FINANCIAL STATEMENTS 2015

Valmet

Valmet is the leading global developer and supplier of process technologies, automation and services for the pulp, paper and energy industries. We aim to become the global champion in serving our customers.

Valmet's strong technology offering includes pulp mills, tissue, board and paper production lines, as well as power plants for bioenergy production. Our advanced services and automation solutions improve the reliability and performance of our customers' processes and enhance the effective utilization of raw materials and energy.

Valmet's net sales in 2015 were approximately EUR 2.9 billion. Our 12,000 professionals around the world work close to our customers and are committed to moving our customers' performance forward – every day. Valmet's head office is in Espoo, Finland and its shares are listed on the Nasdaq Helsinki.

Valmet reports 2015

ANNUAL REVIEW 2015
The report describes Valmet's market environment and the progress of its strategy, operations and sustainability in 2015.

FINANCIAL STATEMENTS 2015
The report includes Valmet's Financial Statements for 2015 and information about its shares, shareholders and management.

GRI SUPPLEMENT 2015
The report defines Valmet's sustainability reporting scope and principles, and alignment with the Global Reporting Initiative (GRI).

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

Notes to the Consolidated Financial Statements

Report of the Board of Directors January–December, 2015

Governance

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

Corporate Governance Statement

Valmet has prepared a separate Corporate Governance Statement for 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 Board of Directors' Report, at www.valmet.com/governance.

Annual General Meeting

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

The Board of Directors

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

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

President and CEO

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

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

Valmet's results 2015

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

Key figures[1]

EUR million	2015	2014	2013[2] Carve-out
Orders received	**2,878**	3,071	2,182
Order backlog[3]	**2,074**	1,998	1,398
Net sales	**2,928**	2,473	2,613
Earnings before interest, taxes and amortization (EBITA) and non-recurring items	**182**	106	54
% of net sales	**6.2%**	4.3%	2.1%
Earnings before interest, taxes and amortization (EBITA)	**157**	94	-32
% of net sales	**5.3%**	3.8%	-1.2%
Operating profit (EBIT)	**120**	72	-59
% of net sales	**4.1%**	2.9%	-2.2%
Profit before taxes	**108**	67	-64
Profit/loss	**78**	46	-62
Earnings per share, EUR	**0.51**	0.31	-0.42[4]
Earnings per share, diluted, EUR	**0.51**	0.31	-0.42[4]
Equity per share[3], EUR	**5.70**	5.36	5.39
Dividend per share, EUR	**0.35**[5]	0.25	0.15
Cash flow provided by operating activities	**78**	236	-43
Cash flow after investments	**-287**	194	-97
Return on equity (ROE)	**9%**	6%	-7%[6]
Return on capital employed (ROCE) before taxes	**12%**	9%	-4%

[1] Group figures: the calculation of key figures is presented in the section 'Formulas for Calculation of Indicators'.
[2] Valmet has formed a separate legal group as of December 31, 2013. Key figures for 2013 are based on financial carve-out data. Figures based on the Statement of Financial Position as at December 31, 2013 are actual figures.
[3] At the end of period.
[4] The earnings per share information was computed as if the shares issued in conjunction with the Demerger had been outstanding for the entire comparison period.
[5] Board of Directors' proposal.
[6] In calculating these key ratios, an adjustment of EUR 468 million has been made from 'Non-current debt, Metso Group' to 'equity' in order to reflect the conversion of Metso Svenska AB's non-current debt to Metso Group which took place in January 2013.

Equity to assets ratio and gearing	2015	As at Dec 31, 2014	2013
Equity to assets ratio at end of period	**36%**	42%	41%
Gearing at end of period	**21%**	-21%	0%

Customer activity increased towards the end of the year

In 2015, customer activity increased towards the end of the year, which was visible in orders received. After the high activity in the first half of 2014, orders received decreased to a lower level in the second half of 2014. From that level, customer activity and orders received have been growing during 2015. In 2015, orders received increased in China and North America, and decreased in other areas.

The services business developed well in 2015 and orders received remained stable compared with 2014 in EMEA (Europe, Middle East and Africa) and increased in all other areas. In 2015, the development in the capital business was strong in China and North America. In the automation business, the majority of the orders received came from EMEA in 2015.

In the energy business, customers' decision making has been slower and in many cases postponed due to uncertainty in regulation in the energy market and the low price of energy. In the pulp business, customers made many investment decisions in 2015.

Orders received increased in China and North America, stable business[1] orders received EUR 1.3 billion in 2015

Orders received, EUR million	2015	2014	Change
Services	**1,119**	1,055	6%
Automation	**222**	-	-
Pulp and Energy	**864**	1,344	-36%
Paper	**673**	671	0%
Total	**2,878**	3,071	-6%

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

Orders received, EUR million	2015	2014	Change
North America	**717**	490	46%
South America	**166**	281	-41%
EMEA	**1,320**	1,470	-10%
China	**428**	244	75%
Asia-Pacific	**247**	586	-58%
Total	**2,878**	3,071	-6%

Orders received in 2015 amounted to EUR 2,878 million, i.e. 6 percent less than in the comparison period (EUR 3,071 million). The Automation business line contributed to orders received with EUR 222 million. The emerging markets accounted for 36 percent (45%) of orders received. Orders received increased in the Services business line, remained at the previous year's level in the Paper business line, and decreased in the Pulp and Energy business line. Orders received increased in China and North America and decreased in other areas. Measured by orders received, the top three countries were the USA, Finland and China, which together accounted for 49 percent of total orders received (Sweden, Finland and the USA, which together accounted for 41%).

In 2015, changes in foreign exchange rates increased orders received by approximately EUR 105 million compared with the exchange rates for 2014.

The largest orders in 2015 were received by the Pulp and Energy business line. In April, Valmet received an order for key technology to a bioproduct mill in Finland. The estimated value of the delivery, which includes only the core equipment supplied by Valmet, is about EUR 125–150 million. In August, Valmet received an order for the main equipment to a pulp mill project in China. The value of the order is about EUR 110 million. In December 2015, Valmet received an order for key technology to a pulp mill expansion project in Sweden.

Other orders that Valmet received during the year were, among others, an OptiConcept M containerboard production line to China, several automation orders in Europe and North America, an Advantage NTT tissue production line to the USA, and two Advantage DCT tissue production lines to China. Valmet also signed a five-year agreement on the supply of paper machine and fiber line consumables to a customer in Sweden.

Order backlog at EUR 2.1 billion

	As at Dec 31,		
Order backlog, EUR million	2015	2014	Change
Total	**2,074**	1,998	4%

At the end of December, the order backlog was EUR 2,074 million, which was 4 percent higher than at the end of the comparison period (EUR 1,998 million). Approximately 25 percent of the order backlog relates to stable business (Services and Automation business lines). At the end of December 2014, approximately 20 percent of the order backlog related to the Services business line.

Net sales increased in 2015

Net sales, EUR million	2015	2014	Change
Services	**1,128**	989	14%
Automation	**229**	-	-
Pulp and Energy	**913**	956	-5%
Paper	**659**	528	25%
Total	**2,928**	2,473	18%

Net sales, EUR million	2015	2014	Change
North America	**615**	449	37%
South America	**335**	325	3%
EMEA	**1,304**	1,053	24%
China	**303**	268	13%
Asia-Pacific	**372**	378	-2%
Total	**2,928**	2,473	18%

Net sales in 2015 increased 18 percent to EUR 2,928 million (EUR 2,473 million). Automation business line contributed to net sales with EUR 229 million. Net sales increased in both the Paper and Services business lines and remained at the previous year's level in the Pulp and Energy business line. The stable business (Services and Automation business lines together) accounted for 46 percent of Valmet's net sales (Services business line accounted for 40% in 2014). Net sales increased in North America, EMEA, and China, and remained at the previous year's level in Asia-Pacific and South America. Measured by net sales, the top three countries were the USA, Finland and Sweden, which together accounted for 43 percent of total net sales (the USA, Sweden and Brazil, which together accounted for 38%). Emerging markets accounted for 42 percent (48%) of net sales.

In 2015, changes in foreign exchange rates increased net sales by approximately EUR 78 million compared with the exchange rates for 2014.

Profitability improved – EBITA margin in the targeted range

In 2015, earnings before interest, taxes and amortization and non-recurring items (EBITA before non-recurring items) were EUR 182 million, i.e. 6.2 percent of net sales (EUR 106 million and 4.3%). Profitability improved due to increased net sales in the Services and Paper business lines, improved gross profit, and the acquisition of Automation.

Operating profit (EBIT) in 2015 was EUR 120 million, i.e. 4.1 percent of net sales (EUR 72 million and 2.9%). Non-recurring items amounted to EUR -26 million (EUR -12 million), of which EUR -14 million related to the acquisition of Automation and EUR -5 million to impairment of fixed assets.

Financing activities

Net financial income and expenses in 2015 were EUR -10 million (EUR -5 million), of which interest expenses amounted to EUR 13 million (EUR 12 million), interest income to EUR 3 million (EUR 5 million), other financial income and expenses to EUR -2 million (EUR -2 million), dividends received to EUR 0 million (EUR 1 million) and net foreign exchange gains to EUR 2 million (EUR 3 million).

Share in profits and losses of associated companies, financial investments, amounted to EUR -2 million (EUR 0 million) in 2015.

Profit before taxes and earnings per share

Profit before taxes for 2015 was EUR 108 million (EUR 67 million). The profit attributable to owners of the parent company in 2015 was EUR 77 million (EUR 46 million), corresponding to earnings per share (EPS) of EUR 0.51 (EUR 0.31).

Return on capital employed (ROCE) increased

In 2015, return on capital employed (ROCE) before taxes was 12 percent (9%) and return on equity (ROE) 9 percent (6%).

Business lines

Services – orders received and net sales increased in 2015

Services business line	2015	2014	Change
Orders received (EUR million)	**1,119**	1,055	6%
Net sales (EUR million)	**1,128**	989	14%
Personnel (end of period)	**5,363**	5,230	3%

During 2015, orders received by the Services business line increased 6 percent to EUR 1,119 million (EUR 1,055 million) and accounted for 39 percent of all orders received (34%). Orders received remained stable compared with the comparison period in EMEA and increased in other areas.

During 2015, net sales for the Services business line totaled EUR 1,128 million (EUR 989 million), corresponding to 39 percent of Valmet's net sales (40%).

Automation – orders received EUR 222 million and net sales EUR 229 million in 2015

Automation business line	2015	2014	Change
Orders received (EUR million)	**222**	-	-
Net sales (EUR million)	**229**	-	-
Personnel (end of period)	**1,637**	-	-

The acquisition of Process Automation Systems was completed on April 1, 2015 and the acquired business forms the Automation business line. During April–December, orders received by the Automation business line amounted to EUR 222 million and accounted for 8 percent of all orders received. EMEA accounted for approximately 60 percent and North America for approximately 20 percent of orders received.

During April–December, net sales for the Automation business line totaled to EUR 229 million, corresponding to 8 percent of Valmet's net sales.

Pulp and Energy – orders received decreased in 2015

Pulp and Energy business line	2015	2014	Change
Orders received (EUR million)	**864**	1,344	-36%
Net sales (EUR million)	**913**	956	-5%
Personnel (end of period)	**1,750**	1,737	1%

During 2015, orders received by the Pulp and Energy business line decreased 36 percent to EUR 864 million (EUR 1,344 million) and accounted for 30 percent of all orders received (44%). Orders received increased in China and North America and decreased in other areas. Orders received decreased in both Pulp and Energy.

During 2015, net sales for the Pulp and Energy business line totaled to EUR 913 million (EUR 956 million), corresponding to 31 percent of Valmet's net sales (39%).

Paper – net sales increased in 2015

Paper business line	2015	2014	Change
Orders received (EUR million)	**673**	671	0%
Net sales (EUR million)	**659**	528	25%
Personnel (end of period)	**3,036**	3,098	-2%

During 2015, orders received by the Paper business line remained at the previous year's level at EUR 673 million (EUR 671 million) and accounted for 23 percent of all orders received (22%). Orders received increased in China, North America and South America, remained stable compared to the comparison period in Asia-Pacific, and decreased in EMEA. Orders received remained stable compared to the comparison period in both Board and Paper, as well as Tissue.

During 2015, net sales for the Paper business line totaled EUR 659 million (EUR 528 million), corresponding to 23 percent of Valmet's net sales (21%).

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 78 million (EUR 236 million) in 2015. Net working capital was EUR -238 million (EUR -353 million) at the end of December 2015. The change in net working capital, net of effect from business combinations and disposals in the condensed consolidated statement of cash flows was EUR -121 million (EUR 103 million) in 2015. Payment schedules of large capital projects have a significant impact on net working capital development. Cash flow after investments was EUR -287 million (EUR 194 million) in 2015.

Gearing was 21 percent (-21%) at the end of December and equity to assets ratio was 36 percent (42%). Gearing increased and the equity to assets ratio decreased, mainly due to the acquisition of Automation, which was completed on April 1, 2015. Interest-bearing liabilities were EUR 371 million (EUR 68 million) and net interest-bearing liabilities totaled to EUR 178 million (EUR -166 million) at the end of the reporting period. Interest-bearing liabilities increased due to bank loans to finance the acquisition of Automation. The average maturity for Valmet's non-current debt was 3.4 years and the average interest rate was 1.3 percent.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents totaling to EUR 165 million (EUR 192 million) and interest-bearing available-for-sale financial assets totaling to EUR 7 million (EUR 34 million). Valmet's liquidity was additionally secured by an unused revolving credit facility agreement worth EUR 200 million, that is committed by the banks and matures in 2018, and an uncommitted EUR 200 million commercial paper program, of which none was outstanding at the end of December.

On April 10, 2015, Valmet Corporation paid out dividends of EUR 37 million.

Investments excluding business combinations decreased in 2015

Gross capital expenditure, excluding business combinations, in 2015 was EUR -44 million (EUR -46 million). Maintenance investments were EUR -36 million (EUR -37 million).

Business combinations and disposals of businesses

Business combinations

Acquisition of Process Automation Systems

On April 1, 2015, Valmet completed its acquisition of Process Automation Systems. The final purchase consideration was EUR 312 million in cash. Control in the acquiree was obtained through a series of share deals financed through long-term borrowings. Goodwill of EUR 164 million arising from the acquisition is attributable to the assembled workforce and synergies expected to arise subsequent to the acquisition.

Acquisition of MC Paper Machinery and Focus Rewinding business

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

Disposals

Valmet made no disposals during the 12 months period ended December 31, 2015.

Research and development

Valmet's research and development (R&D) expenses for 2015 were EUR 59 million, i.e. 2.0 percent of net sales (EUR 42 million and 1.7%). Research and development work is carried out predominantly in Finland and Sweden within the business lines' technology and R&D organizations. In addition, research and development takes place together with a network made up of customers, research facilities and universities. In 2015, R&D employed 456 people (298 people).

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

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

Valmet has successfully commercialized its techological innovations. Valmet has, for example, sold 10 OptiConcept M board and paper machines, and 6 Advantage NTT tissue machines. Valmet is in the process of delivering its first high power recovery boiler and has delivered 2 LignoBoost lignin separation plants.

Valmet has recorded all costs resulting from R&D activities as expenses in the income statement in 2014 and 2015.

Number of personnel increased mainly due to the acquisition

Personnel by business line	As at Dec 31, 2015	2014	Change
Services	**5,363**	5,230	3%
Automation	**1,637**	-	-
Pulp and Energy	**1,750**	1,737	1%
Paper	**3,036**	3,098	-2%
Other	**520**	399	30%
Total (end of period)	**12,306**	10,464	18%

Personnel by area	As at Dec 31, 2015	2014	Change
North America	**1,367**	1,141	20%
South America	**531**	432	23%
EMEA	**7,747**	6,376	22%
China	**1,955**	1,927	1%
Asia-Pacific	**706**	588	20%
Total (end of period)	**12,306**	10,464	18%

In 2015, Valmet employed an average of 11,781 people (10,853). The number of personnel at the end of December was 12,306 (10,464). The number of personnel increased mainly due to the acquisition of Automation. In 2015, personnel expenses totaled to EUR 748 million (EUR 609 million) of which wages, salaries and remuneration equaled to EUR 583 million (EUR 472 million).

Strategic goals and their implementation

Valmet is a leading global developer and supplier of services, technologies and automation for the pulp, paper and energy industries. Valmet's mission is to convert renewable resources into sustainable results. The company continues to focus on developing and supplying competitive technology and services to the pulp, paper and energy industries. Valmet is committed to moving its customers' performance forward.

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 vision is to become the global champion in serving its customers.

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 its customers' end-products.

Valmet's strategy and financial targets were reconfirmed by the Board of Directors in June 2015 (Stock exchange release on June 24, 2015). Valmet has the following financial targets:

Financial targets
Net sales growth to exceed market growth
EBITA margin before non-recurring items: 6 to 9 percent
Return on capital employed (pre-tax), ROCE: minimum of 15 percent
Dividend payout at least 40 percent of net profit

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 implementing Lean. Implementing Lean is expected to improve efficiency and reduce waste. A common quality development approach, together with different quality tools and processes help reduce quality costs and lead times. In order to affect quality costs and lead times, it is also important to highlight the importance of quality initiatives and accountability. In 2015, Valmet has conducted active Lean training on all levels, and there were over 100 Lean projects, of which majority ongoing. Results in reducing quality costs have been in line with the targets for 2015.

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 2015, Valmet was ahead of its procurement savings target. Procurement activity has increased in all main cost-competitive areas, such as China, India, Eastern Europe and Mexico.

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.

Activities and achievements in sustainability

Valmet's sustainability agenda focuses on five core areas: sustainable supply chain; health, safety and environment; people and performance; sustainable solutions and corporate citizenship. Each focus area has a specific roadmap with targets and key performance indicators for 2014–2016.

Implementation of global supply chain activities continued

In 2015, Valmet continued to integrate sustainability criteria and tools into its procurement processes. By the end of 2015 all active suppliers had been informed about the company's Sustainable Supply Chain policy and assessed through a 5-level sustainability risk assessment, and relevant tools and processes established for supplier self-assessments and audits. Based on the results from the risk assessments and self-assessments, Valmet conducted in total 41 supplier sustainability audits covering all geographical areas with a third-party sustainability auditor. At the end of 2015, the company kicked off a specific development program to ensure compliance with future chemical regulations. Furthermore, altogether 380 procurement professionals globally received training in sustainability.

