

ANNUAL REVIEW

Valmet's operations and sustainability in 2015



Contents

| | |
|---|-----------|
| Valmet in brief | 3 |
| CEO's review | 4 |
| Business environment and strategy | 8 |
| Business environment | 10 |
| Strategy | 14 |
| Valmet's value creation | 18 |
| Valmet's operations | 20 |
| Serving pulp, paper and energy industries | 22 |
| Comprehensive offering | 24 |
| Research and development | 26 |
| Sustainability | 28 |
| Sustainable supply chain | 31 |
| Health, safety and environment | 34 |
| People and performance | 38 |
| Cost-effective sustainable solutions | 41 |
| Corporate citizenship | 43 |
| Contacts | 47 |

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).



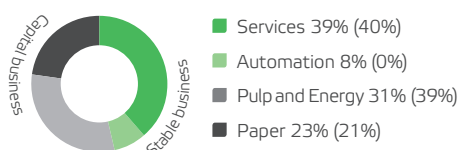
Valmet in brief

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.

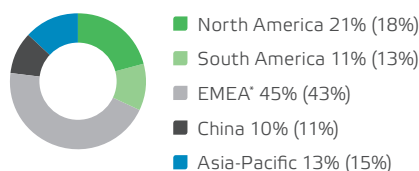
Valmet's strong technology offering includes pulp mills, tissue, board and paper production lines, as well as power plants for bioenergy production. Our advanced services and automation solutions improve the reliability and performance of our customers' processes and enhance the effective utilization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

Net sales by business line, %

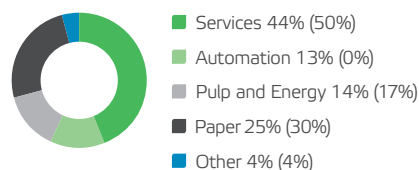


Net sales by area, %

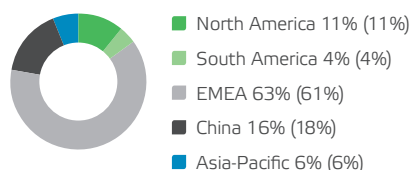


*Europe, the Middle East and Africa

Personnel by business line, %



Personnel by area, %



Key figures¹

| | 2015 ⁵ | 2014 | CHANGE |
|--|-------------------|--------|--------|
| Orders received, MEUR | 2,878 | 3,071 | -6% |
| Order backlog ² , MEUR | 2,074 | 1,998 | 4% |
| Net sales, MEUR | 2,928 | 2,473 | 18% |
| Earnings before interest, taxes and amortization (EBITA) and non-recurring items, MEUR | 182 | 106 | 73% |
| % of net sales | 6.2% | 4.3% | |
| Operating profit (EBIT), MEUR | 120 | 72 | 65% |
| Dividend per share, EUR | 0.35 ³ | 0.25 | 40% |
| Return on capital employed (ROCE) before taxes, MEUR | 12% | 9% | |
| Research and development expenses, net, MEUR | 59 | 42 | |
| Personnel ² | 12,306 | 10,464 | 18% |
| Lost-time incident frequency (LTIF) ^{2, 4} | 3.3 | 5.5 | -40% |
| Support for non-profit organizations, MEUR | 0.6 | 0.5 | 18% |
| Carbon dioxide emissions, 1,000 t | 88 | 86 | 3% |
| Energy consumption, TJ | 1,270 | 1,260 | 1% |
| Water consumption, 1,000 m ³ | 3,032 | 3,305 | -8% |

¹Group figures: the formulas for calculation of the key financial figures are presented in the Financial Statements 2015.

²At the end of period.

³Board of Directors' proposal.

⁴LTIF reflects the number of injuries resulting in an absence of at least one workday per million hours worked.

⁵2015 figures include Automation, which has been included in Valmet's reporting since April 1, 2015.

CEO's review

Valmet progressed steadily towards its targets in 2015. The acquisition of the process automation business complemented the company's unique offering and increased business stability along with our strong services business. Valmet also retained its position among the world's sustainability leaders for the second consecutive year.



Valmet now has two strong years behind it as an independent listed company. These years have been a time of renewal and continuous improvement, and the company now has a solid platform to move forward.

Successful automation integration

In spring 2015, Valmet took a natural strategic step and acquired the process automation business, which was a perfect fit for the company. The integration of the business as Valmet's fourth business line has been a success, and the acquisition has been warmly welcomed by customers and employees. By uniting automation expertise with our pulp, paper and energy technology and process know-how within the same company, we created an unrivalled offering for our customers. This was an important step towards our vision – to become the global champion in serving our customers.

Strategy focusing on Must-Wins

Valmet's mission is to convert renewable resources into sustainable results. The company's strategy concentrates on key Must-Wins: "Customer excellence", "Leader in technology and innovation", "Excellence in processes", and "Winning team". Under these focus areas, we have defined objectives and programs that we have taken systematically forward.

During the year, Valmet was able to improve its profitability to the targeted range with an EBITA margin of 6.2%, and the work towards further profitability improvement will continue. The growing, profitable and stable services and automation businesses, along with our work to enhance cost competitiveness and cost flexibility, contributed to the profitability improvement.

Good progress in "Customer excellence"

Customer excellence at Valmet means being close to our customers and growth markets, providing significant customer benefits by utilizing our full offering, and continuously developing our local and remote services.

“ The integration of the process automation business has been a success.

Valmet's first year as an independent company in 2014 was a year of exceptional customer activity and an impressive number of new orders. In 2015, the order intake stabilized and the energy market in particular slowed down significantly. On the other hand, our services business developed well and was able to grow. Furthermore, market activity and customer orders in the automation business were satisfactory throughout the year.

The order highlights in 2015 were the agreements to supply key technology for SCA's pulp mill expansion project in Sweden, Metsä Fibre's upcoming bioproduct mill in Finland, and the Huanggang Chenming pulp mill in China. We signed several OptiConcept M board machine supply contracts during the year: with Yuen Foong Yu Packaging in Taiwan, APRIL Group in Indonesia, and Lee & Man in China. Furthermore, we received a number of tissue line orders in different parts of the world.

To enhance our presence in the growing Asia-Pacific market, we progressed with the service center investment in Indonesia. In addition, through our advanced process analytics and intelligent machines that are fully integrated into the Industrial Internet, we enabled our customers all over the world to achieve significant energy, water and raw material savings, to improve the availability and performance of their production processes, and to optimize their end product quality.

Enhancing technological leadership

Success in the highly competitive global environment demands continuous investments in research and development, as well as renewal from our customers and employees. Valmet has three targets for its research and development work: to ensure advanced and competitive technologies and services, to enhance raw material and energy efficiency, and to create ways to replace fossil fuels and raw materials with renewable ones.

Valmet invested around EUR 59 million in research and development in 2015. We cooperate closely with our customers and utilize our 16 technology research centers around the world. These centers are also often used by our customers to study their process performance and product quality.

We have focused on accelerating the commercialization of key innovations. In 2015, we introduced the Valmet IQ product family for online quality control and monitoring of the paper and board-making process. Our OptiConcept M modular paper and board machine and Advantage NTT tissue machines have entered the markets successfully. In 2015, Valmet sold its tenth OptiConcept M machine and sixth Advantage NTT tissue ma-

chine. Moreover, our new recovery boiler with record-high steam generation efficiency was chosen for Metsä Fibre's upcoming bioproduct mill and Huanggang Chenming's new pulp mill.

Valmet has also a clear roadmap to develop its Industrial Internet offering, and we intend to be front runners in this field. In the coming years, we will introduce even more advanced automation technologies and embedded diagnostics in our customers' production processes. At the same time, we will enhance the mobility of our expert services, while keeping information security a high priority.

Savings and improved performance through process excellence

By developing its key processes, Valmet can still improve quality and operating efficiency and achieve significant savings. During the year, we strengthened the implementation of Lean as a key tool to improve quality, reduce quality costs and shorten lead times throughout Valmet. We continued to develop our sales and project management processes to ensure a globally harmonized and effective way to operate. In 2015, we were again ahead of our procurement savings target and continued to integrate sustainable supply chain practices into our global procurement process and tools.

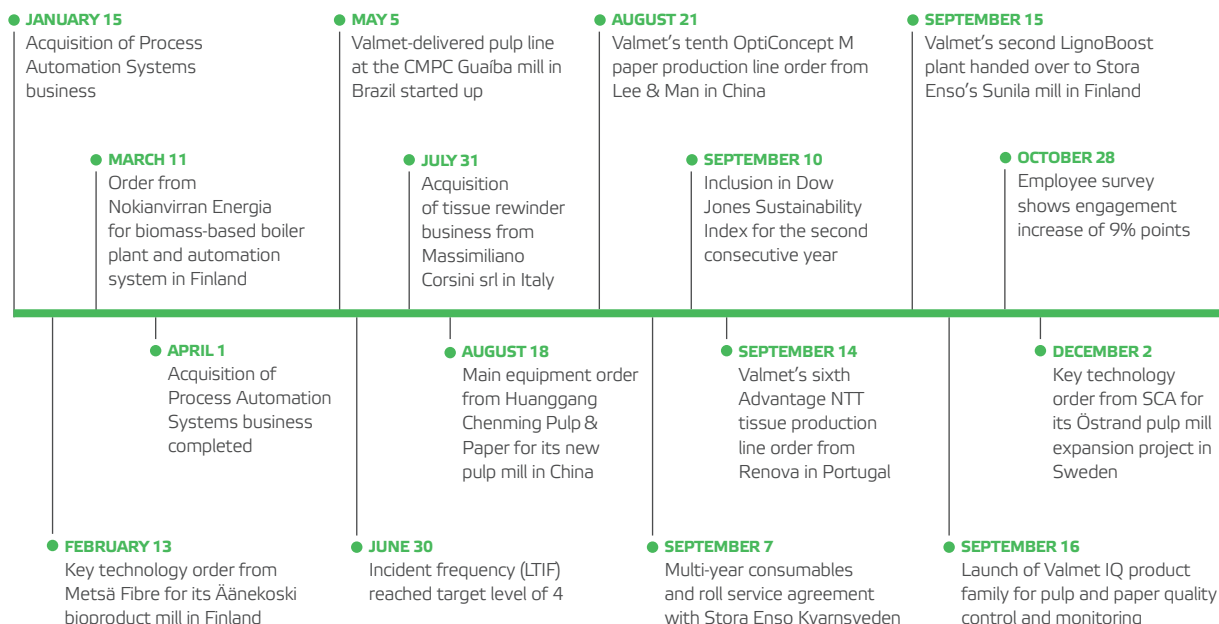
As a result of our long-term focus on occupational safety and safety culture, our safety results continued to improve and we were able to reach an LTIF of 3.3 by the end of the year. As a token of our strong overall sustainability work, Valmet was selected to the Dow Jones World Sustainability Index as being among the 317 most sustainable companies in world for the second year in a row.

“ The significant profitability improvement is a result of team work and determination.

Towards a winning team

Valmet has today over 12,000 employees around the globe, working close to our customers. The employee engagement survey was carried out for the second time in 2015. The results showed that our employees' engagement with Valmet has developed strongly and positively, and our employees are proud to work for Valmet and to serve our customers. Furthermore, we continued the systematic development of our personnel by introducing a global training portfolio focusing on strategic competences for Valmet: services, quality and procurement. In the next phase, the portfolio will be complemented with sales management skills. Our efforts to build a performance- and service-oriented culture, as well as our systematic employee development, are bearing fruit already today, and will be a key to the company's competitiveness in the future.

Highlights 2015



Balanced geographical exposure creates opportunities

Today, Valmet is present on all continents. Our balanced geographical presence increases the stability of our order book and overall business.

North America and the EMEA area are established markets that have a large base of aging pulp, paper and energy production technology. These areas continue to offer opportunities for Valmet's services business, for new machines and machine rebuilds. South America is traditionally a strong market for our pulp technology business, and it is currently also a promising services market.

China has suffered from overcapacity, and its share of Valmet's net sales has considerably decreased since 2009. We have prepared for the new market situation in China already in the previous years. In 2015, we got a number of board and tissue machine orders and a pulp mill order from China. The future of the services business looks promising in the Chinese market, as well.

In Asia-Pacific, there is particular demand for board and tissue machines, which in the long run also opens up opportunities for our services business.

Strong platform to move forward

It has been delightful to see the continued positive development of Valmet's brand and reputation among our customers and other stakeholders. The recent independent surveys have showed that already today – after only two years – Valmet is rated among the top ten most reputable companies in Finland. Our global customer survey also showed that our reputation among our customers is positive and unified, and the customer trust is strong in all market areas.

The unique combination of intelligent process technologies, services and automation along with our committed team create the platform to move our customers' performance and the whole industry forward. We will continue to work towards our strategy and financial targets, and we will especially focus on improving our customers' experience of Valmet every day.

I would like to thank all our customers and partners for inspiring cooperation and trust, and the Valmet team for their committed work and energetic spirit, where everybody has given their best during the year.

