Interim Review

January 1 – September 30, 2019

Valmet's Interim Review
January 1 – September 30, 2019

Orders received were over EUR 1 billion and profitability continued to increase

Figures in brackets, unless otherwise stated, refer to the comparison period, i.e. the same period of the previous year. As of January 1, 2019, Valmet has adopted IFRS 16 without restating the figures for the comparison period.

July–September 2019: Orders received amounted to EUR 1.1 billion

- Orders received increased 13 percent to EUR 1,058 million (EUR 940 million).
  - Orders received increased in the Pulp and Energy, Automation and Services business lines and decreased in the Paper business line.
  - Orders received increased in South America and North America, remained at the previous year's level in Asia-Pacific and EMEA (Europe, Middle East and Africa), and decreased in China.
- Net sales increased 12 percent to EUR 857 million (EUR 765 million).
  - Net sales increased in the Services, Automation and Paper business lines and remained at the previous year's level in the Pulp and Energy business line.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 81 million (EUR 61 million), and the corresponding Comparable EBITA margin was 9.5 percent (8.0%).
  - Profitability improved due to increased net sales and higher gross profit.
- Earnings per share were EUR 0.34 (EUR 0.23).
- Items affecting comparability amounted to EUR 1 million (EUR -6 million).
- Cash flow provided by operating activities was EUR 126 million (EUR 119 million).

January–September 2019: Orders received increased and profitability improved

- Orders received increased 10 percent to EUR 2,976 million (EUR 2,696 million).
  - Orders received increased in the Pulp and Energy, Automation and Services business lines and decreased in the Paper business line.
  - Orders received increased in South America and Asia-Pacific, remained at the previous year's level in EMEA, and decreased in China and North America.
- Net sales remained at the previous year's level at EUR 2,444 million (EUR 2,340 million).
  - Net sales increased in the Services and Automation business lines and remained at the previous year's level in the Pulp and Energy, and Paper business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 198 million (EUR 144 million), and the corresponding Comparable EBITA margin was 8.1 percent (6.2%).
  - Profitability improved due to higher gross profit.
- Earnings per share were EUR 0.80 (EUR 0.52).
- Items affecting comparability amounted to EUR -2 million (EUR -13 million).
- Cash flow provided by operating activities was EUR 113 million (EUR 141 million).

Guidance for 2019 unchanged

Valmet reiterates its guidance presented on February 26, 2019 and confirmed on April 1, 2019, in which Valmet estimates that net sales in 2019 will increase in comparison with 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

IMF's global growth forecast for 2019 is 3.0 percent, which is lowest level since 2008–2009 and a 0.3 percentage point downgrade from April 2019. Growth is projected to pick up to 3.4 percent in 2020, reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain. Yet, with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize. (International Monetary Fund, October 2019)

Short-term market outlook

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

President and CEO Pasi Laine: Orders received were over EUR 1 billion and profitability continued to increase

"The favorable development of orders received continued in the third quarter. Orders received increased in Services, Automation, and Pulp and Energy business lines, and exceeded EUR 1 billion for the second quarter in a row. Orders received for the last twelve months amounted to EUR 4 billion, which is a record-high level for Valmet. Order backlog now amounts to EUR 3.4 billion.

The Comparable EBITA margin was within our target range at 9.5 percent, which is 1.5 percentage points higher than a year ago. Our profitability increased also during January–September 2019, and the Comparable EBITA margin of 8.1 percent was within the target range.

We have progressed well with our Sustainability360˚ agenda emphasizing continuous improvement of sustainable business practices. As one proof of the good progress, in September Valmet was included in the Dow Jones Sustainability Index (DJSI) already for the sixth consecutive year.

We acquired GL&V and J&L during the second quarter of 2019. The integration of the acquired businesses is proceeding according to our plan."

Key figures[1]

EUR million	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Orders received	**1,058**	940	13%	**2,976**	2,696	10%
Order backlog[2]	**3,425**	2,791	23%	**3,425**	2,791	23%
Net sales	**857**	765	12%	**2,444**	2,340	4%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**81**	61	32%	**198**	144	38%
% of net sales	**9.5%**	8.0%		**8.1%**	6.2%	
Earnings before interest, taxes and amortization (EBITA)	**83**	55	49%	**196**	131	50%
% of net sales	**9.7%**	7.2%		**8.0%**	5.6%	
Operating profit (EBIT)	**73**	48	52%	**172**	109	57%
% of net sales	**8.5%**	6.3%		**7.0%**	4.7%	
Profit before taxes	**70**	46	52%	**164**	105	56%
Profit for the period	**51**	35	48%	**121**	78	56%
Earnings per share, EUR	**0.34**	0.23	48%	**0.80**	0.52	56%
Earnings per share, diluted, EUR	**0.34**	0.23	48%	**0.80**	0.52	56%
Equity per share, EUR[2]	**6.13**	5.83	5%	**6.13**	5.83	5%
Cash flow provided by operating activities	**126**	119	6%	**113**	141	-20%
Cash flow after investments	**102**	98	4%	**-102**	89	
Return on equity (ROE) (annualized)				**17%**	12%	
Return on capital employed (ROCE) before taxes (annualized)				**19%**	13%	
Equity to assets ratio[2]				**38%**	43%	
Gearing[2]				**6%**	-11%	

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

[1] *The calculation of key figures is presented on page 44.*

[2] *At the end of period.*

Orders received, EUR million	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Services	**335**	300	12%	**1,064**	990	7%
Automation	**86**	70	23%	**263**	235	12%
Pulp and Energy	**395**	272	45%	**805**	549	47%
Paper	**243**	299	-19%	**844**	921	-8%
Total	**1,058**	940	13%	**2,976**	2,696	10%

Order backlog, EUR million	As at Sep 30, 2019	As at Sep 30, 2018	Change	As at June 30, 2019
Total	**3,425**	2,791	23%	3,216

Net sales, EUR million	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Services	**336**	282	19%	**973**	854	14%
Automation	**75**	64	18%	**221**	200	11%
Pulp and Energy	**231**	223	4%	**604**	631	-4%
Paper	**214**	196	9%	**646**	657	-2%
Total	**857**	765	12%	**2,444**	2,340	4%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for analysts, investors, and media on Thursday, October 24, 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 +44 (0) 2071 928000. The participants will be asked to provide the following conference ID: 1353259.

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 Interim Review January 1 – September 30, 2019

Orders received increased 13 percent to EUR 1.1 billion in Q3/2019

Orders received, EUR million	**Q3/2019**	Q3/2018	Change	**Q1–Q3/ 2019**	Q1–Q3/ 2018	Change
Services	**335**	300	12%	**1,064**	990	7%
Automation	**86**	70	23%	**263**	235	12%
Pulp and Energy	**395**	272	45%	**805**	549	47%
Paper	**243**	299	-19%	**844**	921	-8%
Total	**1,058**	940	13%	**2,976**	2,696	10%

Orders received, comparable foreign exchange rates, EUR million[1]	**Q3/2019**	Q3/2018	Change	**Q1–Q3/ 2019**	Q1–Q3/ 2018	Change
Services	**328**	300	9%	**1,050**	990	6%
Automation	**84**	70	21%	**260**	235	11%
Pulp and Energy	**398**	272	46%	**813**	549	48%
Paper	**234**	299	-22%	**838**	921	-9%
Total	**1,044**	940	11%	**2,962**	2,696	10%

[1] *Indicative only. January to September 2019 orders received in euro calculated by applying January–September 2018 average exchange rates to the functional currency orders received values reported by entities.*

Orders received, EUR million	**Q3/2019**	Q3/2018	Change	**Q1–Q3/ 2019**	Q1–Q3/ 2018	Change
North America	**239**	204	17%	**557**	599	-7%
South America	**257**	58	>100%	**615**	164	>100%
EMEA	**390**	408	-4%	**1,199**	1,197	0%
China	**54**	154	-65%	**210**	455	-54%
Asia-Pacific	**118**	116	2%	**395**	281	41%
Total	**1,058**	940	13%	**2,976**	2,696	10%

Orders received by business line, Q1–Q3/2019

Orders received by area, Q1–Q3/2019

July–September 2019: Orders received increased 13 percent

Orders received increased 13 percent to EUR 1,058 million in July–September (EUR 940 million). The Services and Automation business lines together accounted for 40 percent (39%) of Valmet's orders received. Orders received increased in the Pulp and Energy, Automation and Services business lines and decreased in the Paper business line. The acquired businesses (GL&V and J&L Fiber Services) contributed EUR 39 million to orders received.

Orders received increased in South America and North America, remained at the previous year's level in Asia-Pacific and EMEA, and decreased in China. Measured by orders received, the top three countries were Brazil, the USA and France, which together accounted for 53 percent of orders received. The emerging markets accounted for 45 percent (40%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 14 million in July–September.

