Half Year Financial Review

January 1 – June 30, 2018

Valmet

Valmet's Half Year Financial Review January 1–June 30, 2018

Orders received increased in Paper and Services – Comparable EBITA increased

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

April–June 2018: Comparable EBITA margin increased to 7.2 percent

- Orders received increased 9 percent to EUR 865 million (EUR 796 million).
  - Orders received increased in the Paper and Services business lines and decreased in the Pulp and Energy, and Automation business lines.
  - Orders received increased in South America and EMEA (Europe, Middle East and Africa), remained at the previous year's level in China, and decreased in Asia-Pacific and North America.
- Net sales increased 15 percent to EUR 844 million (EUR 732 million).
  - Net sales increased in all business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 61 million (EUR 48 million), and the corresponding Comparable EBITA margin was 7.2 percent (6.5%).
  - Profitability improved due to higher net sales.
- Earnings per share were EUR 0.23 (EUR 0.18).
- Items affecting comparability amounted to EUR -4 million (EUR -1 million).
- Cash flow provided by operating activities was EUR 3 million (EUR 31 million).

January–June 2018: Net sales increased, but Comparable EBITA margin decreased

- Orders received remained at the previous year's level at EUR 1,756 million (EUR 1,802 million).
  - Orders received increased in the Paper business line, remained at the previous year's level in the Services and Automation business lines, and decreased in the Pulp and Energy business line.
  - Orders received increased in South America and China, remained at the previous year's level in North America, and decreased in Asia-Pacific and EMEA.
- Net sales increased 14 percent to EUR 1,575 million (EUR 1,376 million).
  - Net sales increased in the Paper, and Pulp and Energy business lines and remained at the previous year's level in the Services and Automation business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 82 million (EUR 82 million), and the corresponding Comparable EBITA margin was 5.2 percent (5.9%).
  - Profitability decreased due to a loss of EUR 15 million recognized in a project in the Pulp and Energy business line in the first quarter of 2018.
- Earnings per share were EUR 0.29 (EUR 0.30).
- Items affecting comparability amounted to EUR -7 million (EUR 2 million).
- Cash flow provided by operating activities was EUR 22 million (EUR 125 million).

Guidance for 2018

On July 17, 2018, Valmet revised upwards its net sales guidance for 2018.

Revised guidance (on July 17, 2018)

Valmet estimates that net sales in 2018 will increase in comparison with 2017 (EUR 3,058 million) and Comparable EBITA in 2018 will increase in comparison with 2017 (EUR 218 million).

Previous guidance (on March 21, 2018)

Valmet estimates that net sales in 2018 will remain at the same level as in 2017 (EUR 3,058 million) and Comparable EBITA in 2018 will increase in comparison with 2017 (EUR 218 million).

Short-term outlook

General economic outlook

Global growth is projected to reach 3.9 percent in 2018 and in 2019. The rate of expansion appears to have peaked in some major economies, and growth has become less synchronized. In the United States, near-term momentum is strengthening, and the US dollar has appreciated by around 5 percent in recent weeks. Growth projections have been revised down for the euro area, Japan, and the United Kingdom. Among developing economies, growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters has strengthened. Tariff increases by the United States and retaliatory measures by trading partners have increased the likelihood of escalating and sustained trade actions. These could derail the recovery and depress medium-term growth prospects. (International Monetary Fund, July 16, 2018)

Short-term market outlook

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

President and CEO Pasi Laine: Orders received and Comparable EBITA increased in the second quarter

"Valmet's orders received increased 9 percent and amounted to EUR 865 million in the second quarter of 2018. Orders received increased in the Paper and Services business lines, and the customer activity was high especially in the board and paper market. During the first half of the year, orders received remained at the previous year's level. Orders received increased in the Paper business line, remained at the previous year's level in the Services and Automation business lines and decreased in the Pulp and Energy business line, where orders have accumulated mainly from smaller projects.

Net sales increased 15 percent during the second quarter. The increase was supported by all business lines, of which Paper had the strongest growth. During the first half of the year, net sales in the Paper business line increased almost 50 percent following the strong customer activity and high orders received in the previous quarters.

Comparable EBITA increased in the second quarter, and the margin improved to 7.2 percent. Despite the low first quarter, Comparable EBITA for the first half of 2018 amounts to EUR 82 million. We are now at the same level as a year ago, and need to continue the hard work to reach our Comparable EBITA target."

Key figures[1]

EUR million	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Orders received	**865**	796	9%	**1,756**	1,802	-3%
Order backlog[2]	**2,621**	2,714	-3%	**2,621**	2,714	-3%
Net sales	**844**	732	15%	**1,575**	1,376	14%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**61**	48	27%	**82**	82	1%
% of net sales	**7.2%**	6.5%		**5.2%**	5.9%	
Earnings before interest, taxes and amortization (EBITA)	**57**	47	22%	**76**	84	-10%
% of net sales	**6.7%**	6.4%		**4.8%**	6.1%	
Operating profit (EBIT)	**49**	39	27%	**61**	68	-10%
% of net sales	**5.9%**	5.3%		**3.9%**	4.9%	
Profit before taxes	**48**	36	33%	**59**	62	-6%
Profit for the period	**35**	27	32%	**43**	45	-4%
Earnings per share, EUR	**0.23**	0.18	32%	**0.29**	0.30	-4%
Earnings per share, diluted, EUR	**0.23**	0.18	32%	**0.29**	0.30	-4%
Equity per share, EUR	**5.63**	5.71	-1%	**5.63**	5.71	-1%
Cash flow provided by operating activities	**3**	31	-91%	**22**	125	-83%
Cash flow after investments	**-18**	15		**-9**	95	
Return on equity (ROE) (annualized)[3]				**10%**	10%	
Return on capital employed (ROCE) before taxes (annualized)[3]				**11%**	11%	
Equity to assets ratio[2]				**41%**	41%	
Gearing[2]				**0%**	4%	

[1] *The calculation of key figures is presented on page 41.*

[2] *At the end of period*

[3] *In the calculation of 2017 key figures, data points from 2016 that have not been restated have been used.*

Orders received, EUR million	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Services	**344**	321	7%	**690**	676	2%
Automation	**84**	91	-8%	**166**	163	1%
Pulp and Energy	**85**	141	-39%	**278**	406	-32%
Paper	**353**	243	45%	**623**	557	12%
Total	**865**	796	9%	**1,756**	1,802	-3%

Order backlog, EUR million	As at June 30, 2018	As at June 30, 2017	Change	As at March 31, 2018
Total	**2,621**	2,714	-3%	2,583

Net sales, EUR million	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Services	**325**	302	8%	**572**	554	3%
Automation	**76**	73	5%	**136**	132	3%
Pulp and Energy	**205**	192	7%	**408**	381	7%
Paper	**237**	165	43%	**460**	310	49%
Total	**844**	732	15%	**1,575**	1,376	14%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for analysts, investors, and media on Wednesday, July 25, 2018 at 4:00 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 3:55 p.m. (EET), at +44 2071 928000. The participants will be asked to provide the following conference ID: 9398496.