Improvements in health, safety and environment (HSE)

Valmet's lost time incident frequency rate (LTIF) at the end of 2015 was at the level of 3.3 (12 months rolling; 5.5 at the end of December 2014). In 2015, the focus was on improving preventative safety measures, reinforcing safety awareness and leadership, and harmonizing HSE practices in customer project deliveries globally. The development of Valmet's environmental indicators are disclosed as part of Valmet's Annual Report.

New solutions for more sustainable production processes

Valmet continuously develops and innovates new solutions to drive its customers' performance. In 2015, Valmet received further orders for its recent board, paper and tissue technologies which are designed for improved environmental efficiency, profitability and safety of production processes. The company also launched a new-generation on-line quality management solution, called Valmet IQ, and continued to develop new bioconversion technologies.

Personnel engagement increased

In 2015, Valmet conducted its second employee engagement survey with a global response rate of 81 percent (68%). The survey results improved in nearly all questions and global employee engagement rose by 9 percentage points to 65 percent.

During the year, Valmet launched a renewed global training portfolio. It also continued to develop the role of managers and embed the company values in the daily work.

Valmet recognized as one of the world's sustainability leaders

In September 2015, Valmet was included in the Dow Jones Sustainability Index (DJSI) for the second consecutive year, among the 317 most sustainable companies in the world. Valmet was listed both in the Dow Jones Sustainability World and Europe indices. Valmet also ranked high in CDP's Climate change program with a score of 97/100.

To promote standards of behavior, Valmet enforced its updated Code of Conduct supported by e-learning and class room trainings. By the end of 2015, 90 percent of Valmet's employees had completed this training.

Valmet reports annually on its sustainability performance according to the Global Reporting Initiative, GRI G4 Core option, with selected indicators assured by an independent third party.

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.

On February 20, 2015 Valmet issued a stock exchange release about Andritz Oy having filed a summons application with the Stockholm District Court against Valmet AB, a subsidiary of Valmet Corporation, regarding patent infringement. In the claim Andritz is asking that Valmet under a penalty ceases to utilize the patent allegedly infringing Andritz's patent and the Court to impose royalty and damages on Valmet AB. Valmet has denied the claims in its writ of response submitted to the Stockholm District Court. In June Andritz revised its claim, which subsequently changed their overall claim from EUR 52 million to EUR 54 million and interest for the alleged infringement. Consequently, Valmet filed a second response to the Stockholm District Court in September.

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.

Shares and shareholders

Share capital and number of shares

At the end of December 2015, Valmet Corporation's share capital totaled to EUR 100,000,000 and the number of shares was 149,864,619. At the end of December, Valmet held 399 treasury shares and the number of outstanding shares was 149,864,220.

Largest shareholders

The following table summarizes the largest shareholders on December 31, 2015.

	Largest shareholders (Euroclear)	Holdings	% of holdings
1	Solidium Oy[1]	16,695,287	11.14
2	Varma Mutual Pension Insurance Company	4,208,465	2.81
3	Ilmarinen Mutual Pension Insurance Company	2,980,055	1.99
4	The State Pension Fund	1,520,000	1.01
5	Keva	1,502,166	1.00
6	Nordea Fennia Fund	1,331,310	0.89
7	Mandatum Life Insurance Company Limited	1,217,307	0.81
8	Odin Finland	974,240	0.65
9	Nordea Nordenfonden	811,896	0.54
10	Danske Invest Finnish Institutional Equity Fund	700,000	0.47
11	Nordea Pro Finland Fund	700,000	0.47
12	OP-Finland Value Fund	620,756	0.41
13	Sigrid Jusélius Foundation	610,865	0.41
14	Evli Finnish Small Cap Fund	610,253	0.41
15	Kaleva Mutual Insurance Company	599,659	0.40

[1] Solidium Oy (wholly owned by the Finnish state)

In addition to the shareholders presented in the table, the shareholder exceeding five percent ownership in Valmet on December 31, 2015 was Cevian Capital Partners Ltd. (ownership of 6.89 percent as announced on February 13, 2015). All flagging notifications received and announced during 2015 are presented in the section of flagging notifications.

Holdings of the Board of Directors in Valmet Corporation on December 31, 2015

		Holdings	Holdings of interest parties
Risberg, Bo	Chairman of the Board	3,922	0
Von Frenckell, Mikael	Vice Chairman of the Board	107,989	0
Helfer, Friederike	Member of the Board	4,187	0
Pehu-Lehtonen, Erkki Yrjö Juhani	Member of the Board	7,366	0
Schrøder, Lone Fønss	Member of the Board	5,235	0
Ziviani, Rogério	Member of the Board	4,187	0
Total		**132,886**	**0**
% of outstanding shares		**0.09%**	**0.00%**

Holdings of the Executive Team in Valmet Corporation on December 31, 2015

		Holdings	Holdings of interest parties
Laine, Pasi Kalevi	President and CEO	49,021	0
Saarinen, Kari Juhani	CFO	6,325	0
Bohn, William Leslie	Area President, North America	6,652	0
Karlstedt, Bertel Evald	Business Line President, Pulp and Energy	5,700	0
Macharey, Julia Irene	SVP, Human Resources	3,455	0
Niemi, Aki Petri	Area President, China	8,000	0
Pietilä, Hannu T.	Area President, Asia-Pacific	8,432	0
Ruotsalainen, Jussi Sakari	Business Line President, Automation	8,090	0
Salonsaari-Posti, Anu Maarit	SVP, Marketing and Communications	1,500	100
Simola, Vesa Tuomas	Area President, EMEA	5,817	0
Tacla, Celso Luiz	Area President, South America	21,175	0
Tiitinen, Jukka Heikki	Business Line President, Services	23,770	100
Vähäpesola, Jari	Business Line President, Paper	12,391	0
Total		**160,328**	**200**
% of outstanding shares		**0.11%**	**0.00%**

Distribution of holdings by group on December 31, 2015

	Number of shareholders	Number of shares	% of share capital
Nominee registered and non-Finnish holders	298	76,891,116	51.3
Finnish institutions, companies and foundations	2,629	34,619,876	23.1
Solidium Oy[1]		16,695,287	11.1
Finnish private investors	45,025	21,658,340	14.5
Total	**47,952**	**149,864,619**	**100.0**

[1] Solidium Oy (wholly owned by the Finnish state)

The ownership structure is based on the classification of sectors determined by Statistics Finland. The classification determines mandatory insurance companies, such as pension funds into the general government sector. Other insurance companies are classified under financial and insurance corporations.

Distribution of holdings by number of shares held on December 31, 2015

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1–100	19,950	41.6	1,034,868	0.7
101–1,000	23,167	48.3	8,565,969	5.7
1,001–10,000	4,434	9.2	11,354,016	7.6
10,001–100,000	333	0.7	8,727,228	5.8
100,001–	68	0.1	120,173,618	80.2
Total	**47,952**	**100.0**	**149,855,699**	**100.0**
Nominee registered	**12**	**0.0**	**74,114,704**	**49.5**
Treasury shares held by the parent company	**1**	**0.0**	**399**	**0.0**
On shared account	**0**	**0.0**	**8,920**	**0.0**

Treasury shares and Board authorizations

Valmet Corporation's Annual General Meeting on March 27, 2015 authorized Valmet's Board of Directors to resolve on repurchasing Company shares in one or more 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 shares may be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase). Company shares may be repurchased using the unrestricted equity of the Company at a price formed on a regulated market on the main list of the Nasdaq Helsinki Ltd. on the date of the repurchase.

Company 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 own shares.

Valmet Corporation's Annual General Meeting authorized Valmet's Board of Directors to resolve 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 more tranches. The issuance of shares may be carried out by issuing new shares as well as transferring treasury shares of Valmet Corporation. Based on the authorization, the Board of Directors may resolve to issue shares in derogation from the shareholder's pre-emptive right and to issue special rights within the conditions of Finnish laws.

The maximum number of new shares which may be issued 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 authorised 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 authorised 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 a 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 resolves on all other terms related to 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. The authorisation may be exercised by The Board of Directors 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 an incentive scheme.

The authorizations shall remain in force until the next Annual General Meeting, and they cancel the Annual General Meeting's authorizations of March 26, 2014.

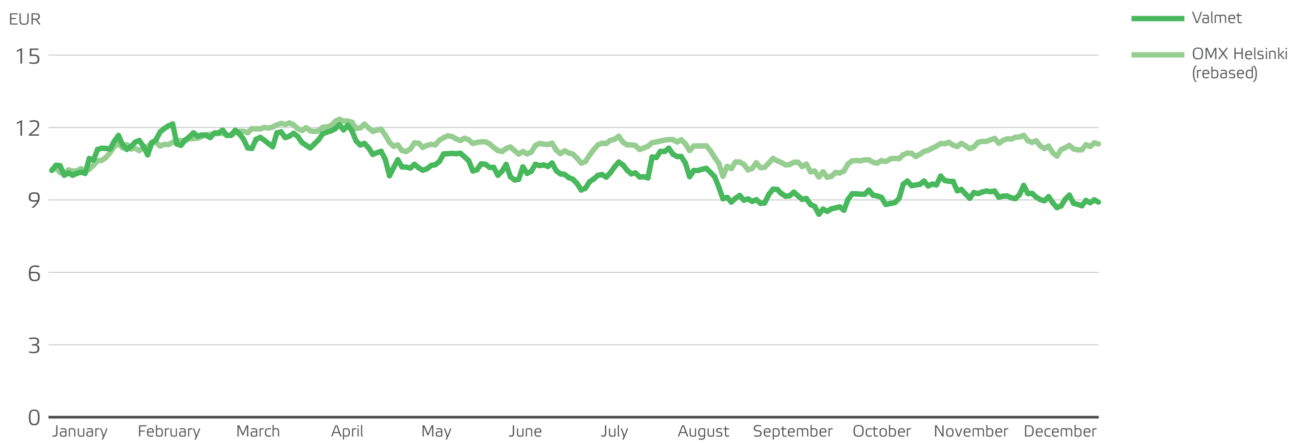
Trading in shares

The closing price of Valmet's share on the final day of trading for the reporting period, December 30, 2015, was EUR 8.90. The closing share price on the last day of trading in 2014 (December 30, 2014) was EUR 10.22. The share price decreased by some 13 percent during the reporting period. The highest price for the share during the reporting period was EUR 12.47, the lowest was EUR 8.36 and the volume-weighted average price was EUR 10.39. The number of shares traded on Nasdaq Helsinki Ltd during January–December was approximately 102 million. The value of trading was approximately EUR 1.1 billion. (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 22 million of Valmet's shares were traded on alternative marketplaces in January–December, which equals to approximately 18 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 1,334 million at the end of the reporting period.

Development of Valmet's share price, December 31, 2014–December 31, 2015



Number of shareholders

The number of registered shareholders at the end of December 2015 was 47,952 (49,294 on December 31, 2014). Shares owned by nominee-registered parties and by non-Finnish parties equaled to 51.3 percent of the total number of shares at the end of December 2015 (54.7% on December 31, 2014).

Share capital and share data[1]

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

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

Flagging notifications

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

Stock exchange release on June 11, 2015

Valmet Corporation received a notification referred to in the Securities Market Act from Franklin Templeton Institutional, LLC, 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 June 9, 2015, the holding of Franklin Templeton Institutional, LLC decreased to 7,196,324 shares (previously 7,517,629 shares), representing an ownership of 4.80 percent (previously 5.02 percent) of Valmet Corporation's total number of shares and share of votes.

Stock exchange release on February 13, 2015

Valmet Corporation received a notification referred to in the 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 10 percent (1/10). As a result of share transactions on February 12, 2015, the holding of Cevian Capital Partners Ltd. decreased to 10,323,191 shares (previously 20,813,714 shares), representing an ownership of 6.89 percent (previously 13.89 percent) 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 473,617.

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.

For the 2012 performance period a gross number of 321,438 shares were earned by 31 participants. The earning criteria of the performance period 2012 were based on net sales growth of the Services business, return on capital employed (ROCE) before taxes and earnings per share (EPS). The reward 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 will be paid for the 2013 performance period.

For the 2014 performance period, the plan was targeted at 40 persons in Valmet's management. From the performance period 2014, a gross number of 268,003 shares were earned. The earning criteria of the performance period 2014 were based on growth in Valmet's EBITA % and growth in Services orders received. The reward will be paid partly as company shares and partly in cash. The cash portion is dedicated to cover taxes and tax-related payments. The expense of the plan is recognized over the vesting period i.e. from the beginning of 2014 until the end of February 2017.

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

The potential reward of the plan from the discretionary period 2015 is based on EBITA % and Services orders received growth %. The potential reward of the plan from the discretionary period 2015 will be paid partly as company shares and partly in cash in 2016. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key employee. The rewards to be paid on the basis of the discretionary period 2015 are in total a maximum of 693,079 shares in Valmet Corporation.

As part of the plan, members of Valmet's Executive Team shall have a possibility to receive a matching share reward for the discretionary period 2015 provided that he or she owns or acquires Valmet shares up to a number determined by the Board of Directors by December 31, 2015.

The Board of Directors of Valmet Corporation decided in December 2015 to continue the share-based incentive program for Valmet's key employees approved in December 2014. The potential reward of the program from the discretionary period 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. The rewards to be paid on the basis of the discretionary period 2016 are in total an approximate maximum of 850,000 shares in Valmet.

As part of the share-based incentive program members of the Valmet Executive Team shall have a possibility to receive a matching share reward for the discretionary period 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 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 27, 2015. The Annual General Meeting adopted the Financial Statements for 2014 and discharged the members of the Board of Directors and the President and CEO from liability for the 2014 financial year. The Annual General Meeting approved the Board of Directors' proposals, which concerned authorizing the Board to resolve 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 a new member of the Board. Bo Risberg was appointed as Chairman of Valmet Corporation's Board and Mikael von Frenckell as Vice Chairman. Lone Fønss Schrøder, Friederike Helfer, Pekka Lundmark, Erkki Pehu-Lehtonen 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 Pricewaterhouse-Coopers 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 27, 2015, 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 27, 2015, Valmet Corporation paid out dividends of EUR 37 million for 2014, corresponding to EUR 0.25 per share, on April 10, 2015.

Changes in the Board composition

On April 7, 2015, Pekka Lundmark announced his resignation from the Board of Directors of the company. The reason for the resignation is his appointment as the President and CEO of Fortum Corporation as of September 2015. Valmet announced the resignation as a stock exchange release on April 8, 2015.

The Board of Directors elected Erkki Pehu-Lehtonen to replace Pekka Lundmark in Valmet's Remuneration and HR Committee. Valmet announced the election as a stock exchange release on April 20, 2015.

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 a key 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.

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 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 drawing on past experiences. Project risks are managed by improving and continuously developing project management processes and the related tools.

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 3.4 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.

At the end of December 2015, Valmet had EUR 624 million (EUR 446 million) of goodwill on its statement of financial position. Valmet assesses the value of its goodwill for impairment annually or more frequently if facts and circumstances indicate that a risk of impairment exists. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Annual Report.

Events after the reporting period

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

Guidance for 2016

Valmet estimates that net sales in 2016 will remain at the same level with 2015 (EUR 2,928 million) and EBITA before non-recurring items in 2016 will increase in comparison with 2015 (EUR 182 million).

Short-term outlook

General economic outlook

Global growth, currently estimated at 3.1 percent in 2015, is projected at 3.4 percent in 2016 and 3.6 percent in 2017. The pickup in global activity is projected to be more gradual than in the October 2015 World Economic Outlook (WEO), especially in emerging market and developing economies. In advanced economies, a modest and uneven recovery is expected to continue, with a gradual further narrowing of output gaps. The picture for emerging market and developing economies is diverse but in many cases challenging. The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016–17. (International Monetary Fund, January 19, 2016)

Short-term market outlook

Valmet estimates that the short-term market outlook has improved for Board and Paper to good level (previously satisfactory level) and for Energy to satisfactory level (previously weak level). Valmet also estimates that the short-term market outlook for Pulp has decreased to satisfactory level (previously good level).

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

Board of Director's proposal for the distribution of profit

Valmet Corporation's distributable funds totaled to EUR 882,995,368.40 on December 31, 2015, of which the net profit for 2015 was EUR 21,593,211.93 (according to Finnish Generally Accepted Accounting Standards).

The Board of Directors proposes that a dividend of EUR 0.35 per share be paid based on the statement of financial position to be adopted for the financial year which ended December 31, 2015, 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 24, 2016 are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend will be paid on April 6, 2016. 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.