During July–September, Valmet received among others a major pulp technology order to South America, an order for a coated board machine to the USA, and orders for a board machine and a biomass pretreatment system to India. Marine scrubber orders amounted to EUR 93 million.

January–September 2019: Orders received increased 10 percent to EUR 3.0 billion

Orders received increased 10 percent to EUR 2,976 million (EUR 2,696 million) in January–September. The Services and Automation business lines together accounted for 45 percent (45%) of Valmet's orders received. Orders received increased in the Pulp and Energy, Automation and Services business lines and decreased in the Paper business line. The acquired businesses contributed EUR 86 million to orders received.

Orders received increased in South America and Asia-Pacific, remained at the previous year's level in EMEA, and decreased in China and North America. Measured by orders received, the top three countries were Brazil, the USA and Finland, which together accounted for 44 percent of orders received. The emerging markets accounted for 46 percent (39%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 15 million in January–September.

In addition to the above-mentioned, during January–September, Valmet received among others an order for a large pulp and paper technology delivery to Brazil, valued at a total of around EUR 260–290 million, an order for a containerboard making line with an extensive scope to Germany, typically valued at around EUR 150–200 million, and an order for an extensive paper machine grade conversion rebuild in Finland. Marine scrubber orders amounted to EUR 110 million.

Order backlog at a record-high level

Order backlog, EUR million	**As at Sep 30, 2019**	As at Sep 30, 2018	Change	As at June 30, 2019
Total	**3,425**	2,791	23%	3,216

Order backlog amounted to EUR 3,425 million at the end of the reporting period, 6 percent higher than at the end of June 2019 and 23 percent higher than at the end of September 2018. Approximately 30 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 30% at the end of September 2018).

Net sales increased in the Services, Automation and Paper business lines in Q3/2019

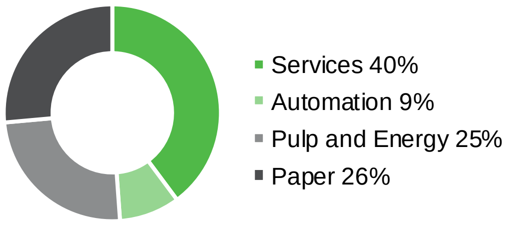
Net sales, EUR million	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Services	**336**	282	19%	**973**	854	14%
Automation	**75**	64	18%	**221**	200	11%
Pulp and Energy	**231**	223	4%	**604**	631	-4%
Paper	**214**	196	9%	**646**	657	-2%
Total	**857**	765	12%	**2,444**	2,340	4%

Net sales, comparable foreign exchange rates, EUR million[1]	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Services	**330**	282	17%	**959**	854	12%
Automation	**74**	64	16%	**219**	200	10%
Pulp and Energy	**232**	223	4%	**608**	631	-4%
Paper	**212**	196	8%	**638**	657	-3%
Total	**848**	765	11%	**2,423**	2,340	4%

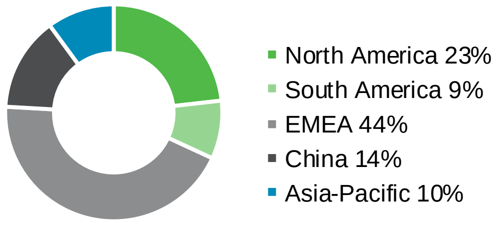
[1] *Indicative only. January to September 2019 net sales in euro calculated by applying January to September 2018 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
North America	**175**	145	20%	**567**	448	27%
South America	**79**	39	>100%	**212**	111	91%
EMEA	**400**	346	16%	**1,076**	1,091	-1%
China	**110**	122	-10%	**343**	414	-17%
Asia-Pacific	**93**	112	-17%	**246**	275	-11%
Total	**857**	765	12%	**2,444**	2,340	4%

Net sales by business line, Q1–Q3/2019



Net sales by area, Q1–Q3/2019



July–September 2019: Net sales increased 12 percent

Net sales increased 12 percent to EUR 857 million in July–September (EUR 765 million). The Services and Automation business lines together accounted for 48 percent (45%) of Valmet's net sales. Net sales increased in the Services, Automation and Paper business lines and remained at the previous year's level in the Pulp and Energy business line. The acquired businesses contributed EUR 44 million to net sales.

Net sales increased in South America, North America and EMEA, and decreased in Asia-Pacific and China. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 37 percent of net sales. Emerging markets accounted for 40 percent (43%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 9 million in July–September.

January–September 2019: Net sales increased in the stable business and remained at the previous year's level in the capital business

Net sales remained at the previous year's level and amounted to EUR 2,444 million (EUR 2,340 million) in January–September. The Services and Automation business lines together accounted for 49 percent (45%) of Valmet's net sales. Net sales increased in the Services and Automation business lines and remained at the previous year's level in Paper, and Pulp and Energy business lines. The acquired businesses contributed EUR 84 million to net sales.

Net sales increased in South America and North America, remained at the previous year's level in EMEA, and decreased in China and Asia-Pacific. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 41 percent of net sales. Emerging markets accounted for 40 percent (44%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 21 million in January–September.

Comparable EBITA and operating profit

In July–September, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 81 million, i.e. 9.5 percent of net sales (EUR 61 million and 8.0%). Profitability improved due to increased net sales and higher gross profit. The impact arising from adoption of IFRS 16 was immaterial.

In January–September, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 198 million, i.e. 8.1 percent of net sales (EUR 144 million and 6.2%). Profitability improved due to higher gross profit. The impact arising from adoption of IFRS 16 was approximately EUR 1 million.

Operating profit (EBIT) in July–September was EUR 73 million, i.e. 8.5 percent of net sales (EUR 48 million and 6.3%). Items affecting comparability amounted to EUR 1 million (EUR -6 million).

Operating profit (EBIT) in January–September was EUR 172 million, i.e. 7.0 percent of net sales (EUR 109 million and 4.7%). Items affecting comparability amounted to EUR -2 million (EUR -13 million).

Net financial income and expenses

Net financial income and expenses in July–September were EUR -3 million (EUR -2 million). The interest expense recognized on lease liabilities amounted to EUR 1 million.

Net financial income and expenses in January–September were EUR -8 million (EUR -3 million). The interest expense recognized on lease liabilities amounted to EUR 1 million.

Profit before taxes and earnings per share

Profit before taxes for July–September was EUR 70 million (EUR 46 million). The profit attributable to owners of the parent in July–September was EUR 51 million (EUR 34 million), corresponding to earnings per share (EPS) of EUR 0.34 (EUR 0.23).

Profit before taxes in January–September was EUR 164 million (EUR 105 million). The profit attributable to owners of the parent in January–September was EUR 120 million (EUR 77 million), corresponding to earnings per share (EPS) of EUR 0.80 (EUR 0.52).

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

In January–September, the annualized return on capital employed (ROCE) before taxes was 19 percent (13%) and return on equity (ROE) 17 percent (12%). Recognition of leased assets following adoption of IFRS 16 increased capital employed, however only having a minor impact on ROCE for the reporting period.

Business lines

Services: Orders received and net sales increased in Q3/2019

Services business line	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Orders received (EUR million)	**335**	300	12%	**1,064**	990	7%
Net sales (EUR million)	**336**	282	19%	**973**	854	14%
Personnel (end of period)				**6,444**	5,555	16%

In July–September, orders received by the Services business line increased 12 percent to EUR 335 million (EUR 300 million). Services accounted for 32 percent (32%) of all orders received. Orders received increased in China, Asia-Pacific and North America, remained at the previous year's level in EMEA, and decreased in South America. Orders received increased in Performance Parts, remained at the previous year's level in Mill Improvements and Rolls, and decreased in Energy and Environmental, and Fabrics. The acquired businesses contributed EUR 33 million to Services' orders received. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 7 million.

In January–September, orders received by the Services business line increased 7 percent to EUR 1,064 million (EUR 990 million). Services accounted for 36 percent (37%) of all orders received. Orders received increased in South America, North America and Asia-Pacific, and remained at the previous year's level in EMEA and China. Orders received increased in Energy and Environmental, and Performance Parts, remained at the previous year's level in Fabrics and Rolls, and decreased in Mill Improvements. The acquired businesses contributed EUR 77 million to Services' orders received. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 15 million.

In July–September, net sales for the Services business line amounted to EUR 336 million (EUR 282 million), corresponding to 39 percent (37%) of Valmet's net sales. The acquired businesses contributed EUR 37 million to Services' net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 6 million.

In January–September, net sales for the Services business line amounted to EUR 973 million (EUR 854 million), corresponding to 40 percent (36%) of Valmet's net sales. The acquired businesses contributed EUR 75 million to Services' net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 15 million.