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 Half Year Review January 1–June 30, 2018

Orders received increased 12 percent in January–June in the Paper business line

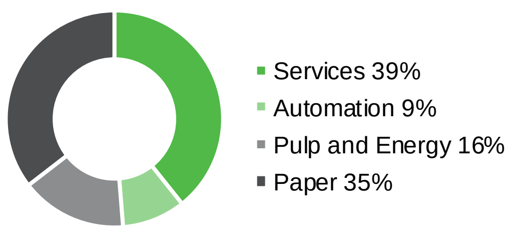
Orders received, EUR million	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Services	**344**	321	7%	**690**	676	2%
Automation	**84**	91	-8%	**166**	163	1%
Pulp and Energy	**85**	141	-39%	**278**	406	-32%
Paper	**353**	243	45%	**623**	557	12%
Total	**865**	796	9%	**1,756**	1,802	-3%

Orders received, comparable foreign exchange rates, EUR million[1]	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Services	**357**	321	11%	**724**	676	7%
Automation	**86**	91	-6%	**172**	163	5%
Pulp and Energy	**88**	141	-37%	**283**	406	-30%
Paper	**355**	243	46%	**653**	557	17%
Total	**886**	796	11%	**1,831**	1,802	2%

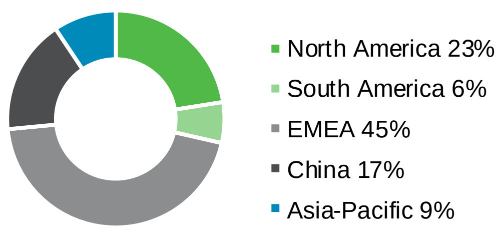
[1] *Indicative only. January to June 2018 orders received in euro calculated by applying January–June 2017 average exchange rates to the functional currency orders received values reported by entities.*

Orders received, EUR million	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
North America	**130**	139	-6%	**395**	384	3%
South America	**60**	43	38%	**107**	76	39%
EMEA	**422**	347	22%	**789**	849	-7%
China	**199**	190	4%	**301**	282	7%
Asia-Pacific	**55**	77	-29%	**164**	210	-22%
Total	**865**	796	9%	**1,756**	1,802	-3%

Orders received by business line, Q1–Q2/2018



Orders received by area, Q1–Q2/2018



April–June 2018: Orders received increased 9 percent

Orders received increased 9 percent to EUR 865 million in April–June (EUR 796 million). The Services and Automation business lines together accounted for 49 percent (52%) of Valmet’s orders received. Orders received increased in the Paper and Services business lines and decreased in the Pulp and Energy, and Automation business lines. Orders received increased in South America and EMEA (Europe, Middle East and

Africa), remained at the previous year's level in China, and decreased in Asia-Pacific and North America. Measured by orders received, the top three countries were China, Germany and the USA, which together accounted for 50 percent of total orders received. The emerging markets accounted for 44 percent (44%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 20 million in April–June.

During April–June, Valmet received among others an order for a containerboard making line to Germany, typically valued at EUR 70–90 million, an order for a cooking plant to a pulp mill in Belgium, and an order for a containerboard making line to China, typically valued at around EUR 25–35 million.

January–June 2018: Continued growth in orders received in the Paper business line

Orders received remained at the previous year's level and totaled EUR 1,756 million (EUR 1,802 million) in January–June. The Services and Automation business lines together accounted for 49 percent (47%) of Valmet's orders received. Orders received increased in the Paper business line, remained at the previous year's level in the Services and Automation business lines, and decreased in the Pulp and Energy business line. Orders received increased in South America and China, remained at the previous year's level in North America, and decreased in Asia-Pacific and EMEA. Measured by orders received, the top three countries were the USA, China and Finland, which together accounted for 49 percent of total orders received. The emerging markets accounted for 38 percent (41%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 75 million in January–June.

In addition to the above-mentioned, during the first half of the year Valmet received among others an order for a multifuel boiler and a flue gas treatment plant to Finland, valued at around EUR 70 million, an order for a linerboard production line to the USA, as well as an order for a multifuel boiler and auxiliary process equipment to Turkey.

Order backlog remained at the same level as at the end of March 2018

Order backlog, EUR million	**As at June 30, 2018**	As at June 30, 2017	Change	As at March 31, 2018
Total	**2,621**	2,714	-3%	2,583

The order backlog amounted to EUR 2,621 million at the end of the reporting period, remaining at the same level as at the end of March 2018. Approximately 30 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 25% at the end of June 2017). Approximately 55 percent of the order backlog is currently expected to be recognized as net sales during 2018.

Stable business accounted for 48 percent of net sales in April–June

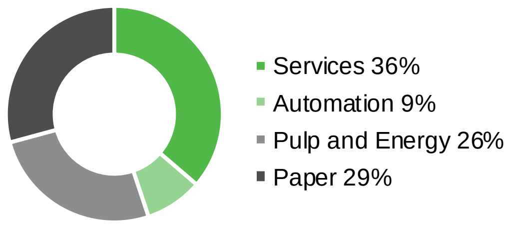
Net sales, EUR million	**Q2/2018**	Q2/2017	Change	**Q1–Q2/ 2018**	Q1–Q2/ 2017	Change
Services	**325**	302	8%	**572**	554	3%
Automation	**76**	73	5%	**136**	132	3%
Pulp and Energy	**205**	192	7%	**408**	381	7%
Paper	**237**	165	43%	**460**	310	49%
Total	**844**	732	15%	**1,575**	1,376	14%

Net sales, comparable foreign exchange rates, EUR million[1]	**Q2/2018**	Q2/2017	Change	**Q1–Q2/ 2018**	Q1–Q2/ 2017	Change
Services	**339**	302	12%	**602**	554	9%
Automation	**79**	73	8%	**141**	132	7%
Pulp and Energy	**210**	192	10%	**417**	381	9%
Paper	**244**	165	47%	**478**	310	54%
Total	**872**	732	19%	**1,637**	1,376	19%

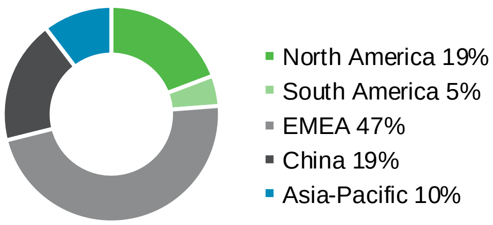
[1] *Indicative only. January to June 2018 net sales in euro calculated by applying January to June 2017 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	**Q2/2018**	Q2/2017	Change	**Q1–Q2/ 2018**	Q1–Q2/ 2017	Change
North America	**177**	152	16%	**303**	290	4%
South America	**31**	50	-37%	**72**	106	-33%
EMEA	**397**	364	9%	**746**	675	10%
China	**153**	94	62%	**292**	176	66%
Asia-Pacific	**86**	72	20%	**163**	129	27%
Total	**844**	732	15%	**1,575**	1,376	14%

Net sales by business line, Q1–Q2/2018



Net sales by area, Q1–Q2/2018



April–June 2018: Net sales increased in all business lines

Net sales increased 15 percent to EUR 844 million in April–June (EUR 732 million). The Services and Automation business lines together accounted for 48 percent (51%) of Valmet's net sales. Net sales increased in all business lines, and in all areas except South America, where net sales decreased. Measured by net sales, the top three countries were China, the USA and Finland, which together accounted for 44 percent of total net sales. Emerging markets accounted for 44 percent (37%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 28 million in April–June.

