



Interim Review

January 1 — June 30, 2014

Services



Pulp and Energy



Paper



Valmet's Interim Review January 1 – June 30, 2014

Strong development in orders received continued – profitability improvement proceeding according to plan

Valmet has formed a separate legal group as of December 31, 2013. The financial information presented in this Interim Review is based on actual figures as an independent group after the consummation of the demerger and carve-out figures prior to the consummation of the demerger. The carve-out financial information presented in this Interim Review reflects the performance and financial position of the entities that have historically formed the Pulp, Paper and Power segment within Metso Group. Figures in brackets, unless otherwise stated, refer to the comparison period, i.e. the same period of the previous year. The Interim Review is unaudited.

April–June 2014: Profitability improved during the second quarter

- Orders received amounted to EUR 1,023 million (EUR 861 million).
 - Orders received increased in the Pulp and Energy, and Paper business lines.
- Net sales declined by 18 percent to EUR 588 million (EUR 714 million).
 - Net sales remained on a par with Q2/2013 in Services, and Pulp and Energy business lines, and declined in Paper business line.
- Earnings before interest, taxes and amortization (EBITA) and non-recurring items were EUR 22 million (EUR 22 million), and the corresponding EBITA margin was 3.7 percent (3.1%).
 - Profitability improved compared with both Q2/2013 and Q1/2014.
 - Full impact of savings program visible in selling, general and administrative expenses.
- Earnings per share were EUR 0.07 (EUR 0.01).
- Non-recurring items amounted to EUR 0 million (EUR -11 million).
- Cash flow provided by operating activities was EUR 46 million (EUR -12 million).

January–June 2014: Strong development in orders received

- Orders received amounted to EUR 2,124 million (EUR 1,372 million).
 - Orders received increased in the Pulp and Energy, and Paper business lines.
- Net sales declined 18 percent to EUR 1,107 million (EUR 1,345 million).
 - Net sales declined in capital business, and remained at the previous year's level in services business.
- Earnings before interest, taxes and amortization (EBITA) and non-recurring items were EUR 26 million (EUR 48 million), and the corresponding EBITA margin was 2.3 percent (3.4%).
- Earnings per share were EUR 0.03 (EUR 0.09).
- Non-recurring items amounted to EUR -6 million (EUR -11 million).
- Cash flow provided by operating activities was EUR 89 million (EUR -17 million).

Valmet reiterates its guidance for 2014

Valmet is reiterating its guidance presented on February 6, 2014 in which Valmet estimates that net sales in 2014 will decline from the 2013 level and EBITA before non-recurring items will increase in comparison with 2013.

Short-term outlook

General economic outlook

The global growth projection for 2014 has been marked down by 0.3 percent to 3.4 percent, reflecting both the legacy of the weak first quarter, particularly in the United States, and a less optimistic outlook for several emerging markets. With somewhat stronger growth expected in some advanced economies next year, the global growth projection for 2015 remains at 4 percent. (International Monetary Fund, July 24, 2014)

Short-term market outlook

Based on Valmet's improved utilization of adjusted capacity and expectations for customer activity, the short-term market outlook for board and paper has improved to a good level (previously satisfactory level).

Valmet reiterates the satisfactory short-term market outlook for services, pulp, energy, and tissue, as presented on February 6, 2014.

President and CEO Pasi Laine: Focus remains on improving profitability

Customer activity revived in the first quarter of 2014 and continued on the same level in the second quarter. During the first half of 2014, we have received almost as much orders as during the full year of 2013. In addition to a few major orders, we have continued to receive orders from different customer industries and geographical areas. Particularly the orders received by the Paper business line and Energy business increased strongly in the second quarter, while the orders continued to be on a good level in Pulp. The development of the Services business line was stable during the second quarter.

Our profitability improved in the second quarter compared with both Q2/2013 and the first quarter of 2014. We have proceeded well with our savings program, which was initiated in 2013, and the full impact of the savings program is visible in selling, general and administrative expenses. However, the profitability is still below our target level. Therefore, Valmet's key focus remains on improving profitability. In addition to the implementation of the savings program, we are also focusing on improving our processes, for example reducing quality costs and saving on procurement, to reach the targeted level. A stronger order backlog combined with the executed cost savings gives us a good starting point for the rest of 2014.

We have upgraded the short-term market outlook in board and paper to a good level, based on our expectations for customer activity and improved utilization of our adjusted capacity.

Key figures¹

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
EUR million		Carve-out			Carve-out	
Orders received	1,023	861	19%	2,124	1,372	55%
Order backlog ²	2,406	1,883	28%	2,406	1,883	28%
Net sales	588	714	-18%	1,107	1,345	-18%
Earnings before interest, taxes and amortization (EBITA) and non-recurring items	22	22	-3%	26	48	-47%
% of net sales	3.7%	3.1%		2.3%	3.4%	
Earnings before interest, taxes and amortization (EBITA)	22	12	87%	20	38	-48%
% of net sales	3.7%	1.6%		1.8%	2.8%	
Operating profit (EBIT)	16	5	>100%	9	24	-63%
% of net sales	2.8%	0.7%		0.8%	1.8%	
Profit before taxes	16	3	>100%	7	21	-67%
Profit	11	2	>100%	5	14	-68%
Earnings per share, EUR	0.07	0.01 ²	>100%	0.03	0.09 ³	-67%
Earnings per share, diluted, EUR	0.07	0.01 ²	>100%	0.03	0.09 ³	-67%
Equity per share, EUR	5.19	5.65	-8%	5.19	5.65	-8%
Cash flow provided by operating activities	46	-12		89	-17	
Cash flow after investments	36	-31		71	-44	
Return on capital employed (ROCE) before taxes (annualized)				3%	5%	

¹ The calculation of key figures is presented in the Tables section of the Q1–Q2/2014 Interim Review.

² At the end of period.

³ The earnings per share information was computed as if the shares issued in conjunction with the Demerger had been outstanding for the comparison period.