Automation: Orders received and net sales increased in Q3/2019

Automation business line	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Orders received (EUR million)	**86**	70	23%	**263**	235	12%
Net sales (EUR million)	**75**	64	18%	**221**	200	11%
Personnel (end of period)				**1,894**	1,769	7%

In July–September, orders received by the Automation business line increased 23 percent to EUR 86 million (EUR 70 million). Automation business line accounted for 8 percent (7%) of Valmet's orders received. Orders received increased in all geographical areas. Orders received increased in Pulp and Paper, and remained at the previous year's level in Energy and Process. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 1 million.

In January–September, orders received by the Automation business line increased 12 percent to EUR 263 million (EUR 235 million) and accounted for 9 percent (9%) of Valmet's orders received. Orders received increased in South America, North America and EMEA, remained at the previous year's level in Asia-Pacific and decreased in China. Orders received increased in Pulp and Paper, and remained at the previous year's level in Energy and Process. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 3 million.

In July–September, net sales for the Automation business line amounted to EUR 75 million (EUR 64 million), corresponding to 9 percent (8%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 1 million.

In January–September, net sales for the Automation business line amounted to EUR 221 million (EUR 200 million), corresponding to 9 percent (9%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 2 million.

Pulp and Energy: Orders received increased and net sales remained at the previous year's level in Q3/2019

Pulp and Energy business line	Q3/2019	Q3/2018	Change	Q1–Q3/ 2019	Q1–Q3/ 2018	Change
Orders received (EUR million)	**395**	272	45%	**805**	549	47%
Net sales (EUR million)	**231**	223	4%	**604**	631	-4%
Personnel (end of period)				**1,791**	1,743	3%

In July–September, orders received by the Pulp and Energy business line increased 45 percent to EUR 395 million (EUR 272 million). Pulp and Energy accounted for 37 percent (29%) of all orders received. Orders received increased in South America and decreased in all other areas. Orders received increased in Pulp and decreased in Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased orders received by approximately EUR 3 million.

In January–September, orders received by the Pulp and Energy business line increased 47 percent to EUR 805 million (EUR 549 million). Pulp and Energy accounted for 27 percent of all orders received (20%). Orders received increased in South America, Asia-Pacific and China, and decreased in North America and

EMEA. Orders received increased in Pulp and remained at the previous year's level in Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased orders received by approximately EUR 8 million.

In July–September, net sales for the Pulp and Energy business line amounted to EUR 231 million (EUR 223 million), corresponding to 27 percent (29%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased net sales by approximately EUR 1 million.

In January–September, net sales for the Pulp and Energy business line amounted to EUR 604 million (EUR 631 million), corresponding to 25 percent (27%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased net sales by approximately EUR 4 million.

Paper: Orders received decreased and net sales increased in Q3/2019

Paper business line	**Q3/2019**	Q3/2018	Change	**Q1–Q3/ 2019**	Q1–Q3/ 2018	Change
Orders received (EUR million)	**243**	299	-19%	**844**	921	-8%
Net sales (EUR million)	**214**	196	9%	**646**	657	-2%
Personnel (end of period)				**2,887**	2,892	0%

In July–September, orders received by the Paper business line decreased 19 percent to EUR 243 million (EUR 299 million) and accounted for 23 percent of all orders received (32%). Orders received increased in North America and Asia-Pacific, and decreased in other areas. 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 2018 increased orders received by approximately EUR 9 million.

In January–September, orders received by the Paper business line decreased 8 percent to EUR 844 million (EUR 921 million) and accounted for 28 percent (34%) of all orders received. Orders received increased in Asia-Pacific, South America and EMEA, 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 2018 increased orders received by approximately EUR 6 million.

In July–September, net sales for the Paper business line amounted to EUR 214 million (EUR 196 million), corresponding to 25 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 2 million.

In January–September, net sales for the Paper business line amounted to EUR 646 million (EUR 657 million), corresponding to 26 percent (28%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 8 million.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 126 million (EUR 119 million) in July–September and EUR 113 million (EUR 141 million) in January–September. Net working capital totaled EUR -421 million (EUR -427 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR 85 million (EUR 65 million) in July–September and EUR -28 million (EUR 36 million) in January–September. Payment schedules of large capital projects have a significant impact on net working capital development.

Cash flow after investments totaled EUR 102 million (EUR 98 million) in July–September and EUR -102 million (EUR 89 million) in January–September. During the third quarter, the final adjustments to the consideration transferred for the acquisitions of GL&V and J&L Fiber Services Inc. were settled, resulting in total net cash outflow of EUR -163 million.

At the end of September, gearing was 6 percent (-11 %) and equity to assets ratio was 38 percent (43%). Interest-bearing liabilities amounted to EUR 316 million (EUR 201 million), and net interest-bearing liabilities totaled EUR 60 million (EUR -98 million) at the end of the reporting period. The adoption of IFRS 16 increased financial liabilities by EUR 59 million, which had a negative impact on the above key performance indicators.

The average maturity of Valmet's non-current debt was 3.3 years, and average interest rate was 0.9 percent at the end of September. Lease liabilities, which are discussed in detail in the Condensed Consolidated Interim Financial Statements, have been excluded from calculation of these two key performance indicators.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 213 million (EUR 282 million) and interest-bearing current financial assets totaling EUR 43 million (EUR 17 million). Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2024 and was undrawn at the end of the reporting period, and an uncommitted commercial paper program worth of EUR 200 million, of which EUR 50 million was outstanding at the end of the reporting period.

On April 4, 2019, Valmet paid out dividends of EUR 97 million.

Capital expenditure

In July–September, gross capital expenditure excluding business combinations and leased assets totaled EUR 19 million (EUR 21 million). Maintenance investments were EUR 20 million (EUR 13 million).

In January–September, gross capital expenditure excluding business combinations and leased assets totaled EUR 57 million (EUR 57 million). Maintenance investments were EUR 41 million (EUR 36 million).

Acquisitions and disposals

Acquisitions

GL&V

On February 26, 2019, Valmet announced the acquisition of North American-based GL&V, a global provider of technologies and services to the pulp and paper industry. The enterprise value of the acquisition was approximately EUR 113 million on a cash and debt free basis, and final consideration transferred after ordinary post-closing adjustments was EUR 101 million. The acquisition was completed on April 1, 2019. GL&V supplies technologies, upgrades and optimization services, rebuilds, and spare parts for the pulp and paper industry globally. Net sales of the acquired operations were approximately EUR 160 million and EBITA margin was around 11 percent in calendar year 2018. The acquired operations employ about 630 people, of whom approximately 65 percent are in North America and the rest mainly in Europe, South America and India. GL&V's washing, oxygen delignification and bleaching operations with Compact Press®, pumps and mixers technology for chemical pulping as well as the related Product Center in Karlstad Sweden were not included in the transaction scope. The acquired operations are organized as Mill Process Solutions business unit within the Services organization, and related revenue is split between Services and capital business.

J&L Fiber Services Inc.

On May 2, 2019, Valmet announced that it has completed the acquisition of J&L Fiber Services Inc., a manufacturer and provider of refiner segments to the pulp, paper and fiberboard industry. The company is located in Wisconsin, U.S. The final purchase price for the transaction was approximately EUR 51 million. J&L Fiber Services manufactures and supplies low-consistency refiner segments that are important wear parts used in pulp and paper production, complementing Valmet's offering in refiner segments. It also supplies high-consistency refiner segments that are used in thermomechanical pulping and medium density fiberboard (MDF) refining. In the twelve months preceding the completion of the acquisition, the company had net sales of approximately EUR 30 million with an EBITA margin of around 15 percent. The acquired operations employ about 100 people, most of whom are located in Wisconsin, U.S. J&L Fiber Services operates globally through a sales representative and distribution network. Over 75 percent of its sales goes to North America. The acquired business became a part of Valmet's Services business line, as Waukesha Service Center.

Disposals

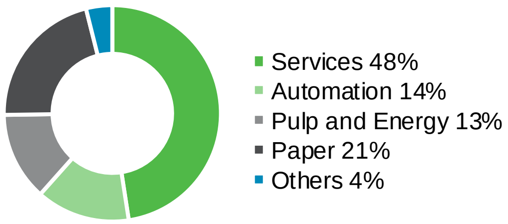
Valmet made no disposals during January–September 2019.

Number of personnel

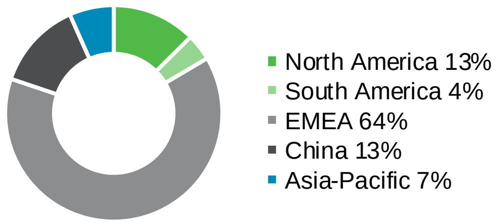
Personnel by business line	**As at Sep 30, 2019**	As at Sep 30, 2018	Change	As at June 30, 2019
Services	**6,444**	5,555	16%	6,446
Automation	**1,894**	1,769	7%	1,894
Pulp and Energy	**1,791**	1,743	3%	1,804
Paper	**2,887**	2,892	0%	2,949
Other	**530**	522	2%	529
Total	**13,546**	12,481	9%	13,622

Personnel by area	**As at Sep 30, 2019**	As at Sep 30, 2018	Change	As at June 30, 2019
North America	**1,697**	1,187	43%	1,673
South America	**539**	512	5%	532
EMEA	**8,625**	8,300	4%	8,771
China	**1,786**	1,736	3%	1,765
Asia-Pacific	**899**	746	21%	881
Total	**13,546**	12,481	9%	13,622

Personnel by business line as at September 30, 2019



Personnel by area as at September 30, 2019



During January–September, Valmet employed an average of 13,129 (12,443) people. The number of personnel at the end of September was 13,546 (12,481). Personnel expenses totaled EUR 656 million (EUR 599 million) in January–September, of which wages, salaries and remuneration amounted to EUR 517 million (EUR 467 million).

