Financial Statements Review

January 1 - December 31, 2018

Valmet

Valmet's Financial Statements Review January 1– December 31, 2018

Orders received increased to EUR 3.7 billion and Comparable EBITA to EUR 257 million in 2018

Figures in brackets, unless otherwise stated, refer to the comparison period, i.e. the same period of the previous year. The comparison period figures have been restated following the adoption of IFRS 15 as of January 1, 2018.

October–December 2018: Comparable EBITA margin increased to 11.5 percent

- Orders received increased 41 percent to EUR 1,026 million (EUR 727 million).
  - Orders received increased in the Pulp and Energy, and Services business lines, remained at the previous year's level in the Automation business line and decreased in the Paper business line.
  - Orders received increased in South America, Asia-Pacific and EMEA (Europe, Middle East and Africa) and decreased in China and North America.
- Net sales remained at the previous year's level at EUR 984 million (EUR 967 million).
  - Net sales increased in the Services, and Pulp and Energy business lines, remained at the previous year's level in the Automation business line and decreased in the Paper business line.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 113 million (EUR 81 million), and the corresponding Comparable EBITA margin was 11.5 percent (8.4%).
  - Profitability improved due to higher gross profit and improved project execution.
- Earnings per share were EUR 0.49 (EUR 0.33).
- Items affecting comparability amounted to EUR -3 million (EUR -12 million).
- Cash flow provided by operating activities was EUR 143 million (EUR 89 million).

January–December 2018: Orders received and Comparable EBITA increased

- Orders received increased 14 percent to EUR 3,722 million (EUR 3,272 million).
  - Orders received increased in the Pulp and Energy, and Services business lines and remained at the previous year's level in the Automation and Paper business lines.
  - Orders received increased in all other areas except China, where orders received decreased.
- Net sales increased 9 percent to EUR 3,325 million (EUR 3,058 million).
  - Net sales increased in the Paper, and Pulp and Energy business lines and remained at the previous year's level in the Services and Automation business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 257 million (EUR 218 million), and the corresponding Comparable EBITA margin was 7.7 percent (7.1%).
  - Profitability improved due to higher net sales.
- Earnings per share were EUR 1.01 (EUR 0.81).
- Items affecting comparability amounted to EUR -16 million (EUR -17 million).
- Cash flow provided by operating activities was EUR 284 million (EUR 291 million).

Dividend proposal

The Board of Directors proposes for the Annual General Meeting that a dividend of EUR 0.65 per share be paid. The proposed dividend equals to 64 percent of the net result.

Guidance for 2019

Valmet estimates that net sales in 2019 will remain at the same level as in 2018 (EUR 3,325 million) and Comparable EBITA in 2019 will increase in comparison with 2018 (EUR 257 million).

Short-term outlook

General economic outlook

The global expansion has weakened. IMF now projects the global economy to grow at 3.5 percent in 2019 and 3.6 percent in 2020, 0.2 and 0.1 percentage point below last October's projections, which had already been revised downward. Risks to global growth tilt to the downside. An escalation of trade tensions remains a key source of risk to the outlook. Financial conditions have already tightened since the fall. A range of triggers beyond escalating trade tensions could spark adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China. (International Monetary Fund, January 21, 2019)

Short-term market outlook

Valmet estimates that the short-term market outlook in tissue has decreased to a satisfactory level (previously good level).

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

President and CEO Pasi Laine: A strong year for Valmet

"In 2018, orders received in the stable business increased 6 percent to EUR 1.7 billion[1]. The Paper business line had another exceptionally strong year, as orders received increased to EUR 1.1 billion. Orders received in the Pulp and Energy business line also reached EUR 1 billion in 2018, with growth in both Energy and Pulp. All in all, Valmet's orders received increased 14 percent to EUR 3,722 million, and order backlog reached a record-high level of EUR 2.8 billion.

Net sales increased 9 percent in 2018 and amounted to EUR 3.3 billion. Net sales increased in the capital business and remained at the previous year's level in the stable business. Comparable EBITA increased 18 percent to EUR 257 million. The Comparable EBITA margin for the full year was 7.7 percent, making 2018 another successive year of margin improvement.

During the year, we developed our industrial internet offering, made progress in research and development, continued to develop our personnel and maintained our position as a sustainability leader. The total recordable incident frequency (TRIF) decreased 20 percent, making Valmet a safer workplace.

Overall, 2018 was a strong year for us and I am pleased with the good progress we made during the year. At the same time we still have room to improve going forward. The record-high backlog gives us a strong starting point for 2019."

[1] *Including internal orders received of the Automation business line.*

Key figures[1]

EUR million	Q4/2018	Q4/2017	Change	2018	2017	Change
Orders received	**1,026**	727	41%	**3,722**	3,272	14%
Order backlog[2]	**2,829**	2,458	15%	**2,829**	2,458	15%
Net sales	**984**	967	2%	**3,325**	3,058	9%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**113**	81	39%	**257**	218	18%
% of net sales	**11.5%**	8.4%		**7.7%**	7.1%	
Earnings before interest, taxes and amortization (EBITA)	**110**	69	60%	**241**	202	20%
% of net sales	**11.2%**	7.1%		**7.2%**	6.6%	
Operating profit (EBIT)	**102**	61	69%	**211**	170	24%
% of net sales	**10.4%**	6.3%		**6.4%**	5.6%	
Profit before taxes	**100**	57	73%	**205**	158	30%
Profit for the period	**74**	49	50%	**152**	121	25%
Earnings per share, EUR	**0.49**	0.33	51%	**1.01**	0.81	25%
Earnings per share, diluted, EUR	**0.49**	0.33	51%	**1.01**	0.81	25%
Equity per share, EUR[2]	**6.31**	6.09	4%	**6.31**	6.09	4%
Cash flow provided by operating activities	**143**	89	61%	**284**	291	-3%
Cash flow after investments	**119**	70	69%	**208**	227	-9%
Return on equity (ROE)[3]				**16%**	13%	
Return on capital employed (ROCE) before taxes[3]				**19%**	14%	
Equity to assets ratio[2]				**43%**	42%	
Gearing[2]				**-23%**	-11%	

[1] *The calculation of key figures is presented on page 45.*

[2] *At the end of period*

[3] *In the calculation of 2017 figures, non-restated data points from 2016 have been used.*

Orders received, EUR million	Q4/2018	Q4/2017	Change	2018	2017	Change
Services	**325**	282	15%	**1,315**	1,242	6%
Automation	**94**	91	3%	**330**	317	4%
Pulp and Energy	**451**	151	>100%	**1,000**	678	47%
Paper	**156**	203	-23%	**1,077**	1,035	4%
Total	**1,026**	727	41%	**3,722**	3,272	14%

Order backlog, EUR million	As at Dec 31, 2018	As at Dec 31, 2017	Change	As at Sep 30, 2018
Total	**2,829**	2,458	15%	2,791

Net sales, EUR million	Q4/2018	Q4/2017	Change	2018	2017	Change
Services	**366**	340	8%	**1,219**	1,178	3%
Automation	**106**	104	3%	**306**	296	3%
Pulp and Energy	**232**	219	6%	**863**	800	8%
Paper	**280**	304	-8%	**937**	784	19%
Total	**984**	967	2%	**3,325**	3,058	9%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for analysts, investors, and media on Thursday, February 7, 2019 at 3:00 p.m. Finnish time (EET). The news conference will be held at Valmet Head Office in Keilaniemi, Keilasatama 5, 02150 Espoo, Finland. The news conference can also be followed through a live webcast at www.valmet.com/webcasts.

It is also possible to take part in the news conference through a conference call. Conference call participants are requested to dial in at least five minutes prior to the start of the conference, at 2:55 p.m. (EET), at +44 2071 928000. The participants will be asked to provide the following conference ID: 4272378.

During the webcast and the conference call, all questions should be presented in English. After the webcast and the conference call, media has a possibility to interview the management in Finnish.

The event can also be followed on Twitter at www.twitter.com/valmetir.

Valmet's Financial Statements Review January 1–December 31, 2018

Orders received increased 14 percent in 2018

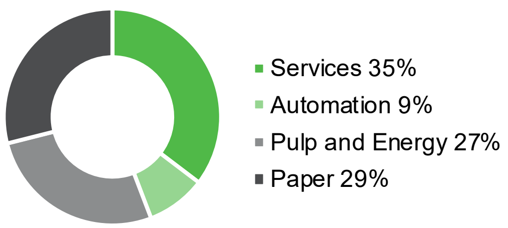
Orders received, EUR million	**Q4/2018**	Q4/2017	Change	**2018**	2017	Change
Services	**325**	282	15%	**1,315**	1,242	6%
Automation	**94**	91	3%	**330**	317	4%
Pulp and Energy	**451**	151	>100%	**1,000**	678	47%
Paper	**156**	203	-23%	**1,077**	1,035	4%
Total	**1,026**	727	41%	**3,722**	3,272	14%

Orders received, comparable foreign exchange rates, EUR million[1]	**Q4/2018**	Q4/2017	Change	**2018**	2017	Change
Services	**328**	282	16%	**1,361**	1,242	10%
Automation	**96**	91	5%	**339**	317	7%
Pulp and Energy	**469**	151	>100%	**1,029**	678	52%
Paper	**150**	203	-26%	**1,103**	1,035	7%
Total	**1,043**	727	43%	**3,832**	3,272	17%

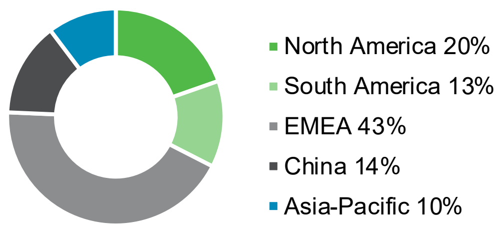
[1] *Indicative only. 2018 orders received in euro calculated by applying 2017 average exchange rates to the functional currency orders received values reported by entities.*

Orders received, EUR million	**Q4/2018**	Q4/2017	Change	**2018**	2017	Change
North America	**131**	202	-35%	**730**	686	6%
South America	**316**	30	>100%	**480**	183	>100%
EMEA	**409**	306	34%	**1,606**	1,508	6%
China	**67**	132	-49%	**523**	572	-9%
Asia-Pacific	**102**	57	78%	**383**	323	18%
Total	**1,026**	727	41%	**3,722**	3,272	14%

Orders received by business line, 2018



Orders received by area, 2018



October–December 2018: Orders received increased in the Pulp and Energy, and Services business lines

Orders received increased 41 percent to EUR 1,026 million in October–December (EUR 727 million). The Services and Automation business lines together accounted for 41 percent (51%) of Valmet's orders received. Orders received increased in the Pulp and Energy, and Services business lines, remained at the previous year's level in the Automation business line and decreased in the Paper business line. Orders received increased in South America, Asia-Pacific and EMEA (Europe, Middle East and Africa) and decreased in China and North America. Measured by orders received, the top three countries were Chile, the USA and Slovakia, which together accounted for 46 percent of total orders received. The emerging markets accounted for 59 percent (37%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased orders received by approximately EUR 17 million in October–December.

During October–December, Valmet received among others an order for key pulp mill technology to a new pulp line in Chile, typically valued at EUR 250–300 million, an order for OCC and containerboard making lines to Slovakia, and an order for a biomass-fired boiler plant to Finland. Valmet also received marine scrubber orders valued at approximately EUR 90 million in total.