Espoo, February 9, 2016
Valmet Corporation's Board of Directors

Consolidated Statement of Income

EUR million	Note	Year ended Dec 31, 2015	2014
Net sales	2, 15	**2,928**	2,473
Cost of goods sold	6, 7	**-2,291**	-2,004
Gross profit		**637**	469
Selling, general and administrative expenses	4, 6, 7	**-501**	-401
Other operating income	5	**29**	27
Other operating expenses	5	**-47**	-23
Share in profits and losses of associated companies, operative investments	12	**2**	-
Operating profit		**120**	72
Financial income	8, 27	**6**	9
Financial expenses	8, 27	**-16**	-15
Share in profits and losses of associated companies, financial investments	12	**-2**	-
Profit before taxes		**108**	67
Current tax expense		**-29**	-19
Deferred taxes		**-1**	-2
Income taxes, total	9	**-30**	-21
Profit/loss		**78**	46
Attributable to:			
Owners of the parent company		**77**	46
Non-controlling interests		**-**	-
Profit/loss		**78**	46
Earnings per share attributable to owners of the parent:			
Earnings per share, EUR		**0.51**	0.31
Diluted earnings per share, EUR		**0.51**	0.31

Consolidated Statement of Comprehensive Income

		Year ended Dec 31,	
EUR million	**Note**	**2015**	**2014**
Profit/loss		**78**	46
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges	17, 19, 27	**-2**	-11
Currency translation on subsidiary net investments	19	**10**	7
Income tax relating to items that may be reclassified	9	**-**	3
		8	-1
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans	24	**8**	-40
Income tax relating to items that will not be reclassified	9	**-1**	13
		7	-27
Other comprehensive income/expense		**15**	-28
Total comprehensive income/expense		**93**	18
Attributable to:			
Owners of the parent company		**92**	18
Non-controlling interests		**1**	-
Total comprehensive income/expense		**93**	18

Consolidated Statement of Financial Position

Assets

		As at Dec 31,	
EUR million	**Note**	**2015**	**2014**
Non-current assets			
Intangible assets			
Goodwill		**624**	446
Other intangible assets		**235**	91
Total intangible assets	11	**859**	537
Property, plant and equipment			
Land and water areas		**26**	22
Buildings and structures		**138**	132
Machinery and equipment		**196**	202
Assets under construction		**25**	25
Total property, plant and equipment	11	**385**	381
Financial and other non-current assets			
Investments in associated companies	12	**12**	5
Available-for-sale financial assets	13, 17	**3**	9
Loans and other receivables	16, 17	**20**	7
Derivative financial instruments	17, 27	**2**	-
Deferred tax asset	9	**85**	86
Other non-current assets	16	**13**	14
Total financial and other non-current assets		**134**	121
Total non-current assets		**1,378**	1,040
Current assets			
Inventories	14	**508**	474
Receivables			
Trade and other receivables	16, 17	**575**	445
Amounts due from customers under construction contracts	15	**216**	192
Loans and other receivables	16, 17	**1**	-
Available-for-sale financial assets	13, 17	**7**	28
Derivative financial instruments	17, 27	**13**	20
Income tax receivables		**31**	22
Total receivables		**842**	706
Cash and cash equivalents	17, 18	**165**	192
Total current assets		**1,516**	1,372
Total assets		**2,894**	2,412

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	Note	As at Dec 31, 2015	2014
Equity			
Share capital		**100**	100
Reserve for invested unrestricted equity		**404**	403
Cumulative translation adjustments		**18**	9
Fair value and other reserves		**-4**	-3
Treasury shares		**-7**	-
Retained earnings		**344**	296
Equity attributable to owners of the parent company	19	**855**	804
Non-controlling interests		**6**	5
Total equity		**860**	809
Liabilities			
Non-current liabilities			
Non-current debt	17, 21	**309**	16
Post-employment benefits	24	**149**	144
Provisions	22	**10**	10
Derivative financial instruments	17, 27	**3**	3
Deferred tax liability	9	**70**	22
Other non-current liabilities		**-**	1
Total non-current liabilities		**542**	195
Current liabilities			
Current portion of non-current debt	17, 21	**62**	51
Trade and other payables	17, 23	**767**	740
Provisions	22	**98**	98
Advances received		**248**	146
Amounts due to customers under construction contracts	15	**276**	327
Derivative financial instruments	17, 27	**13**	30
Income tax liabilities		**27**	16
Total current liabilities		**1,491**	1,408
Total liabilities		**2,033**	1,603
Total equity and liabilities		**2,894**	2,412

Consolidated Statement of Cash Flows

EUR million	Note	Year ended Dec 31, 2015	2014
Cash flows from operating activities			
Profit/loss		**78**	46
Adjustments			
Depreciation and amortization	7, 11	**92**	72
Gain (-) / loss (+) on sale of fixed assets	5	**-1**	-
Gain (-) / loss (+) on sale of subsidiaries and associated companies	5	**-**	2
Dividend income and net interests	8	**6**	2
Income taxes	9	**30**	21
Other non-cash items		**23**	16
Change in net working capital, net of effect from business acquisitions and disposals			
Inventories		**14**	-40
Trade and other receivables		**-59**	-10
Amounts due to / from customers under construction contracts, net		**-32**	116
Trade and other payables		**-44**	38
Interest paid		**-7**	-8
Interest received		**3**	5
Dividends received		**-**	1
Income taxes paid		**-25**	-24
Net cash provided by (+) / used in (-) operating activities		**78**	236
Cash flows from investing activities			
Capital expenditures on fixed assets	11	**-44**	-46
Proceeds from sale of fixed assets		**3**	4
Business acquisitions, net of cash acquired	11	**-323**	-
Net cash provided by (+) / used in (-) investing activities		**-365**	-42
Cash flows from financing activities			
Purchase of treasury shares		**-7**	-
Dividends paid		**-37**	-22
Net borrowings (+) / payments (-) on current debt		**-**	-8
Proceeds from issuance of non-current debt		**355**	-
Principal payments of non-current debt		**-61**	-134
Investments in available-for-sale financial assets		**-**	-62
Proceeds from available-for-sale financial assets		**24**	29
Other		**-13**	-7
Net cash provided by (+) / used in (-) financing activities		**259**	-204
Net increase (+) / decrease (-) in cash and cash equivalents		**-28**	-10
Effect of changes in exchange rates on cash and cash equivalents		**1**	-9
Cash and cash equivalents at beginning of year	17, 18	**192**	211
Cash and cash equivalents at end of year		**165**	192

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Hedge reserve	Fair value reserve	Legal reserve	**Fair value and other reserves**	Treasury shares	Retained earnings	**Equity attributable to owners of the parent company**	Non-controlling interests	**Total equity**
Balance at Jan 1, 2014	100	402	2	1	-	4	5	-	299	808	5	813
Profit/loss	-	-	-	-	-	-	-	-	46	46	-	46
Other comprehensive income/expense												
Cash flow hedges												
Fair value gains/losses, net of tax	-	-	-	-3	-	-	-3	-	-	-3	-	-3
Transferred to Other operating income/expenses in profit and loss, net of tax	-	-	-	-5	-	-	-5	-	-	-5	-	-5
Currency translation on subsidiary net investments	-	-	7	-	-	-	-	-	-	7	-	7
Remeasurement of defined benefit plans, net of tax	-	-	-	-	-	-	-	-	-27	-27	-	-27
Other comprehensive income/expense total	-	-	7	-8	-	-	-8	-	-27	-28	-	-28
Total comprehensive income/expense	-	-	7	-8	-	-	-8	-	19	18	-	18
Dividends	-	-	-	-	-	-	-	-	-22	-22	-	-23
Other	-	-	-	-	-	-	-	-	-1	-1	-	-1
Share-based payments, net of tax	-	-	-	-	-	-	-	-	2	2	-	2
Balance at Dec 31, 2014	100	403	9	-7	-	3	-3	-	296	804	5	809
Balance at Jan 1, 2015	**100**	**403**	**9**	**-7**	**-**	**3**	**-3**	**-**	**296**	**804**	**5**	**809**
Profit/loss	-	-	-	-	-	-	**-**	-	77	**77**	-	**78**
Other comprehensive income/expense												
Cash flow hedges												
Fair value gains/losses, net of tax	-	-	-	3	-	-	**3**	-	-	**3**	-	**3**
Transferred to Other operating income/expenses in profit and loss, net of tax	-	-	-	-5	-	-	**-5**	-	-	**-5**	-	**-5**
Currency translation on subsidiary net investments	-	-	10	-	-	-	**-**	-	-2	**8**	-	**8**
Remeasurement of defined benefit plans, net of tax	-	-	-	-	-	-	**-**	-	9	**9**	-	**9**
Other comprehensive income/expense total	-	-	10	-2	-	-	**-2**	-	7	**15**	-	**15**
Total comprehensive income/expense	-	-	10	-2	-	-	**-2**	-	84	**92**	1	**93**
Dividends	-	-	-	-	-	-	**-**	-	-37	**-37**	-	**-37**
Purchase of treasury shares	-	-	-	-	-	-	**-**	-7	-	**-7**	-	**-7**
Share-based payments, net of tax	-	2	-	-	-	-	**-**	-	2	**3**	-	**3**
Balance at Dec 31, 2015	**100**	**404**	**18**	**-8**	**-**	**4**	**-4**	**-7**	**344**	**855**	**6**	**860**

Notes to the Consolidated Financial Statements

1 Background, basis of preparation and accounting principles

General information

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

Valmet 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 as of January 2, 2014. The copies of the consolidated financial statements are available at www.valmet.com or the parent company's head office, Keilasatama 5, 02150 Espoo, Finland.

The consolidated financial statements were authorized for issue by Valmet's Board of Directors on February 9, 2016 after which, in accordance with Finnish Company Law, the financial statements are either approved, amended or rejected in the Annual General Meeting.

The consolidated financial statements have been prepared in accordance with the basis of preparation and accounting principles set out below.

Basis of preparation

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

Accounting principles

Consolidation

Subsidiaries

Subsidiaries are all entities over which Valmet Group has control. Control over an entity exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When the Group has less than a majority of the voting or similar rights of an entity, the Group considers all relevant facts and circumstances in assessing whether it has control over an entity, including the contractual arrangement with the other vote holders of the entity, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Valmet applies the acquisition method of accounting to account for business combinations. The total consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities assumed and the equity interests issued by Valmet Group. The total consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

Associated companies

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

Valmet's share of post-acquisition profit or loss is recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The share of results of associated companies is presented in the statement of income either included in operating profit or adjacent to financial income and expenses below operating profit depending on the nature of the investment. When the Group's share of losses in an associate exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in each associate.

Joint ventures

Joint ventures are companies in which Valmet exercises joint control with other parties. The Group's investments in joint ventures are accounted for using the equity method. Investments in joint ventures are initially recognized at cost and adjusted thereafter to recognize Valmet's share of post-acquisition changes in net assets. The Group's share of joint ventures' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Unrealized gains on transactions between the Group and joint ventures are eliminated to the extent of the Group's interest in the joint ventures.

Transactions with non-controlling interests

Valmet accounts transactions with non-controlling interests that do not result in loss of control as equity transactions. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. If interest in a Group company is reduced but control is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is recorded against the non-controlling interest.

Disposal of subsidiaries

When Valmet ceases to have control, any remaining interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognized through profit and loss. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if realized and thus they are recognized in the income statement.

Foreign currency translation

Items included in the consolidated financial statements of each of Valmet entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in euros, which is the Group's presentation currency.

Foreign currency transactions

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

Translation of the financial statements of foreign Group companies

The statements of income of foreign Group companies are translated into euros using the average exchange rate for the reporting period. The statements of financial position are translated at the closing rate of the reporting date. Translating the net income for the period using different exchange rates in the statements of income and in the statement of financial position, results in a translation difference, which is recognized in Other comprehensive income.

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

Derivative financial instruments

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

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

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

Cash flow hedge

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

The realized gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the statement of income within financial items concurrently with the recognition of the underlying interest expense. The gain or loss relating to the ineffective portion of interest rate swaps is reported under financial items. The fair value of the interest rate swaps contract is calculated as the present value of the estimated future cash flows arising from the contract.

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

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

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

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

Derivatives at fair value through profit and loss

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

Employee benefits

Pensions and coverage of pension liabilities

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

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

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

Share-based payments

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

Market conditions, such as the total shareholder return upon which vesting is conditioned, is taken into account when estimating the fair value of the equity instruments granted. The expense relating to the market condition is recognized irrespective of whether that market condition is satisfied.

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

Revenue recognition

Valmet supplies process automation, machinery, equipment and services for the pulp, paper and energy industries.

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

Percentage-of-completion method

Sales and anticipated profits under engineering and construction contracts are recorded on a percentage-of-completion basis. The stage of completion is determined either by units of delivery, which are based on predetermined milestones and on the realized value added (contract value of the work performed to date) or through the cost-to-cost method of accounting. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract. Subcontractor materials, labor and equipment, are included in sales and costs of goods sold when management believes that Valmet is responsible for the ultimate acceptability of the project. Changes to total estimated contract profits (revenue and costs), if any, are recognized in the period in which they are determined.

Service revenue

Service revenue comprises short-term and long-term maintenance contracts and rebuilding and modification contracts. Revenues from short-term service contracts are recognized once the service has been rendered. Revenues from long-term service contracts are recognized using the cost-to-cost method.

Government grants

Government grants relating to acquisition of property, plant and equipment are deducted from the acquisition cost of the asset and they reduce the depreciation charge of the related asset. Other government grants are deferred and recognized in profit and loss concurrently with the costs they compensate.

Other operating income and expenses

Other operating income and expenses comprise income and expenses, which do not directly relate to the operating activity of businesses within Valmet. Such items include costs related to significant restructuring programs, impairment charges, and gains and losses on disposal of fixed assets. Additionally, the interest component of the fair value of derivative financial instruments and unrealized and realized changes in fair value of derivative financial instruments associated with the operating activity, excluding those qualifying for hedge accounting, are recognized in 'Other operating income and expenses'.

Income taxes

Tax expenses in the statement of income comprise current and deferred taxes. Taxes are recognized in the statement of income except when they are associated with items recognized in other comprehensive income or directly in shareholders' equity. Current taxes are calculated on the taxable income on the basis of the tax rate stipulated for each country by the balance sheet date. Additionally, non-recoverable foreign taxes, which are not based on taxable profits, are reported in current taxes. These include for example foreign taxes and/or equivalent payments not based on Double Tax Treaties in force. Taxes are adjusted for the taxes of previous financial periods, if applicable. The management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The tax provisions recognized in such situations are based on evaluations by the management.

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

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

Fixed assets

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

Intangible assets

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

Amortization of intangible assets

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

Patents and licenses	5–10 years
Computer software	3–5 years
Technology	3–15 years
Customer relationships	3–15 years
Other intangibles (incl. order backlog)	< 1–15 years

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

The carrying value of intangible assets subject to amortization is reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A previously recognized impairment loss may be reversed if there is significant improvement in the circumstances having initially caused the impairment, however not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

Impairment of intangible assets with indefinite useful lives

The carrying value of goodwill is reviewed for impairment annually or more frequently, if the facts and circumstances, such as decline in sales, operating profit or cash flows or material adverse changes in the business environment, suggest that carrying value may not be recoverable. Valmet has three cash generating units. The testing of goodwill is performed at the cash generating unit level as goodwill does not generate independent cash flows from the cash generating unit. The annual testing may be performed using the previous year's recoverable amounts of the cash generating unit, if there has not been any significant changes to the assets and liabilities of the cash generating unit, if in the previous testing the recoverable value clearly exceeded the carrying values tested, and if the likelihood that the current recoverable value would be less than the current carrying value of the cash generating unit is remote. Valmet uses a discounted cash flow analysis to assess the fair value of goodwill subject to testing. A previously recognized impairment loss on goodwill is not reversed even if there is significant improvement in circumstances having initially caused the impairment.

Research and development costs

Research and development costs are mainly expensed as incurred. Research and development costs comprise salaries, services from external suppliers, administration costs, depreciation and amortization of tangible and intangible fixed assets. Development costs meeting certain capitalization criteria under IAS 38 are capitalized and amortized during the expected economic life of the underlying asset.

Property, plant and equipment

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

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

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

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

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

Valmet reviews property, plant and equipment to be held and used by the entities for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of property, plant and equipment and capital gains and losses on their disposal are included in 'Other operating income and expenses'. Previously recognized impairment on property, plant and equipment is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, however not to exceed the carrying value, which would have been recorded had there been no impairment in prior years.

Leases

Leases for property, plant and equipment, where Valmet has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term and short-term debt, respectively, and the interest element is charged to profit and loss over the lease period. Property, plant and equipment classified as finance leases are depreciated over the useful life of the asset or over the lease period, if shorter.

Leases of property, plant and equipment, where the lessor retains a significant portion of the risks and rewards of ownership, are classified as operating leases. Payments under operating leases are expensed as incurred.

Financial assets and liabilities

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

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

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

Assets and liabilities at fair value through profit and loss

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

Available-for-sale equity and debt investments

Available-for-sale financial assets comprise available-for-sale equity and debt investments. Available-for-sale equity and debt investments are carried at fair value and unrealized gains and losses arising from changes in fair value are recognized through OCI in the fair value reserve of equity. Gains and losses on disposal and impairment, if any, are recorded in the profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI.

On each balance sheet date, Valmet assesses whether there is objective evidence on an available-for-sale financial asset being impaired. In case of a significant or prolonged decline in the fair value of such an asset compared to its acquisition value, the accumulated net loss is reversed from equity and recognized in the income statement. If the amount of the impairment loss decreases in subsequent periods for debt instruments and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Consolidated statement of income.

Loans and receivables

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

Loans and loan receivables are initially recognized at fair value including transaction costs. Subsequently they are recognized at amortized cost using the effective interest rate method. They are subject to regular and systematic review as to collectability. If a loan receivable is estimated to be partly or totally unrecoverable, an impairment loss is recognized for the shortfall between the carrying value and the present value of the expected cash flows. Interest income on loan and other interest bearing receivables is included under 'Financial income and expenses'.

Inventories

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

The work in progress balance includes specific costs identified for larger projects ongoing as of the balance sheet date. These costs usually include direct inventory costs and costs for absorption of engineering, supplies, manufacturing and project management costs.

Trade receivables

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investment with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Borrowings

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

Provisions

Provisions, for which settlement is expected to occur more than one year after the initial recognition, are discounted to their present value and adjusted on subsequent reporting dates for the time effect.

Restructuring and capacity adjustment costs

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

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

Environmental remediation costs

Valmet accrues for costs associated with environmental remediation obligations when such obligations and related cash outflows to settle the obligation are probable and they can be estimated reliably. Provisions for estimated costs from environmental remediation obligations are generally recognized no later than upon the completion of the remedial feasibility study. Such provisions are adjusted as further information impacting the amount of estimated costs or other circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed virtually certain.

Warranty costs

A warranty accrual is recognized for the estimated warranty costs for each project. The main principle in measuring the warranty cost accrual is to book a certain percentage, based on past experience, of a project's total costs as an accrual. The actual warranty costs of each project are booked against the warranty provision and thus the remaining warranty provision of each project can be followed. Actual warranty costs for projects are followed regularly in order to assess the feasible amount of the warranty accrual.

Segment reporting

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

The performance of the Group is reviewed by the CODM. One key indicator of performance is EBITA (Earnings Before Interest, Taxes and Amortization). The performance is also analyzed by excluding from EBITA items qualifying as non-recurring, such as capacity adjustment costs, impairments, gains and losses on business disposals, and other infrequent events, as these items reduce the comparability of the Group's performance from one period to another.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and exercise judgement in the application of the accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Trade receivables

Valmet's policy is to calculate an impairment loss based on the best estimate of the amounts that are potentially uncollectable at the balance sheet date. The estimates are based on a systematic ongoing review and evaluation performed as part of the credit risk evaluation process. As part of this evaluation, Valmet takes into account the history of collections, the size and compositions of the receivable balances, current economic events and conditions.