Changes in Valmet's Executive Team

Valmet announced by press release on January 24, 2019 that Juha Lappalainen, Senior Vice President, Strategy and Operational Development (SOD) was to start in a new position in Valmet's Services business line on March 1, 2019. Due to this change, Valmet divided the Strategy and Operational Development function so that the Strategy function was integrated into Valmet's Finance corporate function lead by CFO Kari Saarinen. Julia Macharey, previously Senior Vice President, Human Resources, was appointed Senior Vice President, Human Resources and Operational Development. The changes took effect on March 1, 2019.

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. 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.

Progress in sustainability

During July–September 2019, Valmet progressed with the actions defined in its Sustainability360˚ agenda.

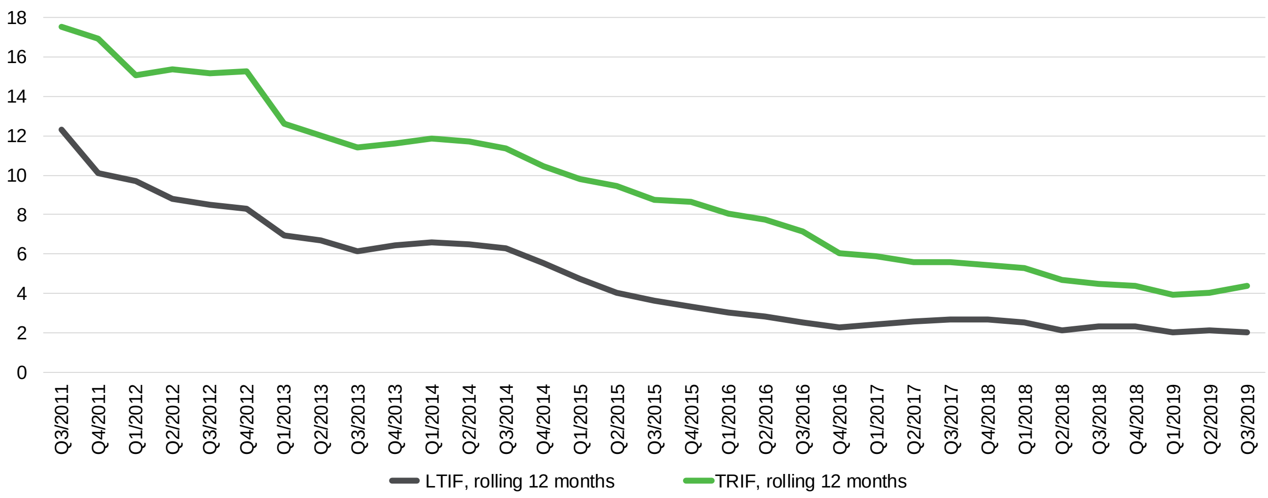
In September 2019, Valmet was included in the Dow Jones Sustainability Index (DJSI) for the sixth consecutive year among the 318 most sustainable companies in the world. Valmet was listed both in the Dow Jones Sustainability World and Europe indices. The comprehensive ranking evaluates companies' economic, environmental and social performance.

In September 2019, Valmet also finalized the talent review process, which is used to identify, evaluate and develop managerial, successor and high-potential resources. Close to 5,000 employees were evaluated as part of the process, a tripled amount compared to 2018. The increase was a result of a new tool and a renewed process. The mid-year review discussions were completed by 95 percent of the employees included in the annual review process.

By the end of September, 65 percent of Valmet's white-collar employees had completed the company-wide sustainability e-learning. The course was launched in February 2018 and is mandatory for all of Valmet's white-collar employees.

Valmet's lost time incident frequency rate (LTIF) for own employees was 2.0 at the end of September (2.3 at the end of September 2018). Valmet's total recordable incident frequency rate (TRIF) for own employees continued to decrease and was 4.4 at the end of September (4.7 at the end of September 2018). In July-September 2019, Valmet focused on integrating the new locations into Valmet's HSE[1] systems and engaging the new employees in Valmet's safety culture. Valmet also continued with its local safety booster programs to develop the actions preventing injuries.

Lost time incident frequency (LTIF)[2] and total recordable incident frequency (TRIF)[3], own employees



[2] *LTIF reflects the number of injuries resulting in an absence of at least one work day per million hours worked*
[3] *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 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.

[1] HSE = Health, safety and environment

Corporate Governance and Remuneration Statements

Valmet has prepared a separate Corporate Governance Statement and a Remuneration Statement for 2018, 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 Sep 30, 2019	As at Sep 30, 2018
Share capital, EUR	**100,000,000**	100,000,000
Number of shares	**149,864,619**	149,864,619
Treasury shares	**245,624**	246,799
Shares outstanding	**149,618,995**	149,617,820
Market capitalization, EUR million	**2,669**	2,879
Number of shareholders	**45,126**	44,914

Shareholder structure as at September 30, 2019

- Nominee registered and non-Finnish holders 53.2%
- Solidium Oy 11.1%
- Finnish private investors 12.6%
- Finnish institutions, companies and foundations 23.1%

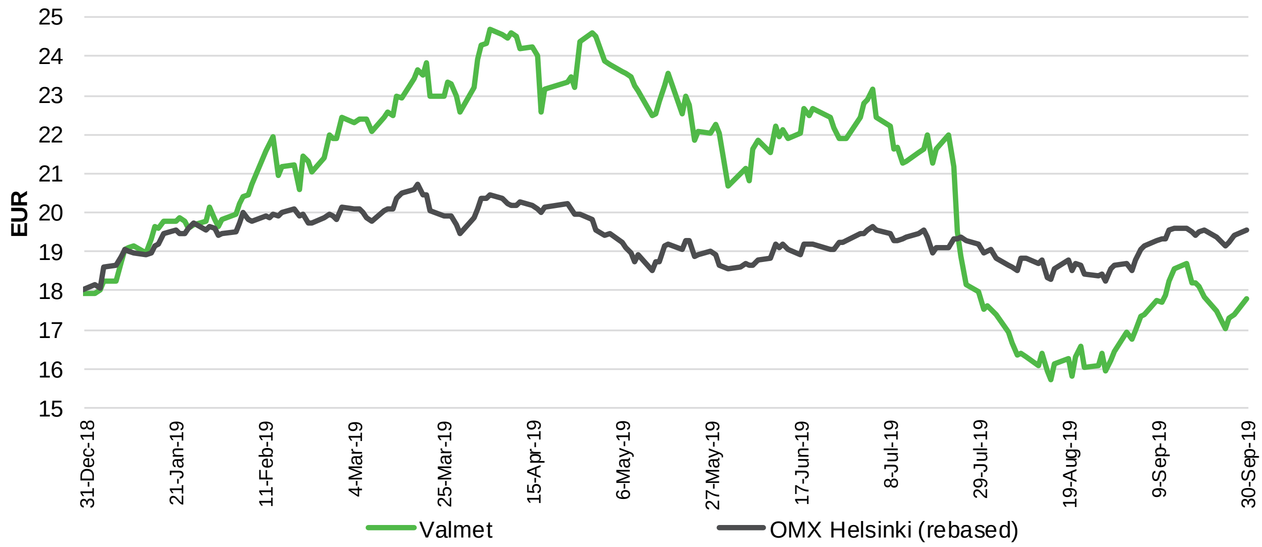
Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	**January 1 – September 30, 2019**	January 1 – September 30, 2018
Number of shares traded	**121,471,947**	70,534,108
Total value, EUR	**2,490,247,554**	1,213,119,797
High, EUR	**25.14**	19.26
Low, EUR	**15.55**	15.50
Volume-weighted average price, EUR	**20.65**	17.19
Closing price on the final day of trading, EUR	**17.81**	19.21

The closing price of Valmet's share on the final day of trading for the reporting period, September 30, 2019, was EUR 17.81, i.e. 0.8 percent lower than the closing price on the last day of trading in 2018 (EUR 17.95 on December 28, 2018).

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 100 million of Valmet's shares were traded on alternative marketplaces in January–September, which equals to approximately 45 percent of the share's total trade volume (Bloomberg).

