Interim Review

January 1 – September 30, 2018

Valmet

Valmet's Interim Review
January 1–September 30, 2018

Orders received increased in all business lines – 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.

July–September 2018: Comparable EBITA margin increased to 8 percent

- Orders received increased 27 percent to EUR 940 million (EUR 743 million).
  - Orders received increased in all business lines.
  - Orders received increased in Asia-Pacific, North America and EMEA (Europe, Middle East and Africa), remained at the previous year's level in China, and decreased in South America.
- Net sales increased 7 percent to EUR 765 million (EUR 715 million).
  - Net sales increased in the Paper, Pulp and Energy, and Automation business lines, and remained at the previous year's level in the Services business line.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 61 million (EUR 56 million), and the corresponding Comparable EBITA margin was 8.0 percent (7.8%).
  - Profitability improved due to higher net sales.
- Earnings per share were EUR 0.23 (EUR 0.18).
- Items affecting comparability amounted to EUR -6 million (EUR -6 million).
- Cash flow provided by operating activities was EUR 119 million (EUR 78 million).

January–September 2018: Orders received and net sales increased

- Orders received increased to EUR 2,696 million (EUR 2,544 million).
  - Orders received increased in the Paper business line and remained at the previous year's level in all other business lines.
  - Orders received increased in North America, South America and Asia-Pacific, and remained at the previous year's level in China and EMEA.
- Net sales increased 12 percent to EUR 2,340 million (EUR 2,091 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 144 million (EUR 138 million), and the corresponding Comparable EBITA margin was 6.2 percent (6.6%).
  - 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 0.52 (EUR 0.48).
- Items affecting comparability amounted to EUR -13 million (EUR -5 million).
- Cash flow provided by operating activities was EUR 141 million (EUR 203 million).

Guidance for 2018 unchanged

Valmet reiterates its guidance presented on July 17, 2018, in which 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).

Short-term outlook

General economic outlook

The steady expansion under way since mid-2016 continues, with global growth for 2018–19 projected to remain at its 2017 level (3.7 percent). At the same time, however, the expansion has become less balanced and may have peaked in some major economies. Downside risks to global growth have risen in the past six months and the potential for upside surprises has receded. While financial market conditions remain accommodative in advanced economies, they could tighten rapidly if, for example, trade tensions and policy uncertainty were to intensify. (International Monetary Fund, October 2018)

Short-term market outlook

Valmet estimates that the short-term market outlook has improved to a satisfactory level in pulp (previously weak level).

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

President and CEO Pasi Laine: Orders received increased in all business lines and pushed the order backlog to a record-high level

"The third quarter of 2018 was characterized by high market activity, and Valmet's orders received increased 27 percent to EUR 940 million. Orders received for the last twelve months now stand at EUR 3.4 billion. Orders received increased in all business lines in the third quarter, and Valmet's order backlog reached a record-high level of EUR 2.8 billion.

Net sales increased 7 percent in the third quarter while Comparable EBITA increased 10 percent. The Comparable EBITA margin reached the lower end of our margin target, 8.0 percent, which is the second-highest quarterly margin for Valmet. There is still a lot of work to be done to keep the margin within the target range for longer than a single quarter.

In September, Valmet was included in the Dow Jones Sustainability Index (DJSI) for the fifth consecutive year. Maintaining our position among the sustainability leaders in the world is an excellent achievement. It shows that our systematic work to integrate sustainability into our business processes has been successful and we have managed to improve our performance every year."

Key figures[1]