January–June 2018: Net sales increased 49 percent in the Paper business line

Net sales increased 14 percent to EUR 1,575 million (EUR 1,376 million) in January–June. The Services and Automation business lines together accounted for 45 percent (50%) of Valmet's net sales. Net sales increased in the Paper, and Pulp and Energy business lines and remained at the previous year's level in the Services and Automation business lines. Net sales increased in China, Asia-Pacific and EMEA, remained at the previous year's level in North America, and decreased in South America. Measured by net sales, the top three countries were China, the USA and Finland, which together accounted for 43 percent of total net sales. Emerging markets accounted for 45 percent (38%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 62 million in January–June.

Comparable EBITA and operating profit

In April–June, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 61 million, i.e. 7.2 percent of net sales (EUR 48 million and 6.5%). Profitability improved due to higher net sales.

In the first half of the year, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 82 million, i.e. 5.2 percent of net sales (EUR 82 million and 5.9%). Profitability decreased due to a loss of EUR 15 million recognized in a project in the Pulp and Energy business line in the first quarter of 2018.

Operating profit (EBIT) in April–June was EUR 49 million, i.e. 5.9 percent of net sales (EUR 39 million and 5.3%). Items affecting comparability amounted to EUR -4 million (EUR -1 million).

Operating profit (EBIT) in the first half of the year was EUR 61 million, i.e. 3.9 percent of net sales (EUR 68 million and 4.9%). Items affecting comparability amounted to EUR -7 million (EUR 2 million).

Net financial income and expenses

Net financial income and expenses in April–June were EUR -1 million (EUR -3 million).

Net financial income and expenses in the first half of the year were EUR -2 million (EUR -6 million).

Profit before taxes and earnings per share

Profit before taxes in April–June was EUR 48 million (EUR 36 million). The profit attributable to owners of the parent in April–June was EUR 35 million (EUR 27 million), corresponding to earnings per share (EPS) of EUR 0.23 (EUR 0.18).

Profit before taxes in the first half of the year was EUR 59 million (EUR 62 million). The profit attributable to owners of the parent in the first half of the year was EUR 43 million (EUR 45 million), corresponding to earnings per share (EPS) of EUR 0.29 (EUR 0.30).

Return on capital employed (ROCE)

In January–June, the annualized return on capital employed (ROCE) before taxes was 11 percent (11%) and return on equity (ROE) 10 percent (10%).

Business lines

Services: Orders received and net sales increased in Q2/2018

Services business line	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Orders received (EUR million)	**344**	321	7%	**690**	676	2%
Net sales (EUR million)	**325**	302	8%	**572**	554	3%
Personnel (end of period)				**5,627**	5,569	1%

In April–June, orders received by the Services business line increased 7 percent to EUR 344 million (EUR 321 million) and accounted for 40 percent of all orders received (40%). Orders received increased in EMEA and China, remained at the previous year's level in North America and decreased in South America and Asia-Pacific. Orders received increased in Performance Parts, Rolls, and Energy and Environmental, and remained at the previous year's level in Mill Improvements, and Fabrics. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 13 million in April–June.

In the first half of the year, orders received by the Services business line remained at the previous year's level at EUR 690 million (EUR 676 million) and accounted for 39 percent of all orders received (38%). Orders received increased in EMEA, remained at the previous year's level in China, and decreased in South America, Asia-Pacific and North America. Orders received increased in Mill Improvements and Performance Parts, remained at the previous year's level in Fabrics and Rolls, and decreased in Energy and Environmental. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 34 million during the first half of the year.

In April–June, net sales of the Services business line amounted to EUR 325 million (EUR 302 million), corresponding to 38 percent (41%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 14 million in April–June.

In the first half of the year, net sales of the Services business line amounted to EUR 572 million (EUR 554 million), corresponding to 36 percent (40%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 30 million during the first half of the year.

Automation: Orders received decreased and net sales increased in Q2/2018

Automation business line	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Orders received (EUR million)	**84**	91	-8%	**166**	163	1%
Net sales (EUR million)	**76**	73	5%	**136**	132	3%
Personnel (end of period)				**1,772**	1,698	4%

In April–June, orders received by the Automation business line decreased 8 percent to EUR 84 million (EUR 91 million) and accounted for 10 percent (11%) of Valmet's orders received. Orders received increased in South America, remained at the previous year's level in EMEA and Asia-Pacific, and decreased in China and North America. Orders received increased in Energy and Process and decreased in Pulp and Paper. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 2 million in April–June.

In the first half of the year, orders received by the Automation business line remained at the previous year's level at EUR 166 million (EUR 163 million) and accounted for 9 percent (9%) of Valmet's orders received. Orders received increased in Asia-Pacific and EMEA, remained at the previous year's level in South America, and decreased in North America and China. Orders received increased in Energy and Process and decreased in Pulp and Paper. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 6 million during the first half of the year.

In April–June, net sales of the Automation business line amounted to EUR 76 million (EUR 73 million), corresponding to 9 percent (10%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 2 million in April–June.

In the first half of the year, net sales of the Automation business line amounted to EUR 136 million (EUR 132 million), corresponding to 9 percent (10%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 5 million during the first half of the year.

Pulp and Energy: Orders received decreased and net sales increased in Q2/2018

Pulp and Energy business line	**Q2/2018**	Q2/2017	Change	**Q1–Q2/ 2018**	Q1–Q2/ 2017	Change
Orders received (EUR million)	**85**	141	-39%	**278**	406	-32%
Net sales (EUR million)	**205**	192	7%	**408**	381	7%
Personnel (end of period)				**1,768**	1,767	0%

In April–June, orders received by the Pulp and Energy business line decreased 39 percent to EUR 85 million (EUR 141 million) and accounted for 10 percent of all orders received (18%). Orders increased in North America, and decreased in all other regions. Orders received increased in Pulp and decreased in Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 3 million in April–June.

In the first half of the year, orders received by the Pulp and Energy business line decreased 32 percent to EUR 278 million (EUR 406 million) and accounted for 16 percent of all orders received (23%). Orders received decreased in all regions, and in both Pulp and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 5 million during the first half of the year.

In April–June, net sales of the Pulp and Energy business line increased 7 percent to EUR 205 million (EUR 192 million), corresponding to 24 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 5 million in April–June.

In the first half of the year, net sales of the Pulp and Energy business line increased to EUR 408 million (EUR 381 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 2017 decreased net sales by approximately EUR 9 million during the first half of the year.

Paper: Orders received and net sales increased in Q2/2018

Paper business line	Q2/2018	Q2/2017	Change	Q1–Q2/ 2018	Q1–Q2/ 2017	Change
Orders received (EUR million)	**353**	243	45%	**623**	557	12%
Net sales (EUR million)	**237**	165	43%	**460**	310	49%
Personnel (end of period)				**2,939**	2,829	4%

In April–June, orders received by the Paper business line increased 45 percent to EUR 353 million (EUR 243 million) and accounted for 41 percent of all orders received (31%). Orders received increased in South America, EMEA and China, remained at the previous year's level in North America, and decreased in Asia-Pacific. Orders received increased in Board and Paper, and decreased in Tissue. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 2 million in April–June.

In the first half of the year, orders received by the Paper business line increased 12 percent to EUR 623 million (EUR 557 million) and accounted for 35 percent of all orders received (31%). Orders received increased in South America, North America and China, and decreased in Asia-Pacific and EMEA. Orders received increased in Board and Paper, and decreased in Tissue. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 30 million during the first half of the year.

In April–June, net sales of the Paper business line amounted to EUR 237 million (EUR 165 million), corresponding to 28 percent (23%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 7 million in April–June.