Development of Valmet's share price, December 31, 2018 – September 30, 2019



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, %
January 16, 2019	BlackRock, Inc	Above 5%	4.33%	0.74%	5.08%
February 6, 2019	BlackRock, Inc	Above 5%	5.23%	0.82%	6.05%
March 21, 2019	BlackRock, Inc	Below 5%	4.96%	0.66%	5.62%
March 27, 2019	BlackRock, Inc	Above 5%	5.77%	0.69%	6.46%
August 9, 2019	The Goldman Sachs Group, Inc	Above 5%	2.82%	2.20%	5.02%
August 12, 2019	The Goldman Sachs Group, Inc	Below 5%	2.73%	2.12%	4.85%
August 28, 2019	BlackRock, Inc	Below 5%	Below 5%	Below 5%	Below 5%
August 29, 2019	BlackRock, Inc	Above 5%	4.91%	0.24%	5.16%
August 30, 2019	BlackRock, Inc	Below 5%	Below 5%	Below 5%	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, 2019 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). 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 decides 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 decide 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 Board of Directors 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 21, 2018.

As at September 30, 2019, Valmet's Board of Directors had not used any of the authorizations given by the Annual General meeting on March 21, 2019.

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 management commitment, 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.

Long-term incentive plan 2018–2020

In December 2017, the Board of Directors of Valmet Oyj approved a 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	Was 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	356,624	Approximate maximum of 448,789 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).

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 began on February 11, 2019 and ended on February 21, 2019. The number of shares acquired was 194,600. The shares were acquired at market price in public trading on Nasdaq Helsinki Ltd. In the end of the reporting period, the Company held 245,624 treasury shares related to the share-based incentive programs.

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, 2019. The Annual General Meeting adopted the Financial Statements for 2018 and discharged the members of the Board of Directors and the President and CEO from liability for the 2018 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 Mikael Mäkinen as Chairman of Valmet Oyj's Board and Aaro Cantell as Vice-Chairman. Pekka Kemppainen, Monika Maurer, Eriikka Söderström, Tarja Tyni and Rogério Ziviani will continue as members of the Board. The term of office of the members of the Board of Directors expires at the close of the Annual General Meeting 2020.

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, 2019 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 Chairman can be viewed on Valmet’s website at www.valmet.com/agm.

In compliance with the resolution of the Annual General Meeting, on April 4, 2019 Valmet paid out dividends of EUR 97 million for 2018, corresponding to EUR 0.65 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 the 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, and 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, excluding lease liabilities, is 3.3 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 increases in 2019 following the adoption of the new lease accounting standard (IFRS 16).

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 September 2019, Valmet had EUR 685 million (EUR 613 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 unchanged

Valmet reiterates its guidance presented on February 26, 2019 and confirmed on April 1, 2019, in which Valmet estimates that net sales in 2019 will increase in comparison with 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

IMF's global growth forecast for 2019 is 3.0 percent, which is lowest level since 2008–09 and a 0.3 percentage point downgrade from April 2019. Growth is projected to pick up to 3.4 percent in 2020, reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain. Yet, with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize. (International Monetary Fund, October 2019)

Short-term market outlook

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

In Espoo on October 24, 2019

Valmet's Board of Directors

Consolidated Statement of Income

EUR million	Q3/2019	Q3/2018	Q1–Q3/ 2019	Q1–Q3/ 2018
Net sales	**857**	765	**2,444**	2,340
Cost of goods sold	**-647**	-588	**-1,848**	-1,825
Gross profit	**210**	177	**596**	515
Selling, general and administrative expenses	**-139**	-118	**-425**	-386
Other operating income and expenses, net	**1**	-11	**1**	-21
Share in profits and losses of associated companies, operative investments	**-**	-	**-**	1
Operating profit	**73**	48	**172**	109
Financial income and expenses, net	**-3**	-2	**-8**	-3
Share in profits and losses of associated companies, financial investments	**-**	-	**-**	-1
Profit before taxes	**70**	46	**164**	105
Income taxes	**-20**	-12	**-43**	-27
Profit for the period	**51**	35	**121**	78
Attributable to:				
Owners of the parent	**51**	34	**120**	77
Non-controlling interests	**-**	-	**-**	-
Profit for the period	**51**	35	**121**	78
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.34**	0.23	**0.80**	0.52
Diluted earnings per share, EUR	**0.34**	0.23	**0.80**	0.52

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

Consolidated Statement of Comprehensive Income

EUR million	**Q3/2019**	Q3/2018	**Q1–Q3/ 2019**	Q1–Q3/ 2018
Profit for the period	**51**	35	**121**	78
Items that may be reclassified to profit or loss:				
Cash flow hedges	**-7**	-2	**-2**	-22
Currency translation on subsidiary net investments	**4**	-2	**4**	-12
Income tax relating to items that may be reclassified	**1**	-	**-**	5
Total items that may be reclassified to profit or loss	**-2**	-4	**2**	-30
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**-32**	-3	**-57**	-1
Income tax relating to items that will not be reclassified	**7**	-	**13**	-
Total items that will not be reclassified to profit or loss	**-25**	-3	**-44**	-1
Other comprehensive income for the period	**-26**	-6	**-42**	-31
Total comprehensive income for the period	**25**	28	**79**	47
Attributable to:				
Owners of the parent	**24**	28	**78**	47
Non-controlling interests	**-**	-	**-**	-
Total comprehensive income for the period	**25**	28	**79**	47

Consolidated Statement of Financial Position

Assets

EUR million	As at September 30, 2019	As at September 30, 2018	As at December 31, 2018
Non-current assets			
Intangible assets			
Goodwill	**685**	613	617
Other intangible assets	**257**	198	201
Total intangible assets	**942**	812	818
Property, plant and equipment			
Land and water areas	**25**	24	24
Buildings and structures	**115**	117	117
Machinery and equipment	**170**	163	170
Leased assets	**63**	-	-
Assets under construction	**55**	39	36
Total property, plant and equipment	**428**	343	348
Other non-current assets			
Investments in associated companies	**14**	14	14
Non-current financial assets	**6**	6	9
Deferred tax assets	**86**	69	69
Non-current income tax receivables	**31**	26	27
Other non-current assets	**14**	14	14
Total other non-current assets	**151**	129	133
Total non-current assets	**1,521**	1,284	1,299
Current assets			
Inventories			
Materials and supplies	**87**	60	85
Work in progress	**374**	324	265
Finished products	**102**	82	69
Total inventories	**562**	467	419
Receivables and other current assets			
Trade receivables	**625**	523	555
Amounts due from customers under revenue contracts	**235**	173	169
Other current financial assets	**62**	30	58
Income tax receivables	**23**	26	17
Other receivables	**107**	83	95
Cash and cash equivalents	**213**	282	376
Total receivables and other current assets	**1,264**	1,117	1,271
Total current assets	**1,827**	1,584	1,690
Total assets	**3,348**	2,868	2,988

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	**As at September 30, 2019**	As at September 30, 2018	As at December 31, 2018
Equity			
Share capital	**100**	100	100
Reserve for invested unrestricted equity	**421**	416	416
Cumulative translation adjustments	**-14**	-20	-18
Hedge and other reserves	**-7**	-10	-5
Retained earnings	**418**	386	451
Equity attributable to owners of the parent	**918**	872	944
Non-controlling interests	**6**	5	5
Total equity	**923**	877	949
Liabilities			
Non-current liabilities			
Non-current debt	**159**	162	162
Non-current lease liabilities	**38**	-	-
Post-employment benefits	**230**	146	163
Provisions	**23**	23	30
Other non-current liabilities	**9**	4	7
Deferred tax liabilities	**64**	48	50
Total non-current liabilities	**523**	383	412
Current liabilities			
Current portion of non-current debt	**48**	39	39
Current debt	**50**	-	-
Current lease liabilities	**21**	-	-
Trade payables	**300**	239	286
Provisions	**128**	103	119
Amounts due to customers under revenue contracts	**923**	845	771
Other current financial liabilities	**32**	21	25
Income tax liabilities	**59**	39	42
Other current liabilities	**340**	322	344
Total current liabilities	**1,902**	1,608	1,628
Total liabilities	**2,425**	1,990	2,039
Total equity and liabilities	**3,348**	2,868	2,988