Pasi Laine
President and CEO

MUST-WIN: CUSTOMER EXCELLENCE

Increased benefits through full offering



High environmental efficiency

Oskarshamn Energi's new biomass-fired power plant for combined heat and power production in Sweden was inaugurated in September 2015. It will cover 70% of the Oskarshamn municipality's annual district heat demand. Among the key criteria for the new plant was its environmental efficiency and possibility to utilize renewable fuels. These targets were achieved with an optimized combination of Valmet's energy production technologies as well as environmental and automation solutions.

The plant has a thermal output of 17.7 megawatts (MW) of district heating and an electrical output of 3.8 MW. The flue gas condenser provides additional 4 MW thermal output to district heating network. Due to high combustion efficiency the plant has low emissions. As feedstock the boiler is able to use local forest residues such as bark and wood chips with moisture content of up to 55%.



Taking board production to the next level

Siam Kraft PM 16 is a great example of how Valmet's modular OptiConcept M paper machine can take board-making to the next level. "PM 16 showcases the cutting-edge technology of paper packaging manufacturing. It combines the world's latest technologies with our expertise, enabling us to meet our customers' needs in all details, including finer details," says Wichan Jitpukdee, Managing Director of Siam Kraft Industry.

Valmet's OptiConcept M technology combines high productivity with low energy usage. It uses around 30% less energy compared to average containerboard production, while maintaining high strength properties with lower grammages to produce high-quality container board.

Valmet's scope for the project included a full board-making line with related automation systems and extended project implementation, as well as comprehensive service packages for maintenance and fabrics.



Synergies across all mill operations

In Maranhão, Brazil, Valmet has delivered all the main technology for a greenfield pulp mill for Suzano Papel e Celulose S.A. Operational since the end of 2013, the mill has capacity to produce 1.5 million tonnes of bleached eucalyptus pulp per year, making it one of the largest in the world.

The mill has been designed for high production and energy efficiency. The fiber line includes Valmet's compact cooking G2 digester, which is the most efficient digester on the market. The mill also produces bioelectricity for the national grid from black liquor and biomass sources.

The project is a good example of the benefits of Valmet's unique offering, which enables synergies across all mill operations. Valmet's scope of delivery comprised all the key technologies for the pulp production and recovery process, including an integrated, mill-wide automation solution.



Business environment and strategy

Valmet has a long track record in developing and providing solutions that convert biomass into renewable energy and recyclable products such as pulp, paper, board and tissue.



#1-3

Valmet has a leading market position in all its target markets.

Automation

became Valmet's fourth business line on April 1, 2015.

Business environment

The demand for Valmet's process technologies, services and automation continues to be driven by the consumption of board, paper, tissue, pulp and energy in the global markets.

At Valmet, services and automation are considered to be "stable" businesses, as they represent rather stable and slightly growing markets that are driven by the size of the installed base and mill operating rates. Currently, the increasing consumption of board, tissue and pulp in particular, as well as demand for bioenergy, are boosting production growth, which is creating new demand for Valmet's services and automation.

Board, paper and tissue machines, pulp mills, and biomass power boilers are referred to as "capital" businesses. They are driven by new investments in machinery and mills, which makes these businesses more cyclical and volatile compared to the more stable services and automation businesses.

Services

Demand for services is driven by increasing pulp, paper¹ and energy production globally, capacity increases – especially in emerging markets – and the development of capacity utilization rates. Demand for services is favorably affected by energy and raw material efficiency improvements and the increased outsourcing of non-core operations by our customers, while machine and mill closures in developed markets are having an adverse impact on this trend. These drivers are creating a consistent and slightly growing demand for process improvements, spare and wear parts, and outage and maintenance services.

Over half of the current installed machine base is in developed markets. In North America and Europe, the service market is stable or slightly growing, despite machine closures and flat overall pulp and paper production. Customers' maturity in buying services and increasing the outsourcing of non-core operations is high in developed markets. The largest growth potential, however, is in the emerging markets of China, Asia-Pa-

cific and South America, where the installed machine base is increasing and a younger, but ageing, installed base needs more care than before. Customers are still doing services mostly in-house, which leaves room for service market growth.

Automation

Automation services and replacements are developing along with the size and age of the installed base. New automation system deliveries can be replacements of old systems or completely new systems for new machines and mills. Customers typically choose an automation provider for even more than a decade, which creates high barriers to market entry for new competitors.

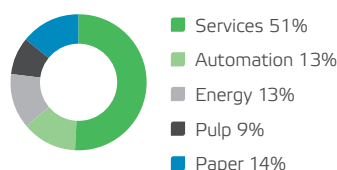
The distributed control system (DCS) market in the pulp, paper, energy and other process industries is growing slightly, with growth in the installed base, as well as a large existing installed base approaching replacement age. The quality management systems market in the pulp and paper industries is in a similar situation to the DCS market, with a slightly growing installed base and a large installed base at replacement age. Analyzers and measurements in the pulp and paper industries is a niche market with specific applications, which is also slightly growing in line with growing pulp and paper production.

Pulp

Growth in board and tissue consumption are contributing to the demand for pulp. Since recycling rates cannot grow indefinitely, there is demand for virgin wood pulp. Large new pulp mills are being built, mostly in South America and Asia, but there are business opportunities also in the Nordic countries. Upgrades, rebuilds and conversions of the installed base will continue in North America and Europe, with some of these projects including large deliveries of

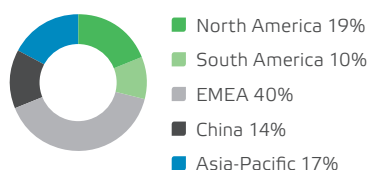
Target market size by business

(Total target market size² ~ EUR 15 billion)



Target market size by area

(Total target market size² ~ EUR 15 billion)



¹Paper in general includes board, paper and tissue, as well as other paper grades.

²Market size is defined as Valmet's target market, meaning those geographical markets, product segments and customer industries where Valmet is currently competing or aiming to compete.

new pulp equipment and technologies. In European, North American and South American pulp mills, there is also growing interest in new technologies, e.g. for lignin separation and its further refining.

Energy

For Valmet, the energy market means biomass power boilers, where our focus is on pulp and paper industries globally and the power generation segment in Europe, North America and Asia-Pacific.

Demand for bioenergy is driven by growing global energy consumption, increasing interest in renewable and sustainable energy, the competitiveness of different energy sources, and security of supply. Especially in Northern Europe, combined heat and power generation solutions are increasing the attractiveness of bioenergy, and in all markets multifuel solutions provide fuel flexibility for customers. The multifuel solutions market continues to grow in Asia-Pacific and Eastern Europe. Also repowering, fuel conversions and refurbishment of aging plants are opening up new business opportunities.

In Europe, advanced environmental regulations have fueled the biomass-based energy market, but the recession has weakened the market. Long-term drivers of bioenergy are threatened also by uncertainty in regulatory policies, incentives and acceptance. In North America, shale gas-based energy production has reduced the market's interest in bioenergy investments, but there are still occasional bioenergy projects. In emerging markets, bioenergy production is mostly based on low-cost solutions for agro-fuels; however, there are increasing opportunities for bio- and multifuel solutions in Asia-Pacific. The South American market is challenging for global players due to local competitors.

Board, paper and tissue

World trade and economic growth – especially in emerging markets – increasing standards of living, the growth of e-commerce and increasing environmental awareness are driving the demand for packaging, which again is increasing the demand for renewable board- and paper-based packaging materials. Investments in high-performance, medium-sized packaging board machines and paper grade conversions are continuing.

The increasing role of digital media is decreasing the demand for the graphic paper grades, such as newsprint, magazine, and printing. From a global point of view, the growth in demand for graphic paper has stopped. However, there is still some growth in emerging markets, but the demand is decreasing even more quickly in developed markets.

Tissue consumption is growing strongly in all markets, thanks to the economic growth, increased purchasing power and rising standards of living. Urbanization trends, improved hygiene and living conditions are also playing a part, especially in emerging markets, and new products and consumption models, particularly in developed markets, are increasing the demand for our new tissue-making technologies.

Global megatrends

➤ Increasing standard of living

Global GDP growth, urbanization and a growing middle class are driving customer demand, which is in turn increasing the demand for energy, packaging and hygiene papers.

➤ Climate change and bioeconomy

Consumers' environmental awareness and international emissions reduction initiatives are creating demand for energy-efficient and sustainable technologies and solutions based on biomass. Increasing the production of CO₂-neutral bioenergy is seen as one of the solutions to mitigate climate change.

➤ Need for renewable resources

Resource scarcity is creating demand for renewable raw materials, products and energy. Products and energy based on biomass are both renewable and CO₂-neutral and can replace non-renewable raw materials and fossil fuels.

Market data by business

| BUSINESS | MARKET SIZE ¹ & GROWTH | MARKET DRIVERS | PRODUCT GROUP | VALMET'S POSITION AND COMPETITION |
|-------------------|--------------------------------------|--|-----------------------------------|---|
| Services | EUR 7.5bn ~2% | <ul style="list-style-type: none"> Increasing pulp, paper², and energy production Increasing capacity utilization rates Demand for more efficient processes, maintenance and outsourcing of non-core operations Machine and mill closures in EMEA and North America | Rolls and Workshop Services | <ul style="list-style-type: none"> #2–3 Voith, Xerium |
| | | | Mill Improvements | <ul style="list-style-type: none"> #1–2 Andritz, Voith |
| | | | Performance Parts | <ul style="list-style-type: none"> #1–2 Andritz, Kadant, Voith |
| | | | Fabrics | <ul style="list-style-type: none"> #4–5 Albany, AstenJohnson, Voith, Xerium |
| | | | Energy and Environmental | <ul style="list-style-type: none"> #1–2 Amec FosterWheeler, Andritz |
| Automation | EUR 2.0bn ~1% | <ul style="list-style-type: none"> Increasing pulp, paper and energy production Investments in new pulp and paper machines and power plants Aging automation systems | Distributed Control Systems (DCS) | <ul style="list-style-type: none"> #2 in P&P³, niche player in Energy ABB, Honeywell, Siemens |
| | | | Quality Management Systems | <ul style="list-style-type: none"> #1–2 in P&P ABB, Honeywell, Voith |
| | | | Analyzers and Measurements | <ul style="list-style-type: none"> #1 in P&P ABB, BTG |
| Pulp | EUR 1.4bn ~1% | <ul style="list-style-type: none"> Growth in board and tissue consumption Recycling rate development Increased efficiency and size of pulp lines and mills Rebuilds and extensions of existing mills Cyclical demand for large greenfield projects | | <ul style="list-style-type: none"> #1–2 Global leader with Andritz |
| Energy | EUR 2.0bn ~1% | <ul style="list-style-type: none"> Growth in energy consumption Demand for renewable energy Modernization of aging power plants Incentives and regulation regarding climate change Competitiveness of different energy sources Increased focus on security of supply Demand for combined heat and power solutions | | <ul style="list-style-type: none"> #1–3 One of few global players in bioenergy niche Amec FosterWheeler, Andritz |
| Board | EUR 1.0bn ~3% | <ul style="list-style-type: none"> World trade and economic growth especially in emerging markets Increasing e-commerce New applications and shift from plastic packaging to renewable materials | | <ul style="list-style-type: none"> #1 Andritz, Bellmer, Voith |
| Paper | EUR 0.6bn ~1% | <ul style="list-style-type: none"> Increasing role of digital media decreasing demand for printing and writing papers | | <ul style="list-style-type: none"> #1 Voith |
| Tissue | EUR 0.6bn ~3% | <ul style="list-style-type: none"> Economic growth and rise in purchasing power and living standards in emerging markets Urbanization and improved hygiene and living conditions New products and consumption models | | <ul style="list-style-type: none"> #1 A.Celli, Andritz, Toscotec Voith |

¹Market size is defined as Valmet's target market, meaning those geographical markets, product segments and customer industries where Valmet is currently competing or aiming to compete.

²Refers to board, paper and tissue, as well as other paper grades.

³Pulp and paper.

⁴Based on RISI estimates.

⁵Based on estimates by leading research companies.

⁶Board, paper and tissue machines, pulp mills, and biomass power boilers are referred to as "capital" businesses.