Inventory

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

Revenue recognition

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

Hedging of foreign currency denominated firm commitments

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

Allocation of purchase price to acquired assets

In business combinations, the purchase consideration is allocated to the assets acquired and liabilities assumed with the excess being recognized as goodwill in the balance sheet. Whenever feasible, Valmet has used as a basis for such allocations readily available market values to determine the fair value to be recognized. However, when this has not been possible, as often is the case with intangible assets and certain assets with no active markets or available price quotations, the valuation has been based on past performance of such asset and expected future cash generating capacity. The appraisals, which have been based on current replacement costs, discounted cash flows and estimated selling prices depending on the underlying asset, require management to make estimates and assumptions of the future performance and use of these assets and their impact on the financial position. Any change in Valmet's future business priorities and orientations may affect the planned outcome of initial appraisals.

Impairment testing

The carrying value of identifiable intangible assets with indefinite economic life such as goodwill is tested annually or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. The carrying values of property, plant and equipment and intangible assets, subject to depreciation and amortization are reviewed for impairment whenever there are indications that their carrying values could exceed their value in use or disposal value if disposal is considered as a possible option. In 2015 Valmet recognized an impairment of EUR 6 million on fixed assets, the corresponding amount for 2014 being EUR 3 million. The annual impairment tests performed in 2015 and 2014 did not result in goodwill impairments.

Triggering events for impairment reviews include the following:

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

Preparation of impairment analysis requires use of numerous estimates. The valuation is inherently judgmental and highly susceptible to change from period to period, because it requires management to make assumptions about future supply and demand related to its individual business units, future sales prices and achievable cost savings. The value of the benefits and savings expected from the efficiency improvement programs are inherently subjective. The fair value of the cash generating unit is determined using a weighted average cost of capital as the rate to discount estimated future cash flows. This rate may not be indicative of actual rates obtained in the market.

Reserves for restructuring costs

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

Reserves for warranty and guarantee costs

The warranty and guarantee reserve is based on the history of past warranty costs and claims on machines and equipment under warranty. The typical warranty period is 12 months from the date of customer acceptance of the delivered equipment. For larger projects, the average warranty period is two years. For sales involving new technology and long-term delivery contracts, additional warranty reserves may be established on a case by case basis to take into account the potentially increased risk.

Pensions

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

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

The actuarial experience that differs from the assumptions and changes in the assumptions results in actuarial gains and losses, which are recognized in OCI.

Financial instruments

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

New and amended standards adopted by the Group

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

New standards and interpretations not yet adopted

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

- IFRS 15, Revenue from contracts with customers, issued in May 2014, is a converged standard on revenue recognition. It replaces IAS 11, Construction contracts, IAS 18, Revenue, and related interpretations.

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

  Step 1: Identify the contract(s) with a customer
  Step 2: Identify the performance obligations in the contract
  Step 3: Determine the transaction price
  Step 4: Allocate the transaction price to the performance obligations in the contract
  Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018. The standard has not yet been endorsed by the EU. Management is currently in process of assessing the impact of IFRS 15 on its consolidated financial statements.

- The complete version of IFRS 9, issued in July 2014, replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is also a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

  For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

  IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. The standard has not yet been endorsed by the EU. Valmet has not yet assessed the impact of IFRS 9 on its consolidated financial statements.

- IFRS 16, Leases, was issued in January 2016 and it will replace the current guidance in IAS 17. The standard introduces a single lessee accounting model and requires a lessee to recognise right of use assets and liabilities for all leases except for leases with a term of less than 12 months and small value assets. The standard applies to annual periods beginning on or after January 1, 2019. The standard has not yet been endorsed by the EU. The Group has not yet assessed the impact of IFRS 16 on its consolidated financial statements.

2 Reporting segment and geographic information

Valmet's operations and profitability is reported as a single reportable segment and operative decisions have been made by Valmet's CEO as Valmet's Chief Operating Decision Maker at Valmet Group level. Following the acquisition of the Automation Business from Metso on April 1, 2015, Automation was established as a separate business line within Valmet. Valmet has not prior to or after the acquisition of Automation aggregated operating segments. Accordingly Valmet Group is the reportable operating segment.

The performance of the Group is reviewed by the Chief Operating Decision Maker. One key indicator of performance is EBITA (Earnings Before Interest, Taxes and Amortization). The performance is also analyzed by excluding from EBITA items qualifying as non-recurring, such as capacity adjustment costs, gains and losses on business disposals, and other infrequent events, as these reduce the comparability of the Group's performance from one period to another.

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% of net sales in 2015 and 59% in 2014.

Net sales to unaffiliated customers by destination:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
2015	**615**	**335**	**1,304**	**303**	**372**	**2,928**
2014	449	325	1,053	268	378	2,473

Valmet's exports, including sales to unaffiliated customers and intra-group sales from Finland, by destination:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
2015	**155**	**133**	**469**	**135**	**219**	**1,111**
2014	75	111	409	112	221	928

Non-current assets by location:

EUR million	Finland	North America	South America	EMEA excluding Finland	China	Asia-Pacific	Non-allocated	Total
2015	**204**	**105**	**17**	**81**	**103**	**10**	**735**	**1,256**
2014	193	69	23	70	105	7	456	923

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

Gross capital expenditure (excluding business combinations) by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
2015	**4**	**2**	**28**	**6**	**5**	**44**
2014	4	2	31	8	1	46

Major customers

Valmet delivers large long-term construction contracts, which however rarely exceed 10 percent of its net revenue. In 2015 and 2014 there were no single customer with revenue exceeding 10 percent of net sales.

3 Financial risk management

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

Sensitivity analysis

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

Liquidity and refinancing risk management

Liquidity or refinancing risk arises when a company is not able to arrange funding at terms and conditions corresponding to its creditworthiness. Cautious maturity distribution of debt portfolio and sufficient cash, short-term investments and committed and uncommitted credit facilities are maintained to protect short-term liquidity and to manage refinancing risk. Diversification of funding among different markets and an adequate number of financial institutions are used to safeguard the availability of liquidity at all times. The Treasury monitors bank account structures, cash balances and forecasts of the subsidiaries and manages the utilization of the consolidated cash resources.

At the end of 2015 cash and cash equivalents amounted to EUR 165 million (EUR 192 million) and available-for-sale interest bearing financial assets to EUR 7 million (EUR 34 million). In addition Valmet had a committed revolving credit facility of EUR 200 million which matures in 2018, committed overdraft limits of EUR 14 million and uncommitted domestic commercial paper program of EUR 200 million which were all unused at the end of the reporting period.

Net working capital management is an integral part of the liquidity risk management. The Treasury monitors and forecasts net working capital fluctuations in close co-operation with the subsidiaries. Net working capital increased to EUR -238 million (EUR -353 million) due to the significant impact of the large capital projects' milestone payment schedules on net working capital.

Valmet's refinancing risk is managed by balancing the proportion of current and non-current debt and average maturity of non-current debt including committed undrawn credit facility. The average maturity for non-current debt including committed undrawn credit facility was 3.4 years (3.2 years) and current debt including current portion of non-current debt was 17% (76%) of total debt portfolio. The tables below present undiscounted cash flows on the repayments and interests on Valmet's debt by the remaining maturities from the balance sheet date to the contractual maturity date. The maturities of the derivatives are presented in Note 27.

EUR million	2016	2017	2018	2019	2020 and later
Loans from financial institutions					
Repayments	62	47	47	53	162
Interests	4	4	3	2	5
Trade and other payables	767	-	-	-	-
Total	**832**	**51**	**50**	**56**	**167**

As at December 31, 2015 there were no material liabilities under finance lease obligations and other debt.

Capital structure management

The capital structure management seeks to safeguard the ongoing business operations, to ensure flexible access to capital markets and to secure adequate funding at a competitive rate. Capital structure management in Valmet comprises both equity and total debt. As of December 31, 2015 the total equity was EUR 860 million (EUR 809 million) and the amount of total debt was EUR 371 million (EUR 68 million).

Valmet has not disclosed any long-term financial ratio for its capital structure. However the objective of Valmet is to maintain strong capital structure in order to secure customers, investors, creditors and market confidence. The capital structure is assessed regularly by the Board of Directors and managed operationally by the Treasury. Loan facility agreements include customary covenants and Valmet is in clear compliance with the covenants at the balance sheet date. Valmet has no credit rating at December 31, 2015.

EUR million	As at Dec 31, 2015	2014
Total interest bearing liabilities	**371**	68
Cash and cash equivalents	**165**	192
Available-for-sale interest bearing financial assets	**7**	34
Other interest bearing receivables	**21**	8
Interest bearing net debt	**178**	-166
Total equity	**860**	809
Gearing ratio	**21%**	-21%

Interest rate risk

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

The fixed rate interest proportion of total debt portfolio was 27 % (52%), the duration was 1.5 years (0.5 years) and the EUR denominated debt was 100% (95%) of the entire gross debt at the end of 2015.

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

EUR million	2015	2014
Profit/loss	**-/+ 0.8**	+/- 1.2
Equity	**+/- 2.0**	-

Valmet has used interest rate derivatives to hedge interest rate risk of debt portfolio. All interest rate swaps have been accounted in accordance with the principles of hedge accounting as cash flow hedges. The nominal and fair values of the outstanding interest rate derivative contracts are presented in Note 27.

Foreign exchange risk

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

Transaction exposure

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

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

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

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

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

	As at Dec 31, 2014				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	93	-166	103	-49	19
of which trade and other receivables	-10	-55	51	4	9
of which trade and other payables	-39	27	1	2	9
Financial items	117	-158	63	-22	-
Hedges	-227	322	-157	69	-7
Total exposure	-17	-2	8	-2	12

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

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

	As at Dec 31, 2014				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	+/- 0.1	-/+ 0.7	+/- 0.1	-/+ 0.9	-/+ 1.3

The sensitivity analysis as required by IFRS 7, includes financial instruments, such as trade and other receivables, trade and other payables, interest bearing liabilities, deposits, cash and cash equivalents and derivative financial instruments. The table below presents the effects, net of taxes, of a +/- ten percent change in EUR against all other currencies:

EUR million	**2015**	**2014**
Profit/loss	**+/- 0.3**	+/- 7.4
Equity	**+/- 3.8**	+/- 3.0

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

The nominal and fair values of the outstanding foreign exchange derivative contracts are presented in Note 27.

Translation or equity exposure

Foreign exchange translation exposure arises when the equity, goodwill and fair value step up of a subsidiary is denominated in currency other than the functional currency of the parent company. The total non-EUR denominated equity, goodwill and fair value step up of the corporate's subsidiaries were EUR 482 million (EUR 399 million). The major translation exposures were EUR 202 million (EUR 172 million) in SEK and EUR 144 million (EUR 138 million) in CNY. Valmet is currently not hedging any equity exposure.

Commodity risk

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

Electricity exposure in the Nordic subsidiaries has been hedged with electricity forwards and fixed price physical contracts, which are designated as hedges of highly probable future electricity purchases. Hedging is focused on the estimated energy consumption for the next two year period with some contracts extended to approximately five years. The execution of electricity hedging has been outsourced to an external broker. As at December 31, 2015 Valmet had outstanding electricity forwards amounting to 216 GWh (327 GWh) and 153 GWh (18 GWh) under fixed price purchase agreements.

Valmet may reduce its exposure to the surcharge for certain metal alloys (Alloy Adjustment Factor) by entering into average-price swap agreements for nickel. As at December 31, 2015 Valmet had no outstanding average-price swap agreements for nickel.

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

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

EUR million	2015	2014
Profit/loss	**+/- 0.1**	+/- 0.2
Equity	**+/- 0.3**	+/- 0.6

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

Credit and counterparty risk

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

The maximum credit risk equals the carrying value of trade and other receivables. The credit risk quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in Note 16.

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

Fair value estimation

For those financial assets and liabilities which have been recognized at fair value in the statement of financial position, the following measurement hierarchy and valuation methods have been applied:

Level 1

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

Level 2

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

Level 3

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

The tables below present Valmet's financial assets and liabilities that are measured at fair value. There have been no transfers between fair value levels during 2015. Fair value levels of other financial assets and liabilites are shown in Note 17.

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

EUR million	As at Dec 31, 2014 Level 1	Level 2	Level 3
Assets			
Derivatives at fair value through profit and loss	-	7	-
Derivatives qualified for hedge accounting	-	13	-
Available-for-sale financial assets	12	23	2
Total assets	12	43	2
Liabilities			
Derivatives at fair value through profit and loss	-	7	-
Derivatives qualified for hedge accounting	-	26	-
Total liabilities	-	33	-

There were no changes in level 3 instruments for the 12 months ended December 31, 2015.

4 Selling, general and administrative expenses

EUR million	Year ended Dec 31, 2015	2014
Marketing and selling expenses	**-262**	-206
Research and development expenses, net	**-59**	-42
Administrative expenses	**-180**	-153
Total	**-501**	-401

Research and development expenses, net consists of following:

EUR million	Year ended Dec 31, 2015	2014
Research and development costs, total	**-60**	-39
Grants received	**5**	2
Depreciation and amortization	**-5**	-5
Research and development expenses, net	**-59**	-42

5 Other operating income and expenses

	Year ended Dec 31,	
EUR million	**2015**	**2014**
Gain on sale of fixed assets	**2**	1
Royalty income	**2**	-
Rental income	**1**	1
Foreign exchange gains [1]	**17**	19
Other income	**8**	6
Other operating income, total	**29**	27
Loss on sale of subsidiaries and businesses	**-**	-2
Loss on sale of fixed assets	**-**	-1
Impairment of fixed assets [2]	**-6**	-2
Foreign exchange losses [1]	**-22**	-12
Other expenses [3]	**-18**	-7
Other operating expenses, total	**-47**	-23
Other operating income and expenses, net	**-18**	4

[1] Includes foreign exchange gains and losses resulting from trade receivables and payables and related derivatives.
[2] EUR 5 million relates to impairment of buildings in 2015.
[3] EUR 5 million and EUR 7 million of the 2015 amount related to transfer tax paid in connection with acquisition of the Automation business and allowances for doubtful receivables, respectively.

6 Personnel expenses and the number of personnel

Personnel expenses:

	Year ended Dec 31,	
EUR million	**2015**	**2014**
Salaries and wages	**-580**	-471
Pension costs, defined contribution plans	**-62**	-42
Pension costs, defined benefit plans [1]	**-8**	-6
Other post-employment benefits [1]	**-4**	-4
Share-based payments	**-4**	-2
Other indirect employee costs	**-90**	-84
Total	**-748**	-609

[1] For more information, see Note 24.

Number of personnel:

	2015	**2014**
Personnel at end of year	**12,306**	10,464
Average number of personnel during the year	**11,781**	10,853

7 Depreciation and amortization

EUR million	Year ended Dec 31, 2015	2014
Intangible assets	**-37**	-22
Buildings and structures	**-13**	-12
Machinery and equipment	**-42**	-39
Total	**-92**	-72

Depreciation and amortization by function are as follows:

EUR million	Year ended Dec 31, 2015	2014
Cost of goods sold	**-44**	-39
Selling, general and administrative expenses		
Marketing and selling	**-23**	-12
Research and development	**-5**	-5
Administrative	**-19**	-16
Total	**-92**	-72

8 Financial income and expenses

EUR million	Year ended Dec 31, 2015	2014
Dividends received	**-**	1
Interest income on available-for-sale instruments	**-**	1
Interest income on cash and cash equivalents	**3**	4
Net gain from foreign exchange	**2**	3
Financial income total	**6**	9
Interest expenses on financial liabilities at amortized cost	**-9**	-8
Net interest from defined benefit plans	**-4**	-4
Other financial expenses	**-2**	-2
Financial expenses total	**-16**	-15
Financial income and expenses, net	**-10**	-5

Interest expenses on financial liabilities at amortized cost include interest expenses on interest-bearing loans, non-current interest rate swaps, and forward points on foreign exchange derivatives that are used for hedging loans, receivables and bank account balances.

In 2015 other operating income and expenses includes EUR 5 million net foreign exchange loss (EUR 7 million gains) related to operative items and corresponding derivatives. Net foreign exchange gains of EUR 2 million (EUR 3 million) are recognized in financial income and expenses in 2015.

9 Income taxes

The differences between income tax expense computed at the Finnish statutory rate (20.0% in 2014 and 2015) and income tax expense provided on earnings are as follows:

	Year ended Dec 31,	
EUR million	**2015**	**2014**
Income before taxes	**108**	67
Taxes calculated according to tax rate in Finland	**-22**	-13
Income tax for prior years	**4**	-
Effect of different tax rates in foreign subsidiaries	**-4**	-4
Utilization of tax losses carried forward	**2**	2
Non-recoverable foreign taxes	**-3**	-3
Effect of tax free income and non-deductible expenses	**-5**	-2
Other	**-2**	-2
Income tax expense	**-30**	-21
Effective tax rate, (%)	**28.0%**	31.3%

Tax effects of components in other comprehensive income:

	Year ended Dec 31,					
	2015			2014		
EUR million	**Before taxes**	**Tax**	**After taxes**	**Before taxes**	**Tax**	**After taxes**
Cash flow hedges	**-2**	**-**	**-2**	-11	3	-8
Remeasurement of defined benefit plans	**8**	**-1**	**7**	-40	13	-27
Currency translation on subsidiary net investments	**10**	**-**	**10**	7	-	7
Total comprehensive income / expense	**16**	**-1**	**15**	-44	16	-28
Current tax		**-**			1	
Deferred tax		**-1**			15	
Total		**-1**			16	

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to other comprehensive income	Acquired in business combination	Translation differences	Balance at end of year
2015						
Deferred tax assets						
Tax losses carried forward	28	-10	-	-	-2	**17**
Fixed assets	21	-	-	1	-	**21**
Inventory	4	1	-	-	-1	**4**
Provisions	18	2	-	-	-1	**19**
Accruals	11	-1	-	-	1	**11**
Employee benefits	26	-1	-1	-	4	**26**
Other	2	2	-	3	-1	**5**
Total deferred tax assets	109	-7	-1	5	-	**104**
Offset against deferred tax liabilities [1]	-24	4	-	-	-	**-19**
Net deferred tax assets	**86**	**-3**	**-1**	**5**	**-1**	**85**
Deferred tax liabilities						
Purchase price allocations [2]	35	-7	-	47	3	**78**
Fixed assets	1	-	-	-	-	**1**
Other	10	-1	-	-	2	**11**
Total deferred tax liabilities	46	-8	-	47	5	**90**
Offset against deferred tax assets [1]	-24	4	-	-	-	**-19**
Net deferred tax liabilities	**22**	**-4**	**-**	**47**	**5**	**70**
2014						
Deferred tax assets						
Tax losses carried forward	21	6	-	-	2	28
Fixed assets	24	-2	-	-	-1	21
Inventory	4	1	-	-	-1	4
Provisions	16	2	-	-	-	18
Accruals	18	-7	-	-	-	11
Employee benefits	10	2	13	-	-	26
Other	3	-3	3	-	-1	2
Total deferred tax assets	96	-1	16	-	-1	109
Offset against deferred tax liabilities [1]	-16	-8	-	-	-	-24
Net deferred tax assets	80	-9	16	-	-1	86
Deferred tax liabilities						
Purchase price allocations	36	1	-	-	-2	35
Fixed assets	2	-2	-	-	-	1
Other	7	1	-	-	2	10
Total deferred tax liabilities	45	1	-	-	-	45
Offset against deferred tax assets [1]	-16	-8	-	-	-	-24
Net deferred tax liabilities	29	-7	-	-	-	22

[1] Deferred tax assets and liabilities are offset when there is legally enforceable right to offset tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority.