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

Consolidated Statement of Cash Flows

EUR million	Q3/2019	Q3/2018	Q1–Q3/ 2019	Q1–Q3/ 2018
Cash flows from operating activities				
Profit for the period	**51**	35	**121**	78
Adjustments				
Depreciation and amortization	**28**	19	**77**	57
Financial income and expenses	**3**	2	**8**	3
Income taxes	**20**	12	**43**	27
Other non-cash items	**-46**	-	**-64**	-18
Change in net working capital	**85**	65	**-28**	36
Net interests and dividends received	**-2**	-2	**-5**	-3
Income taxes paid	**-12**	-11	**-40**	-39
Net cash provided by (+) / used in (-) operating activities	**126**	119	**113**	141
Cash flows from investing activities				
Capital expenditure on fixed assets	**-19**	-21	**-57**	-57
Proceeds from sale of fixed assets	**4**	-	**5**	6
Business combinations, net of cash acquired and loans repaid	**-9**	-	**-163**	-
Net cash provided by (+) / used in (-) investing activities	**-24**	-21	**-215**	-52
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-4**	-4
Dividends paid	**-**	-	**-97**	-82
Proceeds from non-current debt	**-**	-	**45**	-
Repayments of non-current debt	**-11**	-	**-40**	-18
Repayments of lease liabilities	**-6**	-	**-17**	-
Change in current debt	**25**	-	**50**	-
Financial investments	**-25**	3	**-1**	4
Net cash provided by (+) / used in (-) financing activities	**-16**	3	**-64**	-100
Net increase (+) / decrease (-) in cash and cash equivalents	**86**	101	**-167**	-11
Effect of changes in exchange rates on cash and cash equivalents	**2**	-2	**4**	-3
Cash and cash equivalents at beginning of period	**125**	183	**376**	296
Cash and cash equivalents at end of period	**213**	282	**213**	282

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

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, 2019	**100**	**416**	**-18**	**-5**	**451**	**944**	**5**	**949**
Change in accounting principles[1]	-	-	-	-	-4	**-4**	-	**-4**
Restated balance at January 1, 2019	**100**	**416**	**-18**	**-5**	**447**	**940**	**5**	**945**
Profit for the period	-	-	-	-	120	**120**	-	**121**
Other comprehensive income for the period	-	-	4	-2	-44	**-42**	-	**-42**
Total comprehensive income for the period	-	-	4	-2	77	**78**	-	**79**
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-97	**-97**	-	**-97**
Purchase of treasury shares	-	-	-	-	-4	**-4**	-	**-4**
Share-based payments, net of tax	-	5	-	-	-4	**1**	-	**1**
Balance at September 30, 2019	**100**	**421**	**-14**	**-7**	**418**	**918**	**6**	**923**
Balance at January 1, 2018	100	413	-8	7	400	913	5	918
Change in accounting principles[2]	-	-	-	-	-2	-2	-	-2
Restated balance at January 1, 2018	100	413	-8	7	398	911	5	916
Profit for the period	-	-	-	-	77	77	-	78
Other comprehensive income for the period	-	-	-12	-17	-1	-31	-	-31
Total comprehensive income for the period	-	-	-12	-17	76	47	-	47
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	-	-	-2	1	-	1
Balance at September 30, 2018	100	416	-20	-10	386	872	5	877

[1] *Net impact arising from the adoption of IFRS 16, EUR -3 million, and IFRIC 23, EUR -1 million, as of January 1, 2019.*

[2] *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.*

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 October 24, 2019.

Basis of presentation

These Condensed Consolidated Interim Financial Statements for the nine months ended September 30, 2019 have been prepared in accordance with IAS 34 – Interim financial reporting and in conformity with IFRS as adopted by the European Union. The financial information presented in these Condensed Consolidated Interim Financial Statements has not been audited. 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, 2018, which have been prepared in accordance with IFRS.

IFRS 16 – Leases has become applicable for the current reporting period as a new accounting standard. Description and quantification of the impact as well as the changes in accounting policies arising from adoption of the IFRS 16 are presented in subsequent pages.

In addition, IFRIC 23 – Uncertainty over Income Tax Treatments became effective as of January 1, 2019. The interpretation provides guidance on recognition and measurement of deferred and current income tax assets and liabilities under circumstances when there is uncertainty over a tax treatment. When uncertainty in tax treatment is identified, the probability of tax authorities accepting the treatment must be assessed, and when not considered probable, the uncertainty is reflected in the accounting for income taxes for the financial period. The uncertainty is measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty. Valmet has selected to apply the interpretation retrospectively with the cumulative impact of initial application recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019. Adoption of the interpretation did not have a material impact of Group's tax assets or tax liabilities.

Except for the above, the accounting policies 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, 2018.

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.

During 2019, the Group effected two business combinations with the new businesses consolidated into the Group financials from the acquisition dates onwards.

Key exchange rates

		Average rates		Period-end rates	
		Q1–Q3/2019	Q1–Q3/2018	**Q3/2019**	Q3/2018
USD	(US dollar)	**1.1241**	1.1938	**1.0889**	1.1576
SEK	(Swedish krona)	**10.5547**	10.2392	**10.6958**	10.3090
BRL	(Brazilian real)	**4.3840**	4.2903	**4.5288**	4.6535
CNY	(Chinese yuan)	**7.7167**	7.7934	**7.7784**	7.9662

Business combinations

Acquisition of GL&V

The acquisition of North American-based GL&V Group (GL&V), announced on February 26, 2019, was completed on April 1, 2019. Control on the acquiree was obtained through the purchase of 100 percent equity interest in GL&V Canada Inc. and in a new company established in Sweden. The enterprise value of the acquisition was approximately EUR 113 million on a cash and debt free basis, and final consideration transferred after ordinary post-closing adjustments was EUR 101 million. GL&V supplies technologies, upgrades and optimization services, rebuilds, and spare parts for the pulp and paper industry globally. Net sales and EBITA margin of the acquired operations in calendar year 2018 were approximately EUR 160 million and 11 percent, respectively. The acquired operations employ about 630 people of whom approximately 65 percent are in North America and the rest mainly in Europe, South America and India. GL&V's washing, oxygen delignification and bleaching businesses were not included in the transaction scope.

Acquisition of J&L Fiber Services Inc.

On May 2, 2019, Valmet announced that it has completed the acquisition of J&L Fiber Services Inc. (J&L Fiber Services) through purchase of 100 percent of outstanding equity of the company. The final purchase price for the transaction was approximately EUR 51 million. J&L Fiber services, based in Wisconsin, US, manufactures and supplies low-consistency refiner segments that are important wear parts used in pulp and paper production, complementing Valmet's offering in refiner segments. It also supplies high-consistency refiner segments that are used in thermomechanical pulping and medium density fiberboard (MDF) refining. In the twelve months preceding the completion of the acquisition, the company had net sales of approximately EUR 30 million with an EBITA margin of around 15 percent. The acquired operations employ about 100 people, most of whom are located in Wisconsin, US. J&L Fiber Services operates globally through a sales representative and distribution network. Over 75 percent of the revenue of the company arises from North America.

Preliminary fair values of assets acquired, liabilities assumed, and goodwill recognized at the date of acquisition, together with net cash flow impact for both acquisitions is summarized in the following tables. The net assets acquired for both business combinations are denominated in USD. Goodwill arising from the business combinations is attributable to the assembled workforce and synergies expected to be derived from the combined businesses. The goodwill arising from the acquisition of J&L Fiber Services is expected to be deductible for income tax purposes in the US.

Preliminary fair values of assets acquired and liabilities assumed at the date of acquisition

EUR million	GL&V as at April 1, 2019[1]	J&L Fiber Services Inc. as at May 1, 2019[1]	Total
Non-current assets			
Goodwill	44	20	**64**
Other intangible assets	53	22	**75**
Property, plant and equipment	6	5	**11**
Leased assets	7	1	**7**
Deferred tax assets	4	-	**4**
Total non-current assets	114	48	**161**
Current assets			
Inventories	27	3	**30**
Trade receivables	27	4	**31**
Amounts due from customers under revenue contracts	8	-	**8**
Other current assets	5	-	**5**
Cash and cash equivalents	7	-	**8**
Total current assets	75	8	**82**
Non-current liabilities			
Non-current lease liabilities	5	-	**5**
Other non-current liabilities	2	-	**2**
Deferred tax liabilities	12	-	**12**
Total non-current liabilities	19	1	**20**
Current liabilities			
Current debt	18	-	**18**
Current lease liabilities	2	-	**2**
Trade payables	15	2	**17**
Amounts due to customers under revenue contracts	13	-	**13**
Other current liabilities	20	1	**21**
Total current liabilities	67	4	**71**
Net assets acquired	102	51	**153**

[1] *EUR values have been translated using foreign exchange rates prevailing at the date of the acquisition.*

Cash flows associated with the acquisitions

EUR million	GL&V as at April 1, 2019	J&L Fiber Services Inc. as at May 1, 2019	Total
Consideration transferred[1]	-101	-51	**-152**
Cash and cash equivalents acquired	7	-	**8**
Loan repayment at closing	-18	-	**-18**
Net cash outflow	-112	-51	**-163**

[1] *In the Consolidated Statement of Cash Flows, the consideration transferred for GL&V includes gain from foreign exchange hedging amounting to EUR 1 million.*

From the date of acquisition, the two acquired businesses have contributed EUR 84 million of revenue and EUR 2 million of profit to the Group, including EUR -4 million amortization of intangibles and inventory fair-value step-up recognized at acquisition.

Acquisition related costs of EUR 2 million have been charged to Selling, general and administrative expenses in the Consolidated Statement of Income in January–September 2019.