	As at June 30, 2014	As at June 30, 2013	As at March 31, 2014
Equity ratio and gearing		Carve-out	
Equity ratio at end of period	40%	39%	40%
Gearing at end of period	-7%	8%	-5%

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
Orders received, EUR million		Carve-out			Carve-out	
Services	273	281	-3%	540	563	-4%
Pulp and Energy	560	452	24%	1,182	513	>100%
Paper	190	128	48%	402	296	36%
Total	1,023	861	19%	2,124	1,372	55%

	As at June 30, 2014	As at June 30, 2013	Change	As at March 31, 2014
Order backlog, EUR million		Carve-out		
Total	2,406	1,883	28%	1,972

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
Net sales, EUR million		Carve-out			Carve-out	
Services	251	256	-2%	475	499	-5%
Pulp and Energy	229	240	-5%	410	461	-11%
Paper	108	218	-50%	222	384	-42%
Total	588	714	-18%	1,107	1,345	-18%

News conference for analysts, investors and the media

Valmet will arrange a news conference in English for investment analysts, investors, and the media on July 31, 2014 at 4:00 p.m. Finnish time (EET). The news conference will be held at Valmet's Head Office in Keilaniemi, Keilasatama 5, 02150 Espoo, Finland. The conference can also be followed through a live webcast at www.valmet.com/webcasts.

It is also possible to take part in the news conference through a conference call. Conference call participants are requested to dial in at least five minutes prior to the start of the conference, at 3:55 p.m. (EET), at +44 1452 555566. The participants will be asked to provide the following conference ID: 65328995.

During the webcast and conference call, all questions should be presented in English. At the end of the event the media will also be given a chance to present questions in Finnish.

Valmet's Interim Review January 1–June 30, 2014

Customer activity at the same level as in the first quarter

Customer activity revived in the first quarter of 2014 and continued at the same level in the second quarter. Valmet's orders received increased by 55 percent in the first half of the year, with strong development in capital business. Orders received increased especially in Asia-Pacific and the EMEA area (Europe, Middle East and Africa).

The development of the Services business was satisfactory during the first half of the year. Orders received and net sales remained stable at the previous year's level. During the first half of the year, orders received declined in South America and North America.

Customer activity revived clearly in the pulp and energy market during the first half of the year. In addition to a few larger pulp mill orders, the Energy business developed strongly. Orders received increased particularly in Asia-Pacific and EMEA.

Demand for board and paper lines and tissue lines was satisfactory during the first half of the year. Orders received increased especially in EMEA and North America, and declined in South America.

Strong orders received in the first half of the year

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
Orders received, EUR million		Carve-out			Carve-out	
Services	273	281	-3%	540	563	-4%
Pulp and Energy	560	452	24%	1,182	513	>100%
Paper	190	128	48%	402	296	36%
Total	1,023	861	19%	2,124	1,372	55%

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
Orders received, EUR million		Carve-out			Carve-out	
North America	82	94	-13%	268	215	25%
South America	194	402	-52%	217	472	-54%
EMEA	567	214	>100%	1,004	426	>100%
China	120	103	16%	154	136	13%
Asia-Pacific	60	47	27%	482	124	>100%
Total	1,023	861	19%	2,124	1,372	55%

Orders received in April–June amounted to EUR 1,023 million, i.e. 19 percent more than in the comparison period (EUR 861 million). Emerging markets accounted for 41 percent (69%) of orders received. Orders received increased in the Paper, and Pulp and Energy business lines, and remained at the previous year's level in the Services business line.

During April–June, Valmet received several orders for boiler plants to Finland, Hungary and the Czech Republic, among others. Orders received by the Pulp and Energy business line included, among others, a major pulp mill upgrade in Sweden, with a value of approximately EUR 200 million, and part of a significant pulp mill rebuild in Thailand, with a value of approximately EUR 30 million. In addition, the letter of intent

for pulp drying lines, typically valued at EUR 150–200 million, signed during the first quarter of 2014, was finalized into a delivery agreement in the second quarter.

Orders received by the Paper business line in April–June included, among others, an Advantage tissue production line to Turkey and a paper machine upgrade in Finland. In addition Valmet will deliver a chemi-mechanical pulp production line and a board production line to China.

Orders received during the first half of the year amounted to EUR 2,124 million, i.e. 55 percent more than in the comparison period (EUR 1,372 million). Emerging markets accounted for 51 percent (62%) of orders received.

The most significant order received in January–March was announced in a stock exchange release on February 7, 2014. Valmet supplies the key technology to the OKI Pulp & Paper Mills pulp mill project in South Sumatra, Indonesia. Valmet supplies a part of pulp mill equipment and systems with a value of approximately EUR 340 million. The order was included in Q1/2014 orders received.

Order backlog increased compared to comparison period

	As at June 30, 2014	As at June 30, 2013 Carve-out	Change	As at March 31, 2014
Order backlog, EUR million				
Total	2,406	1,883	28%	1,972

At the end of June, the order backlog was EUR 2,406 million, which was 22 percent higher than at the end of March (EUR 1,972 million at the end of first quarter 2014) and 28 percent higher than in the comparison period (EUR 1,883 million).

Solid performance in Services business net sales

	Q2/2014	Q2/2013 Carve-out	Change	Q1-Q2/ 2014	Q1-Q2/ 2013 Carve-out	Change
Net sales, EUR million						
Services	251	256	-2%	475	499	-5%
Pulp and Energy	229	240	-5%	410	461	-11%
Paper	108	218	-50%	222	384	-42%
Total	588	714	-18%	1,107	1,345	-18%

	Q2/2014	Q2/2013 Carve-out	Change	Q1-Q2/ 2014	Q1-Q2/ 2013 Carve-out	Change
Net sales, EUR million						
North America	113	108	5%	209	220	-5%
South America	89	97	-9%	167	190	-12%
EMEA	243	306	-21%	438	576	-24%
China	65	128	-49%	141	224	-37%
Asia-Pacific	77	75	2%	151	136	11%
Total	588	714	-18%	1,107	1,345	-18%

Net sales in April–June declined 18 percent on the comparison period to EUR 588 million (EUR 714 million). Services business line's net sales remained on a par with Q2/2013, and accounted for 43 percent of

Valmet's net sales (36%). Measured by net sales, the top three countries were the USA, Brazil and China, which together accounted for 40 percent of total net sales. Emerging markets accounted for 48 percent (51%) of net sales.

Changes in foreign exchange rates reduced net sales by approximately EUR 28 million compared to the exchange rates at the end of 2013.

Net sales declined 18 percent to EUR 1,107 million (EUR 1,345 million) during the first half of the year. Services business line's net sales remained at the previous year's level, and accounted for 43 percent of Valmet's net sales (37%).

Profitability improved compared with both the comparison period and the first quarter of 2014

In April–June, earnings before interest, taxes and amortization and non-recurring items (EBITA before non-recurring items) were EUR 22 million, i.e. 3.7 percent of net sales (EUR 22 million and 3.1%).