[2] Changes in deferred tax liabilities relates mainly to Automation acquisition. More information on acquisition on Note 10.

A deferred tax liability on undistributed profits of Valmet's legal entities located in countries where distribution generates tax consequences is recognized when it is likely that earnings will be distributed in the near future. For the years ended December 31, 2015 and 2014, earnings of EUR 79 million and EUR 81 million, respectively, would have been subject to recognition of a deferred tax liability, had Valmet regarded a distribution in the near future as likely.

A deferred tax asset is recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. There were no material tax loss carry-forwards for which a deferred tax asset had not been recognized. Valmet has tax loss carry-forwards of EUR 4 million that will expire within the following five years.

10 Business combinations and disposals of businesses

Business combinations

Acquisition of Process Automation Systems

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

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

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

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

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

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

Acquisition related costs of EUR 2 million and EUR 1 million have been charged to selling, general and administrative expenses in the consolidated income statement for the 12 months ended December 31, 2015 and 2014, respectively.

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

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

EUR million	As at April 1, 2015
Consideration transferred	-312
Cash and cash equivalents acquired	48
Loan repayments at closing	-54
Net cash outflow	**-318**

Acquisition of MC Paper Machinery and Focus Rewinding business

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

Valmet made no acquisitions during 2014.

Disposals of businesses

Valmet made no disposals during 2015.

On December 17, 2013 MW Power Oy signed a contract to sell its small-scale heating plant business in Finland and related services operations in Russia to KPA Unicon. The closing of the transaction covering the business in Finland took place on January 31, 2014. The closing of the transaction covering the Russian service business took place on June 27, 2014.

On December 17, 2013 Valmet signed a contract to sell its small-scale heating plant business in Sweden to a part of its current management. The closing of the transaction covering the business in Sweden took place on January 2, 2014

The total annual revenue of the divested businesses has been approximately EUR 30 million, employing 114 employees as of year end 2013. These transactions had no material effect on Valmet's 2014 financial statements.

11 Intangible assets and property, plant and equipment

Intangible assets

EUR million	Goodwill	Patents and licences	Capitalized software	Other intangible assets	Intangible assets total
2014					
Acquisition cost at beginning of year	443	42	58	250	793
Translation differences	4	-	-	-2	1
Capital expenditure	-	-	-	6	6
Reclassifications	-	2	5	-6	-
Other changes and disposals	-	-4	-1	-1	-6
Acquisition cost at end of year	446	39	62	246	794
Accumulated amortization at beginning of year	-	-28	-51	-164	-243
Translation differences	-	-	-	2	2
Impairment losses	-	-1	-	-	-1
Other changes and accumulated amortization of disposals	-	4	2	1	6
Amortization charges for the year	-	-3	-4	-15	-22
Accumulated amortization at end of year	-	-28	-53	-176	-256
Net book value at end of year	446	11	9	70	537

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

Property, plant and equipment

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2014					
Acquisition cost at beginning of year	21	363	848	21	1,253
Translation differences	-	6	15	1	23
Disposals of businesses	-	-2	-3	-	-5
Capital expenditure	-	-	6	33	40
Reclassifications	-	3	25	-28	-
Other changes and disposals	-	-4	-26	-1	-31
Acquisition cost at end of year	22	368	863	25	1,278
Accumulated depreciation at beginning of year	-	-226	-638	-	-864
Translation differences	-	-2	-9	-	-12
Impairment losses	-	-	-2	-	-2
Other changes and accumulated depreciation of disposals	-	4	26	-	30
Depreciation charges for the year	-	-12	-39	-	-51
Accumulated depreciation at end of year	-	-236	-661	-	-897
Net book value at end of year	22	132	202	25	381

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2015					
Acquisition cost at beginning of year	22	368	863	25	**1,278**
Translation differences	-	5	14	-1	**19**
Acquired in business combination	4	17	4	-	**26**
Disposals of businesses	-	-	-	-	**-**
Capital expenditure	-	1	7	29	**37**
Reclassifications	-	7	21	-28	**-**
Other changes and disposals	-	-4	-19	-1	**-24**
Acquisition cost at end of year	26	394	892	25	**1,336**
Accumulated depreciation at beginning of year	-	-236	-661	-	**-897**
Translation differences	-	-4	-10	-	**-14**
Impairment losses	-	-5	-	-	**-5**
Other changes and accumulated depreciation of disposals	-	3	18	-	**21**
Depreciation charges for the year	-	-13	-42	-	**-55**
Accumulated depreciation at end of year	-	-255	-695	-	**-951**
Net book value at end of year	**26**	**138**	**196**	**25**	**385**

As at December 31, 2015 and 2014 there were no material assets leased under financial lease arrangements included in property, plant and equipment.

Goodwill impairment testing

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

In 2015 Valmet had three CGUs (in 2014 Valmet had two CGUs). The first CGU comprises of Valmet's Paper business line and the paper business related part of Valmet's service business. The second CGU comprises of Valmet's Pulp and Energy business line and the pulp and energy related part of Valmet's service business. In 2015 Valmet identified a third CGU as a result of Valmet's acquisition of Process Automation Systems business.

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

The following table sets out the allocation of goodwill as at December 31, 2015 and 2014 and the key assumptions applied in the value in use calculations (testing was performed as at September 30, 2015).

	As at Dec 31,	
EUR million	**2015**	**2014**
Paper business line and the paper business related part of Valmet's service business	**169**	155
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**291**	292
Automation business line	**164**	-
Total	**624**	446

Key assumptions applied	**2015**	**2014**
Long term growth rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**2.0%**	1.9%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**1.4%**	1.6%
Automation business line	**1.0%**	-
Pre-tax discount rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**9.5%**	11.0%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**10.1%**	11.0%
Automation business line	**8.7%**	-
Market and product mix	**Materially stable**	-
EBIT	**Materially stable**	-

The key assumptions are based on past performance and on expectations of Valmet's management and Board of Directors on market development. External sources are also used to obtain data on growth, demand and price development in establishing the assumptions. The discount rate used in testing is derived from the weighted average cost of capital based on comparable peer industry betas and capital structure. The assumption requiring most judgment is the market and product mix.

As a result of the annual impairment tests, no impairment loss was recognized on goodwill in 2015 or 2014.

Sensitivity analysis

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

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

	Change
EBIT	
Paper business line and the paper business related part of Valmet's service business	decrease more than 50%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	decrease more than 30%
Automation	decrease more than 35%
Pre-tax discount rate, (%)	
Paper business line and the paper business related part of Valmet's service business	increase to more than 26%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	increase to more than 17%
Automation	increase to more than 14%

12 Investments in associates and joint ventures

Valmet Group included the following associated companies and joint ventures:

		Share of ownership		
Company name	Place of incorporation and principal place of business	Dec 31, 2015	Dec 31, 2014	Measurement method
Allimand S.A.	France	**35.8%**	35.8%	Equity
Valpro gerenciamento de obras Ltda	Brazil	**51.0%**	51.0%	Equity
Nanjing SAC Metso Control System Co., Ltd.	China	**21.95%**	-	Equity

Allimand S.A. is a French company that provides products and services for the paper industry and its main focus is on speciality paper- and mid-size board machines. Allimand S.A. is an associated company for Valmet. Management reassessed the nature of its interest in Allimand S.A. in 2015 concluding that its interest in this associate is of an investing rather than an operating nature, and consequently, reporting of Valmet's share of profit and losses in Allimand S.A. below operating profit is appropriate. The share of profit and losses is immaterial in 2014.

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

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

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

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

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

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

	Allimand S.A. As at Dec 31,		**SAC As at Dec 31,**	
EUR million	**2015[1]**	**2014**	**2015**	**2014**
Non-current assets	**8**	8	**13**	-
Current assets	**28**	14	**82**	-
Non-current liabilities	**5**	7	**-**	-
Current liabilities	**24**	10	**55**	-
Net assets	**7**	6	**40**	-
Valmet's share of net assets	**3**	2	**9**	-

	Allimand S.A. Year ended Dec 31,		**SAC Year ended Dec 31,**	
EUR million	**2015[1]**	**2014**	**2015[2]**	**2014**
Revenue	**23**	27	**45**	-
Profit/loss	**1**	-7	**7**	-

[1] Period Jan–Aug 2015
[2] Period Apr–Dec 2015

Carrying value of investments in associates and joint ventures

EUR million	**2015**	**2014**
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	**1**	1
Acquired in business combination	**8**	-
Acquisition cost at end of year	**8**	1
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	**4**	4
Share of results, operative investments	**2**	-
Share of results, financial investments	**-2**	-
Equity adjustments at end of year	**3**	4
Carrying value at end of year	**12**	5

The following transactions were carried out with associated companies and joint ventures and the following balances have arisen from such transactions.

Transactions with associated companies and joint ventures

EUR million	2015	2014
Net sales	**-**	1
Purchases	**-**	-
Receivables	**1**	-
Payables	**1**	-

13 Available-for-sale financial assets

The available-for-sale financial assets comprise EUR 1 million listed shares (EUR 1 million), EUR 7 million current interest bearing financial assets (EUR 28 million current, EUR 6 million non-current), which are all valued at their market value.

The remaining EUR 2 million as at December 2015 (EUR 2 million) consists of various industrial participations, shares in real estate companies and other shares for which market values do not exist, whereby they are valued at cost.

Available-for-sale financial assets have changed as follows:

EUR million	2015	2014
Carrying value at beginning of year	**37**	4
Additions	**-**	34
Disposals and other changes	**-27**	-
Carrying value at end of year	**10**	37
Non-current	**3**	9
Current	**7**	28

14 Inventories

	As at Dec 31,	
EUR million	2015	2014
Materials and supplies	**82**	83
Work in process	**350**	331
Finished products	**76**	60
Total inventory	**508**	474

The cost of inventories recognized as expense was EUR 2,248 million and EUR 1,965 million for the years ended December 31, 2015 and 2014 respectively.

Provision for inventory obsolescence has changed as follows:

EUR million	2015	2014
Balance at beginning of year	**21**	18
Translation differences	**1**	-
Additions charged to expense	**11**	7
Used reserve	**-2**	-2
Deductions / other additions	**-14**	-1
Balance at end of year	**18**	21

15 Revenue recognition

Net sales recognized under the percentage of completion method amounted to EUR 1,330 million, or 45% of net sales, in 2015. Net sales recognized under the percentage of completion method amounted to EUR 1,195 million, or 48% of net sales, in 2014.

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

EUR million	Cost and earnings of uncompleted projects	Billings of projects	Net
2015			
Projects where cost and earnings exceed billings	**1,594**	**1,378**	**216**
Projects where billings exceed cost and earnings	**972**	**1,248**	**276**
2014			
Projects where cost and earnings exceed billings	1,472	1,280	192
Projects where billings exceed cost and earnings	794	1,121	327

Analysis of net sales by category:

EUR million	Year ended Dec 31, 2015	2014
Sale of services and automation	**1,357**	989
Sale of projects, equipment and goods	**1,572**	1,484
Total	**2,928**	2,473

16 Interest bearing and non-interest bearing receivables

	As at Dec 31,					
	2015			2014		
EUR million	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Interest bearing receivables						
Loan receivables	**20**	**-**	**20**	6	-	6
Trade receivables	**-**	**1**	**1**	1	-	1
Total	**20**	**1**	**21**	7	-	8
Non-interest bearing receivables						
Trade receivables	**-**	**476**	**476**	-	333	333
Receivables from related parties	**-**	**1**	**1**	-	-	-
Prepaid expenses and accrued income	**-**	**30**	**30**	-	63	63
Other receivables	**8**	**68**	**76**	11	48	59
Total	**8**	**575**	**583**	11	445	456

Allowance for trade receivables has changed as follows:

EUR million	**2015**	**2014**
Balance at beginning of year	**16**	13
Addition charged to expense	**6**	4
Used reserve	**-2**	-1
Unused amounts reversed	**-1**	-1
Balance at end of year	**19**	16

Analysis of trade receivables by age:

	As at Dec 31,	
EUR million	**2015**	**2014**
Trade receivables, not due at reporting date	**303**	235
Trade receivables 1–30 days overdue	**77**	39
Trade receivables 31–60 days overdue	**41**	18
Trade receivables 61–90 days overdue	**16**	11
Trade receivables 91–180 days overdue	**15**	14
Trade receivables more than 180 days overdue	**25**	18
Total	**478**	335

17 Financial assets and liabilities

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

EUR million	Financial assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value	Fair value level
2015							
Non-current assets							
Available-for-sale financial assets	-	-	-	3	3	3	1,3
Loan receivables	-	-	20	-	20	20	2
Derivative financial instruments	-	2	-	-	2	2	2
Total	**-**	**2**	**20**	**3**	**26**	**26**	
Current assets							
Available-for-sale financial assets	-	-	-	7	7	7	1
Trade receivables	-	-	478	-	478	478	2
Derivative financial instruments	6	6	-	-	13	13	2
Cash and cash equivalents	165	-	-	-	165	165	2
Total	**172**	**6**	**478**	**7**	**663**	**663**	

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

EUR million	Financial assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value	Fair value level
2014							
Non-current assets							
Available-for-sale financial assets	-	-	-	9	9	9	1, 3
Loan receivables	-	-	7	-	7	7	2
Trade receivables	-	-	1	-	1	1	2
Total	-	-	8	9	17	17	
Current assets							
Available-for-sale financial assets	-	-	-	28	28	28	1, 2
Trade receivables	-	-	333	-	333	333	2
Derivative financial instruments	7	13	-	-	20	20	2
Cash and cash equivalents	192	-	-	-	192	192	2
Total	199	13	333	28	573	573	

EUR million	Liabilities at fair value through profit and loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value	Fair value level
2014						
Non-current liabilities						
Loans from financial institutions	-	-	16	16	17	2
Derivative financial instruments	-	2	-	3	3	2
Total	-	2	16	19	20	
Current liabilities						
Current portion of non-current debt	-	-	51	51	51	2
Trade payables	-	-	226	226	226	2
Derivative financial instruments	7	24	-	30	30	2
Total	7	24	277	307	307	

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

The hierarchy of fair value levels is presented in Note 3. For more information of derivative financial instruments, see Note 27.

18 Cash and cash equivalents

EUR million	As at Dec 31, 2015	2014
Cash at bank and in hand	**135**	127
Commercial papers and other investments	**30**	66
Total cash and cash equivalents	**165**	192

The maturity of cash and cash equivalents does not exceed three months.

19 Equity

Share capital and number of shares

Valmet Corporation's registered share capital was EUR 100,000,000 as at December 31, 2015 and EUR 100,000,000 as at December 31, 2014. The share capital is fully paid.

Valmet's total number of shares is 149,864,619 and the number of outstanding shares as at December 31, 2015 was 149,864,220 (149,864,220 shares). The number of shares held by Valmet Corporation was 399 (399 shares).

The average amount of shares outstanding amounted to 149,864,220 (149,863,252) during the financial year ended at December 31, 2015.

Valmet Corporation has one series of shares. The shares of Valmet Corporation do not have a nominal value. In 2015, there has been no changes in the number of outstanding shares or share capital.

Treasury shares

Valmet Corporation acquired 14,310 of its own shares through a purchase on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd) on April 2, 2014. The price paid was EUR 7.5880 per share. The total amount paid to acquire the shares, including transaction costs, was EUR 109 thousand and it has been deducted from retained earnings in equity.

In accordance with a resolution of Valmet Corporation's Board of Directors, Valmet Corporation has conveyed a total of 13,911 of these shares to 25 of Valmet's key employees included in the Group's share-based incentive program 2011–2013. The handover date for the shares was April 30, 2014 after which the remaining number of shares held by Valmet Corporation was 399. The total value of the conveyed shares, including the related transaction costs, was EUR 117 thousand which has been recognised in equity as an increase in reserve for invested unrestricted equity.

Valmet has entered into an agreement with a third-party service provider concerning the administration of the share-based incentive programs for key personnel. As at December 31, 2015, the number of shares held within the administration plan was 473,617.

Dividends

The Board of Directors proposes that a dividend of EUR 0.35 per share will be paid out based on the statement of financial position to be adopted for the financial year ended December 31, 2015, and that the remaining part of the retained earnings will be carried forward in Valmet Corporation's unrestricted equity. These financial statements do not reflect this dividend payable of EUR 52 million. Dividends paid relating to the year ended December 31, 2014 were 0.25 EUR per share totaling EUR 37 million.

Fair value and other reserves

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

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

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

Reserve for invested unrestricted equity

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

The reserve for invested non-restricted equity fund in Valmet's consolidated statement of financial position consists of the fund held by the parent company Valmet Corporation.

Cumulative translation adjustments

Cumulative translation adjustments consist of currency translation differences, which relate to translation of foreign operations' financial statements.

20 Share-based payments

Long-term incentive plan for 2012–2014

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

For the 2012 performance period a gross number of 321,438 shares were earned by 31 participants. The earning criteria of the performance period 2012 were based on net sales growth of the Services business, return on capital employed (ROCE) before taxes and earnings per share (EPS). The reward was paid partly as company shares and partly in cash during 2015. The cash portion was dedicated to cover taxes and tax-related payments. The expense of the plan was recognized over the vesting period i.e. from the beginning of 2012 until the end of February 2015. The recognized expense of the equity portion was based on a grant date share price of EUR 8.13.