Market data by area

| AREA | MARKET SIZE ¹ & GROWTH | MARKET CHARACTERISTICS | VALMET'S POSITION AND COMPETITION |
|----------------------|---|---|--|
| North America | <ul style="list-style-type: none"> Target market size¹: EUR 2.9bn P&P³ annual production⁴: 150m tonnes, growth: +0.1% Size of energy market⁵: EUR 300m | <ul style="list-style-type: none"> Mature, services-focused market with recurring opportunities in paper, tissue and automation Large installed base to be served Opportunities in agreement-based services business Growth opportunities in increased outsourcing Capital⁶ project opportunities in tissue and board Capital project activity currently at high level | <ul style="list-style-type: none"> Net sales: EUR 615m (21% of total) Employees: 1,367 (11% of total) Strong position and market share in Valmet's targeted capital businesses. Well-established services and automation businesses Key competitors: ABB, Andritz, Emerson, Honeywell, Voith and US services players Albany, AstenJohnson, Kadant and Xerium |
| South America | <ul style="list-style-type: none"> Target market size: EUR 1.5bn P&P annual production: 45m tonnes, growth: +1.6% Size of energy market: EUR 200m | <ul style="list-style-type: none"> Cyclical capital business relies on new pulp projects Services, tissue and selected board applications provide growth opportunities Services growth potential through growing installed base and demand for more efficient customer operations Growing interest in optimization projects regarding e.g. energy, chemicals savings; efficiency of operations and availability of equipment | <ul style="list-style-type: none"> Net sales: EUR 335m (11% of total) Employees: 531 (4% of total) Valmet has a strong position and installed base in Pulp mills and Services Strong competition with local and global players in all businesses (Services, Paper² and Energy) Fierce competition with Andritz for large new pulp projects Local presence and solutions important |
| EMEA | <ul style="list-style-type: none"> Target market size: EUR 6.0bn P&P annual production: 160m tonnes, growth: +0.6% Size of energy market: EUR 1bn | <ul style="list-style-type: none"> Valmet's largest and most important area with significant services and technology markets in all Valmet's businesses Large installed base to be served Growth opportunities in customer agreement-based service business Declining printing and writing business, potential in conversions Capital project opportunities in board, pulp, tissue and bioenergy Uncertainties in regulation and low energy price postpone customers' decision making | <ul style="list-style-type: none"> Net sales: EUR 1.3bn (45% of total) Employees: 7,747 (63% of total) Valmet has a strong position in both capital business and services Small players have strengthened their offering through acquisitions |
| China | <ul style="list-style-type: none"> Target market size: EUR 2.1bn P&P annual production: 100m tonnes, growth: +2.5% Size of energy market: EUR 300m | <ul style="list-style-type: none"> Market for capital projects flat and cyclical while services market growing Capital project opportunities in board and tissue, investments especially in lower cost mid-sized machines and rebuilds Developing services market with growth potential through increasing installed base and aging machinery | <ul style="list-style-type: none"> Net sales: EUR 303m (10% of total) Employees: 1,955 (16% of total) Valmet has a strong position in Paper. Recent successes with modular board machine (OptiConcept M) Continued competition: new competitors in mid-size segment, local competitors strengthening through partnering with Western companies Large Valmet-installed base |
| Asia-Pacific | <ul style="list-style-type: none"> Target market size: EUR 2.6bn P&P annual production: 120m tonnes, growth: +1.4% Share of energy market: EUR 200m | <ul style="list-style-type: none"> Increased investments in multifuel boilers and plans for renewable energy development Capital project opportunities in energy and board through customers' portfolio changes or production line upgrades Developing services market with growth potential through capacity increases, larger installed base and higher market share | <ul style="list-style-type: none"> Net sales: EUR 372m (13% of total) Employees: 706 (6% of total) Valmet has strong market position and is increasing its local presence Competitors are growing their local presence |

Strategy

The implementation of Valmet's strategy and Must-Wins continued to bring good results in 2015. The acquisition of the Automation business helps Valmet on its way forward to becoming the global champion in serving its customers.

Valmet's mission is to convert renewable resources into sustainable results. This means that our process technologies, automation and services make it possible for our customers to produce sustainable products and energy from renewable resources. Moreover, they help Valmet and its customers to perform profitably and responsibly.

Our strategy emphasizes competitive offering and a strong commitment to serving our customers. In order to achieve our strategic goals, we pursue four Must-Wins that identify the most important areas and mobilize us to successful execution to reach our performance targets (see table on page 15). Valmet's vision is to become the global champion in serving its customers.

Valmet's strategy and financial targets were initially announced in autumn 2013 (see table on page 16). Valmet's Board of Directors reconfirmed the strategy and financial targets in June 2015.

Increased customer benefits from integrated offering

As part of its strategic Must-Wins, Valmet is striving to enhance "Customer excellence" by strengthening its presence close to customers, providing a unique, full-scope offering and further developing its services offering. We also develop our key account management.

In order to strengthen our presence close to customers and growth markets, we are continuing to build a stronger sales and

Valmet's way forward



Our values



Customers

We move our customers' performance forward.



Renewal

We promote new ideas to create the future.



Excellence

We improve every day to deliver results.



People

We work together to make a difference.

service network. We are focusing especially on countries with high pulp, energy and paper production and where Valmet currently does not have a strong presence.

By enhancing key account management, we aim to better serve our customers' needs and improve market coverage. As part of this development, we are focusing on utilizing our customer relationship management (CRM) system more broadly in

customer plans and sales management. We have also prepared a specific training program for sales management for 2016 to harmonize sales and customer processes and to further exploit our competitive advantages. As a result of the Automation business acquisition, Valmet now has a unique and distinct offering of process technology, automation and services enabling increased customer benefits.

In services, we are continuing the development of a unified concept integrating our full offering, development of remote services and long-term service agreements. The combination of our existing remote connections and our installed base together with our process technology and automation know-how gives us an edge in developing Industrial Internet and next-generation services.

Focus on cost competitiveness and new innovations

The target of the "Leader in technology and innovation" Must-Win is to improve product cost competitiveness and develop new products and technologies to create new revenue.

In order to reduce customers' operational and investment costs and improve Valmet's profitability, we are focusing on developing product cost competitiveness. Modularization, product design and technology transfer enable us to decrease engineering, manufacturing and installation costs.

MUST-WIN

STRATEGIC GOALS

KEY ACHIEVEMENTS 2014–2015

| | | |
|--|--|---|
| Customer excellence | Valmet has strong, capable, and committed teams close to customers. We serve our customers with our full offering combining process technology, automation and services. | <ul style="list-style-type: none"> • New service center in Brazil and another under construction in Indonesia, supported by new talent hires in emerging markets • Key account management: customer relationship management (CRM) system more broadly in use and orders received from key customers increased • Services sales continued to grow • Automation business acquired to provide increased customer benefits by combining process technology, automation and services |
| Leader in technology and innovation | Valmet provides leading technology and cost-competitive products and services that reduce customers' operating and investment costs. We develop innovative new solutions which create new customer revenue streams. | <ul style="list-style-type: none"> • Share of orders received from new products increased including further orders for Valmet's new paper production technologies such as OptiConcept M board and paper machines and Advantage NTT tissue machines • Several new product launches including Valmet IQ online quality management solution • Further development and commercialization of lignin separation, pre-hydrolysis and gasification of biomass and waste |
| Excellence in processes | Valmet operates with efficient and harmonized processes and continuously increased cost competitiveness. In capital business, we increase our flexibility to respond to a cyclical demand. Quality as well as health and safety are constantly improved. | <ul style="list-style-type: none"> • Programs initiated to harmonize and improve sales and project management processes • Lean program being implemented with quality cost and lead time reduction • Procurement cost saving targets exceeded in 2014 and 2015 • Lost time incident frequency (LTIF) decreased from 5.5. to 3.3 • Profitability and flexibility of the cost structure continued to improve following EUR 100 million cost competitiveness program in 2013–2014 |
| Winning team | Valmet has engaged and performance-driven teams living Valmet's shared values. Competences are globally balanced and close to customers. | <ul style="list-style-type: none"> • Values embedded in way of working and company culture • Values index created • New annual review discussion process implemented • Five new global training programs launched • Development plans created for 700 management resources, successors and high potentials identified as part of talent review process |

We are continuing to bring new products to the markets from all business lines and increase the share of sales from new offerings. We are developing innovative new solutions that create new customer revenue streams, including bioconversion technologies such as LignoBoost lignin separation and pre-hydrolysis. In R&D, we are also increasing our focus on services products and solutions to even better support our customers and grow our services business. (See R&D focus areas on page 38.)

Increased efficiency through global processes

The “**Excellence in processes**” Must-Win focuses on increasing efficiency and profitability by improving sales and project management processes, reducing quality costs and lead times, reducing procurement costs, improving health and safety, and enhancing cost competitiveness and the flexibility of the cost structure.

In 2015, Valmet established new, group-wide initiatives to harmonize sales and project management processes, develop common tools and systems, and improve profitability. We also continued to implement the Lean methodology globally to further reduce quality costs, lead times and non-value-adding activities, and engage our personnel in continuous improvement of our processes and ways of working.

Strong procurement cost-saving development continued with an increased focus on design-to-cost practices, category management, and improved supplier relationship management. In 2015, the scope of procurement activities was expanded to ensure sustainability in the supply chain. We also work systematically to improve health and safety performance by further streamlining common standards, procedures and tools, as well as improving competencies and awareness of health and safety.

In order to increase cost competitiveness and flexibility in cost structure, we are focusing on keeping fixed costs flat with increased volumes and continuing to shift costs to lower-cost countries with outsourcing plans and production transfers.

Building a winning team

Our “**Winning Team**” Must-Win creates a strong foundation for an engaged community by nurturing shared values, driving high performance and ensuring that we have the right competencies in place globally. Our target is to build and maintain a diverse, engaged and performance-driven team.

In nurturing our shared values, we have moved from awareness to action by linking our values to our daily work and utilizing the OurVoice engagement survey to evaluate how well we understand and act according to our values.

We are continuing to evolve our compensation framework and develop managerial skills to better drive performance. In order to increase our competencies close to our customers, we are continuing the globalization of our capabilities through resourcing and the creation of competence pools, especially in emerging markets and key countries. We are constantly deepening our understanding of current and future talent needs, creating action plans to address gaps and developing our resource planning tools to facilitate more proactive resourcing.

Sustainability agenda

In 2015, Valmet continued to implement the sustainability agenda as part of the implementation of its business strategy (see table on page 30). The agenda has five focus areas with concrete targets, action plans and key performance indicators for 2014–2016. The agenda will be reviewed in early 2016.

Valmet's financial targets

| TOPIC | TARGET | STATUS 2015 |
|------------------------|--|--|
| Growth | Net sales growth to exceed market growth | <ul style="list-style-type: none"> Services sales growth (14%) exceeded market⁴ growth (~2%) Cyclicality continues in capital business, Valmet has increased its market share compared to key competitors |
| Profitability | EBITA ¹ before non-recurring items: 6–9% | <ul style="list-style-type: none"> 2015 EBITA: 6.2% Significant gradual improvement from 2013 (2.1%) and 2014 (4.3%) |
| ROCE | Return on capital employed (pre-tax), ROCE ² : minimum of 15% | <ul style="list-style-type: none"> 2015 ROCE: 12% Significant improvement from 2014 (9%) |
| Dividend policy | Dividend payout: at least 40% of net profit | <ul style="list-style-type: none"> Dividend payout: 81% of 2014 net profit Dividend payout: 68% of 2015 net profit³ |

¹EBITA (earnings before interest, taxes and amortization) before non-recurring items = operating profit + amortization + nonrecurring items

²ROCE (pre-tax) = (profit before taxes + interests and other financial expenses) / (balance sheet total - non-interest-bearing liabilities (average for period))

³Based on Board of Directors' proposal.

⁴Services market long-term growth

MUST-WIN: EXCELLENCE IN PROCESSES

Enhancing quality and lead times with a comprehensive Lean approach

As part of its Must-Wins, Valmet has started a specific Lean transformation program to cut quality costs and lead times. The Lean methodology emphasizes the flow of products, services or information through the operations and functions, rather than just maximizing the use of resources. The target is to create value for customers by eliminating different kinds of waste – unnecessary work phases or waiting times – and process constraints.

“In 2015, we held 39 one-day training sessions for over 800 managers and key professionals. We also kicked off a ‘Leading through lean’ program focusing on the Lean leadership principles, and launched a Lean passport e-learning course for Lean fundamentals,” says Jaakko Pentti, Director of QHSE at Valmet.

Lean is a long-term commitment to continuous improvement in all parts of the company. It's a transformation which requires a change in mindset at all levels of the Valmet organization.

“Lean tools have earlier been implemented in some teams in our organization, but we are now implementing a comprehensive Valmet-level approach. Our target is to train everyone at Valmet to get the transformation to full speed. The training has already generated almost a hundred new Lean development projects across the organization and already some concrete results driving further transformation in turn.”



IF I CAN SEE IT, I CAN FIX IT

“Visualizing weekly workflows ensures that everyone can follow progress in a timely manner. The joint effort of all employees has led to a number of development suggestions that have resulted in improved process efficiency, productivity and safety,” says Jussi Sinisalo, Director of Boiler Production in Tampere, Finland.



5S¹ ALL THE WAY

Following a successful Lean implementation in its workshop, Valmet's Araucária site in Brazil decided to take a step further in 2015: “This year, we also implemented 5S at our offices, which significantly improved the physical environment and material flows, as well as the electronic environment and information flow. This change has had a very positive impact on the overall working environment,” says Christiane Bento, a member of the local 5S Committee.

¹Sort, straighten, sanitize, standardize and sustain



ALIGNED PROCESSES

Lean methodology functioned as a game-changer when the spray blade operations in Clackamas, Oregon, merged with Valmet's Beloit Service Center in Wisconsin: “Implementing standardized work processes has helped us reduce variability in the way we make the product. All of our operators are now aligned, which has enabled us to reach record levels in quality, delivery times and productivity,” says Will Bolstad, a Grinder Operator at the Valmet Beloit Service Center, USA.