In the first half of the year, earnings before interest, taxes and amortization and non-recurring items (EBITA before non-recurring items) were EUR 26 million, i.e. 2.3 percent of net sales (EUR 48 million and 3.4%). A cost accrual of approximately EUR 10 million linked to an individual major pulp project had a negative impact on the result for the first quarter of 2014.

Operating profit (EBIT) in April–June was EUR 16 million, i.e. 2.8 percent of net sales (EUR 5 million and 0.7%). Non-recurring items totaled EUR 0 million (EUR -11 million).

Operating profit (EBIT) for the first half of the year was EUR 9 million, i.e. 0.8 percent of net sales (EUR 24 million and 1.8%). Non-recurring items totaled EUR -6 million (EUR -11 million).

Net financial income and expenses

Net financial income and expenses in April–June were EUR 0 million (EUR -2 million), of which interest expenses amounted to EUR 3 million, interest income to EUR 1 million, other financial expenses to EUR 0 million, dividends received to EUR 1 million and net foreign exchange gains to EUR 1 million.

Net financial income and expenses in the first half of the year were EUR -2 million (EUR -3 million), of which interest expenses amounted to EUR 5 million, interest income to EUR 2 million and other financial expenses to EUR 1 million, dividends received to EUR 1 million and net foreign exchange gains to EUR 1 million.

Profit before taxes and earnings per share

Profit before taxes for April–June was EUR 16 million (EUR 3 million). The profit attributable to owners of the parent in April–June was EUR 11 million (EUR 2 million), corresponding to earnings per share (EPS) of EUR 0.07 (EUR 0.01).

Profit before taxes for the first half of the year was EUR 7 million (EUR 21 million). The profit attributable to owners of the parent in the first half of the year was EUR 5 million (EUR 14 million), corresponding to earnings per share (EPS) of EUR 0.03 (EUR 0.09).

Return on capital employed (ROCE) decreased

In the first half of 2014, annualized return on capital employed (ROCE) before taxes was 3 percent (5%) and annualized return on equity (ROE) 1 percent (3%).

Business lines

Services – net sales increased from the previous quarter

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
Services business line		Carve-out			Carve-out	
Orders received (EUR million)	273	281	-3%	540	563	-4%
Net sales (EUR million)	251	256	-2%	475	499	-5%
Personnel (end of period)				5,365	5,397	-1%

In April–June, orders received by the Services business line remained on a par with the comparison period at EUR 273 million (EUR 281 million) and accounted for 27 percent of all orders received (33%). Orders received increased in EMEA and declined in South America and China. Orders received increased in the Mill Improvements business unit, and declined in the Energy and Environmental, and Fabrics business units.

During the first half of the year, orders received by the Services business line remained stable in relation to the comparison period at EUR 540 million (EUR 563 million) and accounted for 25 percent of all orders received (41%). Orders received declined in South America and North America and remained on a par with the comparison period in other areas. Orders received declined in the Energy and Environmental, and Performance parts business units, and remained on a par with the comparison period in other business units.

In April–June, net sales for the Services business line totaled EUR 251 million (EUR 256 million), corresponding to 43 percent of Valmet's net sales (36%).

In the first half of the year, net sales for the Services business line totaled EUR 475 million (EUR 499 million), corresponding to 43 percent of Valmet's net sales (37%).

Pulp and Energy – orders received strong in Energy business

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
Pulp and Energy business line		Carve-out			Carve-out	
Orders received (EUR million)	560	452	24%	1,182	513	>100%
Net sales (EUR million)	229	240	-5%	410	461	-11%
Personnel (end of period)				1,815	2,414	-25%

In April–June, orders received by Pulp and Energy business line increased by 24 percent to EUR 560 million (EUR 452 million) and accounted for 55 percent of all orders received (53%). Orders received increased especially in EMEA and Asia-Pacific and declined from the high level in Q2/2013 in South America. Orders received increased in the Energy business and remained on a par with the good level in Q2/2013 in Pulp business.

During the first half of the year, orders received by Pulp and Energy business line more than doubled. In the first half of 2014, orders received totaled EUR 1,182 million (EUR 513 million) and accounted for 56 percent of all orders received (37%). Orders received increased in Asia-Pacific, EMEA, North America and China and declined in South America. Orders received increased in both the Pulp, and the Energy business.

In April–June, net sales for Pulp and Energy business line remained at the previous year’s level at EUR 229 million (EUR 240 million), corresponding to 39 percent (34%) of Valmet’s net sales.

In the first half of the year, net sales for Pulp and Energy business line totaled EUR 410 million (EUR 461 million), corresponding to 37 percent of Valmet’s net sales (34%).

Paper – strong growth in orders received

	Q2/2014	Q2/2013	Change	Q1-Q2/ 2014	Q1-Q2/ 2013	Change
Paper business line		Carve-out			Carve-out	
Orders received (EUR million)	190	128	48%	402	296	36%
Net sales (EUR million)	108	218	-50%	222	384	-42%
Personnel (end of period)				3,220	4,079	-21%

In April–June, orders received by Paper business line increased 48 percent to EUR 190 million (EUR 128 million). Orders received increased in EMEA and China, and declined in North America and Asia-Pacific. Orders received increased in both Board and Paper, and Tissue. The share of orders received was 19 percent of Valmet’s total orders received (15%).

During the first half of the year, orders received by Paper business line increased 36 percent to EUR 402 million (EUR 296 million). Orders received increased in EMEA, North America, and China and declined in South America. Orders received increased especially in Board and Paper. The share of orders received was 19 percent of Valmet’s total orders received (22%).

In April–June, net sales for the Paper business line decreased 50 percent to EUR 108 million (EUR 218 million), corresponding to 18 percent (31%) of Valmet’s total net sales.

In the first half of the year, net sales for the Paper business line totaled EUR 222 million (EUR 384 million), corresponding to 20 percent of Valmet’s net sales (29%).

Profitability improvement measures

On April 23, 2013, Valmet announced that it would initiate a savings program to improve its competitiveness. The timetable for the program was accelerated in October 2013, and it targets annual cost savings of approximately EUR 100 million by the end of 2014.

A third of the estimated savings are related to selling, general and administrative expenses and around two thirds to cost of goods sold.

The savings program has proceeded according to plan, both during the year of 2013 and the first half of 2014. Selling, general and administrative expenses have been reduced in all geographical areas. The majority of the savings has been focused on the EMEA region and North America, as well as on Paper, and Pulp and Energy business lines. In the first half of 2014, selling, general and administrative expenses have decreased by EUR 34 million. The full impact of the savings program is visible in selling, general and administrative expenses.