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

For the 2014 performance period, the plan was targeted at 40 persons in Valmet's management. From the performance period 2014 a gross number of 268,003 shares were earned. The earning criteria of the performance period 2014 were based on growth in Valmet's EBITA % and growth in Services orders received. The reward will be paid partly as company shares and partly in cash. The cash portion is dedicated to cover taxes and tax-related payments. The expense of the plan is recognized over the vesting period i.e. from the beginning of 2014 until the end of February 2017. The recognized expense of the equity portion is based on Valmet's average share price on the grant date of EUR 8.28.

Long-term incentive plan for 2015–2017

The Board of Directors of Valmet 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 potential reward of the plan from the discretionary period 2015 is based on EBITA % and Services orders received growth %. The potential reward of the plan from the discretionary period 2015 will be paid partly as company shares and partly in cash in 2016. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key employee. As a rule, no reward is paid, if the key employee's employment or service ends before the reward payment.

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

The reward of the plan may not exceed 120 percent of the key employee's annual base salary. The shares paid as reward may not be transferred during the restriction period, which will end two years from the end of the discretionary period. Should a key employee´s employment or service end during the restriction period, as a rule, he or she must gratuitously return the shares given as reward to the Company.

The plan is directed to approximately 80 people. The rewards to be paid on the basis of the discretionary period 2015 are in total a maximum of 693,079 shares in Valmet Corporation including a cash payment to cover taxes and tax-related payments arising from the reward to the key employee. The expense of the discretionary period 2015 is recognized over the vesting period i.e. from the beginning of 2015 until the end of December 2017. The recognized expense of the equity portion is based on Valmet's closing share price on the grant date of EUR 11.40. As at December 31, 2015 a total of 540,032 shares had been allotted to participants.

The Board of Directors of Valmet Corporation decided in December 2015 to continue the share based incentive program for Valmet's key employees approved in December 2014. The potential reward of the program from the discretionary period 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. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key employee. As a rule, no reward is paid, if the key employee's employment or service ends before the reward payment.

As part of the share based incentive program members of the Valmet Executive Team shall have a possibility to receive a matching share reward for the discretionary period 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 reward receipt is tied to the continued employment or service of the Valmet Executive Team member upon reward payment.

The plan is directed to approximately 80 people. The rewards to be paid on the basis of the discretionary period 2016 are in total an approximate maximum of 850,000 shares in Valmet. The reward of the plan may not exceed 120 percent of the key employee's annual total base salary. The shares paid as reward may not be transferred during the restriction period, which will end two years from the end of the discretionary period. Should a key employee's employment or service end during the restriction period, as a rule, he or she must gratuitously return the shares given as reward to Valmet.

Granted share amounts of the share-based incentive plans:

Shares total	2015
Plan 2012–2014	
At beginning of year	**568,686**
Paid	**-321,438**
Returned	**-12,746**
Other	**33,500**
At end of year	**268,003**
Plan 2015–2017	
At beginning of year	**-**
Granted	**693,079**
Returned	**-25,741**
Expired	**-127,306**
At end of year	**540,032**

Costs recognized for the share ownership plans

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

As at December 31, 2015 the total carrying value of the cash-settled portion was EUR 3 million (EUR 2 million).

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

EUR thousand	Plan 2011–2013	Plan 2012–2014	Plan 2015–2017	Total
2014	-151	-2,030	-	-2,181
2015	-	-981	-3,174	**-4,155**

21 Non-current and current debt

	As at Dec 31,			
	Carrying value		Fair value	
EUR million	2015	2014	2015	2014
Non-current debt	**309**	16	**312**	17
Current portion of non-current debt	**62**	51	**62**	51
Total debt	**371**	68	**374**	69

The fair value of non-current debt is equal to the present value of its future cash flows. More information about the maturities are presented in Note 3.

22 Provisions

	As at Dec 31, 2015			
EUR million	Warranty and guarantee liabilities	Restructuring provisions	Other provisions	Total
Balance at beginning of year	**83**	**14**	**11**	**107**
Translation differences	**1**	**-**	**-**	**1**
Addition charged to expense	**80**	**4**	**4**	**87**
Acquired in business combination	**2**	**-**	**6**	**9**
Used reserve	**-40**	**-8**	**-9**	**-57**
Reversal of reserve / other changes	**-38**	**-**	**-2**	**-40**
Balance at end of year	**88**	**9**	**10**	**108**
Non-current				**10**
Current				**98**

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

Warranty and guarantee liabilities

Valmet issues various types of contractual product warranties under which it generally guarantees the performance levels agreed in the sales contract, the performance of products delivered during the agreed warranty period and services rendered for a certain period or term. The warranty liability is based on historical realized warranty costs for deliveries of standard products and services. The usual warranty period is 12 to 24 months from the date of customer acceptance of the delivered equipment. For more complex contracts, including long-term projects, the warranty reserve is calculated contract by contract and updated regularly to ensure its sufficiency.

Restructuring provisions

The costs included in a provision for restructuring are those costs that are either incremental and incurred as a direct result of the formal plan approved and committed by management, or are the result of a continuing contractual obligation with no economic benefit to Valmet or a penalty incurred for a cancelled contractual obligation.

Environmental and product liabilities

Valmet accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably calculable. The amounts of accruals are adjusted later as further information develops or circumstances change. The Group has no material environmental and product liabilities as at December 31, 2014 or December 31, 2015.

Other provisions

Other provisions comprise among other things provisions related to personnel and lawsuits.

23 Trade and other payables

	As at Dec 31,	
EUR million	**2015**	**2014**
Trade payables	**250**	226
Accrued interest	**2**	-
Accrued personnel costs	**120**	91
Accrued project costs	**313**	361
Other payables	**81**	62
Trade and other payables total	**767**	740

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

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

24 Post-employment benefit obligations

Valmet sponsors both defined contribution and defined benefit arrangements.

Valmet operates various defined benefit pension and other long term employee benefit arrangements pursuant to local conditions, practices and collective bargaining agreements in the countries in which it operates. The majority of Valmet's defined benefit liabilities relate to arrangements that are funded through payments to either insurance companies or to independently administered funds based on periodic actuarial calculations. Other arrangements are unfunded with benefits being paid directly by Valmet as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions.

Valmet's defined benefit pension arrangements in the US, Canada and Sweden together represent 85% of Valmet's Defined Benefit Obligation and 79% of its pension assets. These arrangements provide income in retirement which is substantially based on salary and service at or near retirement.

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

Defined benefit pension arrangements in Sweden are offered in accordance with collective labor agreements and are unfunded.

The liability recorded on Valmet's balance sheet and cash contributions to funded arrangements are sensitive to the assumptions used to measure the liabilities, the extent to which actual experience differs to the assumptions made and the returns on plan assets. Therefore Valmet is exposed to the risk that balance sheet liabilities and/or cash contributions increase based on these influences.

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

The expected contributions to arrangements in 2016 are EUR 5 million.

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

		2015			2014	
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Present value of funded obligation	**179**	**-**	**179**	162	-	162
Fair value of plan assets	**-132**	**-**	**-132**	-114	-	-114
Net surplus (-) / deficit (+) of funded plans	**47**	**-**	**47**	48	-	48
Present value of unfunded obligation	**-**	**101**	**101**	-	93	93
Asset (-) / liability (+) recognized in the statement of financial position	**47**	**101**	**148**	48	93	141
Amounts in the statement of financial position						
Liabilities	**48**	**101**	**149**	48	93	141
Assets	**-1**	**-**	**-1**	-	-	-
Net liability	**47**	**101**	**148**	48	93	141

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

			Year ended Dec, 31			
		2015			2014	
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Employer's current service cost	**3**	**6**	**8**	3	3	6
Net interest on net surplus / deficit	**2**	**3**	**4**	1	3	4
Expense recognized in the statement of income	**4**	**8**	**13**	4	6	10

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

		2015			2014	
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Present value of obligation at beginning of year	**162**	**93**	**255**	109	80	189
Other adjustments[1)]	**9**	**2**	**12**	9	1	10
Employer's current service cost	**3**	**6**	**8**	3	3	6
Interest expense	**6**	**3**	**9**	5	3	8
Adjustment due to business combinations	**3**	**3**	**6**	-	-	-
Liabilities extinguished on settlements or curtailments	**-**	**-**	**-**	-2	-	-2
Actuarial gain (-) / loss (+) due to change in assumptions - financial	**-7**	**-5**	**-12**	21	13	34
Actuarial gain (-) / loss (+) due to change in assumptions - demographic	**-3**	**-**	**-3**	10	-	10
Actuarial gain(-)/loss (+) due to experience	**3**	**-**	**3**	-	-1	-1
Benefits paid from the arrangements	**-8**	**-**	**-8**	-6	-	-6
Benefits paid directly by employer	**-**	**-4**	**-4**	-	-3	-3
Currency gain (-) / loss (+)	**13**	**2**	**15**	12	-3	9
Present value of defined benefit obligation at end of year	**179**	**101**	**280**	162	93	255
- of which related to active members			104			95
- of which related to deferred members			54			52
- of which related to pensioner members			123			108

1) Extension of coverage

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

	2015			2014		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Fair value of plan assets at beginning of year	**114**	**-**	**114**	86	-	86
Other adjustments to the fair value of assets	**9**	**-**	**9**	10	-	10
Interest income on assets	**4**	**-**	**4**	4	-	4
Return on plan assets excluding interest income	**-4**	**-**	**-4**	7	-	7
Adjustment due to business combinations	**2**	**-**	**2**	-	-	-
Assets distributed on settlements	**-**	**-**	**-**	-2	-	-2
Employer contributions	**6**	**4**	**10**	7	3	10
Benefits paid from the arrangements	**-8**	**-**	**-8**	-6	-	-6
Benefits paid directly by employer	**-**	**-4**	**-4**	-	-3	-3
Currency gain (+) / loss (-)	**8**	**-**	**8**	10	-	10
Fair value of plan assets at end of year	**132**	**-**	**132**	114	-	114

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

	Year ended Dec, 31					
	2015			2014		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Experience gain (-) / loss (+) on assets	**4**	**-**	**4**	-7	-	-7
Actuarial gain (-) / loss (+) on liabilities due to change in financial assumptions	**-7**	**-5**	**-12**	21	13	34
Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions	**-3**	**-**	**-3**	10	-	10
Actuarial gain (-) / loss (+) on liabilities due to experience	**3**	**-**	**3**	-	-1	-1
Total gain (-) / loss (+) recognized in OCI	**-4**	**-4**	**-9**	23	13	36

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

	2015			2014		
As at Dec 31	**Quoted**	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Equities	**37%**	**-**	**37%**	42%	-	42%
Bonds	**34%**	**-**	**34%**	37%	-	37%
Other	**8%**	**21%**	**29%**	7%	14%	22%
Total	**79%**	**21%**	**100%**	86%	14%	100%

At December 31, 2015 there were no plan assets invested in affiliated companies or property occupied by affiliated companies.

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

	2015			2014		
As at Dec 31	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Discount rate	**3.7%**	**3.0%**	**3.5%**	3.5%	2.7%	3.2%
Salary increase	**2.8%**	**2.6%**	**2.7%**	2.9%	2.5%	2.7%
Pension increase	**1.9%**	**2.5%**	**2.3%**	2.0%	2.5%	2.4%
Medical cost trend rates	**-**	**6.9%**	**6.9%**	-	7.4%	7.4%

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

	Life expectancy at age 65 for a male participant currently aged 65		Life expectancy at age 65 for a male participant currently aged 45	
Expressed in years	**2015**	**2014**	**2015**	**2014**
Sweden	**23**	23	**23**	23
Canada	**21**	21	**22**	23
USA	**21**	22	**23**	22
Finland	**21**	19	**24**	21

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

Sensitivity analysis on present value of defined benefit obligation:

	2015			2014		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Discount rate						
Increase of 0.25%	**-6**	**-4**	**-9**	-5	-7	-12
Decrease of 0.25%	**6**	**4**	**11**	5	8	13
Salary increase rate						
Increase of 0.25%	**1**	**2**	**3**	1	4	5
Decrease of 0.25%	**-1**	**-2**	**-2**	-1	-3	-4
Pension increase rate						
Increase of 0.25%	**1**	**2**	**3**	1	5	6
Decrease of 0.25%	**-1**	**-3**	**-3**	-1	-5	-5
Medical cost trend						
Increase of 1%	**-**	**1**	**1**	-	1	1
Decrease of 1%	**-**	**-1**	**-1**	-	-1	-1
Life expectancy						
Increase of one year	**5**	**3**	**8**	4	3	7
Decrease of one year	**-5**	**-3**	**-8**	-4	-3	-7

Weighted average duration of defined benefit obligation:

	2015			2014		
Expressed in years	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
As at December 31	**14**	**17**	**15**	14	25	18

25 Mortgages and contingent liabilities

Valmet Corporation, with its subsidiaries, and financial institutions have guaranteed commitments arising from the ordinary course of business of Valmet Group up to a maximum of EUR 771 million and EUR 1,170 million as at December 31, 2015 and 2014, respectively.

Valmet Group entities had given guarantees on behalf of others of EUR 4 million and EUR 5 million as at December 31, 2015 and 2014, respectively.

26 Lease contracts

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

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

EUR million	2015	2014
Not later than 1 year	**18**	16
Later than 1 year and not later than 2 years	**14**	10
Later than 2 years and not later than 3 years	**9**	8
Later than 3 years and not later than 4 years	**6**	5
Later than 4 years and not later than 5 years	**3**	3
Later than 5 years	**6**	6
Total minimum lease payments	**56**	48

Total rental expenses amounted to EUR 22 million in 2015 and EUR 18 million in 2014.

As at December 31, 2015 and 2014 there were no material assets leased under financial lease arrangements.

27 Derivative financial instruments

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

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
2015				
Forward exchange contracts [1]	**1,591**	**15**	**12**	**2**
Under hedge accounting	**960**	**8**	**10**	**-2**
Not qualifying for hedge accounting	**630**	**6**	**3**	**4**
Electricity forward contracts [2]	**216**	**-**	**3**	**-3**
Under hedge accounting	**158**	**-**	**2**	**-2**
Not qualifying for hedge accounting	**58**	**-**	**1**	**-1**
Interest rate swaps [1]	**30**	**-**	**1**	**-1**
Under hedge accounting	**30**	**-**	**1**	**-1**
Total		**15**	**16**	**-2**
Netting fair values of derivative financial instruments subject to ISDAs [3]		**-11**	**-11**	**-**
Net Total		**3**	**5**	**-2**
2014				
Forward exchange contracts [1]	1,290	20	30	-10
Under hedge accounting	730	13	24	-11
Not qualifying for hedge accounting	560	7	6	1
Electricity forward contracts [2]	327	-	3	-3
Under hedge accounting	251	-	2	-2
Not qualifying for hedge accounting	76	-	1	-1
Total		20	33	-13
Netting fair values of derivative financial instruments subject to ISDAs [3]		-19	-19	-
Net Total		1	14	-13

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

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

	2015	2016	2017	2018	2019 and later
2014					
Notional amounts					
Forward exchange contracts [1]	1,260	30	-	-	-
Electricity forward contracts [2]	117	97	56	39	18
Fair values, EUR million					
Forward exchange contracts	-9	-1	-	-	-
Electricity forward contracts	-1	-1	-	-	-

[1] Notional amount in EUR million

[2] Notional amount in GWh

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

28 Related party information

Valmet's related parties include Valmet Group companies and associated companies and joint ventures (see Note 12) as well as the members of Valmet's Board of Directors and Executive Team.

Remuneration of Chief Executive Officer and other Executive Team members

The table below presents the expenses related to management compensation that have been recognized in the statement of income. More information about share-based payments is presented in Note 20.

EUR thousand	Salaries and other short-term benefits	Performance bonus	Share-based payment	Post-retirement benefits	Termination benefits	Total
2015						
President and CEO	-506	-260	-411	-233	-	**-1,411**
Other Executive Team members	-2,972	-761	-1,581	-1,093	-291	**-6,698**
Total	**-3,478**	**-1,021**	**-1,992**	**-1,326**	**-291**	**-8,109**
2014						
President and CEO	-491	-177	-263	-190	-	-1,121
Other Executive Team members	-2,952	-750	-888	-831	-130	-5,552
Total	-3,444	-927	-1,151	-1,021	-130	-6,674

The President and CEO is entitled to retire when reaching 63 years of age. All other Executive Team members belong to the pension systems of their country of residence and have a statutory retirement age. The President and CEO and some members of the Executive Team have an additional defined contribution plan. Contributions to the plan are 15–20 percent of the employee's annual salary. Expenses are included in the post-retirement benefits together with statutory pension benefits presented in the table above. The final benefit received by the employee depends on the return on the plan's investments.

Remuneration paid to members of the Board of Directors

EUR thousand	2015
Jukka Viinanen, Chairman until March 27, 2015	**-6**
Bo Risberg, Chairman since March 27, 2015	**-116**
Mikael von Frenckell, Vice Chairman	**-74**
Friederike Helfer, Member	**-74**
Pekka Lundmark, Member until April 7, 2015	**-7**
Erkki Pehu-Lehtonen, Member	**-64**
Lone Fønss Schrøder, Member	**-71**
Rogério Ziviani, Member	**-85**
Eija Lahti-Jäntti, Personnel Representative	**-8**
Total	**-504**

As at December 31, 2015, the aggregate shareholding of the Board of Directors, the President and CEO and other Executive Team members was 293,214 shares (197,647 shares as at December 31, 2014). Valmet has no loan receivables from the Executive Team or the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

29 Group companies

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

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

30 Audit fees

In 2015, the Annual General Meeting of Valmet Corporation elected Authorised Public Accountants PricewaterhouseCoopers Oy (PwC) as Valmet Corporation's auditor.

	Year ended Dec 31,			
	2015		2014	
EUR million	Paid to PwC	Paid to other auditors	Paid to PwC	Paid to other auditors
Audit	**-1.1**	**-0.2**	-0.8	-0.1
Tax consulting	**-0.5**	**-0.2**	-0.5	-0.1
Other services	**-0.3**	**-0.3**	-0.5	-0.1
Total	**-1.9**	**-0.8**	-1.8	-0.3

31 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.