Valmet's value creation

INPUTS

Financial

- Total equity EUR 860 million
- Interest-bearing debt EUR 371 million
- Cash and cash equivalents EUR 165 million

Natural

- Purchased components (mainly metals-based)
- Purchased raw materials (mainly metals, minerals, polymers and gas)
- Energy consumption 1,270 TJ
- Water consumption 3,032,000 m³

Human

- Number of employees 12,306
- FTE¹ of subcontractors and supervised workers
- Investment in development and know-how
- Investment in occupational health and safety

Infrastructure

- 140 locations in 33 operating countries²
- 34 production units and over 100 service centers
- 80 sales offices
- Suppliers in over 50 countries

Intellectual

- Proven customer references
- Technology know-how
- Product portfolio
- 16 technology centers and pilot facilities
- R&D expenses EUR 59 million
- 1,800 protected inventions

Social and relationship

- Open dialogue with stakeholders (e.g. customer events, investor meetings, supplier days, stakeholder surveys)
- Cooperation with over 30 universities and research institutes
- Over 25 memberships in associations
- Relationships and partnerships
- Collaboration with local communities



BUSINESS MODEL



Customers

Pulp and paper industry
Energy industry
Other process industries

Key processes

R&D
Marketing
Sales
Engineering
Procurement
Production
Delivery
Service



Our employees, expertise and experience

Valmet's Way Forward:

Mission, Strategy, Must-Wins,
Vision and Values



¹Full-time equivalent

²Includes technology centers

All figures are from Dec 31, 2015, unless otherwise stated.

OUTPUTS

Process technologies

- Pulping process equipment, process islands and complete pulp mills
- Individual board, tissue and paper machine sections, complete production lines and machine rebuilds
- Boiler islands, power plants, heating plants
- Environmental solutions
- Technologies for converting biomass to fuels, chemicals, and materials

Automation

- Distributed Control Systems (DCS)
- Quality Management Systems
- Analyzers and measurements
- Performance and service solutions

Services

- Spare parts and consumables
- Paper machine clothing and filter fabrics
- Rolls and workshop services
- Mill and plant improvements
- Maintenance outsourcing
- Services and environmental solutions for energy production

Other outputs

CO₂ emissions:

- Scope 1³: 15,400 tCO₂
- Scope 2⁴: 72,700 tCO₂

Waste:

- Non-Hazardous waste 37,000 t
- Hazardous waste 1,800 t



OUTCOMES

Economic

- Payments to shareholders and creditors EUR 51 million
- Wages and benefits EUR 748 million
- Payments to suppliers EUR 2,090 million
- Taxes EUR 29 million
- Support for non-profit organizations EUR 0.6 million
- Retained equity EUR 40 million
- More efficient and profitable customers' processes

Social

- Direct and indirect employment
- Improved employee competences
- Direct and indirect occupational health and safety
- Customer loyalty
- Trust and reputation
- License to operate
- Influence on operating environment and regulations

Environmental

Valmet's own operations

- More efficient processes enable the use of less natural resources and lower CO₂ emissions

Customers' operations

- Valmet's technology and services enable the production of customer's products with less energy, water and raw materials and improved flexibility in fuel source selection to replace fossil fuels with renewable ones



CUSTOMERS' END PRODUCTS

Board



Paper



Tissue



Pulp



Process steam



District heating



Electricity



Biofuels




Biomaterials



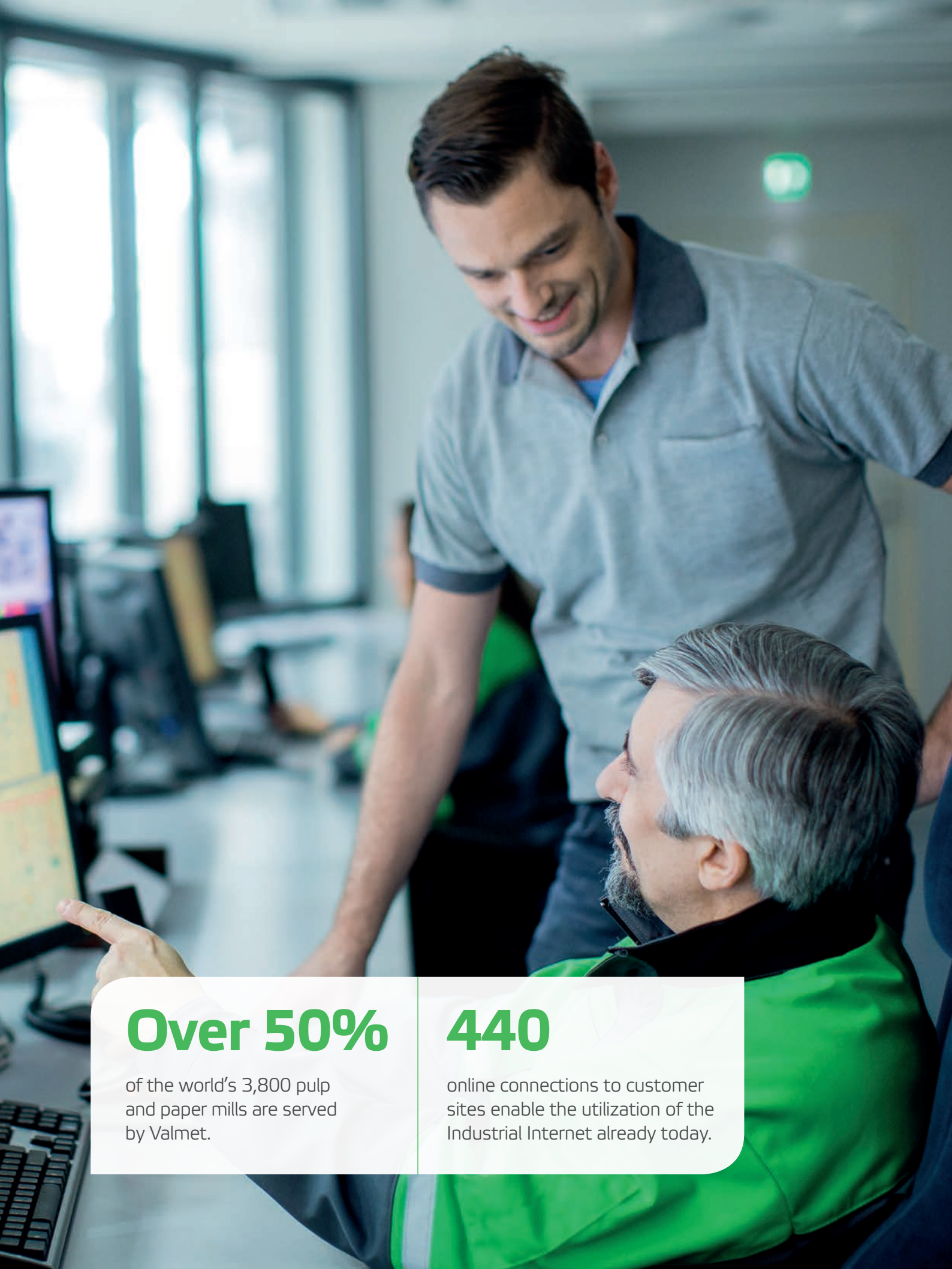
³Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by Valmet, such as fossil fuels burned on site.

⁴Scope 2 emissions are indirect GHG emissions resulting from the generation of electricity, heating and cooling, or steam generated off site but purchased by Valmet.

A full-page background image of a large industrial machine, likely a Valmet paper mill component, with a worker in a hard hat and safety vest standing next to it. The machine has a large, textured, light-colored panel. The worker is looking up at the machine. The background shows a long industrial corridor with more machinery and a high ceiling.

Valmet's operations

With the combination of process technology, automation and services, we take our customers performance forward.



Over 50%

of the world's 3,800 pulp and paper mills are served by Valmet.

440

online connections to customer sites enable the utilization of the Industrial Internet already today.

Serving pulp, paper and energy industries globally

Valmet's unique offering of process technology, automation and services helps to take the pulp, paper and energy industries' performance forward.

Global presence close to our customers

To reach our vision to become the global champion in serving our customers, we have systematically increased our presence close to our global customers. Valmet has operations in 33 countries in a total of 150 locations. Many of our over 100 service centers are located at our customer sites.

Valmet is organized around four business lines and five geographical areas. The business lines – Services, Automation, Pulp and Energy, and Paper – are responsible for technology and product development, technology projects, and services solutions. The areas – North America, South America, EMEA, China and Asia-Pacific – are responsible for sales and providing services and also supporting project deliveries in their respective regions.

The business focus varies slightly from area to area depending on the market maturity and the current market situation. For example, Europe and North America have a large installed base and thus a wide services market with several opportunities for rebuilds in particular, but also for new production lines. In South America, Asia-Pacific and China, there are growth opportunities in both services and in new pulp, board, tissue and bioenergy projects.

Valmet has reached a leading position in all its key market segments, with thousands of technology solutions and automation systems delivered and over 2,000 customer plants and mills served globally.

Today's success is built on strong history

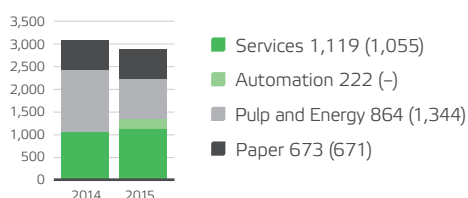
Valmet's over 200 years of industrial history includes numerous mergers and acquisitions, which have led to a comprehensive offering for the industries served. Several of the companies forming part of today's Valmet date back to the 19th century, with some of the earliest being Tamfelt (1797), Tampella (1856), Beloit (1858) and Karlstad Mekaniska Werkstad (1860). The name Valmet was first taken into use in 1951.

The new Valmet was born on December 31, 2013, when the Pulp, Paper and Power segment was demerged from Metso. In January 2015, Valmet announced the agreement to purchase the Process Automation Systems business from Metso. As a result of the acquisition, Automation became Valmet's fourth business line in April 2015.

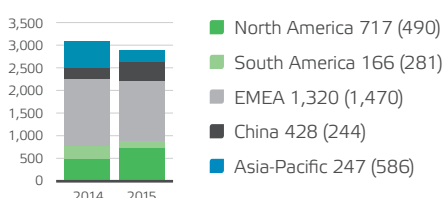
Unique combination of process technologies, automation and services

Valmet develops and supplies advanced technologies, automation solutions and services for the pulp, paper and energy industries. Additionally, we have been able to extend some of the products and services to serve other process industries. Our mission is to convert renewable resources into sustainable results, which means that our customers can produce bio-based end products by utilizing our technologies and services.

Orders received by business line, EUR million



Orders received by area, EUR million



Valmet worldwide



• Valmet locations

The unique combination of process technology, automation and services enables innovative product and service development and also a more competitive offering.

For pulp production, our offering includes entire pulping lines from wood handling to pulp drying, including recovery and evaporation systems. For paper producers, we offer paper, board and tissue production lines and equipment. In heat and power generation, our focus is on biofuel- and multifuel-based solutions. Additionally, we deliver environmental protection solutions to different process industries. We deliver new technology and solutions to widen the raw material base and to produce new bio-based materials.

Our advanced automation solutions are designed to improve the performance of our customers' processes and their efficiency in terms of costs, material and energy. The solutions range from single measurements to mill-wide turnkey automation projects. The "Valmet DNA" distributed control system is the single automation system for all functions – process, machine, drive and quality controls. The automation systems are complemented by Valmet's analyzers and measurement solutions portfolio. Additionally, we offer a comprehensive quality monitoring and control system for pulp and paper production that utilizes the latest vision and scanner technology.

Our comprehensive services offering increases the environmental and cost efficiency of production processes, while ensuring safe and reliable operations. Our services include spare parts

and consumables, fabrics, rolls and workshop services, mill and plant improvements, maintenance outsourcing, as well as services and environmental solutions for energy production.

Committed to moving our customers' performance forward

We are committed to moving our customers' performance forward. In order to maximize the return on their assets, enhance their processes, and support sustainable development, we focus on finding the right combination of technology, automation and service elements for each of our customers in a particular situation.

Process technology, automation and services are all combined in our Industrial Internet offering. We have the infrastructure in place to gather and analyze the data from our customers' machines and processes. Together with our customers, we move their performance forward by utilizing the data to optimize operations and to plan preventive maintenance. We have already implemented hundreds of solutions utilizing our Industrial Internet capabilities.

Enabled by advanced communication technology and big data analysis, the Industrial Internet is already moving to the next level – outside the production facilities. In the coming years, we will enhance mobility and introduce even more advanced automation technologies and embedded diagnostics.

Comprehensive offering

BOARD AND PAPER

Recycled fiber lines
Tailor-made OptiConcept board and paper lines
OptiConcept M modularized board and paper lines
Modernizations and grade conversions
Standalone products from stock preparation to roll handling

TISSUE

Advantage NTT tissue lines
Advantage DCT tissue lines
Advantage TAD tissue lines
Rebuilds
Stand-alone products, e.g., Yankee cylinders

PULP

Complete pulp mills
Wood handling systems
Cooking systems
Fiber lines
Pulp drying systems
Evaporation systems
RECOX Recovery boilers
White liquor plants

ENERGY

CYMIC, circulating fluidized bed boilers (CFB)
HYBEX, bubbling fluidized bed boilers (BFB)
Biomass and waste gasification
Modularized power plants
Waste heat recovery
Emissions control systems

BIOTECHNOLOGIES

Pyrolysis solutions for bio-oil production
LignoBoost for lignin extraction
Steam exploded pellets production lines
Biomass prehydrolysis for further refining

PROCESS TECHNOLOGY

CUSTOMER

SERVICES

AUTOMATION

SERVICES

Spare parts and consumables
Paper machine clothing and filter fabrics
Rolls and workshop services
Mill and plant improvements
Maintenance outsourcing
Services and environmental solutions for energy production (evaporation plants, power boilers and recovery boilers)

AUTOMATION

Valmet DNA Distributed Control System (DCS)
Valmet IQ Quality Control System (QCS)
Profilers
Analyzers and measurements
Performance solutions and services
Industrial Internet solutions
Process simulators
Safety systems

MUST-WIN: LEADER IN TECHNOLOGY AND INNOVATION

Improving profitability and sustainability



Saving energy with diamonds

Valmet's groundbreaking "Galileo" concept has taken the extremely energy-intensive wood grinding process to a totally new level, as it utilizes diamonds instead of conventional ceramic stones.