Valmet provides comprehensive support to persons in Finland who have been affected by the reduction measures through the “Polku” employment support program. The program includes measures that support entrepreneurship, studies and re-employment such as job-to-job coaching and relocation support.

Profitability supported through improvements in processes

In addition to the savings program, Valmet intends to improve profitability by improving its internal processes.

Valmet aims to improve the project and service margin through the harmonization of processes between business lines, and through the localization of competencies. Better selection of sales cases and development in project management will also contribute to improving the margin.

In order to reduce quality costs and lead times, Valmet develops a common quality development approach. Valmet will continue to highlight the importance of quality initiatives and accountability. Additionally, further development of quality tools and processes is important.

To reach savings in procurement, Valmet will increase sourcing from cost competitive countries. Procurement savings can also be reached by increasing the use of sub-contracting and by consolidating the shipment and warehouse network.

Valmet will continue to improve its cost competitiveness by finalizing the implementation of the existing savings program. Valmet will focus on cost competitiveness also after the savings program. Valmet will also improve product cost competitiveness to increase gross profit through modularity and standardization, and by focusing on cost efficient design.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 46 million in April–June (EUR -12 million) and EUR 89 million (EUR -17 million) in the first half of the year. Net working capital was EUR -249 million (EUR -115 million) at the end of the first half of 2014. The change in net working capital was partly due to an increase in advances received from the capital business. Cash flow after investments was EUR 36 million (EUR -31 million) in April–June and EUR 71 million (EUR -44 million) in the first half of the year.

Gearing was -7 percent (8%) at the end of the first half of 2014 and the equity ratio was 40 percent (39%). Net interest-bearing liabilities totaled EUR -54 million (EUR 71 million) at the end of the reporting period. Valmet's interest-bearing liabilities of EUR 185 million consisted mainly of drawn down long-term bank loans. The average maturity for Valmet's long-term debt was 2.7 years.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents and available-for-sale financial assets totaling EUR 237 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, as well as a EUR 200 million commercial paper program.

In compliance with the resolution of the Annual General Meeting on March 26, 2014, Valmet Corporation paid out dividends of EUR 22 million for 2013, corresponding to EUR 0.15 per share, on April 11, 2014.

Investments decreased

Gross capital expenditure, including business acquisitions, in April-June was EUR 10 million (EUR 20 million). Maintenance investments accounted for 74 percent, i.e. EUR 7 million (73% and EUR 15 million).

Gross capital expenditure, including business acquisitions, in the first half of 2014 was EUR 21 million (EUR 28 million). Maintenance investments accounted for 80 percent, i.e. EUR 17 million (78% and EUR 22 million).

Business combinations and disposals of businesses

Acquisitions

Valmet made no acquisitions in January–June 2014.

Disposals

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, MW Power AB 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.

Number of personnel decreased during January–June

	As at June 30, 2014	As at June 30, 2013	Change	As at March 31, 2014
Personnel by business line				
Services	5,365	5,397	-1%	5,323
Pulp and Energy	1,815	2,414	-25%	1,968
Paper	3,220	4,079	-21%	3,235
Other	401	188	>100%	339
Total (end of period)	10,801	12,078	-11%	10,865

	As at June 30, 2014	As at June 30, 2013	Change	As at March 31, 2014
Personnel by area				
North America	1,133	1,112	2%	1,126
South America	427	419	2%	424
EMEA	6,670	7,850	-15%	6,697
China	1,974	2,084	-5%	2,015
Asia-Pacific	597	613	-3%	603
Total (end of period)	10,801	12,078	-11%	10,865

In January–June, Valmet employed an average of 11,279 people (12,454). The number of personnel at the end of June 2014 was 10,801 (12,078). In January–June personnel expenses totaled EUR 307 million (EUR 361 million) of which wages and salaries and remunerations equaled EUR 238 million (EUR 279 million).

Strategic goals and their implementation

As stated in its strategy, Valmet will focus on developing and delivering technology and services globally to industries that use bio-based raw materials. Valmet's vision is to become the global champion in serving its customers, and its mission is to convert renewable resources into sustainable results.

Valmet's main customer industries are pulp, paper, and energy. All of these are major global industries that offer growth potential for the future. Valmet complements its core business by applying its service and technology expertise also to industries beyond those that use bio-based raw materials, especially the energy sector.

Valmet's product and service portfolio consists of productivity-enhancing services, 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 goal is to achieve its targets by focusing on customer excellence, on being a leader in technology and innovation, on excellence in processes and on reinforcing a winning team.

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

Legal proceedings and claims

Lawsuits and claims related to ordinary business operations have been filed against Valmet's business on various grounds; these include product liability, immaterial rights and asbestos trials, in addition to which deliveries involve the usual risk of disagreements. Product liability lawsuits are typically based on personal injury. Valmet's products might also be used in locations where the customer's operations could harm the environment and thus place Valmet in a position of liability.

To the best of its present estimate, Valmet's management does not foresee that the outcome of these lawsuits, claims and disputes will have a material negative impact on Valmet in view of the grounds presented for them.

Corporate Governance Statement

Valmet has prepared a separate Corporate Governance Statement for 2013 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.

Shares and shareholders

Share capital and number of shares

At the end of June 2014, Valmet Corporation's share capital totaled EUR 100,000,000 and the number of shares was 149,864,619. The number of outstanding shares at the end of June was 149,864,220.

Treasury shares and Board authorizations

Valmet Corporation's Annual General Meeting on March 26, 2014 authorized Valmet's Board of Directors to resolve on repurchasing the Company's shares and/or taking the shares as pledge. The maximum

number of treasury shares to be repurchased and/or taken as pledge shall be 10,000,000 shares, which corresponds to approximately 6.7 percent of all of the shares in the Company.

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

Treasury shares may be repurchased and/or taken as pledge 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 repurchased shares may be held for the time being, cancelled or reissued. The Board of Directors resolves on all other terms related to the repurchasing and/or taking as pledge of own shares. The authorization shall stay in force until June 30, 2015 and it cancels the previous authorization given to the Board of Directors of Valmet Corporation by the extraordinary general meeting of Metso Corporation convening on October 1, 2013.