EUR million	**Q3/2018**	Q3/2017	Change	**Q1–Q3/ 2018**	Q1–Q3/ 2017	Change
Orders received	**940**	743	27%	**2,696**	2,544	6%
Order backlog[2]	**2,791**	2,720	3%	**2,791**	2,720	3%
Net sales	**765**	715	7%	**2,340**	2,091	12%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**61**	56	10%	**144**	138	5%
% of net sales	**8.0%**	7.8%		**6.2%**	6.6%	
Earnings before interest, taxes and amortization (EBITA)	**55**	49	12%	**131**	133	-1%
% of net sales	**7.2%**	6.9%		**5.6%**	6.4%	
Operating profit (EBIT)	**48**	41	16%	**109**	109	0%
% of net sales	**6.3%**	5.8%		**4.7%**	5.2%	
Profit before taxes	**46**	38	22%	**105**	100	5%
Profit for the period	**35**	27	26%	**78**	72	8%
Earnings per share, EUR	**0.23**	0.18	26%	**0.52**	0.48	8%
Earnings per share, diluted, EUR	**0.23**	0.18	26%	**0.52**	0.48	8%
Equity per share, EUR	**5.83**	5.83	0%	**5.83**	5.83	0%
Cash flow provided by operating activities	**119**	78	52%	**141**	203	-31%
Cash flow after investments	**98**	62	57%	**89**	157	-43%
Return on equity (ROE) (annualized)[3]				**12%**	11%	
Return on capital employed (ROCE) before taxes (annualized)[3]				**13%**	12%	
Equity to assets ratio[2]				**43%**	41%	
Gearing[2]				**-11%**	-3%	

[1] *The calculation of key figures is presented on page 43.*

[2] *At the end of period*

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

Orders received, EUR million	**Q3/2018**	Q3/2017	Change	**Q1–Q3/ 2018**	Q1–Q3/ 2017	Change
Services	**300**	284	6%	**990**	960	3%
Automation	**70**	62	12%	**235**	225	4%
Pulp and Energy	**272**	122	>100%	**549**	527	4%
Paper	**299**	275	9%	**921**	832	11%
Total	**940**	743	27%	**2,696**	2,544	6%

Order backlog, EUR million	**As at Sep 30, 2018**	As at Sep 30, 2017	Change	As at June 30, 2018
Total	**2,791**	2,720	3%	2,621

Net sales, EUR million	**Q3/2018**	Q3/2017	Change	**Q1–Q3/ 2018**	Q1–Q3/ 2017	Change
Services	**282**	284	-1%	**854**	838	2%
Automation	**64**	60	6%	**200**	192	4%
Pulp and Energy	**223**	200	11%	**631**	581	9%
Paper	**196**	170	15%	**657**	480	37%
Total	**765**	715	7%	**2,340**	2,091	12%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for analysts, investors, and media on Tuesday, October 23, 2018 at 1:30 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 1:25 p.m. (EET), at +44 2071 928000. The participants will be asked to provide the following conference ID: 2967268.

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

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

Valmet's Interim Review January 1–September 30, 2018

Orders received increased 6 percent in January–September

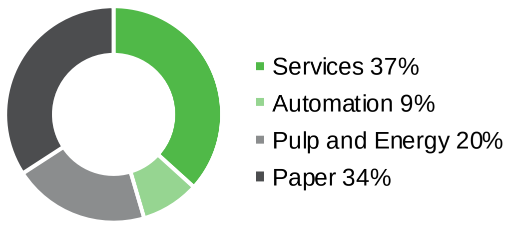
Orders received, EUR million	**Q3/2018**	Q3/2017	Change	**Q1–Q3/ 2018**	Q1–Q3/ 2017	Change
Services	**300**	284	6%	**990**	960	3%
Automation	**70**	62	12%	**235**	225	4%
Pulp and Energy	**272**	122	>100%	**549**	527	4%
Paper	**299**	275	9%	**921**	832	11%
Total	**940**	743	27%	**2,696**	2,544	6%

Orders received, comparable foreign exchange rates, EUR million[1]	**Q3/2018**	Q3/2017	Change	**Q1–Q3/ 2018**	Q1–Q3/ 2017	Change
Services	**308**	284	9%	**1,032**	960	8%
Automation	**72**	62	15%	**243**	225	8%
Pulp and Energy	**278**	122	>100%	**560**	527	6%
Paper	**300**	275	9%	**953**	832	15%
Total	**958**	743	29%	**2,789**	2,544	10%