The Galileo grinder consists of steel segments bolted onto a steel core covered by 120–180 surface segments. Each segment contains over 60,000 diamonds set in a specific, precise pattern depending on the species of wood in question, the process conditions, and the desired pulp quality.

This innovative technology not only cuts energy cost by an estimated 20% to 25% per year, but it also increases pulp production between 20% and 40%. As diamonds are said to last forever, the diamond surface retains its pattern throughout its lifetime and also leads to more uniform end product quality.



Maximizing the value of raw material

The world's second Valmet-supplied LignoBoost lignin separation plant started up at Stora Enso's new biorefinery at Sunila Pulp Mill in Finland in early 2015. The plant is integrated with the pulp mill to separate and collect lignin from the black liquor.

Lignin is a very efficient fuel that can be used in power boilers. It can also be further processed into valuable chemicals or materials. This gives pulp mills new potential to increase production, reduce costs and create new sources of income.

The new LignoBoost plant will produce 50,000 tonnes of dried lignin per year, which will be used to replace natural gas in the lime kilns in order to reduce carbon dioxide emissions and to provide a new source of income through external sales.

LignoBoost is a good example of how Valmet's technologies contribute to a wider value network when industries start to connect in search of synergies and new business potential.



High-quality tissue with less fibers

Valmet's flexible Advantage NTT technology stands out for producing tissue at low energy cost and high productivity, while increasing end-product quality and flexibility of production.

The first NTT line installed at Papel de San Francisco's mill in Mexicali, Mexico in 2013, has proven to be a success in many aspects. "This is an extremely energy efficient machine, with high dryness, which gives us previously unheard of productivity. We get conventional products at low energy, and textured tissue as an extra bonus with a quick and easy changeover. I believe NTT can become the new standard for conventional tissue making," states Dario Palma, Operations Director.

The plain mode enables both high production volumes and softness at low energy consumption. The textured mode provides the possibility to produce premium quality tissue with 50% to 80% more bulk and softness, while saving up to 20% of fiber.

Research and development

Valmet's research and development work is driven by customer needs. As a result of this work, we have continuously improved our products and services and brought new innovations to market.

With our research and technology development work, we aim to ensure an advanced and competitive offering of process technologies, automation and services for our current and future customers, enhance raw material efficiency, and promote the use of renewable raw materials.

During recent years, Valmet has developed its board, paper and tissue machine offering towards more standardized and modular solutions. This has brought significant savings in customer investments, improved environmental efficiency and reduced the time from order to start-up.

Our biotechnology innovations enable wider use of bio-based raw materials and create new revenue streams. Recent examples include LignoBoost lignin separation technology and bio-oil production with pyrolysis technology. Additionally, we have several new and innovative solutions in the pilot and demonstration phase.

Our long-term vision is to develop solutions that take the industry to the next level. Such solutions would include mills that

can produce pulp, paper and other bioproducts without emissions and with minimum water consumption, and new high-value end products utilizing bio-based raw materials. We are also developing new ways to utilize the Industrial Internet and advanced communication technologies to use indoor navigation and augmented reality in the production facilities we deliver and serve.

Differentiation with R&D centers and pilot machines

Valmet's own R&D centers and pilot machines form the backbone of our research and development work. Altogether, we have 16 R&D centers and pilot facilities located in Finland, Sweden and Portugal.

Our research and development work is complemented by close cooperation with a network of world-leading research facilities and universities. A large amount of our technology development is done in cooperation with our customers, who also have the possibility to conduct their pilot projects with Valmet's pilot machines.

| CUSTOMER NEEDS | VALMET'S R&D FOCUS AREAS | EXAMPLES OF SUCCESS CONCEPTS AND PRODUCTS |
|--|--|--|
| <ul style="list-style-type: none"> • Increase production efficiency • Improve competitiveness • Maximize value of raw materials • Widen raw material base • Provide high-value end products • Develop new innovations and technologies | <p>Ensure advanced and competitive technologies and services:</p> <ul style="list-style-type: none"> - We develop cost-competitive, leading production and automation technologies and services. <p>Enhance raw material, water and energy efficiency:</p> <ul style="list-style-type: none"> - We combine process technology, automation and services to reduce raw material, water and energy consumption. <p>Promote renewable materials:</p> <ul style="list-style-type: none"> - We develop solutions to replace fossil materials with renewable ones and to produce new higher-value end products. | <ul style="list-style-type: none"> • OptiConcept M board and paper machine • Advantage NTT tissue machine • Valmet DNA distributed control system • High-power recovery boiler • LignoBoost lignin separation |
| Resources | <ul style="list-style-type: none"> • 16 own technology centers and pilot facilities • Annual R&D spend about EUR 59 million • Around 1,800 protected inventions • Cooperation with customers, universities and research institutions • Over 400 R&D professionals globally | |

MUST-WIN: LEADER IN TECHNOLOGY AND INNOVATION

Valmet IQ – the smartest way to reach quality goals

In 2015, Valmet launched a renewed Valmet IQ product family for its pulp and paper industry customers. Valmet IQ is a next-generation online quality management solution to optimize production processes and the end product quality. The renewed product family consists of a quality control system, profilers, web monitoring and web inspection systems.

All components of the Valmet IQ solution are designed to work together. The products are designed to work seamlessly with other automation systems and all paper machines regardless of manufacturer. The easy connectivity with any system allows replacements even piece by piece.

“Valmet IQ is designed with the experience of thousands of system deliveries by Valmet over more than half a century. The renewed Valmet IQ quality management solution marks a new milestone in pulp and paper quality management featuring a number of innovations like online softness measurement for tissue. The new Valmet IQ is a beneficial solution whether our customer is looking to replace aging or obsolete quality control systems or to build up entirely new quality management solution,” says Jari Almi, Director of Quality Management Solutions at Valmet.



COMPREHENSIVE ONLINE DIAGNOSTICS

The heart of a Valmet quality control system is situational information from the process. Valmet IQ scanners have selectable and adaptive scanning functions combined with high-speed quality sensors to provide many online diagnostic functions to improve paper quality, machine stability and process efficiency.



IMPROVED USER INTERFACE INTEGRATED WITH PROCESS DATA

The new Valmet IQ user interface with integrated performance reporting takes the user experience to a new level, revealing a clear view of the past, present and future of the process and product quality through intuitive navigation. It also allows for easy grade management.

MEASUREMENTS FOR IMPROVED PROCESS EFFICIENCY

Measurements are essential tools for reducing production costs and improving quality and efficiency. Valmet IQ introduces several new quality measurements such as an online IQ Softness sensor for tissue – the first of its kind the industry. The non-nuclear sensor portfolio for basis weight and moisture measurement has been extended to pulp drying, providing accuracy measurement without the need for special certification or radiation safety issues.



Sustainability

We carry out our operations in a socially responsible, safe and environmentally efficient manner, and help our customers to improve the energy and raw material efficiency of their production processes.



For the second

year in a row, Valmet was included in the Dow Jones Sustainability Index (DJSI).

LTIF 3.3

The year 2015 was Valmet's safest ever, with a record-low lost time incident frequency.

Sustainability agenda

| FOCUS AREA | KEY TARGETS | HIGHLIGHTS 2015 |
|--|--|---|
| Sustainable supply chain We enhance our supply chain management and the transparency of our value chain. | <ul style="list-style-type: none"> • 100% of Valmet's procurement contracts to include Sustainable Supply Chain policy • 80% of Valmet's active and 100% of new suppliers assessed for potential sustainability risks • Training of Valmet's entire procurement organization by the end of 2015 • Compliance with chemical legislation | <ul style="list-style-type: none"> • All active suppliers informed about the Sustainable Supply Chain policy and the policy included in all new procurement contracts • 100% of new and existing suppliers assessed for potential sustainability risks • 41 supplier sustainability audits conducted • 100% of Valmet procurement professionals received sustainability training by end of 2015 |
| Health, safety and environment (HSE) We provide a safe, healthy and well-managed work environment and minimize the environmental impact of our operations. | <ul style="list-style-type: none"> • Zero harm, wherever we work • 3 safety observation reports per person by end of 2018 • Incident frequency by end of 2018: LTIF < 2, TRIF < 5 • Energy and CO₂ emissions reduction of 20% by 2020 • Water consumption reduction of 15% by 2020 • Waste reduction of 15% by 2020 • No non-compliance issues | <ul style="list-style-type: none"> • No fatalities • 0.7 safety observation reports per person • LTIF -40% and TRIF -16% • Energy consumption +1% • CO₂ emissions +3% • Water consumption -8% • Waste amounts -3% |
| People and performance We develop an engaged and performance-driven community. | <ul style="list-style-type: none"> • Values as part of company culture and way of working • Defining strategic competencies for each business line and area • Manager skill development concept in place • Positive trend in engagement and performance levels as measured by regular engagement surveys | <ul style="list-style-type: none"> • New values index in place • New manager role rolled out to clarify expectations towards managers • 5 new global training programs kicked off • Engagement increased by 9 percentage points |
| Cost-effective sustainable solutions We develop and provide solutions that support sustainable development. | <ul style="list-style-type: none"> • Positive trend in the environmental efficiency of Valmet's solutions • Orders received for new solutions | <ul style="list-style-type: none"> • Share of orders received from new products increased including further orders for new board, paper and tissue production technologies • Several new products launched including the next-generation IQ quality management solution • Major orders for pulp technologies |
| Corporate citizenship We are a trusted partner to our stakeholders and a respected corporate citizen. | <ul style="list-style-type: none"> • Demonstrate leadership in third-party sustainability ratings • Enhance dialogue with stakeholders | <ul style="list-style-type: none"> • Inclusion in Dow Jones Sustainability World and Europe Indices (DJSI) for the second consecutive year • Updated Code of Conduct enforced with an e-learning completion rate of 90% |

Sustainable supply chain

In 2015, Valmet continued to implement its global activities to enhance sustainable sourcing and the transparency of its value chain.

Valmet has a global supplier base with some 9,000 active suppliers in more than 50 countries. However, the majority of Valmet's purchases originate in Finland, Sweden and the United States. Valmet's main purchases consist of metals-based products and components, electronics as well as different services.

In order to ensure responsible business practices throughout the supply chain, Valmet's sustainable supply chain focus area comprises five specific actions to enhance more sustainable procurement practices and to minimize potential negative social or environmental impacts.

Enforcing new sustainability requirements

In 2015, Valmet communicated its Sustainable Supply Chain policy and the requirements set therein to all its active suppliers globally. The policy was also included in Valmet's General

Purchasing Conditions (GPC) and made an integral part of contract documentation and purchase orders.

Valmet expects all its suppliers to comply with the sustainability requirements in the policy and has zero tolerance towards the use of forced labor or child labor. Compliance with the policy is the starting point for entering into and maintaining all business relationships with Valmet. Valmet wants to work with partners who share the same ethical principles and ideology of responsible business practices. The policy acts as a basis for supplier evaluations, self-assessments and third-party sustainability audits.

Assessing sustainability risks

Valmet assesses a wide range of topics in its global supplier selection process, ranging from management practices and financial and

Sustainable supply chain roadmap 2014–2016

| | | |
|-------------------------------|--|--|
| Actions | <p>1. Sustainable Supply Chain policy: We expect our suppliers to comply with our Sustainable Supply Chain policy and we will incorporate it in all new procurement contracts.</p> <p>2. Supplier risk assessment: We integrate supplier sustainability risk assessments into procurement processes.</p> <p>3. Sustainability audits and supplier self-assessments: We request supplier self-assessments and conduct audits.</p> <p>4. Conflict-free minerals and compliance with chemical legislation: We strive to ensure that the materials and components we use do not include legally restricted chemicals or minerals from conflict areas.</p> <p>5. Training: We increase awareness of and competences in sustainable procurement practices within procurement.</p> | |
| Performance indicators | <ul style="list-style-type: none"> • Coverage of suppliers informed about the Sustainable Supply Chain policy • Coverage of risk assessments of new and existing suppliers • Implementation rate of internal processes | <ul style="list-style-type: none"> • Number of supplier sustainability self-assessments • Number of sustainability audits • Coverage of new way to operate related to chemicals regulations |
| Highlights 2015 | <ul style="list-style-type: none"> • All active suppliers informed about the policy and the policy included in General Purchasing Conditions (GPC) • All active suppliers assessed for potential sustainability risks • 380 Valmet procurement professionals received sustainability training by the end of 2015 | <ul style="list-style-type: none"> • Global way to operate for sustainability audits defined and local sustainability auditors nominated • 41 supplier sustainability audits conducted including self-assessments • New program kicked-off to ensure compliance with chemical legislation |

operative performance to ethical business practices, human and labor rights, occupational health and safety, environmental management and product safety.