January–December 2018: Orders received increased the most in the Pulp and Energy business line

Orders received increased 14 percent to EUR 3,722 million (EUR 3,272 million) in 2018. The Services and Automation business lines together accounted for 44 percent (48%) of Valmet's orders received. Orders received increased in the Pulp and Energy, and Services business lines and remained at the previous year's level in the Automation and Paper business lines. Orders received increased in all other areas except China, where orders received decreased. Measured by orders received, the top three countries were the USA, China and Finland, which together accounted for 39 percent of total orders received. The emerging markets accounted for 45 percent (43%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 110 million in 2018.

In addition to the above-mentioned, in year 2018 Valmet received among others an order for a containerboard making line to Germany, typically valued at EUR 70–90 million, an order for a multifuel boiler and a flue gas treatment plant to Finland, valued at around EUR 70 million, and an order for a paper machine grade conversion rebuild in Italy, typically valued at around EUR 40–60 million. Valmet also received marine scrubber orders valued at approximately EUR 190 million in total.

Order backlog all-time high at EUR 2.8 billion

Order backlog, EUR million	**As at Dec 31, 2018**	As at Dec 31, 2017	Change	As at Sep 30, 2018
Total	**2,829**	2,458	15%	2,791

The order backlog amounted to EUR 2,829 million at the end of the reporting period, 1 percent higher than at the end of September 2018 and 15 percent higher than at the end of December 2017. Approximately 25 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 25% at the end of December 2017). Approximately 75 percent of the order backlog is currently expected to be realized as net sales during 2019 (at the end of 2017, approximately 80% was expected to be realized as net sales during 2018).

Net sales increased 9 percent in 2018

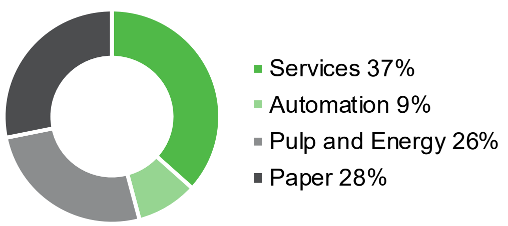
Net sales, EUR million	Q4/2018	Q4/2017	Change	2018	2017	Change
Services	**366**	340	8%	**1,219**	1,178	3%
Automation	**106**	104	3%	**306**	296	3%
Pulp and Energy	**232**	219	6%	**863**	800	8%
Paper	**280**	304	-8%	**937**	784	19%
Total	**984**	967	2%	**3,325**	3,058	9%

Net sales, comparable foreign exchange rates, EUR million[1]	Q4/2018	Q4/2017	Change	2018	2017	Change
Services	**371**	340	9%	**1,261**	1,178	7%
Automation	**108**	104	4%	**314**	296	6%
Pulp and Energy	**236**	219	8%	**882**	800	10%
Paper	**283**	304	-7%	**960**	784	22%
Total	**998**	967	3%	**3,416**	3,058	12%

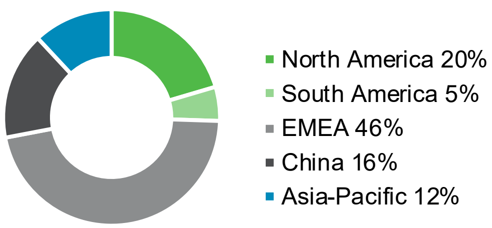
[1] *Indicative only. 2018 net sales in euro calculated by applying 2017 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	Q4/2018	Q4/2017	Change	2018	2017	Change
North America	**231**	198	17%	**679**	603	13%
South America	**58**	67	-13%	**169**	247	-31%
EMEA	**454**	487	-7%	**1,545**	1,507	3%
China	**120**	123	-2%	**535**	402	33%
Asia-Pacific	**121**	92	32%	**396**	299	32%
Total	**984**	967	2%	**3,325**	3,058	9%

Net sales by business line, 2018



Net sales by area, 2018



October–December 2018: Net sales remained at the previous year's level

Net sales remained at the previous year's level at EUR 984 million in October–December (EUR 967 million). The Services and Automation business lines together accounted for 48 percent (46%) of Valmet's net sales. Net sales increased in the Services, and Pulp and Energy business lines, remained at the previous year's level in the Automation business line and decreased in the Paper business line. Net sales increased in Asia-Pacific and North America, remained at the previous year's level in China and decreased in South America and EMEA. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 43 percent of total net sales. Emerging markets accounted for 35 percent (41%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 13 million in October–December.

January–December 2018: Net sales increased in the capital business

Net sales increased 9 percent to EUR 3,325 million (EUR 3,058 million) in 2018. The Services and Automation business lines together accounted for 46 percent (48%) of Valmet's net sales. Net sales increased in the Paper, and Pulp and Energy business lines and remained at the previous year's level in the Services and Automation business lines. Net sales increased in China, Asia-Pacific and North America, remained at the previous year's level in EMEA and decreased in South America. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 42 percent of total net sales. Emerging markets accounted for 42 percent (40%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 91 million in 2018.

Comparable EBITA and operating profit

In October–December, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 113 million, i.e. 11.5 percent of net sales (EUR 81 million and 8.4%). Profitability improved due to higher gross profit and improved project execution.

In 2018, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 257 million, i.e. 7.7 percent of net sales (EUR 218 million and 7.1%). Profitability improved due to higher net sales.

Operating profit (EBIT) in October–December was EUR 102 million, i.e. 10.4 percent of net sales (EUR 61 million and 6.3%). Items affecting comparability amounted to EUR -3 million (EUR -12 million).

Operating profit (EBIT) in 2018 was EUR 211 million, i.e. 6.4 percent of net sales (EUR 170 million and 5.6%). Items affecting comparability amounted to EUR -16 million (EUR -17 million).

Net financial income and expenses

Net financial income and expenses in October–December were EUR -3 million (EUR -3 million).

Net financial income and expenses in 2018 were EUR -6 million (EUR -13 million).

Profit before taxes and earnings per share

Profit before taxes in October–December was EUR 100 million (EUR 57 million). The profit attributable to owners of the parent in October–December was EUR 74 million (EUR 49 million), corresponding to earnings per share (EPS) of EUR 0.49 (EUR 0.33).

Profit before taxes in 2018 was EUR 205 million (EUR 158 million). The profit attributable to owners of the parent in 2018 was EUR 151 million (EUR 121 million), corresponding to earnings per share (EPS) of EUR 1.01 (EUR 0.81).

Return on capital employed (ROCE) and return on equity (ROE)

In 2018, the return on capital employed (ROCE) before taxes was 19 percent (14%) and return on equity (ROE) 16 percent (13%).

Business lines

Services: Orders received and net sales increased in Q4/2018

Services business line	Q4/2018	Q4/2017	Change	2018	2017	Change
Orders received (EUR million)	**325**	282	15%	**1,315**	1,242	6%
Net sales (EUR million)	**366**	340	8%	**1,219**	1,178	3%
Personnel (end of period)				**5,544**	5,472	1%

In October–December, orders received by the Services business line increased 15 percent to EUR 325 million (EUR 282 million) and accounted for 32 percent (39%) of all orders received. Orders received increased in all areas except EMEA, where orders received remained at the previous year's level. Orders received remained at the previous year's level in Performance Parts and increased in all other business units. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 3 million in October–December.

In 2018, orders received by the Services business line increased 6 percent to EUR 1,315 million (EUR 1,242 million) and accounted for 35 percent (38%) of all orders received. Orders received increased in China, EMEA and North America, and remained at the previous year's level in Asia-Pacific and South America. Orders received increased in Mill Improvements, Rolls and Performance Parts, remained at the previous year's level in Fabrics, and decreased in Energy and Environmental. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 45 million in 2018.

In October–December, net sales of the Services business line amounted to EUR 366 million (EUR 340 million), corresponding to 37 percent (35%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 5 million in October–December.

In 2018, net sales of the Services business line amounted to EUR 1,219 million (EUR 1,178 million), corresponding to 37 percent (39%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 41 million in 2018.

Automation: Orders received and net sales remained at the previous year's level in Q4/2018

Automation business line	Q4/2018	Q4/2017	Change	2018	2017	Change
Orders received (EUR million)	**94**	91	3%	**330**	317	4%
Net sales (EUR million)	**106**	104	3%	**306**	296	3%
Personnel (end of period)				**1,802**	1,708	6%

In October–December, orders received by the Automation business line remained at the previous year's level at EUR 94 million (EUR 91 million) and accounted for 9 percent (13%) of all orders received. Orders received increased in South America and EMEA, remained at the previous year's level in North America, and decreased in China and Asia-Pacific. Orders received increased in Energy and Process and remained at the previous year's level in Pulp and Paper. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 1 million in October–December.

In 2018, orders received by the Automation business line remained at the previous year's level at EUR 330 million (EUR 317 million) and accounted for 9 percent (10%) of Valmet's orders received. Orders received increased in Asia-Pacific, EMEA and South America, and decreased in China and North America. Orders received increased in Energy and Process and remained at the previous' year's level in Pulp and Paper. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 9 million in 2018.

In October–December, net sales of the Automation business line amounted to EUR 106 million (EUR 104 million), corresponding to 11 percent (11%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 1 million in October–December.

In 2018, net sales of the Automation business line amounted to EUR 306 million (EUR 296 million), corresponding to 9 percent (10%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 8 million in 2018.

Pulp and Energy: Orders received and net sales increased in Q4/2018

Pulp and Energy business line	Q4/2018	Q4/2017	Change	2018	2017	Change
Orders received (EUR million)	451	151	>100%	1,000	678	47%
Net sales (EUR million)	232	219	6%	863	800	8%
Personnel (end of period)				1,748	1,727	1%

In October–December, orders received by the Pulp and Energy business line increased more than 100 percent to EUR 451 million (EUR 151 million) and accounted for 44 percent (21%) of all orders received. Orders received increased in South America, Asia-Pacific and China, and decreased in North America and EMEA. Orders received increased in both Pulp, and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 18 million in October–December.

In 2018, orders received by the Pulp and Energy business line increased 47 percent to EUR 1,000 million (EUR 678 million) and accounted for 27 percent (21%) of all orders received. Orders received increased in all areas except EMEA, where orders received remained at the previous year's level. Orders received increased in both Pulp, and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 29 million in 2018.

In October–December, net sales of the Pulp and Energy business line amounted to EUR 232 million (EUR 219 million), corresponding to 24 percent (23%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 4 million in October–December.

In 2018, net sales of the Pulp and Energy business line amounted to EUR 863 million (EUR 800 million), corresponding to 26 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 19 million in 2018.

Paper: Orders received and net sales decreased in Q4/2018

Paper business line	Q4/2018	Q4/2017	Change	2018	2017	Change
Orders received (EUR million)	**156**	203	-23%	**1,077**	1,035	4%
Net sales (EUR million)	**280**	304	-8%	**937**	784	19%
Personnel (end of period)				**2,904**	2,822	3%

In October–December, orders received by the Paper business line decreased 23 percent to EUR 156 million (EUR 203 million) and accounted for 15 percent (28%) of all orders received. Orders received increased in EMEA and Asia-Pacific, remained at the previous year's level in South America, and decreased in China and North America. Orders received remained at the previous year's level in Board and Paper and decreased in Tissue. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 increased orders received by approximately EUR 6 million in October–December.