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. The Board is authorized to issue a maximum of 15,000,000 new shares and convey a maximum of 10,000,000 Valmet shares already held by the company. The authorization shall stay in force until June 30, 2015 and it cancels the previous authorization given to the Board of Directors of Valmet Corporation by the Extraordinary General Meeting of Metso Corporation convening on October 1, 2013.

In accordance with a resolution by Valmet Corporation's Board of Directors, Valmet Corporation has conveyed a total of 13,911 Valmet shares held by the company to 25 key Valmet 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 in the company held by Valmet Corporation is 399. The handover was announced in a stock exchange release on May 2, 2014.

Metso Corporation's Board of Directors resolved on the terms and conditions of the share-based incentive program 2011-2013 in September 2010. The terms and conditions of the program are described in greater detail in Valmet's Corporate Governance Statement for 2013.

Trading in shares

The closing share price for Valmet's share on the first day of trading (January 2, 2014) was EUR 6.65. The closing share price on the final day of trading for the reporting period, June 30, 2014, was EUR 8.74. The share price rose by some 31 percent during the period between January 2, 2014 and June 30, 2014. The highest price for the share during the reporting period was EUR 9.15, the lowest was EUR 6.00 and the volume-weighted average price was EUR 7.10. The number of shares traded on NASDAQ OMX Helsinki during January-June was 92,705 thousand. The value of trading was EUR 660 million. (Source: NASDAQ OMX)

In addition to the Helsinki Stock Exchange, Valmet's shares are also traded on other marketplaces, such as Chi-X and BATS. A total of 5,320 thousand of Valmet Corporation's shares were traded on alternative marketplaces in January-June, which equals approximately 6 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 stood at EUR 1,310 million at the end of the reporting period.

Number of shareholders

The number of registered shareholders at the end of June 2014 was 52,143 (58,490 on Dec 31, 2013). Shares owned by nominee-registered parties and by non-Finnish parties equaled 53.7 percent of the total number of shares at the end of June 2014 (47.8% on Dec 31, 2013).

Flagging notifications

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

Stock exchange release on March 11, 2014

Valmet Corporation received a notification according to the Securities Markets Act on a change in the holdings of Cevian's funds. Cevian Capital II Master Fund L.P. has transferred all of the 8,305,654 Valmet shares it owns to its wholly-owned subsidiary Cevian Capital Partners Ltd. The transfer was completed on March 10, 2014 after which Cevian Capital Partners Ltd. owns altogether 20,813,714 Valmet shares, which corresponds to 13.89 percent of Valmet's entire share stock and votes. The transfer of shares does not affect the total number of shares owned by Cevian's funds.

Share-based incentive plans

Valmet's share ownership plans are part of the remuneration and retention program for Valmet's management. In December 2013, Metso's Board of Directors decided to continue the share-based incentive plan approved in December 2011. The target group of the plan is the senior management of Valmet. The aim of the plan is to align the objectives of shareholders and management to increase the value of the company, commit management to the company, and offer managers a competitive reward plan based on a long-term shareholding in the company.

The plan approved in 2011 includes three performance periods, equivalent to the 2012, 2013, and 2014 calendar years. The Board of Directors is responsible for setting the performance criteria and targets used at the beginning of each performance period. A maximum of 45 key employees in Valmet will be covered by the plan for the 2014 performance period. Growth in Valmet's operating profit margin (EBITA %) and growth in services orders received will act as the 2014 performance criteria of the long-term incentive plan.

Payment will be made at the end of an approximately two-year vesting period, in 2017, partly in treasury shares and partly in cash. The proportion paid in cash is intended to cover taxes and tax-related costs arising from the payment.

At Valmet, the potential rewards to be paid on the basis of the 2014 performance period will correspond to a maximum total of approximately 822,000 Valmet shares.

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 26, 2014. The Annual General Meeting adopted the Financial Statements for 2013 and discharged the members of the Board and

the CEO from liability for the 2013 financial year. The Annual General Meeting approved the Board of Directors' proposals, which concerned authorizing the Board to resolve on repurchasing treasury shares and/or taking treasury shares as pledge, to resolve on the issuance of shares and the issuance of special rights entitling to shares and to establish a shareholders' nomination board.

The Annual General Meeting confirmed the number of Board members as seven and appointed Jukka Viinanen as Chairman of Valmet Corporation's Board and Mikael von Frenckell as Vice Chairman. Lone Fønss Schrøder was appointed as a new member of the Board. 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.

Valmet published stock exchange releases on March 26, 2014, 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.

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 services and emerging markets 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 in official regulations and legislation can also critically affect especially the Energy 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 binding credit limits are sufficient to secure the company's immediate liquidity and to ensure the flexibility of financing. The average maturity for Valmet's long-term debt is 2.7 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.

At the end of the first half of 2014, Valmet had EUR 441 million (EUR 442 million at the end of March 2014) of goodwill on its statement of financial position. The carrying value of goodwill is reviewed annually or more frequently for impairment, if the facts and circumstances suggest that its carrying value may not be recoverable. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Annual Report.

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 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.

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.

Subsequent events after the review period

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

Valmet reiterates its guidance for 2014

Valmet is reiterating its guidance presented on February 6, 2014 in which Valmet estimates that net sales in 2014 will decline from the 2013 level and EBITA before non-recurring items will increase in comparison with 2013.

Short-term outlook

General economic outlook

The global growth projection for 2014 has been marked down by 0.3 percent to 3.4 percent, reflecting both the legacy of the weak first quarter, particularly in the United States, and a less optimistic outlook for several emerging markets. With somewhat stronger growth expected in some advanced economies next year, the global growth projection for 2015 remains at 4 percent. (International Monetary Fund, July 24, 2014)

Short-term market outlook

Based on Valmet's improved utilization of adjusted capacity and expectations for customer activity, the short-term market outlook for board and paper has improved to a good level (previously satisfactory level).

Valmet reiterates the satisfactory short-term market outlook for services, pulp, energy, and tissue, as presented on February 6, 2014.

In Espoo on July 31, 2014

Valmet Corporation's Board of Directors

Consolidated Statement of Income

	Q2/2014	Q2/2013	Q1-Q2/ 2014	Q1-Q2/ 2013
EUR million		Carve-out		Carve-out
Net sales	588	714	1,107	1,345
Cost of goods sold	-475	-589	-897	-1,087
Gross profit	113	125	210	258
Selling, general and administrative expenses	-97	-120	-200	-234
Other operating income and expenses, net	1	0	-1	-1
Share in profits and losses of associated companies	0	-	0	1
Operating profit	16	5	9	24
Financial income and expenses, net	0	-2	-2	-3
Profit before taxes	16	3	7	21
Income taxes	-5	0	-2	-7
Profit / loss	11	2	5	14
Attributable to:				
Owners of the parent	11	2	5	14
Non-controlling interests	0	0	0	0
Profit / loss	11	2	5	14
Earnings per share attributable to owners of the parent				
Earnings per share, EUR	0.07	0.01 ¹	0.03	0.09 ¹
Diluted earnings per share, EUR	0.07	0.01 ¹	0.03	0.09 ¹

¹ The earnings per share information was computed as if the shares issued in conjunction with the Demerger had been outstanding for the comparison period.