In 2015, Valmet integrated sustainability risk assessments with its supplier approval system. The risk evaluation is based on the country of origin and the purchase category in question. As part of this process, Valmet's entire global supplier base was assessed through a five-level sustainability risk assessment.

Ensuring compliance through audits

Valmet has a global process in place to ensure compliance with the requirements set out in its Sustainable Supply Chain policy. Based on a sustainability risk assessment, Valmet may ask its suppliers to evaluate their sustainability performance by conducting a self-assessment, which is used as one of the criteria to define the need for a potential sustainability audit. The self-assessment is an online questionnaire integrated with Valmet's supplier approval system and available in nine languages.

In 2015, Valmet together with an independent, certified third-party auditor, conducted a total of 41 supplier sustainability audits in Brazil, China, Finland, India, Mexico, Poland, Sweden and the United States.

Based on the experiences from the audits, we created a unified way to operate in sustainability audits to ensure a consistent process for all Valmet's sustainability audits globally and to enable comparability between suppliers. The new way to operate will be launched globally in early 2016.

Increased focus on regulated substances

The regulatory framework is continuously developing and will create new obligations for companies. In 2015, Valmet focused on ensuring compliance with the European Union's REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) and RoHS (Reduction of Hazardous Substances) directives, and on sourcing conflict-free minerals. To ensure future compliance with, for example, new substance restrictions, Valmet also kicked off a specific development program to further develop its existing processes and controls.

Sustainability training

As part of its efforts to enhance the sustainability of its supply chain, Valmet has focused on increasing the awareness and competences of sustainable procurement practices in its global procurement organization. In 2015, the sustainability training continued in all areas globally, covering in total 380 procurement professionals.

Purchases (10 largest countries)

| EUR MILLION | 2015 | 2014 |
|-------------|------|------|
| Finland | 770 | 639 |
| Sweden | 194 | 222 |
| USA | 143 | 130 |
| China | 132 | 119 |
| Germany | 78 | 59 |
| Brazil | 74 | 54 |
| Estonia | 35 | 17 |
| Poland | 30 | 37 |
| Italy | 29 | 20 |
| Japan | 26 | 26 |

All suppliers

informed about new sustainability requirements.

41

supplier sustainability audits conducted globally.

380

procurement professionals trained for sustainability.

MUST-WIN: EXCELLENCE IN PROCESSES

From plan to action – auditing suppliers in India

In September, Valmet's team spent one intensive week in India to audit three of its key suppliers in different parts of the country: Vadodara, Nagpur and Chennai. The target was to ensure that the suppliers meet the requirements set out in Valmet's Sustainable Supply Chain policy, as well as those stated in international and local laws.

"At each site, we conducted comprehensive workshop tours, employee interviews and documentation reviews to see how the supplier operations are arranged. The audits also served as a good basis to further develop a strong foundation for our future process and cooperation with suppliers," says Manish Sharma, Head of Asia-Pacific Supply Centers.

New global way to operate for sustainability audits

The audits were part of Valmet's supplier sustainability auditing program in 2015. Together with a certified third party specializing in standardized sustainability auditing Valmet conducted supplier sustainability audits in all its geographical areas. The audits served as a basis for defining Valmet's global way to operate in auditing, which will be rolled out in early 2016. The new way to operate consists of Valmet-specific processes and guidance, as well as relevant tools and templates.



LOCAL AUDITOR POOLS

Valmet's procurement organizations in each area have a pool of nominated local sustainability auditors. "Not only have the sustainability pilot audits brought a great deal of added value to us as individuals, but they also present a whole new area for us to explore, learn and grow," says Mr. Manmeet Singh Kohli from Valmet's Gurgaon Supply Center in India.



NEW POLICY

The Sustainable Supply Chain policy addresses Valmet's requirements for its suppliers regarding business ethics, compliance, human rights and labor rights, occupational health and safety, environmental management and sustainability in products and services.



SUSTAINABILITY TRAINING

Currently 380 procurement professionals from all business lines and areas have participated in sustainability training during 2015 to ensure effective implementation of the new sustainable procurement processes.

Health, safety and environment

Together, we continue to create a culture of HSE excellence through development of leadership, engagement and effective processes. In 2015, we increased our focus on preventive and protective measures.

Our roadmap for health, safety and the environment (HSE) sets out the milestones to achieving best-in-class HSE performance. This program engages our people and partners with our goal of zero harm in four areas: culture, processes, competency and performance. The year 2015 was Valmet's safest ever, with a 40% reduction in lost time incident frequency. We continued to realise eco-efficient gains in water consumption and waste reduction during the year. Due to the acquisition of the automation operations during the year, our absolute energy consumption and CO₂ emissions increased slightly.

Focus on leadership and engagement

HSE responsibilities and accountabilities are clearly defined at Valmet, and actions taken in 2015 have promoted active HSE

leadership. The new Valmet manager role description and the associated "Forward for Managers" training embed key elements of HSE leadership, such as being a role model and driving change. More concretely, we continued the leadership safety walk process and all units set performance targets for key managers. These walks support local HSE engagement as well as improvements, and they have received positive feedback from our people and our customers.

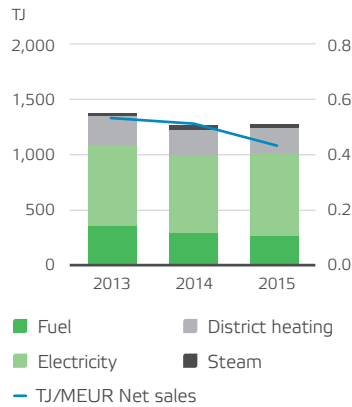
We promote HSE awareness throughout the year in our global communications program, supported by local actions. In 2015, a total of 56 Valmet locations took actions as part of the WWF Earth Hour campaign to demonstrate our overall environmental commitment. In April, we launched a campaign to increase safety observation reporting. In October, we held our second annual

Health, safety and environment (HSE) roadmap 2014–2016

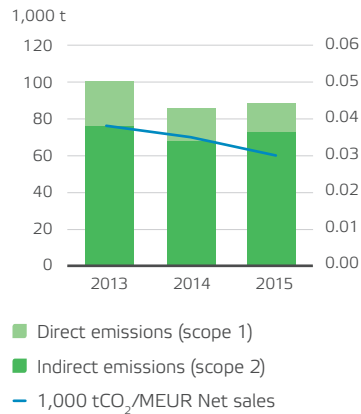
| | | |
|-------------------------------|---|---|
| Actions | <p>1. Culture: We systematically enhance leadership, engagement and mindset to move HSE forward.</p> <p>2. Processes: We ensure processes for effective HSE management are in place in all operations with a focus on defining global standards. We implement best practice as common practice.</p> <p>3. Competency: We ensure training, competency and awareness are delivered and maintained to effectively manage HSE hazards and impacts.</p> <p>4. Performance: Our strategic HSE targets and initiatives, translated into local action plans, drive continuous and sustained improvements in safe systems of work, employee wellbeing and our operational footprint.</p> | |
| Performance indicators | <ul style="list-style-type: none"> • Safety observation and near miss reporting • Safety committee coverage (%) • Management system coverage • HSE training hours per employee | <ul style="list-style-type: none"> • Incident and illness frequency • Operational eco-efficiency targets: energy and CO₂ reductions, water consumption, amounts of waste |
| Highlights 2015 | <ul style="list-style-type: none"> • No fatalities (own people and contractors) • LTIF decreased by 40% and TRIF by 16% • 0.7 safety reports per person • Energy consumption +1%, CO₂ emissions +3%, water consumption -8%, amounts of waste -3 % | <ul style="list-style-type: none"> • 8 HSE training hours per employee • Harmonization of procedures for safety on customer sites completed • Launch of incident reporting app |

Health, safety and environmental data

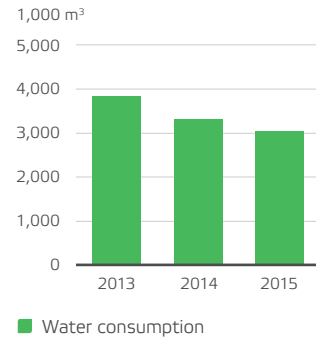
Energy



CO₂ emissions



Water consumption



Waste

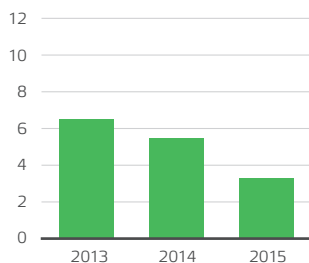


Management systems (% of headcount)

| SHARE OF CERTIFIED OPERATIONS ¹ | 2015 |
|--|------|
| ISO 9001 Quality Management System | 90% |
| ISO 14001 Environmental Management System | 77% |
| OHSAS 18001 Occupational Health and Safety Management System | 61% |

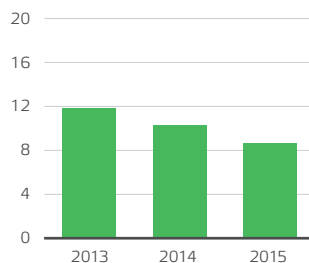
¹Including offices

Lost time incident frequency (LTIF)², own employees



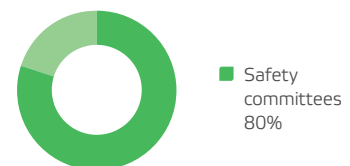
²LTIF reflects the number of injuries resulting in an absence of at least one workday per million hours worked

Total recordable incident frequency (TRIF)³, own employees



³LTIF+medical treatment and restricted work cases

Coverage of safety committees⁴, % of workforce



⁴Percentage of workforce represented in formal joint management-worker health and safety committees

HSE awareness week, in conjunction with which we also launched a video about our mill maintenance operations at Orora B9 in Australia, demonstrating how we are building safety excellence on a daily basis. In addition to planned activities, we share local achievements in HSE performance, such as years-without-incidents milestones and best practices, in our internal news flow.

Implementing high standards

We embed best practice HSE processes in all our operations using common approaches and systems. On one hand, we continuously implement global standards for critical processes, such as serious incident investigation and hazardous substances management. We also started to harmonize site safety procedures this year, and we will continue to pilot them in customer projects in 2016. On the other hand, we have started a process of HSE and quality management system standardization and extension of certification to cover all production facilities.

Our global standards and practices guide all our people, contractors and visitors in safe and responsible behavior in their everyday work. To assure compliance with global standards, as well as with legal and customer requirements, a corporate HSE audit program is followed each year by the Global HSE team of experts. Our focus in 2015 was on compliance with the Valmet minimum safety standards for high-risk tasks such as isolation of plant and machinery, and working at height. A total of 15 production facilities, as well as 12 customer sites, were audited.

Competent people and teams

During 2015, we established a global approach for ensuring that our people and partners are competent to carry out their work safely, wherever we operate. A common mandatory level of HSE training is defined for Valmet comprising fundamental HSE topics, as well as location/site-, role/task- and customer-specific training. We renewed our HSE awareness e-learning during the year, and it will be mandatory for all employees and partners as of 2016. We are also continuing consolidation of local HSE training matrixes into country-level matrixes capturing all relevant legal requirements matched to specific roles and tasks.

Sustainable improvements in performance

Through the annual planning process, Valmet defines clear improvement initiatives to achieve its HSE targets. Co-ordinated actions are implemented at the global, business line/area and location levels. Since 2014, additional focus and support has been provided to ten selected locations that have the most room for improvement in terms of HSE performance.

A key global focus in 2015 was to activate safety observation reporting as an improvement process. Our global incident management system was developed to enable classification of safety observations into unsafe behavior and unsafe conditions. A mobile reporting app was also developed and launched at the end of the year.

Valmet's environmental efficiency program

Targets

| INDICATORS (ROLLING 12 MONTHS) | TARGET 2020 |
|--|-------------|
| Energy consumption and CO ₂ emissions reduction (% reduction in yearly consumption compared to net sales, baseline reference yearly average 2005–2009) | 20% |
| Municipal water consumption reduction (% reduction in yearly consumption compared to net sales, baseline reference yearly average 2011–2012) | 15% |
| Total waste amount reduction (% reduction in yearly amounts compared to net sales, baseline reference yearly average 2011–2012) | 15% |
| Waste utilisation rate (%) (% increase in waste utilisation (recycled waste + incineration / total waste), baseline reference yearly average 2011–2012) | 10% |

Health and safety targets

| | 2018 |
|---|----------------------|
| Lost time incident rate (LTIF) (Lost time incidents per 1.000.000 working hours) | 2 |
| Total recordable incident rate (TRIF) (LTIF + medical treatment and restricted work cases) | 5 |
| Near miss and risk observations | 3 / employee / year |
| HSE training | 8h / employee / year |
| Number of documented safety inspections per million whrs | 150 |

Work to implement global standards continued through directed business line/area actions. The Paper business line implemented a lifting safety program and the China area a program for enhancing isolation of plant and machinery.