In 2018, orders received by the Paper business line remained at the previous year's level at EUR 1,077 million (EUR 1,035 million) and accounted for 29 percent of all orders received (32%). Orders received increased on all other areas except China, where orders received decreased. Orders received increased in Board and Paper, and decreased in Tissue. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 26 million in 2018.

In October–December, net sales of the Paper business line amounted to EUR 280 million (EUR 304 million), corresponding to 28 percent (31%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 3 million in October–December.

In 2018, net sales of the Paper business line amounted to EUR 937 million (EUR 784 million), corresponding to 28 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 23 million in 2018.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 143 million (EUR 89 million) in October–December and EUR 284 million (EUR 291 million) in 2018. Net working capital totaled EUR -474 million (EUR -387 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR 51 million (EUR 13 million) in October–December, and EUR 86 million (EUR 97 million) in 2018. Payment schedules of large capital projects have a significant impact on net working capital development. Cash flow after investments totaled EUR 119 million (EUR 70 million) in October–December and EUR 208 million (EUR 227 million) in 2018.

At the end of December, gearing was -23 percent (-11%) and equity to assets ratio was 43 percent (42%). Interest-bearing liabilities amounted to EUR 201 million (EUR 219 million), and net interest-bearing liabilities totaled EUR -219 million (EUR -100 million) at the end of the reporting period. The average maturity of Valmet's non-current debt was 3.7 years, and average interest rate was 1.3 percent at the end of December.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 376 million (EUR 296 million) and interest-bearing current financial assets totaling EUR 44 million (EUR 6 million). Valmet's liquidity was additionally secured by a committed revolving credit facility worth of

EUR 200 million, which matures in 2024, and an uncommitted commercial paper program worth of EUR 200 million. In March 2018, Valmet signed a 5-year EUR 45 million loan agreement with the European Investment Bank. All the above facilities were undrawn at the end of the reporting period.

On April 5, 2018, Valmet paid out dividends of EUR 82 million.

Capital expenditure

Gross capital expenditure (excluding business combinations) in October–December totaled EUR 22 million (EUR 20 million), of which maintenance investments were EUR 11 million (EUR 8 million).

Gross capital expenditure (excluding business combinations) in 2018 totaled EUR 79 million (EUR 66 million), of which maintenance investments were EUR 47 million (EUR 37 million).

Acquisitions and disposals

Acquisitions

Valmet announced by press release on October 2, 2018 that it has acquired Enertechnix Process Sensors, Inc. (Enertechnix), a high-tech combustion diagnostics and monitoring technology company based in the USA. The company develops innovative technologies for boiler imaging and temperature measuring and holds a leading position in the US market. The acquisition had no material effect on Valmet's financial reporting for 2018.

Disposals

Valmet made no disposals in 2018.

Research and development

Valmet's research and development (R&D) expenses in 2018 amounted to EUR 66 million, i.e. 2.0 percent of net sales (EUR 64 million and 2.1%). Research and development work is carried out predominantly in Finland and Sweden, within the business lines' R&D organizations and pilot facilities. In addition, research and development takes place within a network of customers, suppliers, research institutes and universities. In the end of 2018, R&D employed 442 people (421 people).

Valmet's R&D work is based on customers' needs, such as improving production and resource efficiency, maximizing the value of raw materials, providing new revenue streams, and developing new innovations and technologies.

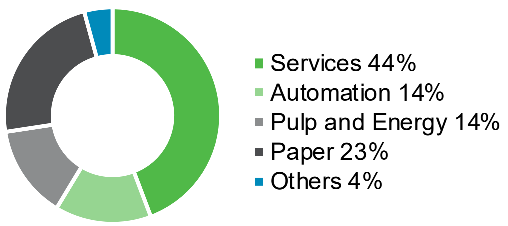
Valmet develops competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency in its customers' production processes, Valmet combines digitalization, process technology, automation and services. Valmet also develops solutions for replacing fossil materials with renewable ones and for producing new high-value end products.

Number of personnel remained at the previous year's level

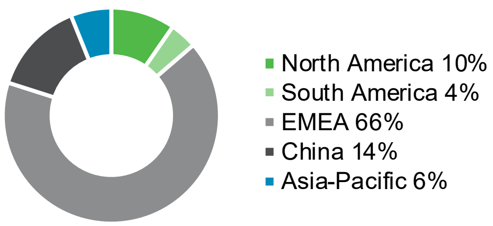
Personnel by business line	As at December 31, 2018	As at December 31, 2017	Change	As at September 30, 2018
Services	**5,544**	5,472	1%	5,555
Automation	**1,802**	1,708	6%	1,769
Pulp and Energy	**1,748**	1,727	1%	1,743
Paper	**2,904**	2,822	3%	2,892
Other	**530**	539	-2%	522
Total	**12,528**	12,268	2%	12,481

Personnel by area	As at December 31, 2018	As at December 31, 2017	Change	As at September 30, 2018
North America	**1,202**	1,223	-2%	1,187
South America	**510**	534	-4%	512
EMEA	**8,303**	8,088	3%	8,300
China	**1,752**	1,696	3%	1,736
Asia-Pacific	**761**	727	5%	746
Total	**12,528**	12,268	2%	12,481

Personnel by business line as at December 31, 2018



Personnel by area as at December 31, 2018



In 2018, Valmet employed an average of 12,461 people (12,208). The number of personnel at the end of December was 12,528 (12,268). Personnel expenses totaled EUR 812 million (EUR 807 million) in 2018, of which wages, salaries and remuneration amounted to EUR 638 million (EUR 631 million).

Change in Valmet's Executive Team

Valmet announced by press release on August 7, 2018 that Mr. Sami Riekkola (M.Sc. (Eng)) is appointed Business Line President, Automation and member of Valmet's Executive Team as of September 1, 2018. Sami Riekkola has worked in a variety of automation positions within the company since 1998. His latest position was Vice President, Energy and Process Systems in the Automation business line.

Mr. Sakari Ruotsalainen, the previous Business Line President, Automation, retired as of September 30, 2018 after a long and successful career at Valmet.

Strategic goals and their implementation

Valmet is the leading global developer and supplier of technologies, automation and services for the pulp, paper and energy industries. Valmet focuses on delivering technology and services globally to industries that use bio-based raw materials. Valmet's main customer industries are pulp, paper and energy. These are all major global industries that offer growth potential for the future. Valmet is committed to moving its customers' performance forward.

Valmet's vision is to become the global champion in serving its customers, and its mission is to convert renewable resources into sustainable results. Valmet seeks to achieve its strategic targets by pursuing the following Must-Win initiatives: 'customer excellence', 'leader in technology and innovation', 'excellence in processes' and 'winning team'.

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

In order to improve its operational excellence, Valmet is in the process of renewing its ERP system. The aim is to improve Valmet's operational capability through process harmonization and standardization, and through renewal and modernization of the ERP platform.

Valmet has an annual strategy process, where, among others, Valmet's strategy, Must-Wins and financial targets are reviewed. In June 2018, the Board of Directors reconfirmed Valmet's strategy and financial targets. Valmet has the following financial targets:

Financial targets

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

Continued focus on improving profitability

Valmet continues to focus on improving profitability through various actions in e.g. sales process management, project management and project execution, in procurement and quality, as well as in technology and R&D.

To improve sales process management, Valmet is focusing on key account management and analyzing the customers' share of wallet. Valmet is targeting market share improvement at key customers and adding focus on sales training. Valmet has also launched 'Valmet Way to Serve' services concept – a shift towards more unified and customer-oriented services.

Valmet is continuously improving its project management and project execution by training personnel and implementing a Valmet-wide project execution model. By focusing on improving project management and execution, Valmet is targeting continuous improvement of gross profit.

Valmet has set a long-term savings target for procurement. In order to decrease procurement costs, Valmet is focusing on design-to-cost and adding supplier involvement through supplier relationship management. Valmet has also set a target for quality cost savings and is adding focus on root cause analysis of quality deviations. Furthermore, Valmet is continuing to adopt the Lean principles and methodology.

Valmet is constantly focusing on new technologies and R&D to improve product cost competitiveness and performance. The renewal of Valmet's ERP system will increase efficiency once implemented.

Effective from the interim period of October 1 – December 31, 2018, management has decided on publishing a new alternative performance measure, Comparable EBITA margin calculated on a rolling 12 months basis. Comparable EBITA, published already earlier as part of regulated information, consists a performance measure that allows for the users of the financial information to analyze Valmet's performance without items of income and expense that reduce the comparability of results between periods (referred to as items affecting comparability). Calculation of the Comparable EBITA margin on rolling 12 months basis helps to reduce the impact of seasonality on profitability of the Group, and as such, is a measure of performance that provides better view on development of Valmet's profitability in long-term. Formulas for calculating these performance indicators are disclosed on page 45.

Progress in sustainability

In 2018, Valmet maintained its position among the world's sustainability leaders. Valmet was included in the Dow Jones Sustainability Index (DJSI) and Ethibel Sustainability Index (ESI) Excellence Europe. Valmet also received the best A rating in CDP's climate program ranking.

Valmet's Sustainability360° agenda covers all aspects of its business and value chain, and integrates sustainability work with the strategic targets and Must-Wins. The agenda is executed through three-year action plans. During the year, Valmet reached the targets for 2016–2018 and updated the plan for 2019–2021, covering all five sustainability focus areas: sustainable supply chain; health, safety and environment; people and performance; sustainable solutions, and corporate citizenship.

Effective management for sustainable supply chain

To effectively manage risks in the supply chain, Valmet has a comprehensive approach and global processes for sustainable supply chain management. The evaluation process for global suppliers is automated, including sustainability gates as an integral part of the process. In 2018, 84 percent of all new direct suppliers were automatically screened for sustainability. Together with an independent, certified third-party auditor, Valmet conducted 52 sustainability audits in 13 countries.

Furthermore, Valmet continued to strengthen the sustainable supply chain management by launching a new sustainability engagement program for selected key suppliers and ensuring the active use of global supplier management process internally.

Systematic development as a responsible employer

Valmet continued to systematically develop employee engagement and implement actions based on the OurVoice employee survey. In 2018, high-level action completion for the most recent OurVoice survey was 95 percent. Global-level actions included the launch of managerial best practices for one-on-one and team meetings, a Forward for Managers 2 training program, and an employee role designed to increase accountability and improve work community.

In order to enhance the internal sustainability know-how, Valmet continued to use e-learning and launched a course on sustainability with three modules: Sustainability at Valmet, Sustainable supply chain, and Developing and selling sustainable solutions. In total, 58 percent of white-collar employees completed the first module, which is mandatory for all white-collar employees.

As part of Valmet's human rights monitoring framework, a human rights impact assessment process was developed and piloted in one location in 2018.