In the first half of the year, net sales of the Paper business line amounted to EUR 460 million (EUR 310 million), corresponding to 29 percent (22%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 17 million during the first half of the year.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 3 million (EUR 31 million) in April–June and EUR 22 million (EUR 125 million) in the first half of the year. Net working capital totaled EUR -362 million (EUR -335 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR -27 million (EUR -37 million) in April–June, and EUR -30 million (EUR 47 million) in the first half of the year. In the statement of cash flows, change in net working capital excludes the impact of changes in foreign exchange rates and other non-cash items, amounting to EUR 5 million (EUR -6 million) during the first half of the year. Payment schedules of large capital projects have a significant impact on net working capital development. Cash flow after investments totaled EUR -18 million (EUR 15 million) in April–June and EUR -9 million (EUR 95 million) in the first half of the year.

At the end of June, gearing was 0 percent (4%) and equity to assets ratio was 41 percent (41%). Interest-bearing liabilities amounted to EUR 201 million (EUR 277 million), and net interest-bearing liabilities totaled

EUR -4 million (EUR 31 million) at the end of the reporting period. The average maturity of Valmet's non-current debt was 3.7 years, and average interest rate was 1.3 percent at the end of June.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 183 million (EUR 206 million) and interest-bearing current financial assets totaling EUR 5 million (EUR 23 million). Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2023 with a 1-year extension option, and an uncommitted commercial paper program worth of EUR 200 million. In March 2018, Valmet signed a 5-year EUR 45 million loan agreement with the European Investment Bank. All of the above facilities were undrawn at the end of the reporting period.

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

Capital expenditure

Gross capital expenditure in April–June totaled EUR 20 million (EUR 15 million), of which maintenance investments were EUR 12 million (EUR 11 million).

Gross capital expenditure in the first half of the year totaled EUR 36 million (EUR 30 million), of which maintenance investments were EUR 23 million (EUR 20 million).

Acquisitions and disposals

Acquisitions

Valmet made no acquisitions during January–June 2018.

Disposals

Valmet made no disposals during January–June 2018.

Number of personnel

Personnel by business line	As at June 30, 2018	As at June 30, 2017	Change	As at March 31, 2018
Services	**5,627**	5,569	1%	5,497
Automation	**1,772**	1,698	4%	1,714
Pulp and Energy	**1,768**	1,767	0%	1,713
Paper	**2,939**	2,829	4%	2,839
Other	**562**	595	-6%	547
Total	**12,668**	12,458	2%	12,310

Personnel by area	As at June 30, 2018	As at June 30, 2017	Change	As at March 31, 2018
North America	**1,203**	1,262	-5%	1,200
South America	**524**	547	-4%	526
EMEA	**8,478**	8,246	3%	8,144
China	**1,714**	1,685	2%	1,707
Asia-Pacific	**749**	718	4%	733
Total	**12,668**	12,458	2%	12,310

Personnel by business line as at June 30, 2018

Personnel by area as at June 30, 2018

During the first half of the year, Valmet employed an average of 12,393 people (12,139). The number of personnel at the end of June was 12,668 (12,458). Personnel expenses totaled EUR 417 million (EUR 418 million) in January–June, of which wages, salaries and remuneration amounted to EUR 326 million (EUR 324 million).

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 renew and improve Valmet’s operational capability through process harmonization and standardization, and through renewal and modernization of the ERP platform.

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

Financial targets

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

Stable business means Services and Automation business lines. Capital business means Paper, and Pulp and Energy business lines.

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' – 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 the first half of 2018, Valmet progressed with the actions defined in its Sustainability360˚ agenda. Valmet continued to further strengthen its sustainable supply chain by conducting 25 supplier sustainability audits globally by the end of June. Valmet has the target to conduct at least 50 supplier sustainability audits every year.

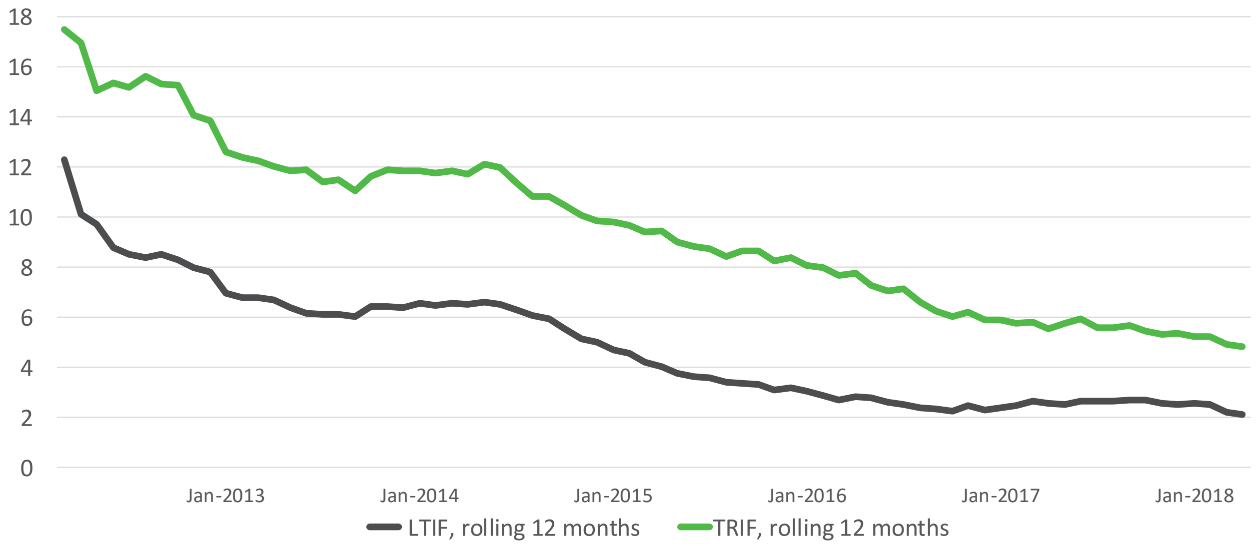
In June, Valmet published its updated Sustainable Supply Chain Policy. The updated policy includes a more comprehensive approach to human and labor rights, reflecting the global developments as well as sustainability expectations and requirements of Valmet's customers and other stakeholders. The policy is available in 14 languages. Compliance with the policy's requirements is the starting point for entering and maintaining all business relationships with Valmet.

Valmet's Forward Strategy and Fast Forward strategy programs were recognized for impactful leadership development by the European Foundation for Management Development (EFMD) in its annual Excellence in Practice Awards (EiP) in May. Valmet was awarded together with the program provider IMD.

By the end of June, 32 percent of Valmet's white-collar employees had completed the new company-wide e-learning about sustainability. 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 reached its lowest level ever at 2.1 at the end of June (2.5 at the end of June 2017). Valmet's total recordable incident frequency rate (TRIF) for own employees was 4.8 at the end of June (5.5 at the end of June 2017), reaching the target level of <5 set for 2018. During the first half of the year, Valmet updated its minimum safety standards and added two new standards covering work with radiation and electrical safety.