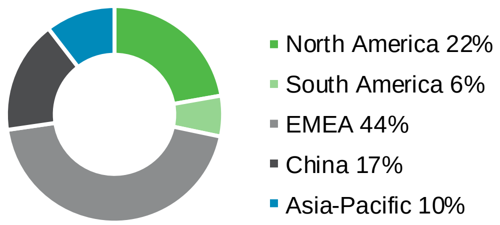
[1] *Indicative only. January to September 2018 orders received in euro calculated by applying January–September 2017 average exchange rates to the functional currency orders received values reported by entities.*

Orders received, EUR million	**Q3/2018**	Q3/2017	Change	**Q1–Q3/ 2018**	Q1–Q3/ 2017	Change
North America	**204**	100	>100%	**599**	483	24%
South America	**58**	76	-24%	**164**	153	7%
EMEA	**408**	353	16%	**1,197**	1,202	0%
China	**154**	158	-2%	**455**	440	3%
Asia-Pacific	**116**	56	>100%	**281**	266	6%
Total	**940**	743	27%	**2,696**	2,544	6%

Orders received by business line, Q1–Q3/2018



Orders received by area, Q1–Q3/2018



July–September 2018: Orders received increased in all business lines

Orders received increased 27 percent to EUR 940 million in July–September (EUR 743 million). The Services and Automation business lines together accounted for 39 percent (47%) of Valmet's orders received. Orders received increased in all business lines. Orders received increased in Asia-Pacific, North America and EMEA (Europe, Middle East and Africa), remained at the previous year's level in China, and decreased in South America. Measured by orders received, the top three countries were China, the USA and Denmark, which together accounted for 41 percent of total orders received. The emerging markets accounted for 40 percent (54%) 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 18 million in July–September.

During July–September, Valmet received among others an order for a paper machine grade conversion rebuild in Italy, typically valued at around EUR 40–60 million, an order for a biomass boiler to Spain, and an order for winding technology to Germany, typically valued at EUR 5-10 million. Valmet also received marine scrubber orders valued at approximately EUR 100 million in total.

January–September 2018: Orders received increased 11 percent in the Paper business line

Orders received increased 6 percent to EUR 2,696 million (EUR 2,544 million) in January–September. The Services and Automation business lines together accounted for 45 percent (47%) of Valmet's orders received. Orders received increased in the Paper business line and remained at the previous year's level in all other business lines. Orders received increased in North America, South America and Asia-Pacific, and remained at the previous year's level in China and EMEA. Measured by orders received, the top three countries were China, the USA and Finland, which together accounted for 44 percent of total orders received. The emerging markets accounted for 39 percent (45%) 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 93 million in January–September.

In addition to the above-mentioned, during January–September Valmet received among others an order for a containerboard making line to Germany, typically valued at EUR 70–90 million, a multifuel boiler and a flue gas treatment plant to Finland, valued at around EUR 70 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.

Order backlog all-time high at EUR 2.8 billion

Order backlog, EUR million	**As at Sep 30, 2018**	As at Sep 30, 2017	Change	As at June 30, 2018
Total	**2,791**	2,720	3%	2,621

The order backlog amounted to EUR 2,791 million at the end of the reporting period, 7 percent higher than at the end of June 2018 and 3 percent higher than at the end of September 2017. Approximately 30 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 25% at the end of September 2017).

Net sales increased 12 percent in January–September

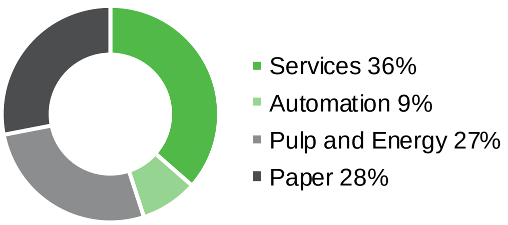
Net sales, EUR million	Q3/2018	Q3/2017	Change	Q1–Q3/ 2018	Q1–Q3/ 2017	Change
Services	**282**	284	-1%	**854**	838	2%
Automation	**64**	60	6%	**200**	192	4%
Pulp and Energy	**223**	200	11%	**631**	581	9%
Paper	**196**	170	15%	**657**	480	37%
Total	**765**	715	7%	**2,340**	2,091	12%