Consolidated Statement of Comprehensive Income

EUR million	Q2/2014	Q2/2013 Carve-out	Q1-Q2/ 2014	Q1-Q2/ 2013 Carve-out
Profit / loss	11	2	5	14
Items that may be reclassified to profit or loss in subsequent periods:				
Cash flow hedges	-1	-1	-10	1
Available-for-sale equity investments	0	0	0	0
Currency translation on subsidiary net investments	-2	-18	-6	-15
Income tax relating to items that may be reclassified	0	0	2	0
	-2	-18	-14	-14
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	0	-	0	-
Income tax on items that will not be reclassified	0	-	0	-
	0	-	0	-
Other comprehensive income (+) / expense (-)	-2	-18	-14	-14
Total comprehensive income (+) / expense (-)	8	-16	-9	0
Attributable to:				
Owners of the parent	8	-16	-9	0
Non-controlling interests	0	0	0	0
Total comprehensive income (+) / expense (-)	8	-16	-9	0

Consolidated Statement of Financial Position

Assets

EUR million	As at June 30, 2014	As at June 30, 2013 Carve-out	As at December 31, 2013
Non-current assets			
Intangible assets			
Goodwill	441	446	443
Other intangible assets	99	124	107
Total intangible assets	540	570	550
Property, plant and equipment			
Land and water areas	22	21	21
Buildings and structures	131	149	137
Machinery and equipment	197	242	210
Assets under construction	27	14	21
Total property, plant and equipment	376	426	389
Financial and other non-current assets			
Investments in associated companies	5	5	5
Available-for-sale equity investments	3	4	3
Available-for-sale financial assets	10	-	-
Loan and other interest-bearing receivables	2	1	1
Deferred tax asset	88	67	80
Other non-current assets	14	110	8
Total financial and other non-current assets	122	187	97
Total non-current assets	1,038	1,183	1,036
Current assets			
Inventories	480	514	431
Receivables			
Trade and other receivables	437	450	436
Cost and earnings of projects under construction in excess of advance billings	176	171	159
Loan and other interest-bearing receivables	0	97	-
Available-for-sale financial assets	28	1	1
Derivative financial instruments	13	1	18
Income tax receivables	17	35	21
Total receivables	671	755	635
Cash and cash equivalents	199	211	211
Total current assets	1,349	1,480	1,277
Total assets	2,387	2,663	2,313

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	As at June 30, 2014	As at June 30, 2013 <small>Carve-out</small>	As at December 31, 2013
Equity			
Share capital	100	-	100
Reserve for invested unrestricted equity	403	-	402
Cumulative translation adjustments	-4	9	2
Fair value and other reserves	-2	4	5
Retained earnings	281	-	299
Invested equity and retained earnings	-	834	-
Equity attributable to owners of the parent	777	847	808
Non-controlling interests	5	5	5
Total equity	782	852	813
Liabilities			
Non-current liabilities			
Long-term debt	114	162	140
Post-employment benefits	107	120	103
Provisions	27	27	32
Derivative financial instruments	2	2	2
Deferred tax liability	25	33	29
Other long-term liabilities	1	1	1
Total non-current liabilities	276	345	307
Current liabilities			
Current portion of long-term debt	57	93	63
Short-term debt	13	126	8
Trade and other payables	695	668	673
Provisions	89	91	105
Advances received	141	205	139
Billings in excess of cost and earnings of projects under construction	297	249	176
Derivative financial instruments	23	3	8
Income tax liabilities	13	31	21
Total current liabilities	1,329	1,466	1,193
Total liabilities	1,605	1,811	1,500
Total equity and liabilities	2,387	2,663	2,313

Condensed Consolidated Statement of Cash Flows

EUR million	Q2/2014	Q2/2013 Carve-out	Q1-Q2/ 2014	Q1-Q2/ 2013 Carve-out
Cash flows from operating activities				
Profit / loss	11	2	5	14
Adjustments				
Depreciation and amortization	18	21	36	43
Dividend income and net interests	0	2	0	3
Income taxes	5	0	2	7
Other non-cash items	-2	4	2	1
Change in net working capital, net of effect from business acquisitions and disposals	23	-38	58	-47
Net interests and dividends received	-1	0	0	-11
Income taxes paid	-9	-4	-15	-27
Net cash provided by (+) / used in (-) operating activities	46	-12	89	-17
Cash flows from investing activities				
Capital expenditure on fixed assets	-10	-16	-21	-24
Proceeds from sale of fixed assets	1	1	3	1
Business acquisitions, net of cash acquired	-	-3	-	-3
Proceeds from sale of businesses, net of cash sold	-	-1	0	-1
Other	0	0	0	0
Net cash provided by (+) / used in (-) investing activities	-9	-19	-17	-27
Cash flows from financing activities				
Redemption of own shares	0	-	0	-
Dividends paid	-22	-	-22	-
Changes in ownership interests in subsidiaries	-	-5	-	-5
Net borrowings (+) / payments (-) on short-term and long-term debt	-28	143	-26	-358
Investments in available-for-sale financial assets	-13	-	-37	-
Equity financing	-	-	-	467
Other	-	0	-	0
Net cash provided by (+) / used in (-) financing activities	-63	138	-85	104
Net increase (+) / decrease (-) in cash and cash equivalents	-27	106	-14	60
Effect of changes in exchange rates on cash and cash equivalents	1	-12	1	-7
Cash and cash equivalents at beginning of period	224	117	211	158
Cash and cash equivalents at end of period	199	211	199	211