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, 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 closed law suits) as well as expenses arising from changes in legislation expected to affect Valmet temporarily only (e.g. customs or other tariffs imposed by authorities on Valmet's products).

EUR million	**Q3/2019**	Q3/2018	**Q1–Q3/ 2019**	Q1–Q3/ 2018
Net sales	**857**	765	**2,444**	2,340
Comparable EBITA	**81**	61	**198**	144
% of net sales	**9.5%**	8.0%	**8.1%**	6.2%
Operating profit	**73**	48	**172**	109
% of net sales	**8.5%**	6.3%	**7.0%**	4.7%
Amortization	**-10**	-7	**-24**	-22
Depreciation, property, plant and equipment (excl. leased assets)	**-12**	-11	**-36**	-35
Depreciation, leased assets	**-6**	-	**-17**	-
Gross capital expenditure (excl. business combinations and leased assets)	**-19**	-21	**-57**	-57
Additions to leased assets	**-10**	-	**-18**	-
Business combinations, net of cash acquired and loans repaid	**-9**	-	**-163**	-
Capital employed, end of period			**1,239**	1,079
Orders received	**1,058**	940	**2,976**	2,696
Order backlog, end of period			**3,425**	2,791

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

Reconciliation between Comparable EBITA, EBITA and operating profit

EUR million	Q1–Q3/ 2019	Q1–Q3/ 2018
Comparable EBITA	**198**	144
Items affecting comparability in cost of sales		
Expensing of fair value adjustments recognized in business combinations	**-1**	-
Other items affecting comparability	**-4**	-1
Items affecting comparability in selling, general and administrative expenses		
Costs related to acquisitions	**-2**	-
Other items affecting comparability	**-**	-
Items affecting comparability in other operating income and expenses		
Other items affecting comparability[1]	**6**	-12
EBITA	**196**	131
Amortization included in cost of sales		
Other intangibles	**-1**	-1
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-15**	-14
Other intangibles	**-9**	-7
Operating profit	**172**	109

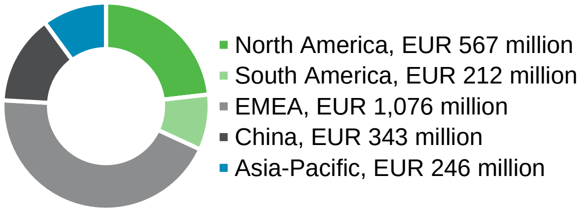
[1] *Includes income and expenses arising from settlements of lawsuits and real estate related transactions.*

Entity-wide information

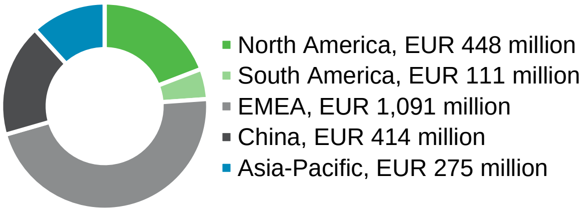
Valmet has operations in over 35 countries, on all continents. Measured by net sales, the top three countries in January–September 2019 were the USA, China and Finland, which together accounted for 41 percent of total net sales. In January–September 2018, the top three countries were China, the USA and Finland, accounting for 42 percent of total net sales. Net sales for Finland (the country of domicile) amounted EUR 198 million in January–September 2019 (EUR 188 million).

Net sales by destination:

Q1–Q3/2019: EUR 2,444 million



Q1–Q3/2018: EUR 2,340 million



Gross capital expenditure (excl. business combinations and leased assets) by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q3/2019	**4**	**4**	**39**	**9**	**2**	**57**
Q1–Q3/2018	3	2	44	4	4	57

Revenue

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 and short-term service contracts. The nature of long-term contracts, and therefore also the revenue recognition method, is similar to capital projects although with average contract values being lower. Revenue for short-term service contracts 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	Q3/2019	Q3/2018	Q1–Q3/2019	Q1–Q3/2018
Services	**336**	282	**973**	854
Automation	**75**	64	**221**	200
Pulp and Energy	**231**	223	**604**	631
Paper	**214**	196	**646**	657
Total	**857**	765	**2,444**	2,340

Timing of revenue recognition:

EUR million	Q3/2019	Q3/2018	Q1–Q3/2019	Q1–Q3/2018
Performance obligations satisfied at a point in time	**383**	336	**1,074**	1,053
Performance obligations satisfied over time	**474**	429	**1,370**	1,288
Total	**857**	765	**2,444**	2,340

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 entering 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 invoicing schedules as set out 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	Q1–Q3/2019	Q1–Q3/2018	2018
Balance at the beginning of the period	**169**	164	164
Translation differences	**-2**	-6	-4
Acquired in business combinations	**7**	-	-
Revenue recognized in the period	**456**	520	594
Transfers to trade receivables	**-395**	-505	-585
Balance at the end of period	**235**	173	169

Amounts due to customers under revenue contracts:

EUR million	Q1–Q3/2019	Q1–Q3/2018	2018
Balance at the beginning of the period	**771**	716	716
Translation differences	**1**	-5	-4
Acquired in business combinations	**13**	-	-
Revenue recognized in the period	**-1,176**	-1,041	-1,680
Consideration invoiced and/or received	**1,315**	1,175	1,739
Balance at the end of period	**923**	845	771

EUR million	As at September 30, 2019	As at September 30, 2018	As at December 31, 2018
Amounts due to customers under revenue contracts for which revenue is recognized			
Point in time	**297**	279	219
Over time	**626**	565	552
Carrying value at the end of period	**923**	845	771

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

As of September 30, 2019, 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 September 30, 2019 is EUR 3,425 million.

Net working capital

Valmet's net working capital is typically negative due to advance payments received from customers related to long-term capital projects. Calculation of net working capital does not include non-operative items such as taxes, interest-bearing assets and liabilities, or other items related to funding of the Group's operations.

EUR million	**As at September 30, 2019**	As at September 30, 2018	As at December 31, 2018	**Q1–Q3/2019 impact**
Assets included in net working capital				
Non-current trade receivables	**-**	1	-	**-**
Other non-current assets	**14**	14	14	**-**
Inventories	**562**	467	419	**-144**
Trade receivables	**625**	523	555	**-70**
Amounts due from customers under revenue contracts	**235**	173	169	**-66**
Derivative financial instruments (assets)	**21**	14	19	**-1**
Other receivables	**107**	83	95	**-12**
Liabilities included in net working capital				
Post-employment benefits	**-230**	-146	-163	**67**
Provisions	**-151**	-126	-149	**1**
Other non-current non-interest-bearing liabilities	**-3**	-1	-3	**-**
Trade payables	**-300**	-239	-286	**13**
Amounts due to customers under revenue contracts	**-923**	-845	-771	**152**
Derivative financial instruments (liabilities)	**-39**	-24	-29	**9**
Other current liabilities	**-340**	-321	-343	**-3**
Total net working capital	**-421**	-427	-474	**-53**
Effect of foreign exchange rates				**6**
Change in allowance for doubtful receivables and inventory obsolescence provision				**-3**
Acquired in business combinations				**21**
Change in net working capital in the Consolidated Statement of Cash Flows				**-28**

Intangible assets and property, plant and equipment

Intangible assets

EUR million	Q1–Q3/2019	Q1–Q3/2018	2018
Carrying value at beginning of period	**818**	814	814
Capital expenditure	**15**	18	26
Acquired in business combinations	**143**	-	4
Amortization	**-24**	-22	-30
Impairment losses	**-**	-	-1
Translation differences and other changes[1]	**-9**	2	4
Carrying value at end of period	**942**	812	818

[1] *Includes reclassification of land areas in the amount of EUR 8 million to leased assets.*

Property, plant and equipment (excl. leased assets)

EUR million	Q1–Q3/2019	Q1–Q3/2018	2018
Carrying value at beginning of period	**348**	354	354
Capital expenditure	**42**	39	53
Acquired in business combinations	**12**	-	-
Depreciation	**-36**	-35	-46
Impairment losses	**-**	-1	-1
Translation differences and other changes	**-1**	-14	-12
Carrying value at end of period	**365**	343	348

Leases

Accounting policies

Valmet implemented IFRS 16 – Leases as of January 1, 2019. Under the new standard, in lease contracts where Valmet is lessee an asset and a liability is recognized to reflect Valmet's right to use an underlying asset and unpaid future lease payments, respectively. These are presented under property, plant and equipment, and financial liabilities. 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 assets are 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, with the carrying value of the lease liability measured on an amortized cost basis and the interest expense allocated over the lease term.

Valmet applies 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 leases of low value assets. Further, Valmet separates non-lease component from lease components only for asset classes in which the amount of non-lease components is significant.