Net sales, comparable foreign exchange rates, EUR million[1]	Q3/2018	Q3/2017	Change	Q1–Q3/ 2018	Q1–Q3/ 2017	Change
Services	**288**	284	1%	**890**	838	6%
Automation	**65**	60	8%	**206**	192	7%
Pulp and Energy	**229**	200	14%	**646**	581	11%
Paper	**199**	170	17%	**677**	480	41%
Total	**782**	715	9%	**2,419**	2,091	16%

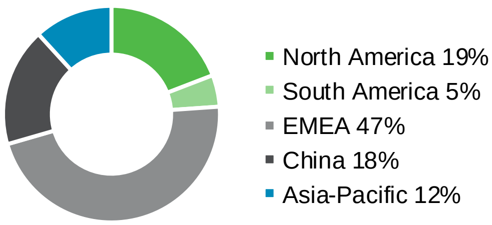
[1] *Indicative only. January to September 2018 net sales in euro calculated by applying January to September 2017 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	Q3/2018	Q3/2017	Change	Q1–Q3/ 2018	Q1–Q3/ 2017	Change
North America	**145**	115	27%	**448**	405	11%
South America	**39**	73	-46%	**111**	179	-38%
EMEA	**346**	344	0%	**1,091**	1,020	7%
China	**122**	103	18%	**414**	279	48%
Asia-Pacific	**112**	79	42%	**275**	208	33%
Total	**765**	715	7%	**2,340**	2,091	12%

Net sales by business line, Q1–Q3/2018



Net sales by area, Q1–Q3/2018



July–September 2018: Net sales increased 7 percent

Net sales increased 7 percent to EUR 765 million in July–September (EUR 715 million). The Services and Automation business lines together accounted for 45 percent (48%) of Valmet's net sales. Net sales increased in the Paper, Pulp and Energy, and Automation business lines, and remained at the previous year's level in the Services business line. Net sales increased in Asia-Pacific, North America and China, remained at the previous year's level in EMEA and decreased in South America. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 41 percent of total net sales. Emerging markets accounted for 43 percent (44%) 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 17 million in July–September.

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

Net sales increased 12 percent to EUR 2,340 million (EUR 2,091 million) in January–September. The Services and Automation business lines together accounted for 45 percent (49%) 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 all other 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 42 percent of total net sales. Emerging markets accounted for 44 percent (40%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 78 million in January–September.

Comparable EBITA and operating profit

In July–September, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 61 million, i.e. 8.0 percent of net sales (EUR 56 million and 7.8%). Profitability improved due to higher net sales.

In January–September, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 144 million, i.e. 6.2 percent of net sales (EUR 138 million and 6.6%). 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 July–September was EUR 48 million, i.e. 6.3 percent of net sales (EUR 41 million and 5.8%). Items affecting comparability amounted to EUR -6 million (EUR -6 million).

Operating profit (EBIT) in January–September was EUR 109 million, i.e. 4.7 percent of net sales (EUR 109 million and 5.2%). Items affecting comparability amounted to EUR -13 million (EUR -5 million).

Net financial income and expenses

Net financial income and expenses in July–September were EUR -2 million (EUR -3 million).

Net financial income and expenses in January–September were EUR -3 million (EUR -10 million).

Profit before taxes and earnings per share

Profit before taxes in July–September was EUR 46 million (EUR 38 million). The profit attributable to owners of the parent in July–September was EUR 34 million (EUR 27 million), corresponding to earnings per share (EPS) of EUR 0.23 (EUR 0.18).

Profit before taxes in January–September was EUR 105 million (EUR 100 million). The profit attributable to owners of the parent in January–September was EUR 77 million (EUR 72 million), corresponding to earnings per share (EPS) of EUR 0.52 (EUR 0.48).

Return on capital employed (ROCE)

In January–September, the annualized return on capital employed (ROCE) before taxes was 13 percent (12%) and return on equity (ROE) 12 percent (11%).