Steps towards our eco-efficiency targets are taken in all production facilities based on global and operation-specific HSE action plans. Improvements in 2015 included the ongoing rationalization of the production footprint, upgrading existing processes and application of best available technology for new investments, as well as many small local contributions, such as the practice of turning off workshop lighting during lunchtime, as we do in Gorizia in Italy and Araucária in Brazil.

Local health and wellness promotion is planned annually, for example through fitness classes, healthy lifestyle seminars and periodic health check-ups. The Jyväskylä unit became a smoke-free workplace in 2015, and all Finnish locations will follow by 2017. The target of the non-smoking policy is to support the health of the employees, decrease costs and positively affect the image of the company as a workplace.

MUST-WIN: EXCELLENCE IN PROCESSES

Taking safety forward – every day

As stated in Valmet's HSE policy, we strongly believe that all injuries, incidents and health hazards can be prevented, and we are committed to taking personal responsibility for HSE.

On a monthly basis, all levels of Valmet management review progress towards HSE performance targets and follow up action plans with a focus on highlights, challenges and the next steps to ensure improvement. HSE alerts with key lessons for all serious incidents, as well as good HSE practices, are standard items in the monthly review.

During 2015, we met our mid-term target for lost time incident frequency for own employees and realized a 60% reduction

between 2012 and 2015. In doing so we eliminated ten serious injuries per month from our places of work. Our operations were again fatality-free for both our people and our contractors (2014: zero). We are actively improving reporting systems to be able to track contractor incident frequencies.

Our ongoing focus is on ensuring appropriate systems, competence and behaviors are in place to create a culture where HSE excellence is embedded in our day-to-day activities. We remain committed to active engagement with our customers, people and partners as we continue to move safety forward towards zero harm, wherever we operate.

LEADING THE WAY

"Safety is always first on my agenda. It is all about people, the heart of the company, and that we all return home from work safe, healthy and more knowledgeable each and every day. Our commitment to zero harm is built upon personal responsibility, accountability and clear, consistent leadership by example," says Bertel Karlstedt, President of Valmet's Pulp and Energy business line (in the right).

DELIVERING SAFETY EXCELLENCE AT THE CMPC GUÁIBA MILL, BRAZIL

Safety was a top priority during the delivery of the new pulp line. At the peak of construction, Valmet had over 4,000 people and contractors at the site, and 5% of work hours were spent on HSE training. At start-up, LTIF (12-month rolling) was at a record good level: 0.41. Leadership commitment to safety was a key success factor, and constant attention was paid to supervision for safe systems of work.



INNOVATING SAFELY IN TAMPERE, FINLAND

Valmet's R&D center focuses on developing current and new technologies and fuels. One of many locations with a significant safety milestone, the center has already achieved more than four years injury-free through building a culture where HSE is a visible and integral part of daily operations. Effective risk management and active use of preventive safety observations in particular have been used as means to drive continuous improvement.

People and performance

Our people are at the heart of our business. We continuously work to build and develop teams with people from different backgrounds, genders and cultures. Having a diverse workforce creates a more dynamic work environment and leads to new ideas and more competitive products.

Engagement on the rise, values support daily work

The results of our employee engagement survey improved for nearly all questions in 2015, with total employee engagement increasing globally by nine percentage points to 65%. The results also showed clear improvement in the global focus area “Instilling belief in Valmet’s future”, defined based on the 2014 survey. The share of positive responses for this area increased from 56% to 64%, once again showing that when we focus on a topic, we see results.

The survey was used to establish the Values Index, a baseline for how successfully we are embedding our values into our work. People, in particular, saw a high result, with 83% of employees responding favorably to the statement “the people I work with cooperate to get the job done.” The results of the six values-related questions will be used to further strengthen our culture and way of working.

Driving performance

Driving performance continued to be a priority in 2015. We further developed our compensation framework to support high performance, ensuring the right mix of global and local bonus plans and performance-based salary increases and rewards. The special reward introduced in 2014 to reward individuals on the spot for top performance was expanded with an strengthened focus in 2015.

We continued to utilize our Annual Review discussion process to review past performance and set targets and development actions for the year ahead. In 2015, we introduced a new tool and schedule to streamline the overall process. These improvements led to better coverage, a six-week shorter process and more time for manager-employee dialogue. We also introduced a mid-year review process to support target achievement, emphasize feedback and monitor ongoing development actions.

People and performance roadmap 2014–2016

| | |
|-------------------------------|---|
| Actions | <ol style="list-style-type: none"> 1. Nurturing shared values: We encourage our people to live our shared values by connecting them to our way forward as a company. 2. Driving performance: We look for ways to improve the performance of our people. We develop processes that recognize and reward top performance, improve managerial skills, and encourage individuals to take an active role in driving their own performance. 3. Globalization of capabilities: In addition to developing our knowledge base, we strive to ensure that we have the right competence in the right place at the right time. |
| Performance indicators | <ul style="list-style-type: none"> • Employee engagement survey • Annual performance reviews • Global and local training offering |
| Highlights 2015 | <ul style="list-style-type: none"> • New Values Index to measure how well we are embedding our values in our work • Engagement survey with global response rate of 81%, up from 68% • Overall engagement rose by 9 percentage points • Launch of 5 global training programs with over 320 participants • Implementation of Manager Role as part of Forward for Managers training program • Mind the Gap competence assessment proceeding worldwide • Over 900 actions completed to develop management resources, successors and HIPOs (high potentials) |

Developing our people

Valmet's talent development portfolio came to life in 2015 with five new global training programs being kicked off, along with a number of global e-learning courses on fundamental topics like the Code of Conduct, Information Security, and Lean. To complement the global learning mix, a range of business-specific and local training courses were also held in line with our 70-20-10 learning philosophy, where 70% of learning is on the job, 20% from learning relationships and 10% from traditional training, both internal and external. In addition, we closely followed the development of our talent pool comprising over 700 management resources, successors and high potentials. In 2015, we completed over 900 development actions for this group.

For managers, we developed clear expectations that were brought together in a concise manager role description and incorporated into the 360 Feedback and a new manager training program called Forward for Managers, which was completed by 66% of managers in 2015. It is an intensive day-long course that focuses on Valmet's Way Forward and our manager role in a dynamic and interactive way. All Valmet managers will take the training by mid-2016.

Managing our knowledge base

We are continuing to actively develop and globalize our capabilities close to our customers, ensuring we have the right resources in the right place at the right time. The Mind the Gap project, which began in 2014 to assess and develop critical business competencies, is proceeding, and the results are being used to create action plans to address gaps and future talent needs. This work is supported by the development of efficient resourcing tools to enhance resource planning and facilitate more proactive resourcing moving forward.

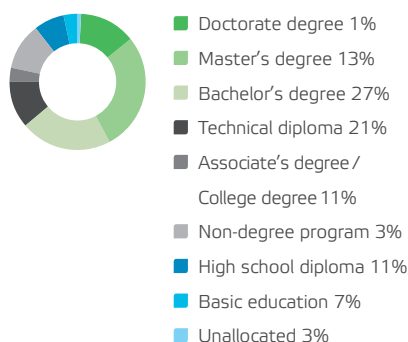
81%

of our employees responded to the employee engagement survey in 2015.

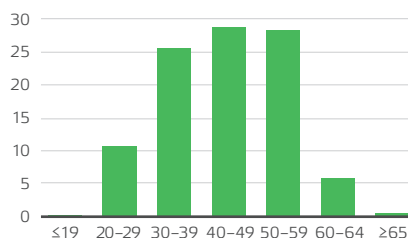
9%

point increase in overall employee engagement.

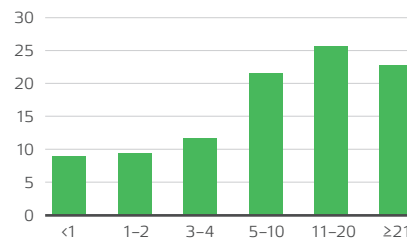
Education structure, %



Age structure, %



Service years, %



MUST-WIN: WINNING TEAM

A new era in global training

Valmet's global training portfolio was successfully kicked off in 2015 with five programs and 11 sessions being run throughout the year. Each of the five programs – Forward Strategy, Fast Forward, Champions in Services, Networking in Procurement and Leading through Lean – helps us achieve our Must-Wins and utilize our values to drive desired behavior. The programs use a variety of learning methods to inspire thinking and bring minds together. The participant feedback has been positive for all programs, with especially high scores for the innovative hands-on approach and the cross-organization networking opportunity.

150+ projects

Project work is a key element of the programs. Projects bring positive energy to all involved and act as a springboard for innovative thinking. In 2015, more than 150 projects were completed that focused on a variety of topics ranging from improving customer competitiveness in the refiner segment and developing more sustainable solutions in paper technology to overall process improvement and Lean thinking. Sponsors from senior management support all project work. At the end of each program, the projects are evaluated by a committee of senior managers and peers and shared internally with the entire Valmet community.



PROJECTS THAT TAKE US FORWARD

"As the sponsor of our Fast Forward program, I have the opportunity to evaluate the participants' individual projects at the close of each program. I've been particularly impressed with the level of ambition of the topics and their potential impact on Valmet, and I look forward to their realization in the future. In addition to that, the projects enable significant individual development. They also challenge and energize our people and give them the possibility to spar with their senior management mentors," says Julia Macharey, Senior Vice President of Human Resources at Valmet.



UNIQUE NETWORKING OPPORTUNITY

Forward Strategy and Fast Forward participants experienced a new type of networking called "meeting points". Meeting points bring participants together from the two different programs for unique learning, networking and mentoring opportunities.



DIVERSE THINKING

Valmet's global programs are international programs that focus on our strategy and Must-Wins. When selecting participants we work hard to ensure we have the right mix of experience, competence and future talent to encourage diverse thinking. Over 320 people from Valmet locations around the world participated in the programs in 2015.

Cost-effective sustainable solutions

Valmet's solutions help to convert biomass into renewable energy and recyclable products while increasing the economy and efficiency of production.

From renewable resources into sustainable results

With its advanced technologies and services, Valmet can help its customers produce more value from each tonne of feedstock or fuel they process. All our solutions target maximal raw material utilization and increased recycling, lower energy consumption and increasing use of renewable energy, while at the same time seeking to reduce fresh water consumption, use of chemicals and emissions.

Technologies for more sustainable and profitable processes

In pulp and paper production, improved material efficiency and lower amounts of waste, as well as reduced energy and water consumption, are normally achieved through process improvements. Paper and board producers can also improve their materials ef-

iciency through lightweighting and by using lower quality raw materials in the manufacturing of high-quality end products. In paper machines, Valmet's research and development work continued to focus on modular and standardized solutions with optimal technology scope. An excellent example is the OptiConcept M modular board and paper machine, which can offer improvements in energy efficiency of up to 30% and enhanced operating profitability, as well as improved user experience and safety.

In energy production the flexibility in fuel selection enables our customers to utilize a variety of renewable fuels that are locally available and reduce their use of fossil fuels. For example, Valmet's energy offering includes technologies for converting biomass, waste or a combination of different fuels into energy. Our offering also includes odor and emission control systems for pulp mills as well as heat and power plants.

Cost-effective sustainable solutions roadmap 2014–2016

| | |
|-------------------------------|--|
| Actions | <ol style="list-style-type: none"> 1. Environmental efficiency of solutions: We continuously improve energy, water and raw material efficiency of solutions. 2. New offering: We develop and commercialize new solutions to increase sustainability and economy of customer processes and to create new revenue streams. 3. Customers' sustainability needs: We actively engage in dialogue with our customers about their sustainability needs to meet the changing market needs. 4. Intellectual property rights (IPR): We actively protect our own product rights and monitor and respect those of others. |
| Performance indicators | <ul style="list-style-type: none"> • Environmental efficiency of solutions • Orders received for new products • R&D investments in sustainability • IPR development |
| Highlights 2015 | <ul style="list-style-type: none"> • Share of orders received from new products increased including further orders for Valmet's new paper production technologies such as OptiConcept M board and paper machines and Advantage NTT tissue machines • Major orders for pulp technologies with high environmental efficiency • Several new products launches, including Valmet IQ online quality management solution • Further development and commercialization of bioconversion technologies such as lignin separation, pre-hydrolysis and gasification of biomass • Increase in customers' positive perceptions of the sustainability of Valmet's offering increased from 94% to 98% |

Valmet has also developed new biomass conversion technologies for producing new bio-based end products such as biogas, biofuels and biomaterials. In recent years, we have introduced several new technologies to the market including LignoBoost for lignin separation, a pyrolysis solution for bio-oil production, and a gasifier for solid biomass and waste. In addition, Valmet has developed its prehydrolysis technology to be applied in second-generation ethanol production.

Improving life cycle efficiency

Valmet's capabilities and unique offering of process technologies, services and automation is a strong basis for serving our customers in a sustainable way throughout the entire lifecycle of the production process. Our comprehensive range of services and automation helps to improve life cycle efficiency by increasing the environmental and cost efficiency of customers' production processes while ensuring safe and reliable operations.

The utilization of the Industrial Internet provides further potential to increase efficiency in customers' processes. Moreover, advanced remote connections enable our services teams to serve our customers 24/7, regardless of time and place.

