837**	806	855
Non-controlling interests	**6**	5	6
Total equity	**843**	812	860
Liabilities			
Non-current liabilities			
Non-current debt	**276**	331	309
Post-employment benefits	**150**	150	149
Provisions	**8**	12	10
Other non-current financial liabilities	**5**	2	3
Deferred tax liability	**70**	56	70
Total non-current liabilities	**509**	551	542
Current liabilities			
Current portion of non-current debt	**55**	66	62
Current debt	**20**	31	-
Trade and other payables	**785**	738	767
Provisions	**95**	101	98
Advances received	**224**	276	248
Amounts due to customers under construction contracts	**298**	397	276
Other current financial liabilities	**21**	18	13
Income tax liabilities	**25**	24	27
Total current liabilities	**1,522**	1,651	1,491
Total liabilities	**2,032**	2,203	2,033
Total equity and liabilities	**2,874**	3,015	2,894

Condensed Consolidated Statement of Cash Flows

EUR million	Q2/2016	Q2/2015	Q1–Q2/ 2016	Q1–Q2/ 2015
Cash flows from operating activities				
Profit / loss	**31**	21	**43**	29
Adjustments				
Depreciation and amortization	**21**	25	**45**	43
Financial income and expenses	**3**	1	**6**	2
Income taxes	**13**	9	**18**	13
Other non-cash items	**-6**	2	**1**	3
Change in net working capital, net of effect from business combinations and disposals	**-16**	-30	**-57**	-79
Net interests and dividends received	**-1**	-1	**-4**	-1
Income taxes paid	**-13**	-11	**-16**	-13
Net cash provided by (+) / used in (-) operating activities	**33**	17	**36**	-3
Cash flows from investing activities				
Capital expenditure on fixed assets	**-18**	-9	**-28**	-19
Proceeds from sale of fixed assets	**-**	1	**-**	1
Business combinations, net of cash acquired and loan repayments	**-**	-330	**-**	-330
Net cash provided by (+) / used in (-) investing activities	**-17**	-338	**-28**	-348
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-2**	-7
Dividends paid	**-52**	-37	**-52**	-37
Net borrowings (+) / payments (-) on current and non-current debt	**-20**	-27	**-20**	350
Net investments in available-for-sale financial assets	**3**	-	**9**	23
Other	**-**	-9	**-**	-13
Net cash provided by (+) / used in (-) financing activities	**-70**	-74	**-66**	316
Net increase (+) / decrease (-) in cash and cash equivalents	**-54**	-395	**-58**	-35
Effect of changes in exchange rates on cash and cash equivalents	**-2**	-2	**-4**	3
Cash and cash equivalents at beginning of period	**159**	557	**165**	192
Cash and cash equivalents at end of period	**103**	161	**103**	161

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at January 1, 2016	**100**	**404**	**18**	**-4**	**336**	**855**	**6**	**860**
Profit / loss	-	-	-	-	42	**42**	1	**43**
Other comprehensive income / expense	-	-	-7	-1	1	**-6**	-	**-7**
Total comprehensive income / expense	-	-	-7	-1	43	**36**	-	**36**
Dividends	-	-	-	-	-52	**-52**	-	**-52**
Purchase of treasury shares	-	-	-	-	-2	**-2**	-	**-2**
Share-based payments, net of tax	-	3	-	-	-2	**1**	-	**1**
Balance at June 30, 2016	**100**	**407**	**12**	**-5**	**323**	**837**	**6**	**843**
Balance at January 1, 2015	100	403	9	-3	296	804	5	809
Profit / loss	-	-	-	-	29	29	-	29
Other comprehensive income / expense	-	-	15	3	-	17	-	17
Total comprehensive income / expense	-	-	15	3	29	47	-	47
Dividends	-	-	-	-	-37	-37	-	-37
Purchase of treasury shares	-	-	-	-	-7	-7	-	-7
Share-based payments, net of tax	-	2	-	-	-1	1	-	1
Balance at June 30, 2015	100	404	24	-	279	806	5	812

Accounting principles

General information

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

Valmet Corporation 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 July 28, 2016.

Basis of preparation

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

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

Accounting principles

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

Reporting segment and geographic information

Valmet's operations and profitability is reported as a single reportable segment as operative decisions have been made by the President and CEO of Valmet as Valmet's Chief Operating Decision Maker at Valmet Group level. One key indicator of performance reviewed is EBITA (Earnings before interest, taxes and amortization). The performance is also analyzed by excluding from EBITA items, such as capacity adjustment costs, impairment of assets, and other infrequent events, as these reduce the comparability of the Group's performance from one period to another.