Lost time incident frequency rate (LTIF) and total recordable incident frequency rate (TRIF) for own employees



Lawsuits and claims

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

Valmet announced by stock exchange release on September 16, 2016 that Suzano Papel e Celulose S.A. has filed a request for arbitration against Valmet Celulose, Papel e Energia Ltda, Valmet AB and Valmet Technologies Oy, subsidiaries of Valmet Oyj, claiming approximately EUR 80 million. The arbitration relates to separate Equipment Sales Agreements for the Suzano Imperatriz pulp mill project in Brazil. Valmet disputes the claims brought by Suzano and has also actively pursued claims of its own against Suzano for breach by Suzano of its obligations under the Agreements.

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

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

Corporate Governance and Remuneration Statements

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

Shares and shareholders

Share capital, number of shares and shareholders

	As at June 30, 2018	As at June 30, 2017
Share capital, EUR	**100,000,000**	100,000,000
Number of shares	**149,864,619**	149,864,619
Treasury shares	**246,799**	399
Shares outstanding	**149,617,820**	149,864,220
Market capitalization, EUR million	**2,476**	2,549
Number of shareholders	**45,828**	44,952

Shareholder structure as at June 30, 2018

- Nominee registered and non-Finnish holders 49.5%
- Solidium Oy 11.1%
- Finnish private investors 13.4%
- Finnish institutions, companies and foundations 25.9%

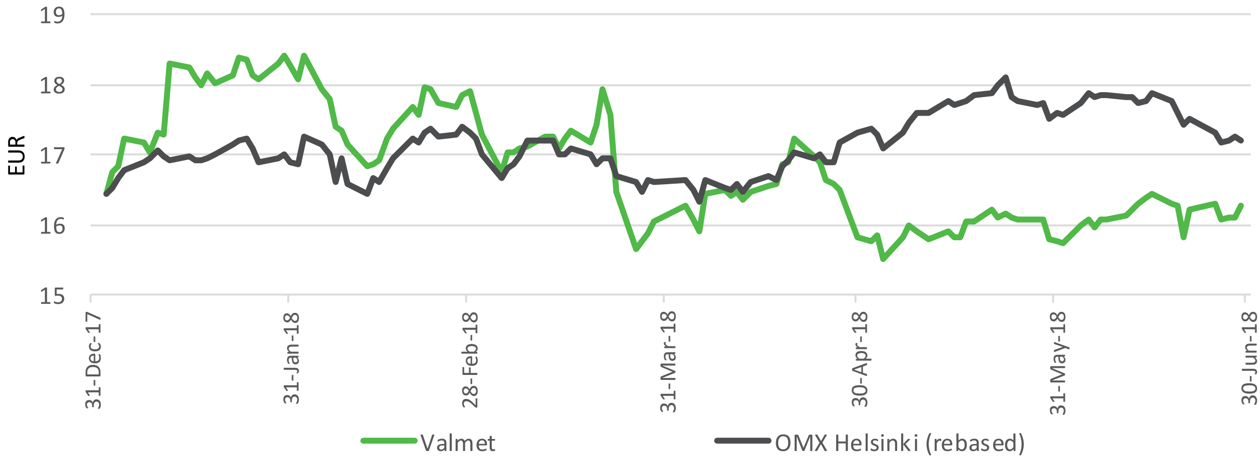
Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	**January 1 – June 30, 2018**	January 1 – June 30, 2017
Number of shares traded	**46,590,834**	46,353,950
Total value, EUR	**777,290,622**	732,219,906
High, EUR	**18.66**	17.86
Low, EUR	**15.50**	13.45
Volume-weighted average price, EUR	**16.69**	15.80
Closing price on the final day of trading, EUR	**16.52**	17.01

The closing price of Valmet's share on the final day of trading for the reporting period, June 29, 2018, was EUR 16.52, and at the same level as the closing price on the last day of trading in 2017 (EUR 16.44 on December 29, 2017).

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 28 million of Valmet's shares were traded on alternative marketplaces in January–June 2018, which equals to approximately 37 percent of the share's total trade volume. (Source: Fidessa)

Development of Valmet's share price, December 31, 2017 – June 30, 2018



Flagging notifications

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

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

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

Board authorizations regarding share repurchase and share issue

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

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

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

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

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

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

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

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

The authorizations shall remain in force until the next Annual General Meeting, and they cancel the authorizations granted in the Annual General Meeting of March 23, 2017. As at June 30, 2018, Valmet's Board of Directors had not used any of the authorizations.

Share-based incentive plans

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

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

Long-term incentive plan 2015–2017

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

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

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

Long-term incentive plan 2018–2020

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

Performance period	2018
Incentive based on	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)
Potential reward payment	Will be paid partly in Valmet shares and partly in cash in 2019
Total number of shares	Approximate maximum of 504,626

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

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

Resolutions of Valmet’s Annual General Meeting

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

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

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

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

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

Risks and business uncertainties

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

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

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

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

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

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

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

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

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

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

Management of project business risks important

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

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

Availability of financing crucial

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

Net working capital and capital expenditure levels have a key impact on the adequacy of Valmet's financing. Valmet estimates that it is well-positioned to keep capital expenditure at the level of total depreciation.

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

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 June 2018, Valmet had EUR 612 million (EUR 618 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 has been no subsequent events after the review period that required recognition or disclosure.

Guidance for 2018

On July 17, 2018, Valmet revised upwards its net sales guidance for 2018.

Revised guidance (on July 17, 2018)

Valmet estimates that net sales in 2018 will increase in comparison with 2017 (EUR 3,058 million) and Comparable EBITA in 2018 will increase in comparison with 2017 (EUR 218 million).

Previous guidance (on March 21, 2018)

Valmet estimates that net sales in 2018 will remain at the same level as in 2017 (EUR 3,058 million) and Comparable EBITA in 2018 will increase in comparison with 2017 (EUR 218 million).

Short-term outlook

General economic outlook

Global growth is projected to reach 3.9 percent in 2018 and in 2019. The rate of expansion appears to have peaked in some major economies, and growth has become less synchronized. In the United States, near-term momentum is strengthening, and the US dollar has appreciated by around 5 percent in recent weeks. Growth projections have been revised down for the euro area, Japan, and the United Kingdom. Among developing economies, growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters has strengthened. Tariff increases by the United States and retaliatory measures by trading partners have increased the likelihood of escalating and sustained trade actions. These could derail the recovery and depress medium-term growth prospects. (International Monetary Fund, July 16, 2018)

Short-term market outlook

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

In Espoo on July 25, 2018

Valmet's Board of Directors

Consolidated Statement of Income

EUR million	Q2/2018	Q2/2017[1]	Q1–Q2/ 2018	Q1–Q2/ 2017[1]
Net sales	**844**	732	**1,575**	1,376
Cost of goods sold	**-653**	-559	**-1,237**	-1,049
Gross profit	**191**	172	**338**	328
Selling, general and administrative expenses	**-137**	-136	**-268**	-263
Other operating income and expenses, net	**-6**	3	**-10**	3
Share in profits and losses of associated companies, operative investments	**1**	-	**-**	-
Operating profit	**49**	39	**61**	68
Financial income and expenses, net	**-1**	-3	**-2**	-6
Share in profits and losses of associated companies, financial investments	**-1**	1	**-1**	1
Profit before taxes	**48**	36	**59**	62
Income taxes	**-13**	-9	**-15**	-17
Profit for the period	**35**	27	**43**	45
Attributable to:				
Owners of the parent	**35**	27	**43**	45
Non-controlling interests	**-**	-	**-**	-
Profit for the period	**35**	27	**43**	45
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.23**	0.18	**0.29**	0.30
Diluted earnings per share, EUR	**0.23**	0.18	**0.29**	0.30