Critical accounting estimates and judgments

Valmet has a significant volume of open-ended real estate related lease contracts which 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. Same applies to leases that have initial fixed term but carry extension options. Significant amount of judgment needs to be exercised in estimating likely lease term. The estimates are updated regularly.

Incremental borrowing rates reflecting entity-specific factors, country risk, and lease term are applied to all lease contracts at Valmet when calculating the present value of lease liability and interest expense. Incremental borrowing rate applicable to a new lease contract is calculated to reflect circumstances at the time when the underlying asset is available for use.

Impact of the new standard

Majority of Valmet's lease arrangements relate to real estate, vehicles, and machinery and equipment located primarily on Valmet's premises. The length of lease arrangements is typically 3 to 5 years, and contracts may include extension options. Before adoption of IFRS 16 these arrangements were mainly classified as operating leases and lease expenses were recognized to profit or loss on a straight-line basis over the period of use. Valmet's operating lease commitments amounted to EUR 57 million at end of 2018.

Valmet management has applied the simplified transition method with practical expedients without restating comparatives when adopting the new standard on January 1, 2019. Right-of-use assets for all lease contracts were measured as if IFRS 16 had been applied from lease commencement. For leases that were 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 assets were adjusted by the amount of provision at transition. Lease liabilities were 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 applied IFRS 16 to contracts that were identified as leases under previous guidelines and used hindsight when assessing lease term for the contracts that contain options to extend or terminate the lease. Further, the likely lease terms for open-ended contracts were revised at transition. Exemptions provided for recognition of right-of-use asset and corresponding liability for low-value assets and short-term leases were also applied at transition.

Arising from the difference in the method of measuring right-of-use asset and lease liability at the time of transition, a transition adjustment amounting EUR -3 million was 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 increased by EUR 55 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 increased by EUR 53 million resulting from recognition of corresponding lease liabilities. The weighted average discount rate at transition was 3.3 percent.

Leased assets:

EUR million	Land and water areas[1]	Buildings and structures	Machinery and equipment	**Leased assets, total Q1–Q3/2019**
Carrying value at transition	9	34	12	**55**
Additions	-	11	7	**18**
Acquired in business combinations	-	6	1	**7**
Depreciation	-	-11	-6	**-17**
Translation differences and other changes	-	1	-	**1**
Carrying value at end of period	8	40	15	**63**

[1] *Includes reclassification of leased land areas in the amount of EUR 8 million from intangible assets at transition.*

Lease liabilities by asset class:

EUR million	As at September 30, 2019
Land and water areas	1
Buildings and structures	44
Machinery and equipment	15
Total lease liabilities at end of period	**59**

The maturity of lease payments included in lease liabilities (payments due):

EUR million	As at September 30, 2019
Not later than 1 year	22
Later than 1 year and not later than 2 years	17
Later than 2 years and not later than 3 years	10
Later than 3 years and not later than 4 years	6
Later than 4 years and not later than 5 years	2
Later than 5 years	8
Total future lease payments	**66**

In January–September 2019, aggregate expense recognized in the Consolidated Statement of Income for short-term leases, variable lease payments and leases of low-value assets amounted to EUR 7 million. Interest expense on lease liabilities was EUR 1 million.

Impact of leased assets and lease liabilities to key ratios:

As at September 30, 2019	Excl. IFRS 16 impact	Incl. IFRS 16 impact
Capital employed, EUR million	1,185	1,239
Interest-bearing liabilities, EUR million	257	316
Net interest-bearing liabilities, EUR million	1	60
Gearing, %	0%	6%
Equity to assets ratio, %	39%	38%

There was no material impact to other key ratios.

Financial instruments

Derivative financial instruments

As at September 30, 2019	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts[1]	**2,480**	**20**	**-36**	**-16**
Interest rate swaps[1]	**30**	**-**	**-3**	**-3**
Electricity forward contracts[2]	**162**	**1**	**-**	**1**
Nickel forward contracts[3]	**18**	**-**	**-**	**-**

As at September 30, 2018	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts[1]	1,670	13	-23	-10
Interest rate swaps[1]	30	-	-1	-1
Electricity forward contracts[2]	163	1	-	1
Nickel forward contracts[3]	-	-	-	-

[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 September 30, 2019**	As at September 30, 2018	As at December 31, 2018
Non-current financial assets			
Interest-bearing	**-**	-	-
Non-interest-bearing	**6**	6	8
Total	**6**	6	9

EUR million	**As at September 30, 2019**	As at September 30, 2018	As at December 31, 2018
Other current financial assets			
Interest-bearing	**43**	17	44
Non-interest-bearing	**19**	13	14
Total	**62**	30	58

Valmet's interest-bearing liabilities consist of debt and lease liabilities.

Provisions

EUR million	Q1–Q3/2019	Q1–Q3/2018	2018
Balance at beginning of period	**149**	137	137
Translation differences	**-1**	-3	-2
Addition charged to profit or loss	**59**	51	114
Acquired in business combinations	**7**	-	-
Used reserve	**-39**	-45	-83
Reversal of reserve	**-25**	-14	-17
Balance at end of period	**151**	126	149
Non-current	**23**	23	30
Current	**128**	103	119

Contingencies and commitments

EUR million	As at September 30, 2019	As at September 30, 2018	As at December 31, 2018
Guarantees on behalf of Valmet Group	**1,006**	782	876

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.

Key ratios

	Q1–Q3/2019	Q1–Q3/2018
Earnings per share, EUR	**0.80**	0.52
Diluted earnings per share, EUR	**0.80**	0.52
Equity per share at end of period, EUR	**6.13**	5.83
Return on equity (ROE), % (annualized)	**17%**	12%
Return on capital employed (ROCE) before taxes, % (annualized)	**19%**	13%
Equity to assets ratio at end of period, %	**38%**	43%
Gearing at end of period, %	**6%**	-11%
Cash flow provided by operating activities, EUR million	**113**	141
Cash flow after investments, EUR million	**-102**	89
Gross capital expenditure (excl. business combinations and leased assets), EUR million	**-57**	-57
Additions to leased assets, EUR million	**-18**	-
Business combinations, net of cash acquired and loans repaid, EUR million	**-163**	-
Depreciation and amortization, EUR million	**-77**	-57
Amortization	**-24**	-22
Depreciation, property, plant and equipment (excl. leased assets)	**-36**	-35
Depreciation, leased assets	**-17**	-
Number of outstanding shares at end of period	**149,618,995**	149,617,820
Average number of outstanding shares	**149,599,543**	149,660,177
Average number of diluted shares	**149,599,543**	149,660,177
Interest-bearing liabilities at end of period, EUR million	**316**	201
Net interest-bearing liabilities at end of period, EUR million	**60**	-98

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

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 Consolidated Statement of 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), % (annualized):

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

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

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

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, %:

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

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	Q3/2019	Q2/2019	Q1/2019	Q4/2018	Q3/2018
Net sales	**857**	901	686	984	765
Comparable EBITA	**81**	69	47	113	61
% of net sales	**9.5%**	7.7%	6.9%	11.5%	8.0%
Operating profit	**73**	56	43	102	48
% of net sales	**8.5%**	6.2%	6.2%	10.4%	6.3%
Profit before taxes	**70**	52	41	100	46
% of net sales	**8.2%**	5.8%	6.0%	10.1%	6.1%
Profit for the period	**51**	39	31	74	35
% of net sales	**5.9%**	4.3%	4.6%	7.5%	4.5%
Earnings per share, EUR	**0.34**	0.26	0.21	0.49	0.23
Earnings per share, diluted, EUR	**0.34**	0.26	0.21	0.49	0.23
Amortization	**-10**	-8	-6	-8	-7
Depreciation, property, plant and equipment (excl. leased assets)	**-12**	-12	-12	-11	-11
Depreciation, leased assets	**-6**	-6	-5	-	-
Research and development expenses, net	**-15**	-18	-17	-21	-13
% of net sales	**-1.7%**	-2.0%	-2.5%	-2.1%	-1.7%
Items affecting comparability:					
in cost of goods sold	**-1**	-4	-	-	3
in selling, general and administrative expenses	**-**	-1	-1	-	-
in other operating income and expenses, net	**3**	-	3	-2	-9
Total items affecting comparability	**1**	-5	2	-3	-6
Gross capital expenditure (excl. business combinations and leased assets)	**-19**	-19	-18	-22	-21
Additions to leased assets	**-10**	-4	-4	-	-
Business combinations, net of cash acquired and loans repaid	**-9**	-154	-	-2	-
Capital employed, end of period	**1,239**	1,195	1,237	1,150	1,079
Orders received	**1,058**	1,083	835	1,026	940
Order backlog, end of period	**3,425**	3,216	3,001	2,829	2,791

Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.

Valmet's financial reporting in 2020

February 5, 2020 - Financial Statements Review 2019
April 23, 2020 - Interim Review for January-March 2020
July 23, 2020 - Half Year Financial Review for January-June 2020
October 27, 2020 - Interim Review for January-September 2020

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