EUR million	**Q2/2016**	Q2/2015	**Q1–Q2/ 2016**	Q1–Q2/ 2015
Net sales	**804**	779	**1,456**	1,340
Comparable EBITA	**57**	54	**88**	73
% of net sales	**7.1%**	6.9%	**6.1%**	5.5%
Operating profit	**47**	32	**66**	46
% of net sales	**5.8%**	4.1%	**4.5%**	3.4%
Amortization	**-9**	-10	**-19**	-16
Depreciation	**-13**	-15	**-26**	-28
Gross capital expenditures (including business combinations)	**-18**	-339	**-29**	-349
Non-cash write-downs	**-**	-2	**-2**	-2
Capital employed, end of period			**1,194**	1,240
Orders received	**692**	781	**1,495**	1,360
Order backlog, end of period			**2,106**	2,208

Reconciliation between Comparable EBITA, EBITA and operating profit

EUR million	Q1–Q2/2016	Q1–Q2/2015	2015	2014
Comparable EBITA	**88**	73	182	106
Items affecting comparability in cost of sales				
Expensing of fair value adjustments recognized in business combinations	**-**	-2	-7	-
Expenses related to capacity adjustments	**-1**	-1	-3	-4
Other items affecting comparability	**-**	-	-1	-
Items affecting comparability in selling, general and administrative expenses				
Expenses related to capacity adjustments	**-1**	-1	-2	-3
Costs related to acquisitions	**-**	-2	-3	-1
Items affecting comparability in other operating income and expenses				
Impairments	**-**	-	-5	-
Expenses related to capacity adjustments	**-1**	-5	-5	-2
Other items affecting comparability	**-**	-	-	-2
EBITA	**85**	61	157	94
Amortization included in cost of sales				
Other intangibles	**-1**	-1	-1	-2
Amortization included in selling, general and administrative expenses				
Intangibles recognized in business combinations	**-15**	-11	-28	-13
Other intangibles	**-4**	-3	-7	6
Operating profit	**66**	46	120	72

Entity-wide information

Valmet's businesses are present in over 30 countries and on all continents. The main market areas are Europe and North America accounting for 64 percent of net sales in Q1–Q2/2016 and 61 percent in Q1–Q2/2015.

Net sales to unaffiliated customers by destination:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q2/2016	**336**	**105**	**643**	**187**	**184**	**1,456**
Q1–Q2/2015	290	172	550	120	208	1,340

Gross capital expenditure (excluding business combinations) by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q2/2016	**1**	**2**	**20**	**3**	**3**	**29**
Q1–Q2/2015	2	1	12	3	2	19

Analysis of net sales by category:

EUR million	Q1–Q2/2016	Q1–Q2/2015
Sale of services and automation	**691**	614
Sale of projects, equipment and goods	**765**	726
Total	**1,456**	1,340

Net sales of the Automation business line for Q2/2015 has in the above table been fully included in 'Sale of services and automation' to align the nature of revenue streams within the two categories.

Intangible assets and property, plant and equipment

Intangible assets

EUR million	Q1–Q2/2016	Q1–Q2/2015	2015
Book value at beginning of period	**859**	537	537
Capital expenditure	**9**	3	7
Acquired in business combination	**1**	336	342
Amortization	**-19**	-16	-37
Impairment losses	**-**	-1	-1
Translation differences and other changes	**-4**	8	11
Book value at end of period	**846**	869	859

Property, plant and equipment

EUR million	Q1–Q2/2016	Q1–Q2/2015	2015
Book value at beginning of period	**385**	381	381
Capital expenditure	**19**	16	37
Acquired in business combination	**-**	25	26
Depreciation	**-26**	-28	-55
Impairment losses	**-**	-	-5
Translation differences and other changes	**-3**	9	2
Book value at end of period	**376**	404	385

Financial instruments

Derivative financial instruments

As at June 30, 2016	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts, EUR million	1,647	10	21	-11
Interest rate swaps, EUR million	30	-	2	-2
Electricity forward contracts[1]	161	-	2	-2

As at June 30, 2015	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts, EUR million	1,326	15	16	-1
Electricity forward contracts[1]	276	-	3	-3

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

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

Interest bearing and non-interest bearing financial instruments

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

EUR million	As at June 30, 2016	As at June 30, 2015	As at December 31, 2015
Other current financial assets			
Interest bearing	1	4	8
Non-interest bearing	9	13	13
Total	10	18	21