Business lines

Services: Orders received increased and net sales remained at the previous year's level in Q3/2018

Services business line	Q3/2018	Q3/2017	Change	Q1–Q3/ 2018	Q1–Q3/ 2017	Change
Orders received (EUR million)	**300**	284	6%	**990**	960	3%
Net sales (EUR million)	**282**	284	-1%	**854**	838	2%
Personnel (end of period)				**5,555**	5,434	2%

In July–September, orders received by the Services business line increased 6 percent to EUR 300 million (EUR 284 million) and accounted for 32 percent (38%) of all orders received. Orders received increased in North America, China and EMEA, remained at the previous year's level in Asia-Pacific and decreased in South America. Orders received increased in all business units except Energy and Environmental, where orders received decreased. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 8 million in July–September.

In January–September, orders received by the Services business line remained at the previous year's level at EUR 990 million (EUR 960 million) and accounted for 37 percent (38%) of all orders received. 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 and Mill Improvements, remained at the previous year's level in Rolls and Fabrics, and decreased in Energy and Environmental. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 42 million in January–September.

In July–September, net sales of the Services business line amounted to EUR 282 million (EUR 284 million), corresponding to 37 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 6 million in July–September.

In January–September, net sales of the Services business line amounted to EUR 854 million (EUR 838 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 37 million in January–September.

Automation: Orders received and net sales increased in Q3/2018

Automation business line	Q3/2018	Q3/2017	Change	Q1–Q3/ 2018	Q1–Q3/ 2017	Change
Orders received (EUR million)	**70**	62	12%	**235**	225	4%
Net sales (EUR million)	**64**	60	6%	**200**	192	4%
Personnel (end of period)				**1,769**	1,697	4%

In July–September, orders received by the Automation business line increased 12 percent to EUR 70 million (EUR 62 million) and accounted for 7 percent (8%) of Valmet's orders received. Orders received increased in China, Asia-Pacific and North America, remained at the previous year's level in EMEA and decreased in

South America. Orders received increased in Energy and Process and remained at the previous year's level in Pulp and Paper. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 2 million in July–September.

In January–September, orders received by the Automation business line remained at the previous year's level at EUR 235 million (EUR 225 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 China and decreased in North America and South 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 8 million in January–September.

In July–September, net sales of the Automation business line amounted to EUR 64 million (EUR 60 million), corresponding to 8 percent (8%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 1 million in July–September.

In January–September, net sales of the Automation business line amounted to EUR 200 million (EUR 192 million), corresponding to 9 percent (9%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 7 million in January–September.

Pulp and Energy: Orders received and net sales increased in Q3/2018

Pulp and Energy business line	**Q3/2018**	Q3/2017	Change	**Q1–Q3/ 2018**	Q1–Q3/ 2017	Change
Orders received (EUR million)	**272**	122	>100%	**549**	527	4%
Net sales (EUR million)	**223**	200	11%	**631**	581	9%
Personnel (end of period)				**1,743**	1,735	0%

In July–September, orders received by the Pulp and Energy business line increased more than 100 percent to EUR 272 million (EUR 122 million) and accounted for 29 percent (16%) of all orders received. Orders received increased in all other areas except South America, where orders received decreased. Orders received increased in Energy and decreased in Pulp. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 6 million in July–September.

In January–September, orders received by the Pulp and Energy business line remained at the previous year's level at EUR 549 million (EUR 527 million) and accounted for 20 percent (21%) of all orders received. Orders received increased in China, North America and EMEA, and decreased in South America and Asia-Pacific. Orders received increased in Energy and decreased in Pulp. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased orders received by approximately EUR 11 million in January–September.

In July–September, net sales of the Pulp and Energy business line amounted to EUR 223 million (EUR 200 million), corresponding to 29 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 6 million in July–September.

In January–September, net sales of the Pulp and Energy business line amounted to EUR 631 million (EUR 581 million), corresponding to 27 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 15 million in January–September.