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	Invested equity and retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at Jan 1, 2014	100	402	2	5	299	-	808	5	813
Profit / loss	-	-	-	-	5	-	5	-	5
Other comprehensive income (+) / expense (-)	-	-	-6	-8	-	-	-14	-	-14
Total comprehensive income (+) / expense (-)	-	-	-6	-8	5	-	-9	-	-9
Dividends	-	-	-	-	-22	-	-22	-	-22
Other	-	-	-	-	0	-	0	-	0
Share-based payments, net of tax	-	0	-	-	1	-	1	-	1
Balance at June 30, 2014	100	403	-4	-2	281	-	777	5	782
Balance at Jan 1, 2013 ¹	-	-	24	3	-	389	416	7	423
Profit / loss ¹	-	-	-	-	-	14	14	0	14
Other comprehensive income (+) / expense (-) ¹	-	-	-15	1	-	-	-14	-	-14
Total comprehensive income (+) / expense (-) ¹	-	-	-15	1	-	14	0	0	0
Changes in non-controlling interests ¹	-	-	-	-	-	-4	-4	-2	-6
Share-based payments, net of tax ¹	-	-	-	-	-	-1	-1	-	-1
Changes in invested equity ¹	-	-	-	-	-	436	436	-	436
Balance at June 30, 2013 ¹	-	-	9	4	-	834	847	5	852

¹ Carve-out figures.

Accounting principles

General information

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

Valmet Corporation is domiciled in Helsinki, and its registered address is Keilasatama 5, 02150 Espoo, Finland. The Company’s shares are listed on the NASDAQ OMX Helsinki Ltd.

Valmet was formed through the partial demerger of the Pulp, Paper and Power businesses (“PPP”) of Metso Corporation (the “Demerger”), which became effective on December 31, 2013.

These condensed consolidated interim financial statements were approved for issue on 31 July 2014.

Basis of preparation

These condensed consolidated interim financial statements for the six months ended June 30, 2014 have been prepared in accordance with IAS 34, ‘Interim financial reporting’ and in conformity with IFRS as adopted by the European Union. The financial information presented in this financial statements bulletin has not been audited. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS.

Valmet formed a separate legal group as of December 31, 2013. The information presented in these condensed consolidated interim financial statements is based on actual consolidated figures as an independent group after the consummation of the Demerger and on carve-out information for periods preceding the consummation of the Demerger.

The carve-out financial information presented in the financial statements reflects the financial performance of the entities that have historically formed the Pulp, Paper and Power segment within Metso Group. The carve-out historical financial information includes allocations of income, expenses, assets, liabilities and cash-flows from predecessor parent company Metso Corporation. The Valmet Group carve-out financial information includes all those legal entities that have historically formed the reportable segment PPP and which were transferred to Valmet Corporation in the Demerger.

The earnings per share information for the comparison period presented was computed as if the shares issued in conjunction with the Demerger had been outstanding for the period presented.

In the condensed consolidated interim 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

The accounting policies adopted are consistent with those of the previous financial year except as described below.

- Valmet adopted the IFRS 10 ‘Consolidated Financial Statements’ standard on January 1, 2014. The standard did not have a material impact on Valmet’s financial statements.

- Valmet adopted the IFRS 11 'Joint Arrangements' standard on January 1, 2014. The standard did not have a material impact on Valmet's financial statements.
- Valmet adopted the IFRS 12 'Disclosure of Interests in Other Entities' standard on January 1, 2014. The standard did not have a material impact on Valmet's financial statements.

Business combinations and disposals of businesses

Acquisitions

Valmet made no acquisitions during the six months ended June 30, 2014.

Disposals

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 MW Power AB 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.

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. Valmet had no such instruments at the balance sheet date. |

Unaudited Condensed Consolidated Interim Financial Statements

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 2014.

EUR million	As at June 30, 2014		
	Level 1	Level 2	Level 3
Assets			
Derivatives at fair value through profit and loss	-	1	-
Derivatives qualified for hedge accounting	-	12	-
Available for sale financial assets	12	26	-
Total assets	12	40	-
Liabilities			
Derivatives at fair value through profit and loss	-	10	-
Derivatives qualified for hedge accounting	-	16	-
Total liabilities	-	26	-

EUR million	As at June 30, 2013		
	Level 1	Level 2	Level 3
Assets			
Derivatives at fair value through profit and loss	-	0	-
Derivatives qualified for hedge accounting	-	1	-
Available for sale financial assets	2	-	-
Total assets	2	1	-
Liabilities			
Derivatives at fair value through profit and loss	-	2	-
Derivatives qualified for hedge accounting	-	3	-
Total liabilities	-	5	-

Assets pledged and contingent liabilities

EUR million	As at June 30, 2014	As at June 30, 2013 Carve-out
Guarantees on behalf of others	3	3
Lease commitments	43	42

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 1,181 million and EUR 1,323 million¹ as at June 30, 2014 and 2013, respectively.

¹ Consists of obligations of Valmet Group that have been guaranteed by Metso Corporation.

Notional amounts of derivative financial instruments

	As at June 30, 2014	As at June 30, 2013 Carve-out
Forward exchange contracts, EUR millions	1,468	1,139
Electricity forward contracts, GWh	344	388
Nickel swap contracts, tons	24	192

The notional amounts indicate the volumes in the use of derivatives, but do not indicate the exposure to risk.

Related party information

Valmet's related parties included until the effective date of the Demerger (December 31, 2013) Valmet's preceding parent company Metso Corporation, Metso Group companies other than Valmet Group companies (together "Metso"), associated companies and joint ventures of Valmet and members of Metso's key management personnel.

Following the consummation of the Demerger, Valmet's related parties include Valmet Group companies and associated companies and joint ventures as well as the members of Valmet's key management personnel.

Valmet's sales to Metso comprise of sales of filtration products and assembly services to Metso's Mining and Construction business. Valmet's purchases from Metso in the ordinary course of business comprise of purchases of process automation systems related to Valmet's project sales. In addition, Metso has had equity and financing transactions with Valmet, which have led to the recognition of receivables and payables with Metso.

There were no material transactions between Valmet and its related parties as at and for the six months ended June 30, 2014.

The following table sets forth Valmet's transactions with Metso as at and for the six months ended June 30, 2013:

EUR million	As at and for the six months ended June 30, 2013
	Carve-out
Net sales	6
Cost of goods sold	-29
Interest income	1
Interest expenses	-2
Other receivables	89
Advances paid for inventories	2
Trade and other receivables	13
Cash pooling receivables	97
Long-term debt	62
Current portion of long-term debt	30
Cash pooling liabilities	126
Trade and other payables	24
Advances received	6

Reporting segment and geographic information

Valmet's operations and profitability is reported as a single reportable segment and operative decisions have been made by the Board of Directors of Valmet as Valmet's Chief Operating Decision Maker at Valmet Group level.