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

Provisions

EUR million	Q1–Q2/2016	Q1–Q2/2015	2015
Balance at beginning of period	108	107	107
Translation differences	-	2	1
Addition charged to profit / loss	39	40	87
Acquired in business combinations	-	9	9
Used reserve	-31	-28	-57
Reversal of reserve / other changes	-13	-17	-40
Balance at end of period	103	113	108
Non-current	8	12	10
Current	95	101	98

Contingencies and commitments

EUR million	As at June 30, 2016	As at June 30, 2015	As at December 31, 2015
Guarantees on behalf of Valmet Group[1]	802	1,126	771
Lease commitments	50	56	56

[1] *Commitments arising from the ordinary course of business of Valmet Group guaranteed by Valmet Corporation, its subsidiaries, and financial institutions.*

Key ratios

	Q1–Q2/2016	Q1–Q2/2015
Earnings per share, EUR	**0.28**	0.19
Diluted earnings per share, EUR	**0.28**	0.19
Equity per share at end of period, EUR	**5.58**	5.38
Return on equity (ROE), % (annualized)	**10%**	7%
Return on capital employed (ROCE) before taxes, % (annualized)	**11%**	9%
Equity to assets ratio at end of period, %	**36%**	35%
Gearing at end of period, %	**27%**	29%
Cash flow provided by operating activities, EUR million	**36**	-3
Cash flow after investments, EUR million	**8**	-351
Gross capital expenditure (excl. business combinations), EUR million	**-29**	-19
Gross capital expenditure (incl. business combinations), EUR million	**-29**	-349
Depreciation and amortization, EUR million	**-45**	-43
Number of outstanding shares at end of period	**149,864,220**	149,864,220
Average number of outstanding shares	**149,864,220**	149,864,220
Average number of diluted shares	**149,864,220**	149,864,220
Net interest-bearing liabilities at end of period, EUR million	**231**	238

Key exchange rates

		Average rates		Period-end rates	
		Q1–Q2/ 2016	Q1–Q2/ 2015	**Q2/2016**	Q2/2015
USD	(US dollar)	**1.1106**	1.1260	**1.1102**	1.1189
SEK	(Swedish krona)	**9.2813**	9.3260	**9.4242**	9.2150
BRL	(Brazilian real)	**4.1066**	3.3187	**3.5898**	3.4699
CNY	(Chinese yuan)	**7.2621**	7.0017	**7.3755**	6.9366

Formulas for Calculation of Indicators

EBITA:
Operating profit + amortization

Comparable EBITA:
Operating profit + amortization - items affecting comparability

Earnings per share:

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

Earnings per share, diluted:

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

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

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

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

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

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

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

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

Equity to assets ratio, %:

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

Gearing, %:

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

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

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

Quarterly information

EUR million	**Q2/2016**	Q1/2016	Q4/2015	Q3/2015	Q2/2015
Net sales	**804**	652	854	734	779
Comparable EBITA	**57**	31	63	47	54
% of net sales	**7.1%**	4.8%	7.3%	6.4%	6.9%
Operating profit / loss	**47**	19	41	33	32
% of net sales	**5.8%**	2.9%	4.9%	4.4%	4.1%
Profit before taxes	**44**	17	37	29	31
% of net sales	**5.5%**	2.5%	4.3%	4.0%	3.9%
Profit / loss	**31**	12	28	21	21
% of net sales	**3.9%**	1.8%	3.2%	2.8%	2.7%
Earnings per share, EUR	**0.21**	0.08	0.18	0.14	0.14
Earnings per share, diluted, EUR	**0.21**	0.08	0.18	0.14	0.14
Amortization	**-9**	-11	-11	-11	-10
Depreciation	**-13**	-13	-14	-14	-15
Research and development expenses, net	**-16**	-16	-19	-13	-17
% of net sales	**-2.0%**	-2.4%	-2.2%	-1.8%	-2.2%
Items affecting comparability:					
in cost of goods sold	**-**	-1	-4	-3	-3
in selling, general and administrative expenses	**-**	-1	-1	-1	-3
in other operating income and expenses, net	**-1**	-	-5	-	-6
Total items affecting comparability	**-1**	-2	-10	-4	-12
Gross capital expenditures (excluding business combinations)	**-18**	-11	-15	-11	-9
Gross capital expenditures (including business combinations)	**-18**	-11	-15	-4	-339
Business combinations, net of cash acquired	**-**	-	-	7	-330
Non-cash write-downs	**-**	-2	-12	-2	-2
Capital employed, end of period	**1,194**	1,184	1,231	1,214	1,240
Orders received	**692**	803	793	725	781
Order backlog, end of period	**2,106**	2,207	2,074	2,117	2,208