Paper: Orders received and net sales increased in Q3/2018

Paper business line	Q3/2018	Q3/2017	Change	Q1–Q3/ 2018	Q1–Q3/ 2017	Change
Orders received (EUR million)	**299**	275	9%	**921**	832	11%
Net sales (EUR million)	**196**	170	15%	**657**	480	37%
Personnel (end of period)				**2,892**	2,802	3%

In July–September, orders received by the Paper business line increased 9 percent to EUR 299 million (EUR 275 million) and accounted for 32 percent (37%) of all orders received. Orders received increased in South America, Asia-Pacific and North America and decreased in China and EMEA. Orders received increased in Tissue and decreased in Board 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 July–September.

In January–September, orders received by the Paper business line increased 11 percent to EUR 921 million (EUR 832 million) and accounted for 34 percent of all orders received (33%). Orders received increased in South America, Asia-Pacific and North America, and decreased in EMEA and China. 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 32 million in January–September.

In July–September, net sales of the Paper business line amounted to EUR 196 million (EUR 170 million), corresponding to 26 percent (24%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2017 decreased net sales by approximately EUR 3 million in July–September.

In January–September, net sales of the Paper business line amounted to EUR 657 million (EUR 480 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 20 million in January–September.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 119 million (EUR 78 million) in July–September and EUR 141 million (EUR 203 million) in January–September. Net working capital totaled EUR -427 million (EUR -370 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR 65 million (EUR 37 million) in July–September, and EUR 36 million (EUR 84 million) in January–September. 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 4 million (EUR -8 million) January–September. Payment schedules of large capital projects have a significant impact on net working capital development. Cash flow after investments totaled EUR 98 million (EUR 62 million) in July–September and EUR 89 million (EUR 157 million) in January–September.

At the end of September, gearing was -11 percent (-3%) and equity to assets ratio was 43 percent (41%). Interest-bearing liabilities amounted to EUR 201 million (EUR 262 million), and net interest-bearing liabilities totaled EUR -98 million (EUR -30 million) at the end of the reporting period. The average maturity of Valmet's non-current debt was 3.5 years, and average interest rate was 1.3 percent at the end of September.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 282 million (EUR 252 million) and interest-bearing current financial assets totaling EUR 17 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 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 July–September totaled EUR 21 million (EUR 16 million), of which maintenance investments were EUR 13 million (EUR 9 million).

Gross capital expenditure in January–September totaled EUR 57 million (EUR 46 million), of which maintenance investments were EUR 36 million (EUR 29 million).

Acquisitions and disposals

Acquisitions

Valmet made no acquisitions during January–September 2018.

Disposals

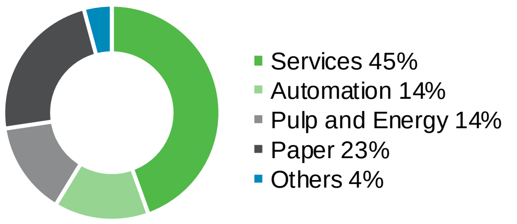
Valmet made no disposals during January–September 2018.

Number of personnel

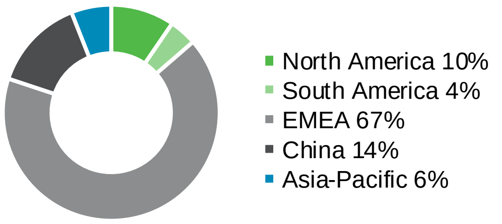
Personnel by business line	**As at September 30, 2018**	As at September 30, 2017	Change	As at June 30, 2018
Services	**5,555**	5,434	2%	5,627
Automation	**1,769**	1,697	4%	1,772
Pulp and Energy	**1,743**	1,735	0%	1,768
Paper	**2,892**	2,802	3%	2,939
Other	**522**	578	-10%	562
Total	**12,481**	12,246	2%	12,668

Personnel by area	As at September 30, 2018	As at September 30, 2017	Change	As at June 30, 2018
North America	**1,187**	1,240	-4%	1,203
South America	**512**	537	-5%	524
EMEA	**8,300**	8,057	3%	8,478
China	**1,736**	1,693	3%	1,714
Asia-Pacific	**746**	719	4%	749
Total	**12,481**	12,246	2%	12,668

Personnel by business line as at September 30, 2018



Personnel by area as at September 30, 2018



During January–September, Valmet employed an average of 12,443 people (12,195). The number of personnel at the end of September was 12,481 (12,246). Personnel expenses totaled EUR 599 million (EUR 598 million) in January–September, of which wages, salaries and remuneration amounted to EUR 467 million (EUR 465 million).