On February 20, 2015 Valmet issued a stock exchange release about Andritz Oy having filed a summons application with the Stockholm District Court against Valmet AB, a subsidiary of Valmet Corporation, regarding patent infringement. In the claim, Andritz is asking that Valmet under a penalty ceases to utilize the patent allegedly infringing Andritz's patent and the Court to impose royalty and damages on Valmet AB. Valmet has denied the claims in its writ of response submitted to the Stockholm District Court. In June, Andritz revised its claim, which subsequently changed their overall claim from EUR 52 million to EUR 54 million and interest for the alleged infringement. Consequently, Valmet filed a second response to the Stockholm District Court in September.

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.

32 Events after the reporting period

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

33 Key exchange rates

		Average rates		Year-end rates	
		2015	**2014**	**2015**	**2014**
USD	(US dollar)	**1.1130**	1.3256	**1.0887**	1.2141
SEK	(Swedish krona)	**9.3414**	9.1004	**9.1895**	9.3930
BRL	(Brazilian real)	**3.7024**	3.1207	**4.3117**	3.2207
CNY	(Chinese yuan)	**6.9924**	8.1693	**7.0608**	7.5358

Financial Indicators 2015 and 2014

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

Formulas for Calculation of Indicators

EBITA:

Operating profit + amortization + goodwill impairment

EBITA before non-recurring items:

Operating profit + amortization + goodwill impairment + non-recurring items

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), %:

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

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

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

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 benefit obligations - provisions
- Trade and other payables - advances received
- Amounts due to customers under construction contracts
- Derivative financial instruments (liabilities)

Dividend per share:

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

Dividend / earnings ratio (%):

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

Effective dividend yield, %:

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

Price / earnings ratio:

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

Parent Company Statement of Income, FAS

EUR	Note	Year ended Dec 31, 2015	2014
Other operating income	2	**11,441,188.39**	9,498,456.15
Personnel expenses	3	**-10,859,380.87**	-11,857,918.32
Depreciation and amortization		**-733,113.16**	-699,468.05
Other operating expenses	4	**-14,030,718.83**	-12,186,327.67
Operating profit/loss		**-14,182,024.47**	-15,245,257.89
Financial income and expenses, net	6	**32,861,181.57**	8,203,279.02
Profit/loss before extraordinary items		**18,679,157.10**	-7,041,978.87
Group contributions		**-**	10,340,000.00
Profit/loss before appropriations and taxes		**18,679,157.10**	3,298,021.13
Income taxes	8	**2,914,054.83**	520,368.48
Profit/loss		**21,593,211.93**	3,818,389.61

Parent Company Statement of Financial Position, FAS

Assets

EUR	Note	As at Dec 31, 2015	2014
Non-current assets			
Intangible assets	9	**207,923.29**	247,871.05
Property, plant and equipment	9	**6,989,084.00**	7,659,565.44
Equity investments	10	**1,448,890,170.84**	1,131,401,370.84
Non-current receivables	12, 13	**106,917,241.69**	161,582,715.48
Total non-current assets		**1,563,004,419.82**	1,300,891,522.81
Current assets			
Current receivables	12, 13	**103,204,432.69**	179,207,046.10
Available-for-sale financial assets	13	**6,029,640.00**	32,987,960.32
Cash and cash equivalents		**68,004,827.90**	85,226,135.67
Total current assets		**177,238,900.59**	297,421,142.09
Total assets		**1,740,243,320.41**	1,598,312,664.90

Equity and liabilities

EUR	Note	As at Dec 31, 2015	2014
Equity	14		
Share capital		**100,000,000.00**	100,000,000.00
Reserve for invested unrestricted equity		**409,654,428.44**	407,727,370.60
Fair value and other reserves		**-392,688.26**	22,035.50
Retained earnings		**451,747,728.03**	492,776,290.62
Profit/loss		**21,593,211.93**	3,818,389.61
Total equity		**982,602,680.14**	1,004,344,086.33
Liabilities			
Non-current liabilities	13, 15	**311,269,789.14**	16,914,391.85
Current liabilities	13, 16	**446,370,851.13**	577,054,186.72
Total liabilities		**757,640,640.27**	593,968,578.57
Total equity and liabilities		**1,740,243,320.41**	1,598,312,664.90

Parent Company Statement of Cash Flows, FAS

EUR thousand	Year ended Dec 31, 2015	2014
Cash flows from operating activities:		
Profit / loss before extraordinary items	**18,679**	-7,042
Adjustments		
Depreciation and amortization	**733**	699
Financial income and expenses, net	**-32,861**	-8,203
Other non-cash items	**380**	17
Cash flow before changes in working capital	**-31,748**	-7,487
Increase (-) / decrease (+) in current non-interest bearing receivables	**32,972**	-45,436
Increase (+) / decrease (-) in current non-interest bearing liabilities	**-30,678**	37,368
Change in working capital	**2,294**	-8,068
Interest and other financial expenses paid	**-13,211**	-9,217
Dividends received	**35,007**	6,047
Interest received	**7,675**	8,783
Income taxes paid	**-676**	-332
Group contribution received	**10,340**	-
Net cash provided by operating activities	**28,360**	-17,316
Cash flows from investing activities:		
Investments in tangible and intangible assets	**-23**	-1,312
Proceeds from sale of tangible and intangible assets	**-**	414
Net increase (+) / decrease (-) in loan receivables from Group companies	**72,857**	139,796
Investments in subsidiaries	**-317,489**	-
Repayment of capital reserve	**-**	68,538
Other investments	**26,221**	-34,867
Net cash used in investing activities	**-218,434**	172,569
Cash flows from financing activities:		
Net borrowings (+) / payments (-) of debt from Group companies	**-165,300**	92,652
Net borrowings (+) / payments (-) of non-current debt	**305,159**	-133,048
Issue of Treasury shares to management	**1,547**	92
Purchase of Treasury shares	**-7,499**	-109
Dividends paid	**-37,348**	-22,480
Net increase (+) / decrease (-) in Group pool accounts	**76,294**	-83,035
Net cash provided by (+) / used in (-) financing activities	**172,853**	-145,928
Net increase (+) / decrease (-) in bank and cash	**-17,221**	9,325
Cash and cash equivalents at beginning of year	**85,226**	75,901
Cash and cash equivalents at end of year	**68,005**	85,226

Notes to Parent Company Financial Statements

1 Accounting principles

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

Non-current assets

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

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

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

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

Financial Instruments

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

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

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

Principles of hedge accounting are applied in accounting for interest rate risks arising from floating rate debt. The derivative financial instruments used to hedge the interest rate risk are measured at fair value. The realized gain or loss relating to the effective portion of interest rate swaps is recognized in the Statement of income within 'Financial income and expenses' concurrently with the recognition of the underlying interest expense. The gain or loss relating to the ineffective portion of interest rate swaps is reported under 'Financial income and expenses' in the Statement of income. The gain or loss relating to the effective portion of interest rate swaps is recognized in the 'Hedge reserve' of the shareholders's equity in the Statement of financial position. The fair value on the interest rate swap contract is calculated as the present value of the estimated future cash flows arising from the contract.

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

Pensions

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

Deferred taxes

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

Foreign currency transactions

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

Receivables

Receivables are measured at amortized cost using the effective interest method, less provision for impairment.

Share-based incentive plans

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

Extraordinary income and expenses

Extraordinary income and expenses consist of items, such as Group contributions, that fall outside the ordinary activities of the company.

Bank and cash

Bank and cash consist of cash in banks and other liquid investments with initial maturity of three months or less.

2 Other operating income

	Year ended Dec 31,	
EUR thousand	**2015**	**2014**
Services to Group companies	**11,441**	9,498

3 Personnel expenses

	Year ended Dec 31,	
EUR thousand	**2015**	**2014**
Salaries and wages	**-8,639**	-9,388
Pension costs	**-1,783**	-2,019
Other indirect employee costs	**-437**	-451
Total	**-10,859**	-11,858

Remuneration paid to Management:

	Year ended Dec 31,	
EUR thousand	**2015**	**2014**
Chief Executive Officer	**-1,411**	-1,121
Members of the Board	**-504**	-558
Total	**-1,914**	-1,679

The President and CEO has the right to retire at the age of 63 years. The President and CEO has an additional defined contribution plan. The contribution to the plan is 20 percent of his annual salary. Expenses are included in the remuneration paid to management table above. Additional information on management remuneration is presented in Note 28 of the Consolidated financial statements.

Number of personnel:

	2015	2014
Personnel at end of year	**84**	82
Average number of personnel during the year	**84**	81

4 Other operating expenses

	Year ended Dec 31,	
EUR thousand	**2015**	**2014**
Consulting and other services	**-8,703**	-5,389
IT	**-1,845**	-1,893
Valuation of derivatives	**-1,790**	-2,108
Other	**-1,693**	-2,796
Total	**-14,031**	-12,186

5 Audit fees

	Year ended Dec 31,	
EUR thousand	**2015**	**2014**
Audit	**-331**	-254
Tax consulting	**-198**	-166
Other services	**-298**	-334
Total	**-827**	-754

6 Financial income and expenses

	Year ended Dec 31,					
	2015			2014		
EUR thousand	**Group companies**	**Other companies**	**Total**	**Group companies**	**Other companies**	**Total**
Dividends received	**35,000**	**7**	**35,007**	5,000	1,047	6,047
Interest income	**6,855**	**166**	**7,021**	10,234	662	10,896
Other financial income	**22,091**	**42,024**	**64,115**	6,967	14,349	21,316
Interest expenses	**-1,108**	**-7,663**	**-8,771**	-2,059	-6,082	-8,141
Other financial expenses	**-30,425**	**-34,086**	**-64,511**	-5,844	-16,071	-21,915
Total			**32,861**			8,203

7 Fair value hedges recognized in income statement

	Year ended Dec 31,	
EUR thousand	**2015**	**2014**
Other operating expenses		
Changes in fair value of derivatives	**-1,790**	-2,108
Other financial expenses		
Changes in fair value of derivatives	**1,869**	-15,490

8 Income taxes

	Year ended Dec 31,	
EUR thousand	**2015**	**2014**
Income tax for the financial period	**-35**	-
Income tax for prior years	**-2**	-
Change in deferred taxes	**2,951**	520
Total	**2,914**	520

9 Intangible assets, Property, plant and equipment

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2014							
Acquisition cost at beginning of financial period	3	810	8,160	189	557	9,716	9,719
Additions	305	-	-	593	-	593	898
Acquisition cost as at Dec 31	308	810	8,160	782	557	10,309	10,617
Accumulated depreciation at beginning of financial period	-3	-	-1,786	-169	-52	-2,007	-2,010
Depreciation charges for the financial period	-57	-	-514	-103	-25	-642	-699
Accumulated depreciation as at Dec 31	-60	-	-2,300	-272	-77	-2,649	-2,709
Net book value as at Dec 31	248	810	5,860	510	480	7,660	7,907

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2015							
Acquisition cost at beginning of financial period	308	810	8,160	782	557	10,309	**10,617**
Disposals	-	-	-	-100	-	-100	**-100**
Additions	23	-	-	-	-	-	**23**
Acquisition cost as at Dec 31	331	810	8,160	682	557	10,209	**10,540**
Accumulated depreciation at beginning of financial period	-60	-	-2300	-272	-77	-2,649	**-2,709**
Other changes and accumulated depreciation of disposals	-	-	-	99	-	99	**99**
Depreciation charges for the financial period	-63	-	-515	-128	-27	-670	**-733**
Accumulated depreciation as at Dec 31	-123	-	-2,815	-301	-104	-3,220	**-3,343**
Net book value as at Dec 31	**208**	**810**	**5,345**	**381**	**453**	**6,989**	**7,197**

10 Investments

EUR thousand	Shares Group companies	Others	Investments total
2014			
Acquisition cost at beginning of financial period	1,198,578	1,362	1,199,940
Disposals	-68,538	-	-68,538
Acquisition cost as at Dec 31	1,130,040	1,362	1,131,401
Net book value as at Dec 31	1,130,040	1,362	1,131,401

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

11 Shareholdings

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

12 Specification of receivables

Non-current receivables

EUR thousand	As at Dec 31, 2015	2014
Loan receivables from Group companies	**97,102**	157,554
Deferred tax asset	**5,069**	2,014
Derivatives	**2,130**	136
Other receivables	**2,616**	1,879
Non-current receivables total	**106,917**	161,583

Current receivables

EUR thousand	As at Dec 31, 2015	2014
Trade receivables from		
Group companies	**5,189**	13,004
Other	**4**	10
Total	**5,193**	13,014
Loan receivables from		
Group companies	**65,997**	72,308
Group pool account	**1,537**	26,901
Total	**67,534**	99,209
Prepaid expenses and accrued income from Group companies	**14,747**	45,020
Other	**15,725**	21,922
Total	**30,472**	66,942
Other receivables		
VAT receivables	**2**	27
Other receivables	**3**	15
Total	**5**	42
Current receivables total	**103,204**	179,207
Current receivables from Group companies total	**87,470**	157,233

Specification of prepaid expenses and accrued income

EUR thousand	As at Dec 31, 2015	2014
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	**-**	10,340
Accrued interest income	**2,072**	2,640
Derivatives	**12,345**	31,220
Other	**330**	820
Total	**14,747**	45,020
Other prepaid expenses and accrued income		
Accrued interest income	**7**	94
Derivatives	**12,270**	19,326
Other accrued items	**3,448**	2,502
Total	**15,725**	21,922

13 Financial assets and liabilities recognized at fair value

EUR thousand	2015 Fair value Dec 31	2015 Changes in fair value recognized in profit or loss	2015 Changes in fair value recognized in fair value reserve or hedge reserve	2014 Fair value Dec 31	2014 Changes in fair value recognized in profit or loss	2014 Changes in fair value recognized in fair value reserve or hedge reserve
Forward exchange contracts						
With Group companies	**1,471**	**6,684**	**-**	12,526	23,522	-
Others	**2,417**	**-7,680**	**-**	-10,695	-38,589	-
Forward commodity contracts (electricity)						
Others	**-3,325**	**-794**	**-**	-2,531	-2,531	-
Forward contracts (interest rate swap)						
Others	**-509**	**-85**	**509**	-	-	-
Available-for-sale financial assets						
Others	**6,030**	**103**	**-10**	32,988	-	-22

14 Statement of changes in equity

EUR thousand	As at Dec 31, 2015	2014
Share capital as at Jan 1	**100,000**	100,000
Share capital as at Dec 31	**100,000**	100,000
Reserve for invested unrestricted equity as at Jan 1	**407,727**	407,611
Share-based payments	**1,927**	117
Reserve for invested unrestricted equity as at Dec 31	**409,654**	407,727
Fair value and other reserves as at Jan 1	**22**	-
Additions	**-415**	22
Fair value reserve as at Dec 31	**-393**	22
Retained earnings as at Jan 1	**496,595**	515,365
Dividends paid	**-37,348**	-22,480
Purchase of Treasury shares	**-7,499**	-109
Retained earnings as at Dec 31	**451,748**	492,776
Profit/loss	**21,593**	3,818
Total equity as at Dec 31	**982,602**	1,004,344

Statement of distributable funds

EUR	As at Dec 31, 2015	2014
Invested non-restricted equity fund	**409,654,428.44**	407,727,370.60
Retained earnings	**451,747,728.03**	492,776,290.62
Profit/loss	**21,593,211.93**	3,818,389.61
Total distributable funds	**882,995,368.40**	904,322,050.83

15 Non-current liabilities

EUR thousand	As at Dec 31, 2015	2014
Loans from financial institutions	**308,429**	14,286
Derivatives	**2,841**	2,628
Non-current liabilities total	**311,270**	16,914

16 Current liabilities

EUR thousand	As at Dec 31, 2015	2014
Current portion of non-current loans	**60,857**	49,841
Trade payables to		
Group companies	**286**	2,994
Others	**1,348**	1,544
Total	**1,634**	4,538
Accrued expenses and deferred income to		
Group companies	**11,027**	18,928
Others	**18,246**	34,113
Total	**29,273**	53,041
Other current interest bearing debt to		
Group companies	**45,234**	210,820
Group pool accounts	**308,991**	258,061
Total	**354,225**	468,881
Other current non-interest bearing debt to others	**382**	753
Current liabilities total	**446,371**	577,054
Current liabilities to Group companies total	**365,538**	490,803

Specification of accrued expenses and deferred income

EUR thousand	As at Dec 31, 2015	2014
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	**153**	47
Derivatives	**10,874**	18,694
Other accrued items	**-**	187
Total	**11,027**	18,928
Accrued expenses and deferred income to others		
Accrued interest expenses	**1,767**	133
Derivatives	**12,975**	30,060
Accrued salaries, wages and social costs	**3,002**	3,509
Other accrued items	**502**	411
Total	**18,246**	34,113

17 Other contingencies

Guarantees

EUR thousand	As at Dec 31, 2015	2014
Guarantees on behalf of subsidiaries	**766,392**	1,162,166

Lease commitments

EUR thousand	As at Dec 31, 2015	2014
Payments in the following year	**133**	153
Payments later	**126**	139
Total	**259**	292

Other commitments

EUR thousand	As at Dec 31, 2015	2014
Payments in the following year	**652**	600
Payments later	**1,250**	1,867
Total	**1,902**	2,467

List of Account Books Used in Parent Company

	Voucher class	
General journal and general ledger		in electronic format
Specifications of accounts receivable and payable		in electronic format
Fixed assets entries	01, 03, 04	in electronic format
Bank entries	10, 16, 17, 20, 27, 36, 42	in electronic format
Sales invoices	RV	in electronic format
Purchase invoices	23	in electronic format
Travel invoices	32	in electronic format
Salary entries	33	in electronic format
Journal vouchers	30, 31, 51, 52, 53, 54, 55, 59, 64, 67, 68, 71, 72, 75, 79	in electronic format
Financing entries	34, 35	in electronic format

Signatures of Board of Directors' Report and Financial Statements

Espoo, February 9, 2016

Bo Risberg
Chairman of the Board

Mikael von Frenckell
Vice Chairman of the Board

Friederike Helfer
Member of the Board

Erkki Pehu-Lehtonen
Member of the Board

Lone Fønss Schrøder
Member of the Board

Rogério Ziviani
Member of the Board

Pasi Laine
President and CEO

The Auditor's Note

Our auditor's report has been issued today.