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

Consolidated Statement of Comprehensive Income

EUR million	Q2/2018	Q2/2017[1]	Q1–Q2/ 2018	Q1–Q2/ 2017[1]
Profit for the period	**35**	27	**43**	45
Items that may be reclassified to profit or loss:				
Cash flow hedges	**-17**	8	**-20**	13
Currency translation on subsidiary net investments	**-3**	-15	**-10**	-13
Income tax relating to items that may be reclassified	**4**	-2	**4**	-3
Total items that may be reclassified to profit or loss	**-16**	-9	**-26**	-3
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**-1**	9	**2**	9
Income tax on items that will not be reclassified	**-**	-2	**-1**	-2
Total items that will not be reclassified to profit or loss	**-1**	7	**1**	7
Other comprehensive income / expense	**-17**	-2	**-24**	4
Total comprehensive income / expense	**18**	25	**19**	48
Attributable to:				
Owners of the parent	**18**	25	**18**	48
Non-controlling interests	**-**	-	**-**	-
Total comprehensive income / expense	**19**	25	**19**	48

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

Consolidated Statement of Financial Position

Assets

EUR million	As at June 30, 2018	As at June 30, 2017[1]	As at December 31, 2017[1]
Non-current assets			
Intangible assets			
Goodwill	**612**	618	614
Other intangible assets	**200**	204	200
Total intangible assets	**812**	823	814
Property, plant and equipment			
Land and water areas	**21**	26	25
Buildings and structures	**115**	125	124
Machinery and equipment	**161**	171	170
Assets under construction	**46**	39	35
Total property, plant and equipment	**343**	361	354
Other non-current assets			
Investments in associated companies	**14**	13	14
Non-current financial assets	**24**	25	24
Deferred tax asset	**73**	82	78
Non-current income tax receivables	**26**	26	24
Other non-current assets	**13**	12	10
Total other non-current assets	**149**	157	150
Total non-current assets	**1,304**	1,341	1,318
Current assets			
Inventories			
Materials and supplies	**57**	62	56
Work in progress	**331**	302	277
Finished products	**82**	82	82
Total inventories	**471**	446	415
Receivables and other current assets			
Trade receivables	**530**	574	546
Amounts due from customers under revenue contracts	**198**	183	164
Other current financial assets	**22**	43	29
Income tax receivables	**28**	28	25
Other receivables	**124**	109	116
Cash and cash equivalents	**183**	206	296
Total receivables and other current assets	**1,085**	1,144	1,175
Total current assets	**1,556**	1,589	1,590
Total assets	**2,860**	2,930	2,908

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

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	As at June 30, 2018	As at June 30, 2017[1]	As at December 31, 2017[1]
Equity			
Share capital	**100**	100	100
Reserve for invested unrestricted equity	**416**	413	413
Cumulative translation adjustments	**-18**	-2	-8
Hedge and other reserves	**-8**	7	7
Retained earnings	**353**	338	400
Equity attributable to owners of the parent	**843**	856	913
Non-controlling interests	**5**	5	5
Total equity	**848**	861	918
Liabilities			
Non-current liabilities			
Non-current debt	**173**	230	201
Post-employment benefits	**144**	143	150
Provisions	**19**	18	20
Other non-current liabilities	**4**	3	3
Deferred tax liability	**47**	62	58
Total non-current liabilities	**387**	457	432
Current liabilities			
Current portion of non-current debt	**29**	47	18
Trade payables	**282**	239	287
Provisions	**111**	89	117
Advances received	**317**	286	261
Amounts due to customers under revenue contracts	**464**	521	455
Other current financial liabilities	**31**	11	11
Income tax liabilities	**45**	45	48
Other current liabilities	**346**	374	361
Total current liabilities	**1,625**	1,612	1,558
Total liabilities	**2,012**	2,069	1,990
Total equity and liabilities	**2,860**	2,930	2,908

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

Condensed Consolidated Statement of Cash Flows

EUR million	Q2/2018	Q2/2017[1]	Q1–Q2/ 2018	Q1–Q2/ 2017[1]
Cash flows from operating activities				
Profit for the period	**35**	27	**43**	45
Adjustments				
Depreciation and amortization	**19**	20	**38**	41
Financial income and expenses	**1**	3	**2**	6
Income taxes	**13**	9	**15**	17
Other non-cash items	**-23**	25	**-18**	15
Change in net working capital	**-27**	-37	**-30**	47
Net interests and dividends received	**1**	-1	**-1**	-4
Income taxes paid[2]	**-15**	-16	**-28**	-42
Net cash provided by (+) / used in (-) operating activities	**3**	31	**22**	125
Cash flows from investing activities				
Capital expenditure on fixed assets	**-20**	-15	**-36**	-30
Proceeds from sale of fixed assets	**-**	-	**6**	-
Net cash provided by (+) / used in (-) investing activities	**-20**	-15	**-30**	-29
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-4**	-2
Dividends paid	**-82**	-63	**-82**	-63
Principal payments of non-current debt	**-**	-	**-18**	-32
Financial investments	**5**	-10	**1**	-23
Net cash provided by (+) / used in (-) financing activities	**-77**	-73	**-103**	-120
Net increase (+) / decrease (-) in cash and cash equivalents	**-95**	-58	**-112**	-25
Effect of changes in exchange rates on cash and cash equivalents	**1**	-10	**-1**	-9
Cash and cash equivalents at beginning of period	**277**	274	**296**	240
Cash and cash equivalents at end of period	**183**	206	**183**	206

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

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

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Hedge and other reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at January 1, 2018	**100**	**413**	**-8**	**7**	**400**	**913**	**5**	**918**
Change in accounting policies[1]	-	-	-	-	-2	**-2**	-	**-2**
Restated balance at January 1, 2018	**100**	**413**	**-8**	**7**	**398**	**911**	**5**	**916**
Profit for the period	-	-	-	-	43	**43**	-	**43**
Other comprehensive income / expense	-	-	-10	-16	1	**-25**	-	**-24**
Total comprehensive income / expense	-	-	-10	-16	44	**18**	-	**19**
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	-	-	-4	**-1**	-	**-1**
Balance at June 30, 2018	**100**	**416**	**-18**	**-8**	**353**	**843**	**5**	**848**

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, 2017	100	407	11	-3	366	881	5	886
Change in accounting policies[2]	-	-	-	-	-9	-9	-	-9
Restated balance at January 1, 2017	**100**	**407**	**11**	**-3**	**356**	**871**	**5**	**876**
Profit for the period	-	-	-	-	45	45	-	45
Other comprehensive income / expense	-	-	-13	10	7	4	-	4
Total comprehensive income / expense	-	-	-13	10	52	48	-	48
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-63	-63	-	-63
Purchase of treasury shares	-	-	-	-	-2	-2	-	-2
Share-based payments, net of tax	-	6	-	-	-5	1	-	1
Balance at June 30, 2017	100	413	-2	7	338	856	5	861

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

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

Accounting policies

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 July 25, 2018.

Basis of presentation

These Condensed Consolidated Interim Financial Statements for the six months ended June 30, 2018 have been prepared in accordance with IAS 34 – Interim financial reporting, and in conformity with IFRS as adopted by the European Union. The financials for the comparative periods are presented on restated basis. The financial information presented in these Condensed Consolidated Interim Financial Statements has not been audited. The Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group's Annual Consolidated Financial Statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS.