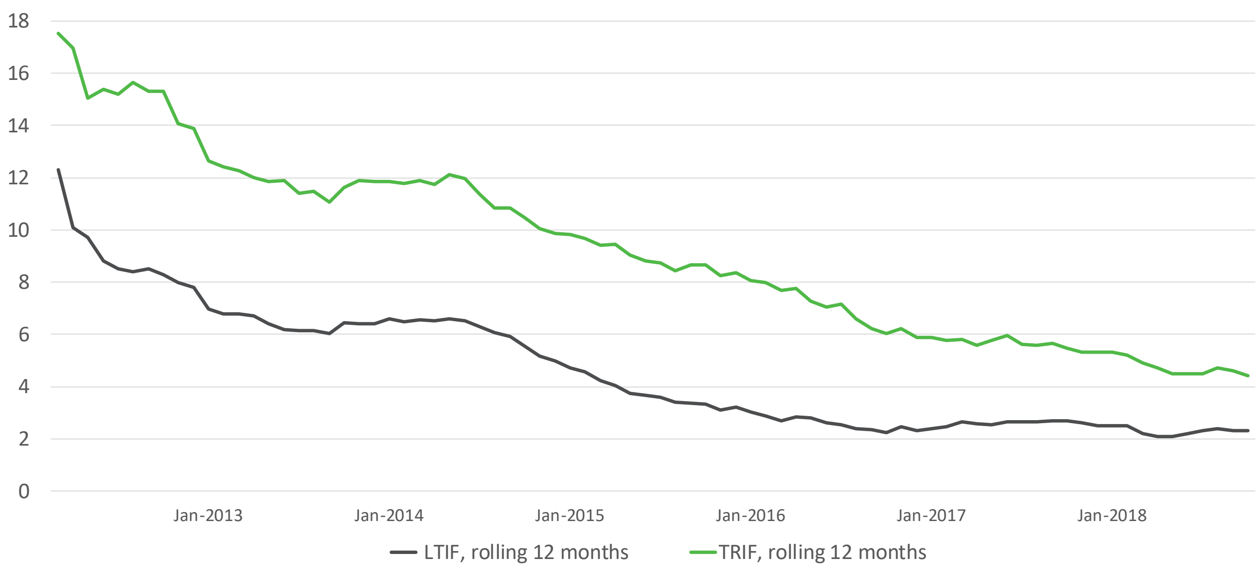
Aiming for zero harm to people and environment

Valmet constantly emphasizes risk management, prevention, leadership, and learning as it aims to achieve the goal of zero harm. In 2018, Valmet's operations were fatality-free. The total recordable incident frequency (TRIF) rate for own employees decreased 20% and the lost time incident frequency rate (LTIF) for own employees decreased 15%. Reporting rates for safety observations increased 40%. At the end of the year, 33 of 51 production units had achieved more than one year without any lost time incidents.

During 2018, Valmet renewed its health and safety program by setting targets for 2025 for both Valmet and its contractors. A two-year project to certify Valmet's global management system under one multi-site certificate was also completed, covering 71 locations according to occupational health and safety (OHSAS 18001:2007), environmental (ISO 14001:2015), and quality (ISO 9001:2015) standards.

In addition to external audits, Valmet conducted internal health, safety and environment (HSE) audits of 13 customer projects and 14 production units, with a focus on ensuring compliance with HSE standards.

Lost time incident frequency (LTIF)[1] and total recordable incident frequency (TRIF)[2], own employees



[1] *LTIF reflects the number of injuries resulting in an absence of at least one work day per million hours worked*
[2] *LTIF + medical treatment and restricted work cases*

Lawsuits and claims

Several lawsuits, claims and disputes based on various grounds are pending against Valmet in various countries, including product liability lawsuits and claims as well as legal disputes related to Valmet's deliveries. Valmet is also a plaintiff in several lawsuits.

Valmet announced by stock exchange release on September 16, 2016 that Suzano Papel e Celulose S.A. has filed a request for arbitration against Valmet Celulose, Papel e Energia Ltda, Valmet AB and Valmet Technologies Oy, subsidiaries of Valmet Oyj, claiming approximately EUR 80 million. Valmet disputed the claims brought by Suzano and also actively pursued claims of its own against Suzano. On September 21, 2018 Valmet announced by press release that the parties of the dispute have reached an agreement and the arbitration proceedings have been closed. The outcome arising from the agreement did not have significant impact on Valmet's financial result for 2018.

Valmet announced by stock exchange release on December 22, 2016 that it has received a reassessment decision from the Finnish tax authority for Valmet Technologies Inc. The reassessment decision is a result of a tax audit carried out in the company, concerning tax years 2010–2012. During the first quarter 2017 Valmet paid additional taxes, late payment interests and penalties in total of EUR 19 million related to the reassessment decision. Valmet considers the Finnish tax authority's decision unfounded and has appealed of the decision.

Valmet’s management does not expect to the best of its present understanding that the outcome of these lawsuits, claims and disputes will have a material adverse effect on Valmet in view of the grounds currently presented for them, provisions made, insurance coverage in force and the extent of Valmet’s total business activities.

Corporate Governance and Remuneration Statements

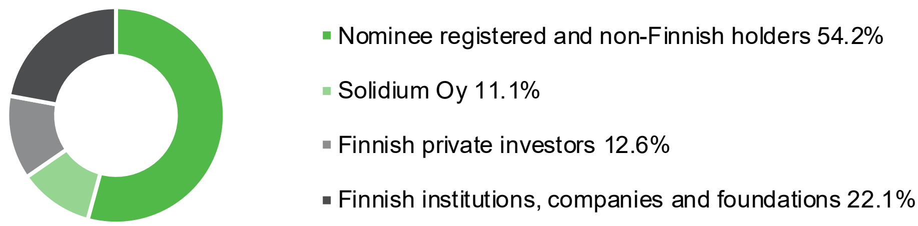
Valmet has prepared a separate Corporate Governance Statement and a Remuneration Statement for 2017, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. The statements also cover other central areas of corporate governance. The statements have been published on Valmet’s website, separately from the Report of the Board of Directors, at www.valmet.com/governance.

Shares and shareholders

Share capital, number of shares and shareholders

	As at December 31, 2018	As at December 31, 2017
Share capital, EUR	**100,000,000**	100,000,000
Number of shares	**149,864,619**	149,864,619
Treasury shares	**246,799**	399
Shares outstanding	**149,617,820**	149,864,220
Market capitalization, EUR million	**2,690**	2,464
Number of shareholders	**43,692**	45,890

Shareholder structure as at December 31, 2018



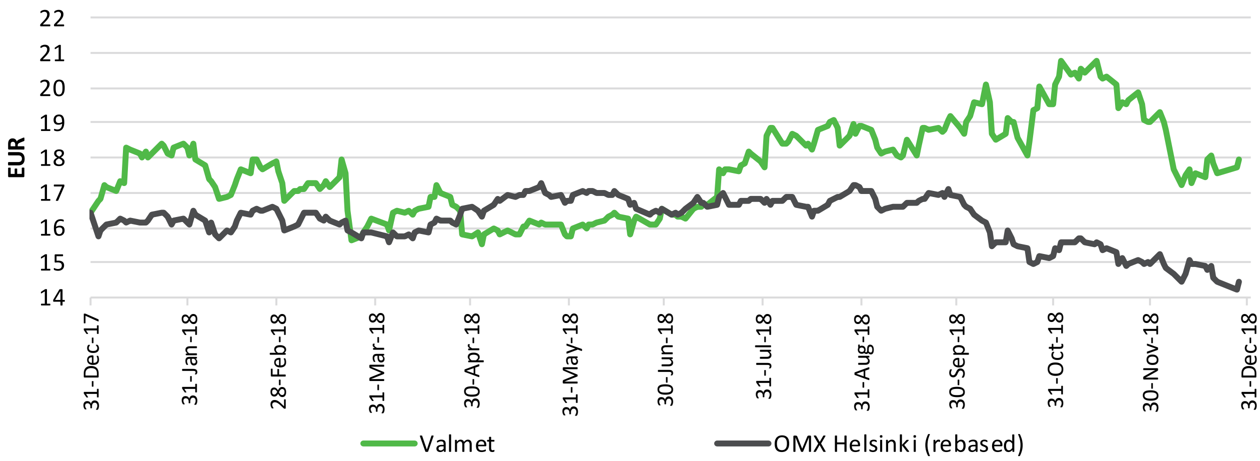
Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	January 1 – December 31, 2018	January 1 – December 31, 2017
Number of shares traded	**102,204,539**	89,279,591
Total value, EUR	**1,816,203,435**	1,435,304,552
High, EUR	**20.94**	18.44
Low, EUR	**15.50**	13.45
Volume-weighted average price, EUR	**17.77**	16.08
Closing price on the final day of trading, EUR	**17.95**	16.44

The closing price of Valmet's share on the final day of trading for the reporting period, December 28, 2018, was EUR 17.95, i.e. 9 percent higher than the closing price on the last day of trading in 2017 (EUR 16.44 on December 29, 2017).

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe BXE, Cboe CXE and Turquoise. A total of approximately 66 million of Valmet's shares were traded on alternative marketplaces in 2018, which equals to approximately 39 percent of the share's total trade volume. (Fidessa, January 7, 2019)

Development of Valmet's share price, December 31, 2017 – December 31, 2018



Flagging notifications

During the review period, Valmet received the following flagging notifications referred to in the Securities Market Act:

Transaction date	Shareholder	Threshold	Direct holding, %	Indirect holding, %	Total holding, %
March 20, 2018	BlackRock, Inc	Below 5%	n.a.	n.a.	Below 5%
March 26, 2018	BlackRock, Inc	Above 5%	4.15%	0.85%	5.00%
May 2, 2018	BlackRock, Inc	Below 5%	n.a.	n.a.	Below 5%
May 3, 2018	BlackRock, Inc	Above 5%	4.33%	0.69%	5.03%
May 7, 2018	BlackRock, Inc	Below 5%	n.a.	n.a.	Below 5%
May 9, 2018	BlackRock, Inc	Above 5%	4.33%	0.73%	5.06%
May 10, 2018	BlackRock, Inc	Below 5%	n.a.	n.a.	Below 5%
May 14, 2018	BlackRock, Inc	Above 5%	4.32%	0.67%	5.00%
May 15, 2018	BlackRock, Inc	Below 5%	n.a.	n.a.	Below 5%

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

Board authorizations regarding share repurchase and share issue

Valmet Oyj's Annual General Meeting on March 21, 2018 authorized Valmet's Board of Directors to decide on the repurchase of the Company's own shares in one or several tranches. The maximum number of shares to be repurchased shall be 10,000,000 shares, which corresponds to approximately 6.7 percent of all the shares in the Company.

The Company's own shares may be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase). The Company's own shares may be repurchased using the unrestricted equity of the Company at a price formed on a regulated market on the stock exchange main list upheld by Nasdaq Helsinki Ltd on the date of the repurchase. Company's own shares may be repurchased for reasons of developing the Company's capital structure, financing or carrying out acquisitions, investments or other business transactions, or for the shares to be used in an incentive scheme. The Board of Directors resolves on all other terms related to the repurchasing of the Company's own shares.

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

The maximum number of new shares which may be issued by the Board of Directors based on this authorization shall be 15,000,000 shares, which corresponds to approximately 10.0 percent of all the shares in Valmet Oyj. The maximum number of treasury shares which may be issued shall be 10,000,000 shares, which corresponds to approximately 6.7 percent of all the shares in the Company.

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

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

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

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

The authorizations shall remain in force until the next Annual General Meeting, and they cancel the authorizations granted in the Annual General Meeting of March 23, 2017.