Espoo, February 9, 2016

PricewaterhouseCoopers Oy
Authorized Public Accountant Firm

Jouko Malinen
Authorized Public Accountant

Auditor's Report (Translation from the Finnish Original)

To the Annual General Meeting of Valmet Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Valmet Corporation for the year ended 31 December, 2015. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Espoo, February 9, 2016

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant

Board of Directors

Bo Risberg
born 1956

Valmet Board Member and Chairman of the Board since March 27, 2015

Chairman of the Board's Remuneration and HR Committee

Independent of the company and independent of significant shareholders

BSc (Mech. Eng), MBA

Chairman of the Board in Piab Group Holding AB

Vice Chairman of the Board in Grundfos Holding A/S and IMD (International Management Development Institute)

Board Member of Nordstjernan AB and Trelleborg AB

Mikael von Frenckell
born 1947

Valmet Board Member and Vice Chairman of the Board since 2013

Member of the Board's Remuneration and HR Committee

Independent of the company and independent of significant shareholders

M.Sc. (Soc.)

Board Member of Antti Ahlströmin Perilliset Oy, Sponsor Capital Oy and Sponsor Capital Partners Oy

Lone Fønss Schrøder
born 1960

Valmet Board Member since 2014

Chairman of the Board's Audit Committee

Independent of the company and independent of significant shareholders

M.Sc. (Econ.), Accounting; LL.M

Board Member of Saxobank A/S, Volvo PV AB, Schneider SE, Bilfinger Berger SE, INGKA Holding B.V, Akastor ASA, Canada Steamship Lines and Credit Suisse London.

Friederike Helfer
born 1976

Valmet Board Member since 2013

Member of the Board's Audit Committee

Independent of the company and independent of significant shareholders

M.Sc. Real Estate Development, Diplom-Ingenieur in Urban Planning, CFA charterholder

Main occupation: Partner at Cevian Capital

Erkki Pehu-Lehtonen
born 1950

Valmet Board Member since 2013

Member of the Board's Audit Committee and Remuneration and HR Committee

Independent of the company and independent of significant shareholders

M.Sc. (Mechanical Engineering)

Chairman of the Board in Raute Corporation

Rogério Ziviani
born 1956

Valmet Board Member since 2013

Independent of the company and independent of significant shareholders

B.Sc. in Business Management, MBA

Board Member of Innovatech Negócios Florestais

Eija Lahti-Jäntti
born 1963

Personnel representative since 2014

MBA

Main occupation: Project coordinator at Valmet

Personnel representative Eija Lahti-Jäntti will participate as an invited expert in meetings of the Board of Directors.

Employed by Valmet since 1988

Jukka Viinanen was Chairman of Valmet's Board and Chairman of the Board's Remuneration and HR Committee until March 27, 2015.

Pekka Lundmark was Member of Valmet's Board and Member of the Board's Remuneration and HR Committee until April 7, 2015.

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

Executive Team

Pasi Laine
born 1963

President and CEO

M.Sc. (Eng.)

Jukka Tiitinen
born 1965

Business Line President,
Services

M.Sc. (Eng.)

Sakari Ruotsalainen
born 1955

Business Line President,
Automation,
from April 1, 2015

M.Sc. (Eng.)

Bertel Karlstedt
born 1962

Business Line President,
Pulp and Energy,
from February 1, 2015

M.Sc. (Eng.)

Jari Vähäpesola
born 1959

Business Line President,
Paper

M.Sc. (Eng.)

Diploma in International
Marketing Management

William (Bill) Bohn
born 1954

Area President,
North America

B.Sc. (Pulp and Paper)

B.Sc. (Forestry)

Celso Tacla
born 1964

Area President,
South America

MBA

Production Engineer

Chemical Engineer

Vesa Simola
born 1967

Area President, EMEA,
from August 1, 2015

MSc. (Eng.)

Aki Niemi
born 1969

Area President, China

M.Sc. (Eng.)

Hannu T Pietilä
born 1962

Area President, Asia Pacific

B.Sc. (Mechanical Engineering)

Kari Saarinen
born 1961

CFO,
from November 15, 2015
(previously SVP, Strategy and Operational Development)

M.Sc. (Accounting and Finance)

Julia Macharey
born 1977

Senior Vice President, Human Resources

B.A. (Intercultural Communication)

M.Sc. (Econ.)

Anu Salonsaari-Posti
born 1968

Senior Vice President, Marketing and Communications

M.Sc. (Econ.)

MBA

Juha Lappalainen
born 1962

Senior Vice President, Strategy and Operational Development,
from January 4, 2016

MSc. (Eng.)

Markku Honkasalo was CFO until November 14, 2015.

Hannu Mälkiä was Area President, EMEA, until July 31, 2015.

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

Shares and Shareholders

Valmet's share

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

The volume of Valmet shares traded in Nasdaq Helsinki Ltd. during 2015 was 102,181,856, which represents approximately 82 percent of the total volume of traded Valmet shares. In addition to Nasdaq Helsinki Ltd., Valmet shares are also traded on other market places, such as Chi-X and BATS. During 2015, the volume of Valmet's shares traded on the alternative market places was 21,850,143, which represents approximately 18 percent of the total volume of traded Valmet's shares. Of the alternative market places, Valmet's shares were traded especially on Chi-X. (Source: VWS, Six)

Valmet Corporation held 399 Valmet shares on December 31, 2015.

Closing price

December 31, 2014:
EUR 10.22

December 31, 2015:
EUR 8.90

Change:
-12.9%

Market capitalization of shares

December 31, 2014:
EUR 1,531,616,406

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

Change:
EUR -197,821,297

High, low and average price during the review period

High: **EUR 12.47**

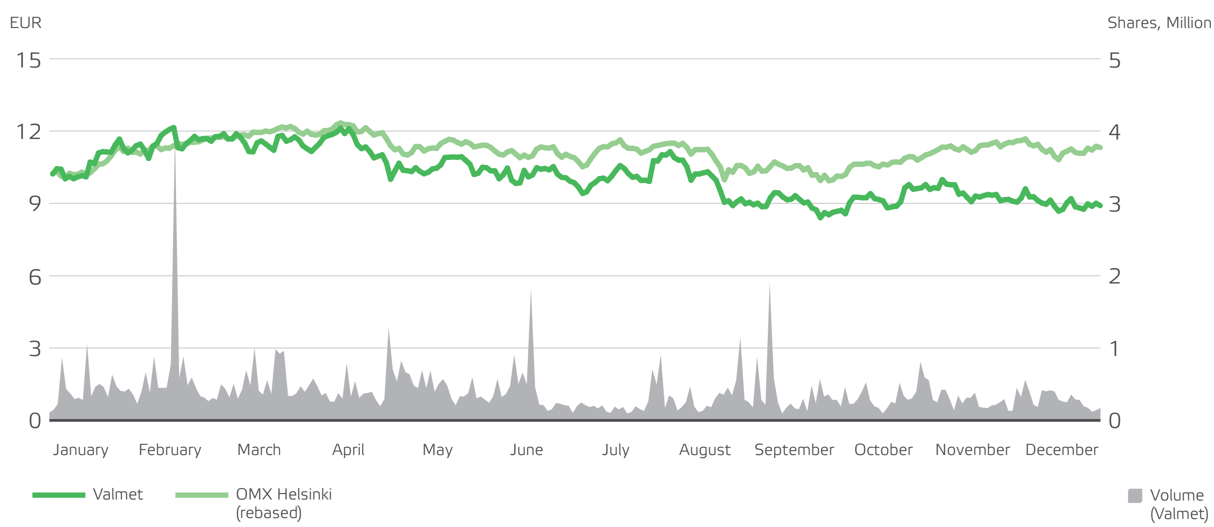
Low: **EUR 8.36**

Volume-weighted average share price:
EUR 10.39

Volume

Total:
124,031,999

% of outstanding:
82.8%



Basic information on Valmet share

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

Indices

In 2015, Valmet's shares belonged at least to the following indices:

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

Shareholders

The number of registered shareholders at the end of December 2015 was 47,952 (49,294 on December 31, 2014).

Shares owned by nominee-registered parties and by non-Finnish parties equaled 51.3 percent of the total number of shares at the end of December 2015 (54.7% on December 31, 2014).

Largest shareholders

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

In addition, according to a notification received by Valmet from Cevian Capital Partners Ltd., Cevian Capital Partners Ltd. held, on February 12, 2015, altogether 10,323,191 shares, which corresponds to 6.89 percent of all Valmet's shares and votes.

	Largest shareholders (Euroclear)	Holdings	% of holdings
1	Solidium Oy[1]	16,695,287	11.14
2	Varma Mutual Pension Insurance Company	4,208,465	2.81
3	Ilmarinen Mutual Pension Insurance Company	2,980,055	1.99
4	The State Pension Fund	1,520,000	1.01
5	Keva	1,502,166	1.00
6	Nordea Fennia Fund	1,331,310	0.89
7	Mandatum Life Insurance Company Limited	1,217,307	0.81
8	Odin Finland	974,240	0.65
9	Nordea Nordenfonden	811,896	0.54
10	Danske Invest Finnish Institutional Equity Fund	700,000	0.47
11	Nordea Pro Finland Fund	700,000	0.47
12	OP-Finland Value Fund	620,756	0.41
13	Sigrid Jusélius Foundation	610,865	0.41
14	Evli Finnish Small Cap Fund	610,253	0.41
15	Kaleva Mutual Insurance Company	599,659	0.40

[1] Solidium Oy (wholly owned by the Finnish state)

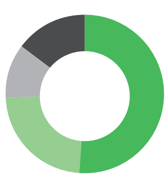
Holdings of the Board of Directors and CEO in Valmet as at December 31, 2015

		Holdings	Holdings of interest parties
Risberg, Bo	Chairman of the Board	3,922	0
Von Frenckell, Mikael	Vice Chairman of the Board	107,989	0
Helfer, Friederike	Member of the Board	4,187	0
Pehu-Lehtonen, Erkki Yrjö Juhani	Member of the Board	7,366	0
Schrøder, Lone Fønss	Member of the Board	5,235	0
Ziviani, Rogério	Member of the Board	4,187	0
Laine, Pasi Kalevi	President and CEO	49,021	0

Distribution of holdings by number of shares held on December 31, 2015

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1–100	19,950	41.6	1,034,868	0.7
101–1,000	23,167	48.3	8,565,969	5.7
1,001–10,000	4,434	9.2	11,354,016	7.6
10,001–100,000	333	0.7	8,727,228	5.8
100,001–	68	0.1	120,173,618	80.2
Total	**47,952**	**100.0**	**149,855,699**	**100.0**
Nominee registered	**12**	**0.0**	**74,114,704**	**49.5**
Treasury shares held by the parent company	**1**	**0.0**	**399**	**0.0**
On shared account	**0**	**0.0**	**8,920**	**0.0**

Distribution of holdings by group on December 31, 2015



	Number of shareholders	Number of shares	% of share capital
Nominee registered and non-Finnish holders	298	76,891,116	51.3
Finnish institutions, companies and foundations	2,629	34,619,876	23.1
Solidium Oy[1]	0	16,695,287	11.1
Finnish private investors	45,025	21,658,340	14.5
Total	**47,952**	**149,864,619**	**100.0**

[1] Solidium Oy (wholly owned by the Finnish state)

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

Investor Relations

Valmet's pulp-themed site visit to Sundsvall, Sweden in September 2015.

Mission and goal

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

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

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

Silent period

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

Investor Relations in 2015

During 2015, Valmet's Investor Relations have actively arranged different events for investors and analysts. In 2015 Valmet participated in 250 investor meetings, seminars or conference calls. In addition to investor relations, also the CEO, CFO, Business Line Presidents and Area Presidents have participated in investor events. Valmet's site visits have also offered a chance to meet local business management. Altogether, Valmet was on roadshows for a total of 32 days and in 13 different countries, including Great Britain, France, Switzerland, Germany, Austria, Belgium, Sweden, Norway, Denmark, Netherlands, the United States, and Singapore.

The publication dates for Valmet's Interim Reviews in 2015 were February 6, April 29, July 30 and October 28. For Interim Reviews published on February 6, April 29 and October 28, Valmet also arranged news conferences, where the CEO and CFO presented the results for the previous quarter. It was possible to follow these

Valmet's site visit to Tampere was arranged in November 2015 and focused on automation business.

Site visit to Shanghai, China in September 2015 was focused on Valmet's operations and market in China.

Valmet's site visit to Jyväskylä, Finland in June 2015 focused on Valmet's board and paper business.

Valmet was presenting for private investors at Rahapäivä event in September 2015 arranged by Arvopaperi.

Investor and analyst group was introduced to Valmet site at Jiading in September 2015.

events at Valmet headquarters in Keilasatama, via a live webcast on Valmet's investor website, a conference call or via Twitter. For the Interim Review published on July 30, Valmet arranged a conference call, and it was also possible to follow the call via a live audiocast on Valmet's investor website. Recordings and transcripts of these events are available on Valmet's investor website.

During 2015, Valmet arranged four site visits for institutional investors and analysts. The purpose of these visits was to give a better insight into Valmet's businesses, and every visit focused on one part of Valmet's businesses. The first visit, on June 3–4, was to Jyväskylä, Finland and the purpose of the visit was to introduce Valmet's board and paper business. During the same trip, the group also visited Metsä Fibre's pulp mill and Metsä Board's board machine in Äänekoski. On September 10, the destination of the site visit was Sundsvall, Sweden, where the visitor group was introduced to Valmet's pulp business. On September 24, Valmet arranged a site visit to Shanghai, China, with a focus on the Chinese market and Valmet's operations in China. The last site visit for the year was on November 26 to Tampere, Finland, where the theme was Valmet's automation business. The highlights of the site visits are introduced in the IR Director's blog and in summary videos in the IR Video Gallery. In September, Valmet arranged a presentation by CFO Markku Honkasalo at Valmet Headquarters in Espoo, and in December Valmet's new CFO, Kari Saarinen, hosted an introductory presentation to institutional investors and analysts.

During the year Valmet has also participated in different events for private investors, such as the Rahapäivä event, an event by Arvopaperi with an engineering company theme, and the Sijoitus Invest 2015 event. Valmet has also conducted sales briefings for brokers based mainly in Finland and the USA.

Valmet has also been actively present in social media. Interesting topics for investors, for example highlights of the site visits and questions related to Interim Reviews, are presented in the IR Director's blog on Valmet's investor website. In addition, VP, Investor Relations in Valmet, Hanna-Maria Heikkinen, has written posts in an Arvopaperi partner blog, where she has discussed global trends and developments related to Valmet's operating environment. Valmet's Investor Relations also has a Twitter account, which is used to give updates from different events, such as Valmet's news conferences for result publications. It is also possible for investors to order Valmet's IR Newsletter, which is published four times a year. The IR Newsletter summarizes the highlights of each quarter.

It is also possible to get to know Valmet as an investment by watching videos in the IR Video Gallery. Investor Relations provide different summary videos of site visits and quarterly results, among others. Launched in autumn 2015, Valmet's IR Video Academy offers short videos introducing Valmet as an investment.

JANUARY
- SEB Nordic Seminar, Copenhagen

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

MARCH
- Capital Markets Day, London
- Annual General Meeting
- Roadshow
  - Amsterdam
  - London

APRIL
- Publication of Q1 Interim Review and webcast

MAY
- Q1 presentation for Finnish institutions, Helsinki
- UBS Pan European Small & Midcap Conference, London
- Goldman Sachs European Small & Mid Cap Symposium, London
- Berenberg European Conference USA, New York
- SEB NASDAQ OMX Nordic Market Day 2015, New York
- Forest Products & Paper Seminar 2015, Helsinki
- Roadshow
  - Frankfurt

JUNE
- Site visit, Jyväskylä
- Nordic Mid/Small Cap Seminar 2015, Stockholm
- Berenberg Energy Efficiency & Construction Conference, Zürich
- Arvopaperi event: Engineering companies, Helsinki
- Roadshow
  - Paris

JULY
- Publication of Q2 Interim Review and audiocast

AUGUST
- Q2 presentation for Finnish institutions, Helsinki
- Aftermarket Services seminar, Helsinki

SEPTEMBER
- FIM one-on-one seminar, Helsinki
- Rahapäivä event, Helsinki
- Site visit, Sundsvall
- Management presentation at Valmet Headquarters, Espoo
- Roadshow
  - New York
  - Boston
  - Chicago
  - Paris
  - London
  - Geneva

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

NOVEMBER
- Sijoitus Invest 2015 event, Helsinki
- Site visit, Tampere
- Pörssi-ilta event, Tampere
- Roadshow
  - New York
  - Boston
  - Frankfurt
  - Vienna
  - Singapore
  - Stockholm

DECEMBER
- Berenberg European Conference, London
- Lunch with CFO for analysts and institutional investors, Helsinki
- Roadshow
  - Brussels

Investors met	Meetings and events	Countries visited	Days of roadshow
~490	~250	13	32

Analyst coverage

During 2015, at least 12 analysts had coverage on Valmet, and of the analysts eight are located in Helsinki, two in London, one in Stockholm and one in Frankfurt. Analyst contact information and consensus estimates are available on Valmet's investor website. Valmet does not take any responsibility for the content, accuracy or completeness of the views of the capital market representatives.

According to Valmet's knowledge at least the following analysts have regular coverage on Valmet's share.

Helsinki

Carnegie Investment Bank
Danske Markets Equities
SEB
Evli Bank
Handelsbanken Capital Markets
Inderes
Nordea
Pohjola Bank

Rest of Europe

Berenberg
DnB NOR
Kepler Cheuvreux
UBS

Valmet's investors website

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

In 2015 Valmet's investor website won first place in the 'Best investor website' contest, in the category of the Large Cap companies. The contest was arranged by the Finnish Foundation for Share Promotion and the Finnish Society of Financial Analysts. In the contest, the Finnish websites of the companies listed on the Helsinki Stock Exchange were evaluated.

Financial calendar 2016

February 9, 2016	Financial Statements Review 2015
March 22, 2016	Annual General Meeting
April 6, 2016	Silent period begins
April 27, 2016	Publication of Interim Review for January–March 2016
July 7, 2016	Silent period begins
July 28, 2016	Publication of Interim Review for January–June 2016
September 20, 2016	Capital Markets Day in Helsinki
October 6, 2016	Silent period begins
October 27, 2016	Publication of Interim Review for January–September 2016

The calendar is available on Valmet's investor website.

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Converting renewable resources into sustainable results

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