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

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

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

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

Except for the adoption for the new standards, the accounting 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, 2017.

In the 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.

Key exchange rates

		Average rates		Period-end rates	
		Q1–Q2/ 2018	Q1–Q2/ 2017	**Q2/2018**	Q2/2017
USD	(US dollar)	**1.2060**	1.0878	**1.1658**	1.1412
SEK	(Swedish krona)	**10.1722**	9.5900	**10.4530**	9.6398
BRL	(Brazilian real)	**4.1441**	3.4750	**4.4876**	3.7600
CNY	(Chinese yuan)	**7.7119**	7.4685	**7.7170**	7.7385

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 offering 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). The performance is also assessed through Comparable EBITA, i.e. with EBITA excluding items, such as capacity adjustment costs, impairment of assets, and other infrequent events, as these reduce the comparability of the Group's performance from one period to another.

EUR million	**Q2/2018**	Q2/2017	**Q1–Q2/ 2018**	Q1–Q2/ 2017
Net sales	**844**	732	**1,575**	1,376
Comparable EBITA	**61**	48	**82**	82
% of net sales	**7.2%**	6.5%	**5.2%**	5.9%
Operating profit	**49**	39	**61**	68
% of net sales	**5.9%**	5.3%	**3.9%**	4.9%
Amortization	**-7**	-8	**-15**	-16
Depreciation	**-12**	-12	**-24**	-25
Gross capital expenditure	**-20**	-15	**-36**	-30
Non-cash write-downs	**-3**	-1	**-4**	-2
Capital employed, end of period			**1,049**	1,138
Orders received	**865**	796	**1,756**	1,802
Order backlog, end of period			**2,621**	2,714

Reconciliation between Comparable EBITA, EBITA and operating profit

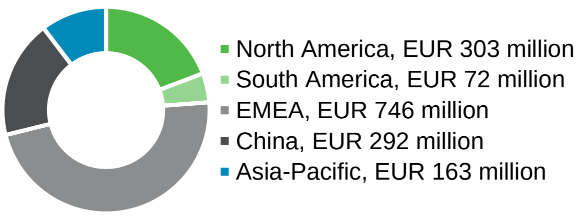
EUR million	Q1–Q2/2018	Q1–Q2/2017
Comparable EBITA	**82**	82
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**-**	-
Other items affecting comparability	**-3**	-
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	**-**	-1
Other items affecting comparability	**-**	-
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	**-**	-
Other items affecting comparability	**-3**	3
EBITA	**76**	84
Amortization included in cost of sales		
Other intangibles	**-1**	-1
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-9**	-11
Other intangibles	**-5**	-4
Operating profit	**61**	68

Entity-wide information

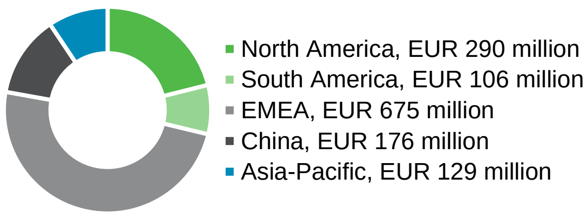
Valmet has operations in over 35 countries, on all continents. Measured by net sales, the top three countries in January-June 2018 were China, the USA and Finland, which together accounted for 43 percent of total net sales. In January-June 2017, the top three countries were the USA, China and Finland, accounting for 42 percent of total net sales. Net sales for Finland (the country of domicile) amounted EUR 124 million in January-June 2018 (EUR 163 million).

Net sales to unaffiliated customers by destination:

Q1–Q2/2018: EUR 1,575 million



Q1–Q2/2017: EUR 1,376 million



Gross capital expenditure by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q2/2018	**2**	**-**	**28**	**2**	**3**	**36**
Q1–Q2/2017	1	1	21	4	3	30

Revenue

Accounting policies

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

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

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

Step 2: Identification of the performance obligations in the contract

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

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

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

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

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

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

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

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

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

Recognition of revenue at a point in time is applicable, among others, in contracts where services are performed at Valmet's premises, and deliveries of spare parts and components.

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

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

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

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

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

Critical accounting estimates and judgments

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

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

Revenue reporting Q1–Q2/2018

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

Net sales by business lines:

EUR million	Q2/2018	Q2/2017	Q1–Q2/2018	Q1–Q2/2017
Services	**325**	302	**572**	554
Automation	**76**	73	**136**	132
Pulp and Energy	**205**	192	**408**	381
Paper	**237**	165	**460**	310
Total	**844**	732	**1,575**	1,376

Timing of revenue recognition:

EUR million	Q2/2018	Q2/2017	Q1–Q2/2018	Q1–Q2/2017
Performance obligations satisfied at a point in time	**406**	389	**717**	700
Performance obligations satisfied over time	**438**	342	**859**	676
Total	**844**	732	**1,575**	1,376

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

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

Valmet receives payments from customers based on billing schedules as established in the customer contracts. Changes in contract assets and liabilities are due to Valmet's performance under the contracts. Amounts due from customers under revenue contracts primarily relate to Valmet's rights 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. Amounts due to customers primarily 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 contract.

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–Q2/2018**	Q1–Q2/2017	2017
Balance at the beginning of the period	**164**	190	190
Translation differences	**-8**	-8	-4
Revenue recognized in the period	**375**	314	663
Transfers to trade receivables	**-333**	-313	-686
Balance at the end of period	**198**	183	164

Amounts due to customers under revenue contracts and advances received:

EUR million	**Q1–Q2/2018**	Q1–Q2/2017	2017
Balance at the beginning of the period	**716**	635	635
Translation differences	**-5**	-19	-25
Revenue recognized in the period	**-688**	-515	-1,197
Consideration invoiced and/or received	**758**	706	1,302
Balance at the end of period	**781**	808	716

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

As of June 30, 2018, the aggregated amount of transaction price allocated to unsatisfied or partially satisfied performance obligation is EUR 2,621 million. Approximately 55 percent of this amount is currently expected to be recognized as revenue during 2018.

Net working capital

EUR million	As at June 30, 2018	As at June 30, 2017	As at December 31, 2017	Q1–Q2/2018 impact
Non-current trade receivables[1]	**2**	2	2	**-**
Other non-current assets	**13**	12	10	**-3**
Inventories	**471**	446	415	**-56**
Trade receivables	**530**	574	546	**16**
Amounts due from customers under revenue contracts	**198**	183	164	**-34**
Derivative financial instruments (assets)[1]	**19**	23	24	**5**
Other receivables	**124**	109	116	**-8**
Post-employment benefits	**-144**	-143	-150	**-6**
Provisions	**-131**	-107	-137	**-6**
Other non-current non-interest-bearing liabilities[2]	**-1**	-1	-1	**-**
Trade payables	**-282**	-239	-287	**-5**
Advances received	**-317**	-286	-261	**55**
Amounts due to customers under revenue contracts	**-464**	-521	-455	**10**
Derivative financial instruments (liabilities)[2]	**-35**	-13	-13	**21**
Other current liabilities	**-345**	-373	-361	**-15**
Total net working capital	**-362**	**-335**	**-387**	**-25**
Effect of foreign exchange rates				**3**
Change in allowance and inventory obsolesce provision[3]				**-9**
Other				**1**
Change in net working capital in the Statement of Cash Flows				**-30**

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

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

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

Intangible assets and property, plant and equipment

Intangible assets

EUR million	Q1–Q2/2018	Q1–Q2/2017	2017
Carrying value at beginning of period	**814**	837	837
Capital expenditure	**12**	7	19
Amortization	**-15**	-16	-31
Impairment losses	**-**	-	-1
Translation differences and other changes	**1**	-6	-11
Carrying value at end of period	**812**	823	814

Property, plant and equipment

EUR million	Q1–Q2/2018	Q1–Q2/2017	2017
Carrying value at beginning of period	**354**	374	374
Capital expenditure	**24**	22	46
Depreciation	**-24**	-25	-49
Impairment losses	**-1**	-	-
Translation differences and other changes	**-10**	-10	-17
Carrying value at end of period	**343**	361	354

Financial instruments

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

According to IFRS 9, measurement category for financial assets is determined based on related business model and the contractual cash flow characteristics of a given instrument. Classification of different financial assets is specified in the table below. For Valmet, new classification and measurement guidance presented changes in terminology used for financial assets in comparison to IAS 39, however impact on financial reporting is limited.