In its meeting on December 20, 2018, the Board of Directors of Valmet decided to use the authorization granted by the General Meeting held on March 21, 2018 to acquire the Company's own shares. Based on the authorization, the Board decided to initiate a fixed-term share buy-back program for the purpose of acquiring the Company's own shares to meet part of the obligations arising from the LTI Plan and the Restricted Pool incentive plans. The share acquisitions will begin at the earliest on February 8, 2019 and will end at the latest on March 4, 2019. The maximum number of shares to be acquired is 278,000. The shares will be acquired at market price in public trading on Nasdaq Helsinki Ltd.

As at December 31, 2018, Valmet's Board of Directors had not used the other authorizations.

Share-based incentive plans

Valmet's share-based incentive plans are part of the remuneration program for Valmet's key personnel. The purpose of the plans is to align the goals of shareholders and management to increase the value of the Company, to ensure commitment of management, and to offer them a competitive, ownership-based reward scheme. Any shares to be potentially awarded are, or have been, acquired through public trading, and therefore the incentive plans have no diluting effect on the share value.

In the end of the reporting period, the Company held 246,799 treasury shares related to the share-based incentive programs.

Long-term incentive plan 2015–2017

The Board of Directors of Valmet Oyj approved in December 2014 a share-based incentive plan for Valmet's key employees. The Plan included three performance periods, which were the calendar years 2015, 2016 and 2017. The Board of Directors decided on the performance criteria and targets in the beginning of each discretionary period. The Plan was directed to approximately 80 key employees (including Executive Team members). The rewards of the plan were paid partly as Company shares and partly in cash.

Performance period	**2015**	**2016**	**2017**
Incentive based on	EBITA % and Services orders received growth %	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)
Reward payment	Was paid in spring 2016	Was paid in spring 2017	Was paid in spring 2018
Total gross number of shares earned (including the matching share rewards)	540,035	556,049	390,820

As part of the share-based incentive program, members of Valmet Executive Team had the possibility to receive a matching share reward for each performance period, provided that the Executive Team member owned or acquired Valmet shares up to a number determined by the Board of Directors by the end of each performance period.

Long-term incentive plan 2018–2020

In December 2017, the Board of Directors of Valmet Oyj approved a new long-term share-based incentive plan for Valmet's key employees. The plan includes three performance periods, which are the calendar years 2018, 2019 and 2020. Valmet's Board of Directors shall decide on the performance criteria and targets in the beginning of each discretionary period. The plan is directed to a total of approximately 120 participants, of which 80 are key employees in management positions (including Executive Team members), and 40 are management talents.

Performance period	2018	2019
Incentive based on	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)
Potential reward payment	Will be paid partly in Valmet shares and partly in cash in spring 2019	Will be paid partly in Valmet shares and partly in cash in spring 2020
Total number of shares	As at December 31, 2018 a total of 357,940 shares had been allotted to participants.	Approximate maximum of 465,000 shares

The Board of Directors of Valmet Oyj approved in December 2017 a share ownership recommendation for Valmet's Executive Team members. All members of the Executive Team are recommended to own and hold an amount of Company shares equaling to their gross annual base salary (100 percent ownership recommendation).

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

Resolutions of Valmet’s Annual General Meeting

The Annual General Meeting of Valmet Oyj was held in Helsinki on March 21, 2018. The Annual General Meeting adopted the Financial Statements for 2017 and discharged the members of the Board of Directors and the President and CEO from liability for the 2017 financial year. The Annual General Meeting approved the Board of Directors' proposals concerning authorizing the Board to decide on repurchasing Company shares and to resolve on the issuance of shares and the issuance of special rights entitling to shares.

The Annual General Meeting confirmed the number of Board members as seven and appointed Bo Risberg as Chairman of Valmet Oyj's Board and Aaro Cantell as Vice Chairman. Monika Maurer and Pekka Kemppainen were appointed as new members of the Board. Rogério Ziviani, Tarja Tyni and Eriikka Söderström will continue as members of the Board. The term of office of the members of the Board of Directors expires at the close of the Annual General Meeting 2019.

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

Valmet published a stock exchange release on March 21, 2018 concerning the resolutions of the Annual General Meeting and the organizing meeting of the Board of Directors. The stock exchange release and an introduction of the new Board members can be viewed on Valmet’s website at www.valmet.com/agm.

In compliance with the resolution of the Annual General Meeting, on April 5, 2018 Valmet paid out dividends of EUR 82 million for 2017, corresponding to EUR 0.55 per share.

Risks and business uncertainties

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

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

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

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

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

Changes and uncertainty in future regulation and legislation can also critically affect especially the energy business.

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

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

To ensure a high level of quality in both production and services, it is important to sustain a high level of competence and talent availability. This includes, for example, maintaining efficient recruitment programs, utilization of existing talent and sharing knowledge globally.

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

Management of project business risks important

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

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

Availability of financing crucial

Securing the continuity of Valmet's operations requires sufficient available funding under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure its immediate liquidity and to ensure the flexibility of financing. The average maturity of Valmet's non-current debt is 3.7 years. Loan facilities include customary covenants, and Valmet is in clear compliance with the covenants at the balance sheet date.

Net working capital and capital expenditure levels have a key impact on the adequacy of Valmet's financing. Setting aside investments into the renewal of the ERP system, Valmet does not expect any significant increase in annual capital expenditure. Depreciation expense is expected to increase in 2019 following the adoption of the new lease accounting standard (IFRS16).

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

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

At the end of December 2018, Valmet had EUR 617 million (EUR 614 million) of goodwill on its statement of financial position. Valmet assesses the value of its goodwill for impairment annually, or more frequently if facts and circumstances indicate that a risk of impairment exists. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Financial Statements.

Events after the reporting period

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

Guidance for 2019

Valmet estimates that net sales in 2019 will remain at the same level as in 2018 (EUR 3,325 million) and Comparable EBITA in 2019 will increase in comparison with 2018 (EUR 257 million).

Short-term outlook

General economic outlook

The global expansion has weakened. IMF now projects the global economy to grow at 3.5 percent in 2019 and 3.6 percent in 2020, 0.2 and 0.1 percentage point below last October's projections, which had already been revised downward. Risks to global growth tilt to the downside. An escalation of trade tensions remains a key source of risk to the outlook. Financial conditions have already tightened since the fall. A range of triggers beyond escalating trade tensions could spark adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China. (International Monetary Fund, January 21, 2019)

Short-term market outlook

Valmet estimates that the short-term market outlook in tissue has decreased to a satisfactory level (previously good level).

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

Board of Director's proposal for the distribution of profit

Valmet Oyj's distributable funds on December 31, 2018 totaled EUR 1,066,506,132.12, of which the net profit for 2018 was EUR 168,055,709.75 (according to Finnish Generally Accepted Accounting Standards).

The Board of Directors proposes that a dividend of EUR 0.65 per share be paid based on the statement of financial position to be adopted for the financial year which ended December 31, 2018, and that the remaining part of the profit be retained and carried further in the Company's unrestricted equity.

The dividend will be paid to shareholders who on the dividend record date March 25, 2019 are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend will be paid on April 4, 2019. All the shares in the Company are entitled to a dividend with the exception of treasury shares held by the Company on the dividend record date.

In Espoo on February 7, 2019

Valmet's Board of Directors

Consolidated Statement of Income

EUR million	Q4/2018	Q4/2017[1]	2018	2017[1]
Net sales	**984**	967	**3,325**	3,058
Cost of goods sold	**-736**	-761	**-2,561**	-2,362
Gross profit	**249**	207	**764**	696
Selling, general and administrative expenses	**-146**	-140	**-532**	-517
Other operating income and expenses, net	**-**	-6	**-22**	-10
Share in profits and losses of associated companies, operative investments	**1**	1	**1**	1
Operating profit	**102**	61	**211**	170
Financial income and expenses, net	**-3**	-3	**-6**	-13
Share in profits and losses of associated companies, financial investments	**-**	-	**-1**	1
Profit before taxes	**100**	57	**205**	158
Income taxes	**-26**	-8	**-53**	-36
Profit for the period	**74**	49	**152**	121
Attributable to:				
Owners of the parent	**74**	49	**151**	121
Non-controlling interests	**-**	-	**-**	-
Profit for the period	**74**	49	**152**	121
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.49**	0.33	**1.01**	0.81
Diluted earnings per share, EUR	**0.49**	0.33	**1.01**	0.81

[1] *2017 financials have been presented on restated basis.*

Consolidated Statement of Comprehensive Income

EUR million	Q4/2018	Q4/2017[1]	2018	2017[1]
Profit for the period	**74**	49	**152**	121
Items that may be reclassified to profit or loss:				
Cash flow hedges	**5**	-1	**-16**	14
Currency translation on subsidiary net investments	**2**	-3	**-10**	-20
Income tax relating to items that may be reclassified	**-1**	-	**4**	-3
Total items that may be reclassified to profit or loss	**7**	-3	**-23**	-9
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**-14**	-3	**-15**	-4
Income tax on items that will not be reclassified[2]	**4**	-4	**3**	-5
Total items that will not be reclassified to profit or loss	**-11**	-7	**-12**	-9
Other comprehensive income / expense	**-4**	-11	**-35**	-18
Total comprehensive income / expense	**70**	39	**117**	104
Attributable to:				
Owners of the parent	**70**	38	**116**	104
Non-controlling interests	**-**	-	**-**	-
Total comprehensive income / expense	**70**	39	**117**	104

[1] *2017 financials have been presented on restated basis.*
[2] *Change in income taxes related to remeasurement of defined benefit plans in 2017 primarily arises from the tax reform in the USA.*

Consolidated Statement of Financial Position

Assets

EUR million	As at December 31, 2018	As at December 31, 2017[1]
Non-current assets		
Intangible assets		
Goodwill	**617**	614
Other intangible assets	**201**	200
Total intangible assets	**818**	814
Property, plant and equipment		
Land and water areas	**24**	25
Buildings and structures	**117**	124
Machinery and equipment	**170**	170
Assets under construction	**36**	35
Total property, plant and equipment	**348**	354
Other non-current assets		
Investments in associated companies	**14**	14
Non-current financial assets	**9**	24
Deferred tax asset	**69**	78
Non-current income tax receivables	**27**	24
Other non-current assets	**14**	10
Total other non-current assets	**133**	150
Total non-current assets	**1,299**	1,318
Current assets		
Inventories		
Materials and supplies	**85**	56
Work in progress	**265**	277
Finished products	**69**	82
Total inventories	**419**	415
Receivables and other current assets		
Trade receivables	**555**	546
Amounts due from customers under revenue contracts	**169**	164
Other current financial assets	**58**	29
Income tax receivables	**17**	25
Other receivables	**95**	116
Cash and cash equivalents	**376**	296
Total receivables and other current assets	**1,271**	1,175
Total current assets	**1,690**	1,590
Total assets	**2,988**	2,908

[1] *2017 financials have been presented on restated basis.*

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	As at December 31, 2018	As at December 31, 2017[1]
Equity		
Share capital	**100**	100
Reserve for invested unrestricted equity	**416**	413
Cumulative translation adjustments	**-18**	-8
Hedge and other reserves	**-5**	7
Retained earnings	**451**	400
Equity attributable to owners of the parent	**944**	913
Non-controlling interests	**5**	5
Total equity	**949**	918
Liabilities		
Non-current liabilities		
Non-current debt	**162**	201
Post-employment benefits	**163**	150
Provisions	**30**	20
Other non-current liabilities	**7**	3
Deferred tax liability	**50**	58
Total non-current liabilities	**412**	432
Current liabilities		
Current portion of non-current debt	**39**	18
Trade payables	**286**	287
Provisions	**119**	117
Advances received	**219**	261
Amounts due to customers under revenue contracts	**552**	455
Other current financial liabilities	**25**	11
Income tax liabilities	**42**	48
Other current liabilities	**344**	361
Total current liabilities	**1,628**	1,558
Total liabilities	**2,039**	1,990
Total equity and liabilities	**2,988**	2,908