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.

EUR million	Q2/2014	Q2/2013	Q1-Q2/ 2014	Q1-Q2/ 2013
		Carve-out		Carve-out
Net sales	588	714	1,107	1,345
EBITA before non-recurring items	22	22	26	48
% of net sales	3.7%	3.1%	2.3%	3.4%
Operating profit (loss)	16	5	9	24
% of net sales	2.8%	0.7%	0.8%	1.8%
Amortization	-5	-7	-11	-14
Depreciation	-12	-14	-25	-28
Non-recurring items:				
Capacity adjustment expenses				
in cost of goods sold	0	-5	-1	-5
in selling, general and administrative expenses	0	-3	-2	-3
in other operating income and expenses, net	0	-	-3	-
Cost related to demerger process				
in selling, general and administrative expenses	-	-3	-	-3
Total non-recurring items	0	-11	-6	-11
Gross capital expenditures (including acquisitions)	-10	-20	-21	-28
Non-cash write-downs	-1	-5	-3	-5
Capital employed, end of period			967	1,232
Orders received	1,023	861	2,124	1,372
Order backlog, end of period			2,406	1,883

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 57 percent of net sales in Q1-Q2/2014 and 55 percent in Q1-Q2/2013.

Net sales to unaffiliated customers by destination:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1-Q2/2014	209	167	438	141	151	1,107
Q1-Q2/2013 ¹	212	198	576	224	136	1,345

¹ Carve-out figures

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
Q1-Q2/2014	28	73	203	58	93	455
Q1-Q2/2013 ¹	29	29	248	106	81	492

¹ Carve-out figures

Gross capital expenditure (excluding business acquisitions) by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1-Q2/2014	2	1	15	2	0	21
Q1-Q2/2013 ¹	1	2	16	3	1	23

¹ Carve-out figures

Analysis of net sales by category:

EUR million	Q1-Q2/2014	Q1-Q2/2013
Sale of services	475	539
Sale of projects, equipment and goods	632	807
Total	1,107	1,345

Key ratios

	Q1-Q2/ 2014	Q1-Q2/ 2013 Carve-out	Q1-Q4/ 2013 Carve-out
Earnings per share, EUR	0.03	0.09 ¹	-0.42
Diluted earnings per share, EUR	0.03	0.09 ¹	-0.42
Equity per share at end of period, EUR	5.19	5.65	5.39
Return on equity (ROE), % (annualized)	1%	3% ²	-7% ²
Return on capital employed (ROCE) before taxes, % (annualized)	3%	5%	-4%
Equity to assets ratio at end of period, %	40%	39%	41%
Gearing at end of period, %	-7%	8%	0%
Cash flow provided by operating activities, EUR million	89	-17	-43
Cash flow after investments, EUR million	71	-44	-97
Gross capital expenditure (excl. business acquisitions), EUR million	-21	-23	-54
Business acquisitions, net of cash acquired, EUR million	-	-3	-3
Depreciation and amortization, EUR million	-36	-42	-82
Number of outstanding shares at end of period	149,864,220	149,864,619	149,864,619
Average number of outstanding shares	149,862,269	149,864,619	149,864,619
Average number of diluted shares	149,862,269	149,864,619	149,864,619
Net interest-bearing liabilities at end of period, EUR million	-54	71	-1

¹ The earnings per share information was computed as if the shares issued in conjunction with the Demerger had been outstanding for the comparison period.

² In calculating these key ratios, an adjustment of EUR 468 million has been made from 'Long-term debt, Metso Group' to 'equity' in order to reflect the conversion of Metso Svenska AB's long term debt to Metso Group which took place in January 2013.

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:

Long-term interest-bearing debt + Short-term interest-bearing debt
- Cash and cash equivalents - Other interest-bearing assets

Key exchange rates

	Average rates		Period-end rates	
	Q1-Q2/ 2014	Q1-Q2/ 2013	Q2/2014	Q2/2013
USD (US dollar)	1.3718	1.3119	1.3658	1.3080
SEK (Swedish krona)	8.9774	8.5599	9.1762	8.7773
CAD (Canadian dollar)	1.4987	1.3365	1.4589	1.3714
BRL (Brazilian real)	3.1481	2.6900	3.0002	2.8899
CNY (Chinese yuan)	8.4645	8.1209	8.4722	8.0280

Quarterly information

EUR million	Q2/2014	Q1/2014	Q4/2013 Carve-out	Q3/2013 Carve-out	Q2/2013 Carve-out
Net sales	588	519	666	601	714
EBITA before non-recurring items	22	4	-25	31	22
% of net sales	3.7%	0.7%	-3.7%	5.1%	3.1%
Operating profit (loss)	16	-8	-66	-17	5
% of net sales	2.8%	-1.5%	-9.9%	-2.8%	0.7%
Profit before taxes	16	-9	-63	-23	3
% of net sales	2.7%	-1.8%	-9.5%	-3.8%	0.4%
Profit (loss)	11	-6	-61	-15	2
% of net sales	1.8%	-1.2%	-9.2%	-2.6%	0.3%
Earnings per share, EUR	0.07	-0.04	-0.41	-0.10 ¹	0.01 ¹
Earnings per share, diluted, EUR	0.07	-0.04	-0.41	-0.10 ¹	0.01 ¹
Amortization	-5	-5	-7	-7	-7
Depreciation	-12	-13	-12	-14	-14
Research and development expenses, net	-10	-12	-16	-13	-16
% of net sales	-1.7%	-2.2%	-2.5%	-2.2%	-2.2%
Non-recurring items:					
Capacity adjustment expenses					
in cost of goods sold	0	-1	-9	-17	-5
in selling, general and administrative expenses	0	-3	-7	-6	-3
in other operating income and expenses, net	0	-3	-13	-15	-
Cost related to demerger process					
in selling, general and administrative expenses	-	-	-5	-3	-3
Total non-recurring items	0	-6	-34	-41	-11
Gross capital expenditures (including acquisitions)	-10	-11	-13	-16	-20
Business acquisitions, net of cash acquired	-	-	-	-	-3
Non-cash write-downs	-1	-2	-13	-22	-5
Capital employed, end of period	967	985	1,024	1,156	1,233
Orders received	1,023	1,101	428	382	861
Order backlog, end of period	2,406	1,972	1,398	1,658	1,883

¹ The earnings per share information was computed as if the shares issued in conjunction with the Demerger had been outstanding for the comparison period.