Changes in classification of financial assets under IFRS 9 are as follows:

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

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

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

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

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

Critical accounting estimates and judgments

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

Application of requirements for impairment of financial assets, in particular estimation of future credit losses, requires significant management judgement and includes consideration of available customer and market information. Resulting impairment of financial assets is best estimate based on information available and may differ from the actual result.

Derivative financial instruments

As at June 30, 2018	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts[1]	**1,518**	**17**	**-33**	**-16**
Interest rate swaps[1]	**30**	**-**	**-1**	**-1**
Electricity forward contracts[2]	**155**	**2**	**-**	**2**
Nickel forward contracts[3]	**-**	**-**	**-**	**-**

As at June 30, 2017	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts[1]	1,669	22	-12	11
Interest rate swaps[1]	30	-	-1	-1
Electricity forward contracts[2]	132	-	-1	-1
Nickel forward contracts[3]	30	-	-	-

[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 June 30, 2018**	As at June 30, 2017	As at December 31, 2017
Non-current financial assets			
Interest-bearing	**17**	17	17
Non-interest-bearing	**7**	8	7
Total	**24**	25	24

EUR million	**As at June 30, 2018**	As at June 30, 2017	As at December 31, 2017
Other current financial assets			
Interest-bearing	**5**	23	6
Non-interest-bearing	**17**	20	23
Total	**22**	43	29

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

Provisions

EUR million	Q1–Q2/2018	Q1–Q2/2017	2017
Balance at beginning of period	**137**	127	127
Translation differences	**-3**	-2	-4
Addition charged to profit / loss	**35**	34	106
Used reserve	**-34**	-31	-53
Reversal of reserve / other changes	**-5**	-19	-39
Balance at end of period	**131**	107	137
Non-current	**19**	18	20
Current	**111**	89	117

Contingencies and commitments

EUR million	As at June 30, 2018	As at June 30, 2017	As at December 31, 2017
Guarantees on behalf of Valmet Group	**784**	856	872
Lease commitments	**60**	61	63

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

The arbitration proceedings initiated by Suzano Papel e Celulose S.A. (Suzano) against Valmet in 2016, on which stock exchange release has been issued on December 2016, are still ongoing. Suzano is claiming approximately EUR 80 million from Valmet related to the construction of a green field pulp mill in Imperatriz. Valmet management disputes the claims brought by Suzano related to Valmet's performance. Management has determined not to disclose any further information on the case on the grounds that it can be expected to seriously prejudice the ongoing legal procedures.

As at June 30, 2018, Valmet entities are subject to tax audits in several jurisdictions. Liabilities and assets are recognized with respect to income tax amounts management is expecting to pay and recover, respectively. No liability is recognized when it is considered probable that items reported to tax authorities can be sustained on examination. Complex and constantly changing regulations in multiple jurisdictions where Valmet operates create uncertainties relating to tax obligations towards authorities. Changes in the tax authorities' interpretations could have unfavorable impact on Valmet's financials.

Key ratios

	Q1–Q2/2018	Q1–Q2/2017
Earnings per share, EUR	**0.29**	0.30
Diluted earnings per share, EUR	**0.29**	0.30
Equity per share at end of period, EUR	**5.63**	5.71
Return on equity (ROE), % (annualized)[1]	**10%**	10%
Return on capital employed (ROCE) before taxes, % (annualized)[1]	**11%**	11%
Equity to assets ratio at end of period, %	**41%**	41%
Gearing at end of period, %	**0%**	4%
Cash flow provided by operating activities, EUR million	**22**	125
Cash flow after investments, EUR million	**-9**	95
Gross capital expenditure, EUR million	**-36**	-30
Depreciation and amortization, EUR million	**-38**	-41
Amortization	**-15**	-16
Depreciation	**-24**	-25
Number of outstanding shares at end of period	**149,617,820**	149,864,220
Average number of outstanding shares	**149,681,707**	149,864,220
Average number of diluted shares	**149,681,707**	149,864,220
Interest-bearing liabilities at end of period, EUR million	**201**	277
Net interest-bearing liabilities at end of period, EUR million	**-4**	31

[1] *In the calculation of 2017 key figures, data points from 2016 that have not been restated have been used.*

Formulas for Calculation of Indicators

EBITA:
Operating profit + amortization

Comparable EBITA:
Operating profit + amortization +/- items affecting comparability

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, % (annualized)[1]:

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

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

Equity to assets ratio, %:

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

Gearing, %:

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

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

Quarterly information

EUR million	Q2/2018	Q1/2018	Q4/2017	Q3/2017	Q2/2017
Net sales	**844**	732	967	715	732
Comparable EBITA	**61**	22	81	56	48
% of net sales	**7.2%**	3.0%	8.4%	7.8%	6.5%
Operating profit / loss	**49**	12	61	41	39
% of net sales	**5.9%**	1.6%	6.3%	5.8%	5.3%
Profit before taxes	**48**	11	57	38	36
% of net sales	**5.7%**	1.4%	5.9%	5.3%	5.0%
Profit for the period	**35**	8	49	27	27
% of net sales	**4.2%**	1.1%	5.1%	3.8%	3.7%
Earnings per share, EUR	**0.23**	0.05	0.33	0.18	0.18
Earnings per share, diluted, EUR	**0.23**	0.05	0.33	0.18	0.18
Amortization	**-7**	-7	-8	-8	-8
Depreciation	**-12**	-12	-12	-12	-12
Research and development expenses, net	**-16**	-16	-20	-13	-17
% of net sales	**-1.9%**	-2.2%	-2.1%	-1.8%	-2.3%
Items affecting comparability:					
in cost of goods sold	**-3**	-	-8	-	-1
in selling, general and administrative expenses	**-**	-1	-3	-	-
in other operating income and expenses, net	**-1**	-2	-1	-6	-
Total items affecting comparability	**-4**	-3	-12	-6	-1
Gross capital expenditure	**-20**	-16	-20	-16	-15
Non-cash write-downs	**-3**	-1	-7	-1	-1
Capital employed, end of period	**1,049**	1,033	1,137	1,141	1,138
Orders received	**865**	890	727	743	796
Order backlog, end of period	**2,621**	2,583	2,458	2,720	2,714

Valmet's financial reporting in 2018

October 23, 2018 - Interim Review for January-September 2018

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