[1] *2017 financials have been presented on restated basis.*

Condensed Consolidated Statement of Cash Flows

EUR million	Q4/2018	Q4/2017[1]	2018	2017[1]
Cash flows from operating activities				
Profit for the period	**74**	49	**152**	121
Adjustments				
Depreciation and amortization	**19**	20	**76**	81
Financial income and expenses	**3**	3	**6**	13
Income taxes	**26**	8	**53**	36
Other non-cash items	**-21**	3	**-39**	9
Change in net working capital	**51**	13	**86**	97
Net interests and dividends received	**1**	-1	**-2**	-8
Income taxes paid[2]	**-9**	-7	**-48**	-58
Net cash provided by (+) / used in (-) operating activities	**143**	89	**284**	291
Cash flows from investing activities				
Capital expenditure on fixed assets	**-22**	-20	**-79**	-66
Proceeds from sale of fixed assets	**-**	2	**6**	2
Business combinations, net of cash acquired and loans repaid	**-2**	-	**-2**	-
Net cash provided by (+) / used in (-) investing activities	**-24**	-18	**-75**	-64
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-4**	-2
Dividends paid	**-**	-	**-82**	-63
Principal payments of non-current debt	**-**	-43	**-18**	-90
Financial investments	**-26**	16	**-22**	-6
Net cash provided by (+) / used in (-) financing activities	**-27**	-26	**-127**	-161
Net increase (+) / decrease (-) in cash and cash equivalents	**92**	44	**82**	67
Effect of changes in exchange rates on cash and cash equivalents	**1**	-	**-2**	-10
Cash and cash equivalents at beginning of period	**282**	252	**296**	240
Cash and cash equivalents at end of period	**376**	296	**376**	296

[1] *2017 financials have been presented on restated basis.*

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

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Hedge and other reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at January 1, 2018	**100**	**413**	**-8**	**7**	**400**	**913**	**5**	**918**
Change in accounting principles[1]	-	-	-	-	-2	**-2**	-	**-2**
Restated balance at January 1, 2018	**100**	**413**	**-8**	**7**	**398**	**911**	**5**	**916**
Profit for the period	-	-	-	-	151	**151**	-	**152**
Other comprehensive income / expense	-	-	-10	-13	-12	**-35**	-	**-35**
Total comprehensive income / expense	-	-	-10	-13	139	**116**	-	**117**
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-82	**-82**	-	**-82**
Purchase of treasury shares	-	-	-	-	-4	**-4**	-	**-4**
Share-based payments, net of tax	-	3	-	-	-1	**3**	-	**3**
Balance at December 31, 2018	**100**	**416**	**-18**	**-5**	**451**	**944**	**5**	**949**
Balance at January 1, 2017	100	407	11	-3	366	881	5	886
Change in accounting principles[2]	-	-	-	-	-9	-9	-	-9
Restated balance at January 1, 2017	**100**	**407**	**11**	**-3**	**356**	**871**	**5**	**876**
Profit for the period	-	-	-	-	121	121	-	121
Other comprehensive income / expense	-	-	-19	11	-9	-17	-	-18
Total comprehensive income / expense	-	-	-19	11	112	104	-	104
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-63	-63	-	-63
Purchase of treasury shares	-	-	-	-	-2	-2	-	-2
Share-based payments, net of tax	-	6	-	-	-3	3	-	3
Balance at December 31, 2017	100	413	-8	7	400	913	5	918

[1] *Net impact arising from the adoption of IFRS 9, EUR -5 million, and amendments to IFRS 2, EUR 3 million, as of January 1, 2018.*

[2] *Impact arising from the adoption of IFRS 15.*

Accounting principles

General information

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

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

These Condensed Consolidated Interim Financial Statements were approved for issue on February 7, 2019.

Basis of presentation

These Condensed Consolidated Interim Financial Statements for the twelve months ended December 31, 2018 have been prepared in accordance with IAS 34 – Interim financial reporting, and in conformity with IFRS as adopted by the European Union. The financials for the comparative periods are presented on restated basis. The financial information presented in these Condensed Consolidated Interim Financial Statements has not been audited. These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group’s Annual Consolidated Financial Statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS.

Several new or amended accounting standards have become applicable for the current reporting period, including IFRS 15 – Revenue from Contracts with Customers, IFRS 9 – Financial Instruments and amendments to IFRS 2 – Share-based Payment.

The amendments to IFRS 2 clarified the effect of vesting conditions on the measurement of cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement feature, and accounting for modifications in the terms and conditions of share-based payment arrangements that result in changes in classification of related transactions from cash-settled to equity-settled. In majority of jurisdictions where key employees participating in the Group’s long-term incentive plans reside, Valmet has an obligation to withhold an amount for the key employee’s tax obligations associated with the share-based payment rewards, and transfer that amount directly to the tax authorities on the key employee’s behalf. Consequently, following adoption of the amendments to IFRS 2, EUR 3 million was reclassified from Other current liabilities to Equity in relation to share-based payment transactions that carry a net settlement feature. The amended measurement guidance applies only to share-based payment transactions that were unvested as at January 1, 2018, and thus there is no adjustment to prior periods. The change in the measurement of the cash-settled share-based payment transactions does not have a material impact on compensation expense recognized in the current reporting period.

Accounting principles revised to consider the requirements of IFRS 15 and IFRS 9 have been provided in the notes presented in subsequent pages. Description and quantification of the impact of the changes in accounting principles related to adoption of the IFRS 15 are presented in the Stock exchange release published on March 21, 2018.

In addition to the above standards, IFRIC 22 – Foreign Currency Transactions and Advance Considerations became effective as of January 1, 2018. The interpretation clarifies which exchange rate to use in reporting of foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The requirements of IFRIC 22 do not have a material impact on the results or financial position of the Valmet Group.

Except for the adoption for the new standards, the accounting principles applied in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with those followed in the preparation of the Group's Annual Consolidated Financial Statements for the year ended December 31, 2017.

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

New accounting standards

Starting January 1, 2019, Valmet will adopt IFRS 16 – Leases. IFRS 16, issued in January 2016 will replace IAS 17 and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the distinction between operating and finance leases and introduces a single lessee accounting model resulting in almost all leases being recognized on the balance sheet.

Under the new standard, lessee is required to recognize an asset to reflect the lessee's right to use an underlying asset, and a liability to reflect unpaid future lease payments, presented under property, plant and equipment, and financial liabilities, respectively. A right-of-use asset is initially measured at cost and subsequently depreciated over the lease term or the useful life of the asset. In addition, right-of-use asset is subject to requirement in IAS 36 – Impairment of assets.

Lease liability is initially measured at an amount equal to the present value of the future lease payments that are not yet paid. In subsequent periods, the lease liability is measured using the effective interest rate method, so that the carrying value of the lease liability is measured on an amortized cost basis, and the interest expense is allocated over the lease term. Standard allows a lessee not to separate non-lease components from the lease component but include payments related to non-lease components into the lease liability.

Majority of Valmet's lease arrangements consist of operating leases and concern real estate, vehicles, and machinery and equipment located primarily on Valmet's premises. Valmet will adopt an exemption provided by the standard not to recognize a right-of-use asset and corresponding lease liability for leases with a contract term of 12 months or less, and for assets of low value. Incremental borrowing rates reflecting entity-specific factors, country and lease term are applied to all lease contracts at Valmet when calculating the present value of lease liability and interest expense. Further, Valmet does not separate non-lease component from lease components for asset classes in which the amount of non-lease components is assessed as immaterial.

Significant volume of lease contracts are open ended and carry a short notice period only. When it is considered likely that termination option will not be exercised in near future, management is required to make an estimate of the likely lease term for each one of these contracts. Significant amount of judgment needs to be exercised in making these estimates.

Valmet management has decided to apply the simplified transition method with practical expedients without restating comparatives when adopting the new standard. Right-of-use asset for all lease contracts is measured as if IFRS 16 had been applied from lease commencement. For leases that have been assessed as onerous in accordance with IAS 37 − Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application, the right-of-use asset is adjusted by the amount of provision at transition. Lease liabilities are measured at the present value of the future unpaid lease payments, discounted using incremental borrowing rates at the date of initial application. Under practical expedients permitted by standard, Valmet applies IFRS 16 to contracts that were identified as leases under previous guidelines and uses hindsight when assessing lease term for the contracts that contain options to extend or terminate the lease. Exemption provided for recognition of right-of-use asset and corresponding liability for low-value assets is also applied at transition.

Arising from difference in the method of measuring right-of-use asset and lease liability at the time of transition, a transition adjustment amounting approximately EUR -3 million is recognized to opening balance of Retained earnings as at January 1, 2019. This adjustment to equity is the net impact of decrease in Profit before taxes of EUR -5 million and reduction in tax expense of EUR 1 million. Property, plant and equipment increases approximately by EUR 54 million involving recognition of right-of-use assets of EUR 46 million and reclassification of EUR 8 million related to leases of land areas. Financial liabilities increase approximately by EUR 53 million resulting from recognition of corresponding lease liabilities.

Following adoption of the standard, operating profit is expected to increase while periodic leasing charges are replaced by depreciation and interest expense.

Key exchange rates

		Average rates		Period-end rates	
		2018	2017	**2018**	2017
USD	(US dollar)	**1.1809**	1.1307	**1.1450**	1.1993
SEK	(Swedish krona)	**10.2591**	9.6392	**10.2548**	9.8438
BRL	(Brazilian real)	**4.3020**	3.6271	**4.4440**	3.9729
CNY	(Chinese yuan)	**7.8148**	7.6299	**7.8751**	7.8044

Business combinations

Valmet acquired 100 percentage ownership in Enertechnix Process Sensors, Inc. (Enertechnix), a high-tech combustion diagnostics and monitoring technology company based in Washington, USA, as of October 1, 2018. The company develops innovative technologies for boiler imaging and temperature measuring, and holds a leading position on the US market. Enertechnix employs approximately 20 people.

The acquisition had no material effect on Valmet's financial statements for 2018.

Reporting segment and geographic information

The Group's Chief Operating Decision Maker (CODM) is the President and CEO of Valmet. Valmet's four business lines are highly integrated through complementing product and service offerings and joint customer projects. Thus, the operations and profitability of Valmet is reported on as a single reportable segment with the key operative decisions being made by the CODM at the Valmet Group level.

One key indicator of performance reviewed is Earnings before interest, taxes and amortization (EBITA). Performance is also assessed through Comparable EBITA, i.e. with EBITA excluding certain items of income and expense that reduce the comparability of the Group's performance from one period to another. The alternative performance measures of EBITA and Comparable EBITA, are published by Valmet as part of regulated financial information to enable users of the financial information to prepare more meaningful analysis on Valmet's performance. Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations, such as restructuring costs and gains or losses on sale of businesses or non-current assets, as well as income and expenses incurred outside Valmet's normal course of business, such as impairment charges and gains or losses recorded as a result of settlement payments to/from third parties (e.g. penalties incurred as a result of tax audits or settlements to close law suits).