Safety is part of the innovation process

Safety is an integral part of Valmet's technologies, automation and services. The safety requirements of all Valmet's solutions are carefully reviewed and assessed in the innovation process and must be fulfilled in each product development phase.

Valmet's solutions are required to be safe to use, and they are designed to meet or exceed all applicable safety standards

and regulations. To ensure safe operations, customer training is included in all project deliveries. Moreover, the majority of Valmet's operations are certified to quality, health and safety and environmental management standards, and processes that ensure product safety are followed.

New opportunities from the changing business environment








The growing concern over the availability of earth's resources is creating pressure to continuously increase resource efficiency. At the same time urbanization, population growth and increased consumption pose a threat to clean air, arable land and fresh water. Evolving environmental regulations are also creating a need for more sustainable processes.

Based on life cycle analysis of two product families, we have estimated that around 95% of the environmental impacts of Valmet's entire value chain occurs when Valmet's solutions are being used for production at the customer sites. For this reason, choosing efficient production technologies play a key role in mitigating climate impacts.

Valmet actively engages and cooperates with its customers, as well as research institutions and universities, to collect information on customers' sustainability needs and to develop new and improved solutions for the market.

In 2015, roughly one-fourth of Valmet's R&D spend was directly linked to improvements in the sustainability performance of new and existing solutions. However, many solutions are also subject to indirect sustainability impacts through other performance improvements. (See R&D focus areas p. 26.)

Valmet's solutions convert renewable resources into sustainable results

| End-products | Biogas | | Biofuels | Biochemicals | Biomaterials | New paper grades | | |
|--|--|-------------|---|------------------|---|---|--|--------|
| | Heat | Electricity | Dissolving pulp | Chemical pulp | Mech pulp | Paper | Board | Tissue |
| Technologies Automation Services |  Energy | |  Pulp | | |  Paper | | |
| |  Waste | |  Agro | |  Wood | |  Recycled paper | |
| Customer industries | Energy production | | | Biofuel refining | | Pulp | | Paper |

Corporate citizenship

In 2015, Valmet reinforced its Code of Conduct to secure a uniform standard of behavior across its global operations. The company also maintained its position among the global sustainability leaders.

Valmet is a truly global company with operations in over 30 countries. We provide employment and business opportunities not only directly to Valmet's over 12,000 employees globally, but also to a wide range of other stakeholders, and we indirectly build wealth in local societies. We aim to be seen as a trusted local partner and to build active relations with our stakeholders. We are transparent in our communications with our stakeholders and strive to ensure that all our operations are carried out in accordance with laws and regulations in a socially responsible and globally aligned manner.

Operations aligned with international principles and guidelines

Valmet has been a signatory of the UN Global Compact (UNGC) since January 2014 and is committed to following the ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption in its business. We support and respect the protection of human rights and labor rights as expressed in the United Nations Universal Declaration

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Sustainability Indices**
In Collaboration with RobecoSAM



Corporate citizenship roadmap 2014–2016

| | |
|-------------------------------|--|
| Actions | <p>1. Globally aligned principles: We operate in compliance with laws and regulations and respect globally acknowledged ethical values, principles and human rights. Our operations are guided by our Code of Conduct and related policies.</p> <p>2. Communication and reporting: We promote active stakeholder dialogue and transparently report on our sustainability performance on an annual basis.</p> <p>3. Local programs: We participate in community programs to support local economies and communities based on our Principles for Sponsorships and Donations.</p> |
| Performance indicators | <ul style="list-style-type: none"> • Third-party sustainability ratings • Depth of stakeholder dialogue |
| Highlights 2015 | <ul style="list-style-type: none"> • Inclusion in Dow Jones Sustainability World and Europe Indices (DJSI) for a second consecutive year • Score of 97/100 for disclosure in CDP's climate change program • Updated Code of Conduct enforced across all operations with an e-learning completion rate of 90% • Reporting according to GRI G4 core guidelines • Valmet's customers, suppliers and employers rated the company's sustainability performance as "good" or "excellent" in the 2015 reputation survey • The results of the 2015 stakeholder survey align well with Valmet's current sustainability agenda |

of Human Rights, the UN Guiding Principles on Business and Human Rights, and in the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO). We also take into account the OECD's Guidelines for Multinational Enterprises.

Updated Code of Conduct

Our daily operations are guided by Valmet's Code of Conduct, which is aligned with the principles set out in the UN Global Compact. Valmet's Code of Conduct guides the behavior and decisions of Valmet's employees and its partners, and creates a uniform foundation for all our business transactions and work assignments. The Code addresses topics such as human rights, labor practices, environmental issues, compliance with laws and regulations, fair competition, occupational well-being and safety, and ethical standards throughout the value chain.

In 2015, Valmet updated its Code of Conduct and organized a management training and an obligatory global e-learning course for all employees. The updated Code links more strongly with Valmet's shared values and introduces practical "dos and don'ts" to help apply the Code in daily work. The Code also includes instructions for reporting suspected misconduct, for which Valmet established a new reporting channel in 2015. The new channel is maintained by a third party to guarantee anonymity and enables Valmet's employees or any of our stakeholders to make a report 24/7 via telephone or the Internet in their native language.

Both the Code of Conduct leaflet and the e-learning material are available in 19 languages. Employees without Internet access are invited to attend classroom training. By the end of 2015, some 90% of Valmet employees had completed the training. All new employees are introduced to, and must familiarize themselves with, the Code of Conduct. The Code of Conduct and its updates are approved by Valmet's Board of Directors.

Other guiding policies

Valmet's Code of Conduct is supported by a set of policies defining more detailed principles for specific activities. Valmet's Anti-Corruption policy addresses our zero-tolerance approach to bribery and corruption. The Competition Compliance Guidelines provide practical instructions for compliance with competition and anti-trust laws. Training for these topics is organized on a regular basis. The most recent training for the Anti-Corruption e-learning was launched in the last quarter of 2015. The training will be given first to top management and other senior management and employees from sales and procurement. The previous training courses on Competition Compliance Guidelines and Anti-Corruption were completed during 2014. The next Competition Compliance Guidelines e-learning will take place in 2016.

In 2015, Valmet invested

**EUR 20
million**

in more sustainable business practices.

90%

of Valmet's personnel completed the updated Code of Conduct e-learning in 2015.

Valmet's Health, Safety and Environment (HSE) policy guides our approach to HSE in our own operations, stakeholder collaboration and our offering. The Sustainable Supply Chain policy sets requirements for our suppliers related to sustainable operations. Valmet's Equal Opportunity and Diversity policy promotes equal opportunities for all employees, regardless of gender, age, race, religion or beliefs, ethnic or national origins, marital/civil partnership status, sexuality or disability.

Creating added value

Valmet cooperates with a number of different stakeholders every day. Our stakeholders are existing and potential customers, existing and potential employees, suppliers and subcontractors, shareholders and investors, media, non-governmental organizations, authorities and local communities, research institutes, universities and vocational schools.

We strive to operate in a manner that creates added value to us and our stakeholders. Valmet's value creation model on page 18–19 describes in more detail how our operations impact the economy, environment and societies around us.

Active stakeholder dialogue

Valmet actively communicates with its stakeholders through multiple channels such as events, face-to-face meetings, customer magazines, company reports and brochures, online channels, and surveys.

In order to enable a continuous stakeholder dialogue about its sustainability performance, Valmet has a Web-based brainstorming tool in place. In 2015, 595 external stakeholders and Valmet employees had used the brainstorming tool. The feedback received through the tool indicates that Valmet's stakeholders share the current view on what is important with regard to the company's sustainability performance. The most important topics concerned safety, sustainable solutions, ethical behavior and employee wellbeing. The brainstorming results are reviewed and analyzed on a regular basis to assess potential new topics of concern.

In addition to the stakeholder survey, Valmet actively collects stakeholder feedback at different events and meetings, as well as through specific other surveys and external ratings. In 2015, Valmet's customers, suppliers and employers rated the company's sustainability performance as "good" or "excellent" in our reputation survey, and the rating of Valmet as a socially and environmentally responsible company increased in the employee engagement survey. Also, the proportion of customers reporting positive perceptions of the sustainability of Valmet's offering increased from 94% to 98% in 2015.

Comprehensive sustainability reporting

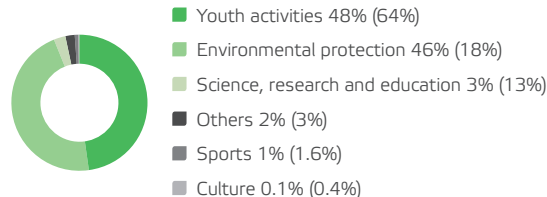
We strive to have globally consistent and transparent management and reporting practices so that all our stakeholders can reliably assess the company's sustainability performance and development. Valmet reports annually on its sustainability performance according to the Global Reporting Initiative, GRI G4 Core option, with selected indicators assured by an independent third party. We also report to selected third-party sustainability ratings.

In 2015, Valmet was included in the Dow Jones Sustainability Index (DJSI) for the second consecutive year. Valmet also reported to CDP's Climate Change program with a score of 97/100 and performance level B.

Income taxes (10 largest countries)

| EUR MILLION | 2015 | 2014 |
|-------------|------|------|
| Finland | 17.2 | 0.0 |
| USA | 7.6 | 4.0 |
| Sweden | 6.5 | 5.6 |
| China | 2.2 | 3.0 |
| Japan | 1.3 | -0.2 |
| Portugal | 1.0 | 0.7 |
| Canada | 0.8 | 1.8 |
| India | 0.8 | 0.0 |
| Germany | 0.6 | 1.0 |
| Chile | 0.6 | 0.4 |

Support for non-profit organizations, % EUR 647,183 in total



Distribution of economic value added to our stakeholder groups

DIRECT ECONOMIC
VALUE GENERATED

Revenues
EUR 2,959 million

ECONOMIC VALUE
DISTRIBUTED

Operating costs: EUR 2,090 million
Employee wages and benefits: EUR 748 million
Payments to providers of capital: EUR 51 million
Payments to government: EUR 29 million
Support for non-profit organizations: EUR 0.6 million

RETAINED IN
BUSINESS

EUR 40 million

Improving daily life with fresh water

Every year, Valmet supports selected projects globally to meet the needs of the communities around it. We believe that collaboration with local communities around the world results in mutual benefits.

In 2015, Valmet teamed up with Keng Zhen Central Primary School located in Shaanxi province in China to address the challenge of fresh water. Keng Zhen Central primary school is one of more than 100,000 rural schools in China, located in a mountainous and geographically remote area. The school had been pumping poor-quality water from underground since there is no water supply system in the town. Fresh water was previously only available a kilometer away in the valley.

Valmet decided to solve the challenge by donating new water filters to the school for cooking and drinking, including a service agreement to ensure proper functionality of the equipment. Valmet also donated second-hand computers to the students and promised to provide IT support via the internet.

"The project demonstrates well the initiatives we hope to promote in local communities. Back in 2008, Valmet in China and all its local employees donated for the rebuilding of two schools which were damaged during the Wenchuan earthquake. Our recent activities in Jiaxian are further examples of our means to collaborate with the communities around us and support their daily operations," says Xie Daorong, Vice President of China Operations.



LONG-TERM CHANGE

"I was delighted to see the faces of the students who tasted the water. It showed we really succeeded in addressing one of the daily challenges of the school, and I am confident that access to fresh water will have a positive impact on the wellbeing of the students and teachers in the long-term," says Wang Hongmei, Marketing Communications Manager at Valmet in China.



ACCELERATING LEARNING IN BRAZIL

In Brazil, Valmet has participated in social and environmental programs through two local non-profit organizations since 2011. "One of the main targets of the programs is to develop and ensure access to basic education for 75,000 young people in the state of Maranhão. For example, the programs provide special courses for illiterate students to enable them to catch up with their peers at school," says Laura Puustjärvi, Head of Sustainability at Valmet.



INVESTING IN LOCAL COMMUNITIES

In 2015, Valmet spent EUR 0.6 million on selected projects around the world. Valmet's sponsorships and donations focus on science, research, education, environmental protection, nature conservation and youth activities. Valmet's seasonal donation for 2015 was dedicated to Save the Children, WWF and UN Women.

Contacts

Visiting address

Keilasatama 5, 02150 Espoo, Finland

Postal address

P.O. Box 11, 02151 Espoo, Finland

Tel. +358 (0)10 672 0000

firstname.lastname@valmet.com

Media contacts

media@valmet.com

Sustainability contacts

sustainability@valmet.com

Investor relations

ir@valmet.com

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Concept, design and production

Milton Oy

Paper

MultiArt Silk 300 g

MultiArt Silk 130 g

Printing

Oy Fram Ab

The paper, and the pulp used in making the paper, was produced with machines and equipment manufactured by Valmet. The report is printed on MultiArt Silk, which is PEFC-certified and meets the environmental criteria for the Swan ecolabel. PEFC certification confirms that the forests are being sustainably managed. The printing inks and chemicals used in printing comply with the requirements for the Swan ecolabel. The printing ink is plant oil-based, and the other materials used are recyclable and ecofriendly.



Converting renewable resources into sustainable results



Valmet Corporation
Keilasatama 5 / PO Box 11
FI-02150 ESPOO, FINLAND
www.valmet.com