EUR million	Q4/2018	Q4/2017	2018	2017
Net sales	984	967	3,325	3,058
Comparable EBITA	113	81	257	218
% of net sales	11.5%	8.4%	7.7%	7.1%
Operating profit	102	61	211	170
% of net sales	10.4%	6.3%	6.4%	5.6%
Amortization	-8	-8	-30	-31
Depreciation	-11	-12	-46	-49
Gross capital expenditure (excl. business combinations)	-22	-20	-79	-66
Business combinations, net of cash acquired and loans repaid	-2	-	-2	-
Non-cash write-downs	2	-7	-5	-10
Capital employed, end of period			1,150	1,137
Orders received	1,026	727	3,722	3,272
Order backlog, end of period			2,829	2,458

Reconciliation between Comparable EBITA, EBITA and operating profit

EUR million	2018	2017
Comparable EBITA	257	218
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	-	-2
Other items affecting comparability	-1	-7
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	-	-3
Other items affecting comparability	-1	-1
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	-	-4
Income and expenses arising from unused facilities	-5	1
Other items affecting comparability[1]	-9	-2
EBITA	241	202
Amortization included in cost of sales		
Other intangibles	-1	-2
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	-18	-23
Other intangibles	-10	-7
Operating profit	211	170

[1] *Includes income and expenses arising from settlements of lawsuits and indirect taxes.*

Entity-wide information

Valmet has operations in over 35 countries, on all continents. Measured by net sales, the top three countries in 2018 and 2017 were the USA, China and Finland, which together accounted for 42 percent of total net sales (41%). Net sales for Finland (the country of domicile) amounted EUR 285 million in 2018 (EUR 340 million).

Net sales by destination:

2018: EUR 3,325 million

2017: EUR 3,058 million

Gross capital expenditure (excluding business combinations) by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
2018	**5**	**3**	**61**	**6**	**4**	**79**
2017	3	1	48	6	7	66

Revenue

Accounting principles

Valmet delivers process automation, machinery, equipment and services for the pulp, paper, energy and other industries. On the capital business side, the Group's revenue arises from projects, the scope of which ranges from delivery of complete mill facilities on a turnkey basis to single section machine rebuilds, that may or may not include process automation solutions. Service business revenue includes revenue from short-term and long-term maintenance contracts, smaller improvement and modification contracts, rebuilds, as well as sale of spare parts and consumables. Capital and service business revenue largely arises from the same customers with service offering being focused on maintaining installed base of equipment and automation solutions.

Revenue is recognized to depict the transfer of promised goods or services to the customers in an amount that reflects the consideration to which management expects to be entitled to in exchange for those goods or services. The timing and method as well as unit of revenue recognition are determined in accordance with the five-step model of IFRS 15 as follows:

Step 1: Identification of the contract(s) with a customer

Step 2: Identification of the performance obligations in the contract

Step 3: Determination of the transaction price attached to the contract

Step 4: Allocation of the transaction price to the performance obligations identified in the contract

Step 5: Recognition of revenue when (or as) the entity satisfies a performance obligation

In long-term capital projects involving delivery of both equipment and services, one or more performance obligations are identified. The identification of performance obligations depends on the scope of the project and terms of the contracts, and largely follows the level at which quotes are being requested by the customers on capital projects.

In short-term service contracts that involve delivery of a combination of equipment and services, depending on the scope of the contract and terms attached thereto, one or more performance obligations are identified. When scope of the contract involves services provided at the customer site, such as installation, maintenance, technical support or mechanical audits, these are typically considered as a separate performance obligation from delivery of significant equipment and services provided off-site. On the other hand, when services in the scope of the contract are performed at Valmet premises only, such as workshop services, material and services typically cannot be identified separately, and consistently only one performance obligation is identified.

In long-term service contracts where Valmet's activities are largely performed at the customer's site, depending on the contract and terms attached thereto, one or more performance obligations are identified. When the scope of the contract involves various service elements that are sold separately on a stand-alone basis, these elements would typically be determined to consist of performance obligations on their own.

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service, either over time or at a point in time.

When Valmet determines that control on goods or services is transferred over time, this is typically based on either that customer simultaneously receives and consumes benefits as Valmet performs, or that Valmet's performance creates an asset with no alternative use throughout the duration of a contract and Valmet has enforceable right to payment for performance completed to date.

Deliverables within Valmet's product offering that have the characteristics of the first criterion include mill maintenance services or other field services provided under long-term contracts, in which the receipt and simultaneous consumption by the customer of the benefits of Valmet's performance can be readily identified. Deliverables with the characteristics of the second criterion include capital projects where the scope of the contract involves design and construction of an asset according to customer specifications. The assets created in these projects do not have alternative use because the design is based on specific customer needs. When revenue is recognized over time, progress towards complete satisfaction of the performance obligation is measured using the cost-to-cost method. The cost-to-cost method is estimated to result in a revenue profile that best depicts the transfer of control on the deliverables to the customer.

Recognition of revenue at a point in time is applicable, among others, in contracts where services are performed at Valmet's premises, and deliveries of spare parts and components. Control of deliverables typically transfers based on the delivery terms used, at the takeover, or a later point in time when customer acceptance is received.

Valmet's contracts often involve elements of variable consideration, such as penalties, liquidated damages or performance bonus arrangements. Variable consideration is estimated by using either the expected value or the most likely amount -method, depending on the type of variable element and related contractual terms and conditions. Amount of variable consideration is included in transaction price only to the extent that it is highly probable that a significant reversal of revenue does not occur later. Transaction prices are reassessed at each reporting date.

Variable elements are generally allocated proportionately to all performance obligations in the contract, or when terms of the variable payments relate to satisfying a specific performance obligation and allocated amount depicts the amount of consideration to which Valmet expects to be entitled in exchange for transferring related goods or services, variable consideration is allocated to that specific performance obligation, and not all performance obligations in the contract.

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

Valmet does not have significant customer arrangements that do not meet the criteria set out in the IFRS 15 for a contract.

When Valmet incurs costs in fulfilling its contractual obligations, these are expensed as incurred, unless costs can be capitalized as inventory. The latter is typically the case in performance obligations for which revenue is recognized at a point in time. Costs to obtain a contract that are expected to be recovered are capitalized when amortization period is over a year. Otherwise, these costs are expensed as incurred.

Critical accounting estimates and judgments

For performance obligations satisfied over time, Valmet uses cost-to-cost method to recognize revenue as it best depicts the transfer of control to the customer as Valmet performs. Under cost-to-cost method, progress towards complete satisfaction of performance obligation is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated profits, are recorded proportionally as costs are incurred. Management regularly reviews the progress of and execution on performance obligations. As part of the process, management reviews information including, but not limited to, key contractual obligations outstanding, project schedule, identified risks and opportunities, as well as changes in estimates of revenues and costs. A projected loss on a customer contract is recognized through profit or loss when it becomes known.

Valmet regularly enters into contracts where the consideration includes one or more variable elements. Variable consideration is estimated by using either the expected value or the most likely amount -method, depending on the type of the arrangement. In making judgments about variable consideration, Valmet considers historical, current and forecast information. Impact of changes in estimates is recognized in revenue in the period when the estimate is updated.

Revenue reporting Q1–Q4/2018

Valmet’s revenue is reported on and monitored by management in both business line and area dimension. Paper, and Pulp and Energy business lines’ revenue is derived from large long-term capital projects for which revenue is mostly recognized over time based on the cost-to-cost method. Service business line’s revenue arises from large volume of short-term contracts with relatively low individual value, for which revenue is mainly recognized at a point in time. Automation business line’s revenue consists of long-term contracts the nature of which, and therefore also the revenue recognition method, is similar to capital projects with average value attached to each contract however being lower, and short-term service contracts for which revenue is recognized at a point in time. Nature of revenue in each area in any given reporting period is driven by volume and size of ongoing capital projects.

Net sales by business lines:

EUR million	Q4/2018	Q4/2017	2018	2017
Services	**366**	340	**1,219**	1,178
Automation	**106**	104	**306**	296
Pulp and Energy	**232**	219	**863**	800
Paper	**280**	304	**937**	784
Total	**984**	967	**3,325**	3,058

Timing of revenue recognition:

EUR million	Q4/2018	Q4/2017	2018	2017
Performance obligations satisfied at a point in time	**450**	507	**1,503**	1,545
Performance obligations satisfied over time	**534**	460	**1,822**	1,513
Total	**984**	967	**3,325**	3,058

In order to mitigate credit risk and compensate for contract costs incurred upfront, Valmet regularly requires advance payments from its customers. During the reporting period Valmet had not entered into any material contracts where the period between when Valmet transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or more. Neither were there any ongoing projects from previous reporting periods for which the former would apply.

The creditworthiness of a customer is verified before engaging into a contract. However, if a risk of non-payment arises after contract inception, the probability of collection of consideration is re-evaluated and if assessed improbable, recognition of revenue is discontinued. An allowance for non-collectability of open receivables and contract assets is established, as concluded appropriate.

Valmet receives payments from customers based on billing schedules as established in the customer contracts. Changes in contract assets and liabilities are due to Valmet’s performance under the contracts. Amounts due from customers under revenue contracts primarily relate to Valmet’s right to consideration for work completed but not yet invoiced at the reporting date. These assets are transferred to trade receivables when right to consideration becomes unconditional, which is typically at the time when Valmet has contractual right to issue an invoice. Significant part of amounts due to customers relate to advance consideration received from customer in long-term capital contracts for which revenue is recognized over time. These amounts are recognized as revenue as (or when) Valmet performs under the contracts.

Following tables provide specification of movements in amounts due from customers under revenue contracts and amounts due to customers under revenue contracts over the reporting period. Revenue recognized in the period also includes revenue recognized related to performance obligations satisfied in previous periods, the amount of which however is insignificant.

Amounts due from customers under revenue contracts:

EUR million	2018	2017
Balance at the beginning of the period	164	190
Translation differences	-4	-4
Revenue recognized in the period	594	663
Transfers to trade receivables	-585	-686
Balance at the end of period	**169**	164

Amounts due to customers under revenue contracts and advances received:

EUR million	2018	2017
Balance at the beginning of the period	716	635
Translation differences	-4	-25
Revenue recognized in the period	-1,680	-1,197
Consideration invoiced and/or received	1,739	1,302
Balance at the end of period	**771**	716

Valmet typically issues contractual product warranties under which it generally guarantees the mechanical functioning of equipment delivered during the agreed warranty period. Valmet does not issue any service-type warranties.

At the end of 2018, Valmet had no costs to obtain or fulfill contracts capitalized under IFRS 15.

The aggregate amount of transaction price allocated to unsatisfied or partially satisfied performance obligations as of December 31, 2018 is EUR 2,829 million. Approximately 75 percent of this amount is currently expected to be recognized as revenue during 2019.

Net working capital

EUR million	As at December 31, 2018	As at December 31, 2017	Q1–Q4/2018 impact
Non-current trade receivables[1]	**-**	2	**2**
Other non-current assets	**14**	10	**-4**
Inventories	**419**	415	**-4**
Trade receivables	**555**	546	**-9**
Amounts due from customers under revenue contracts	**169**	164	**-5**
Derivative financial instruments (assets)[1]	**19**	24	**5**
Other receivables	**95**	116	**21**
Post-employment benefits	**-163**	-150	**14**
Provisions	**-149**	-137	**12**
Other non-current non-interest-bearing liabilities[2]	**-3**	-1	**2**
Trade payables	**-286**	-287	**-1**
Advances received	**-219**	-261	**-42**
Amounts due to customers under revenue contracts	**-552**	-455	**97**
Derivative financial instruments (liabilities)[2]	**-29**	-13	**16**
Other current liabilities	**-343**	-361	**-17**
Total net working capital	**-474**	**-387**	**87**
Effect of foreign exchange rates			**6**
Change in allowance and inventory obsolescence provision[3]			**-6**
Other			**-1**
Change in net working capital in the Consolidated Statement of Cash Flows			**86**

[1] *Included in non-current and/or current financial assets in the Consolidated Statement of Financial Position.*

[2] *Included in other non-current liabilities and other current financial liabilities in the Consolidated Statement of Financial Position.*

[3] *Includes opening balance adjustment to allowances due to implementation of IFRS 9.*

Intangible assets and property, plant and equipment

Intangible assets

EUR million	2018	2017
Carrying value at beginning of period	**814**	837
Capital expenditure	**26**	19
Acquired in business combinations	**4**	-
Amortization	**-30**	-31
Impairment losses	**-1**	-1
Translation differences and other changes	**4**	-11
Carrying value at end of period	**818**	814

Property, plant and equipment

EUR million	2018	2017
Carrying value at beginning of period	**354**	374
Capital expenditure	**53**	46
Acquired in business combinations	**-**	-
Depreciation	**-46**	-49
Impairment losses	**-1**	-
Translation differences and other changes	**-12**	-17
Carrying value at end of period	**348**	354

Financial instruments

Valmet has adopted IFRS 9 – Financial instruments, effective January 1, 2018 and it replaced guidance included in IAS 39 – Financial instruments: recognition and measurement.

The standard introduced new measurement categories for financial assets. For Valmet, new classification and measurement guidance presented changes in terminology used for financial assets in comparison to IAS 39, however impact on financial reporting is limited. Changes in classification of financial assets under IFRS 9 are as follows:

	Classification under IAS 39[1]	Classification under IFRS 9[1]
Equity investments[2]	Available-for-sale	FVTPL or FVTOCI
Interest-bearing investments	Available-for-sale	FVTOCI
Trade and other receivables	Loans and receivables	Amortized cost
Derivatives	FVTPL	FVTPL
Cash and cash equivalents	FVTPL	Amortized cost

[1] *Fair Value Through Profit or Loss (FVTPL), Fair Value Through Other Comprehensive Income (FVTOCI).*

[2] *Valmet applies fair value through other comprehensive income option to a certain equity investment.*

The impairment model for financial assets presented most significant change for Valmet arising from implementation of the new standard. Under IFRS 9, impairment on trade receivables and contract assets is recognized based on a simplified model, and allowance amounting to lifetime expected credit losses is recognized at the time of the initial recognition of the asset. The simplified impairment model is applied to majority of Valmet's financial assets. Due to the implementation of revised guidance on impairment of financial assets, an adjustment amounting to EUR -5 million was recognized to opening balance of retained earnings at transition as at January 1, 2018. The adjustment to retained earnings includes gross adjustment of EUR -6 million to allowances and related tax impact of EUR 1 million.

Valmet applies hedge accounting to certain foreign exchange rate, interest rate and commodity price hedging relationships. When hedging for future changes in commodity prices, Valmet has designated one or more risk components of non-financial items as hedged risks as allowed by IFRS 9, which has enabled both expanded utilization of hedge accounting and decreased volatility in profit or loss due to increased hedge effectiveness. Implementation of IFRS 9 did not have a material impact to accounting principles when hedging for foreign exchange rate and interest rate risk. Overall, application of the new hedge accounting guidance had no impact on the opening balance of retained earnings at transition.

Valmet's management decided not to restate prior periods due to the implementation of IFRS 9, and the total adjustment of EUR -5 million was recognized to the opening balance of retained earnings at transition as at January 1, 2018.

Critical accounting estimates and judgments

Under the simplified impairment model applied to trade receivables and contract assets, an allowance amounting to lifetime expected credit losses is recognized at the time of the initial recognition of an asset. The amount of this allowance is estimated based on a model that considers historical credit loss experience, time value of money and forward-looking information relevant to estimate future credit losses. The inputs used in the model are updated on a regular basis.

Application of the guidance for impairment of financial assets, in particular estimation of future expected credit losses and application of case-by-case analysis to significant trade receivables overdue more than 90 days, requires significant management judgment and includes consideration of available customer and market information. Resulting impairment of financial assets is best estimate based on information available and may differ from the actual result.

Derivative financial instruments

As at December 31, 2018	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts[1]	**2,371**	**17**	**-28**	**-11**
Interest rate swaps[1]	**30**	**-**	**-1**	**-1**
Electricity forward contracts[2]	**158**	**2**	**-**	**2**

As at December 31, 2017	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts[1]	1,539	24	-12	12
Interest rate swaps[1]	30	-	-1	-1
Electricity forward contracts[2]	159	-	-	-
Nickel forward contracts[3]	18	-	-	-

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

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

[3] *Notional amount in metric tons and fair values in EUR million.*

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

Interest-bearing and non-interest-bearing financial instruments

EUR million	**As at December 31, 2018**	As at December 31, 2017
Non-current financial assets		
Interest-bearing	**-**	17
Non-interest-bearing	**8**	7
Total	**9**	24

EUR million	**As at December 31, 2018**	As at December 31, 2017
Other current financial assets		
Interest-bearing	**44**	6
Non-interest-bearing	**14**	23
Total	**58**	29

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

Provisions

EUR million	2018	2017
Balance at beginning of period	**137**	127
Translation differences	**-2**	-4
Addition charged to profit / loss	**114**	106
Acquired in business combinations	**-**	-
Used reserve	**-83**	-53
Reversal of reserve / other changes	**-17**	-39
Balance at end of period	**149**	137
Non-current	**30**	20
Current	**119**	117

Contingencies and commitments

EUR million	As at December 31, 2018	As at December 31, 2017
Guarantees on behalf of Valmet Group	**876**	872
Lease commitments	**57**	63

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

Valmet announced on September 16, 2016, that Suzano Papel e Celulose S.A. had filed a request for arbitration against Valmet Celulose, Papel e Energia Ltda, Valmet AB and Valmet Technologies Oy, subsidiaries of Valmet Oyj, claiming approximately EUR 80 million. Valmet disputed the claims brought by Suzano and pursued claims of its own against Suzano. Valmet announced on press release on September 21, 2018 that the parties of the dispute had reached an agreement and the arbitration proceedings had been closed.

As at December 31, 2018, Valmet entities are subject to tax audits in several jurisdictions. Liabilities and assets are recognized with respect to income tax amounts management is expecting to pay and recover, respectively. No liability is recognized when it is considered probable that items reported to tax authorities can be sustained on examination. Complex and constantly changing regulations in multiple jurisdictions where Valmet operates create uncertainties relating to tax obligations towards authorities. Changes in the tax authorities' interpretations could have an unfavorable impact on Valmet's financials.

Key ratios

	2018	2017
Earnings per share, EUR	**1.01**	0.81
Diluted earnings per share, EUR	**1.01**	0.81
Equity per share at end of period, EUR	**6.31**	6.09
Return on equity (ROE), %[1]	**16%**	13%
Return on capital employed (ROCE) before taxes, %[1]	**19%**	14%
Equity to assets ratio at end of period, %	**43%**	42%
Gearing at end of period, %	**-23%**	-11%
Cash flow provided by operating activities, EUR million	**284**	291
Cash flow after investments, EUR million	**208**	227
Gross capital expenditure (excl. business combinations), EUR million	**-79**	-66
Business combinations, net of cash acquired and loans repaid, EUR million	**-2**	-
Depreciation and amortization, EUR million	**-76**	-81
Amortization	**-30**	-31
Depreciation	**-46**	-49
Number of outstanding shares at end of period	**149,617,820**	149,864,220
Average number of outstanding shares	**149,649,501**	149,864,220
Average number of diluted shares	**149,649,501**	149,864,220
Interest-bearing liabilities at end of period, EUR million	**201**	219
Net interest-bearing liabilities at end of period, EUR million	**-219**	-100

[1] *In the calculation of 2017 figures, non-restated data points from 2016 have been used.*

Formulas for Calculation of Indicators

In addition to financial performance indicators as defined by IFRS, Valmet publishes certain other widely used measures of performance that can be derived from figures in the consolidated statement of income and financial position, as well as notes thereto. The formulas for calculation of these alternative performance measures are presented below.

EBITA:
Operating profit + amortization

Comparable EBITA[1]:
Operating profit + amortization +/- items affecting comparability
[1] Measure of performance also calculated on a rolling 12-month basis.

Earnings per share:

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

Earnings per share, diluted:

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

Return on equity (ROE), %:

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

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

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

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

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

[1] Measure of performance also calculated on a rolling 12-month basis.

Equity to assets ratio, %:

$$\frac{\text{Total equity}}{\text{Balance sheet total - advances received - amounts due to customers under revenue contracts}} \times 100$$

Gearing, %:

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

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

Quarterly information

EUR million	Q4/2018	Q3/2018	Q2/2018	Q1/2018	Q4/2017
Net sales	**984**	765	844	732	967
Comparable EBITA	**113**	61	61	22	81
% of net sales	**11.5%**	8.0%	7.2%	3.0%	8.4%
Operating profit / loss	**102**	48	49	12	61
% of net sales	**10.4%**	6.3%	5.9%	1.6%	6.3%
Profit before taxes	**100**	46	48	11	57
% of net sales	**10.1%**	6.1%	5.7%	1.4%	5.9%
Profit for the period	**74**	35	35	8	49
% of net sales	**7.5%**	4.5%	4.2%	1.1%	5.1%
Earnings per share, EUR	**0.49**	0.23	0.23	0.05	0.33
Earnings per share, diluted, EUR	**0.49**	0.23	0.23	0.05	0.33
Amortization	**-8**	-7	-7	-7	-8
Depreciation	**-11**	-11	-12	-12	-12
Research and development expenses, net	**-21**	-13	-16	-16	-20
% of net sales	**-2.1%**	-1.7%	-1.9%	-2.2%	-2.1%
Items affecting comparability:					
in cost of goods sold	**-**	3	-3	-	-8
in selling, general and administrative expenses	**-**	-	-	-1	-3
in other operating income and expenses, net	**-2**	-9	-1	-2	-1
Total items affecting comparability	**-3**	-6	-4	-3	-12
Gross capital expenditure (excl. business combinations)	**-22**	-21	-20	-16	-20
Business combinations, net of cash acquired and loans repaid	**-2**	-	-	-	-
Non-cash write-downs	**2**	-3	-3	-1	-7
Capital employed, end of period	**1,150**	1,079	1,049	1,033	1,137
Orders received	**1,026**	940	865	890	727
Order backlog, end of period	**2,829**	2,791	2,621	2,583	2,458

Valmet's financial reporting in 2019

April 26, 2019 - Interim Review for January-March 2019
July 23, 2019 - Half Year Financial Review for January-June 2019
October 24, 2019 - Interim Review for January-September 2019

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