Change in Valmet's Executive Team

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

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

Strategic goals and their implementation

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

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

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

In order to improve its operational excellence, Valmet is in the process of renewing its ERP system. The aim is to 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 July-September 2018, Valmet continued to implement the actions defined in its Sustainability360˚ agenda. By the end of September 2018, Valmet had conducted 41 supplier sustainability audits globally in 9 countries. The target is to conduct at least 50 supplier sustainability audits by the end of 2018.

In September 2018, Valmet further strengthened its position among the world's sustainability leaders by being included in the Dow Jones Sustainability Index (DJSI) for the fifth consecutive year among the 317 most sustainable companies in the world. Valmet was listed both in the Dow Jones Sustainability World and Europe indices.

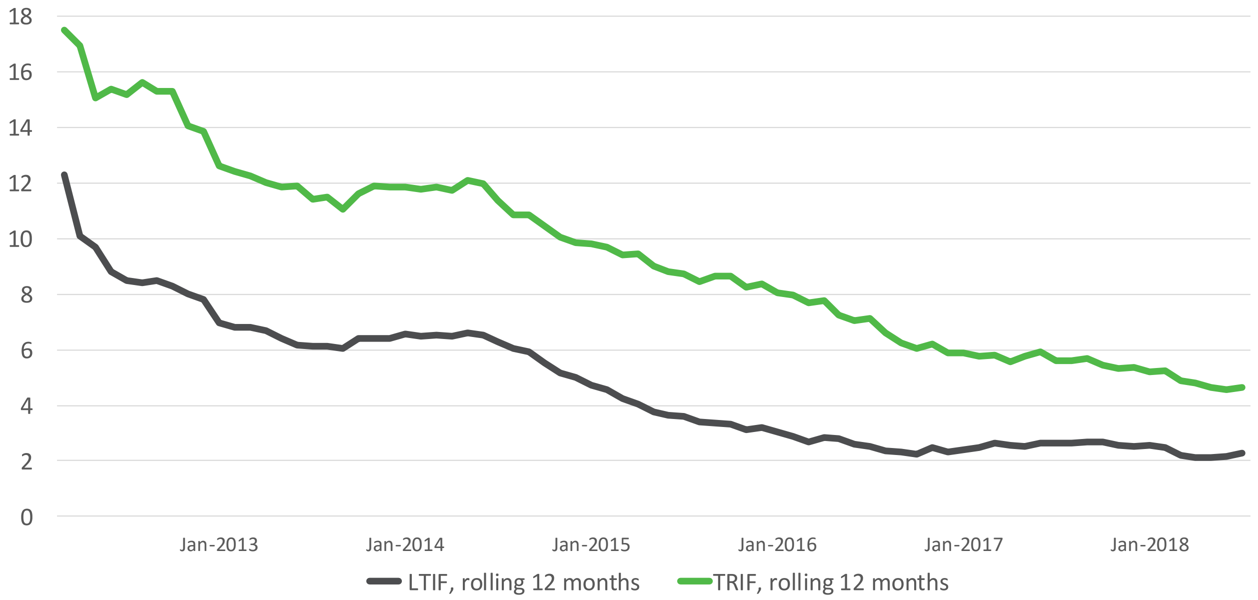
Valmet was also reconfirmed as a constituent of the Ethibel Sustainability Index (ESI) Excellence Europe as of September 21, 2018. The index contains 200 of the European stock listed companies that display the best performance in terms of corporate social responsibility.

The completion rate of the actions based on the OurVoice employee engagement survey reached 81% at the end of September. The actions are identified following each OurVoice employee engagement survey on the Business Line, Area and global levels and are reported on quarterly.

By the end of September, 42 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 was 2.3 at the end of September (2.6 at the end of September 2017). Valmet's total recordable incident frequency rate (TRIF) for own employees continued to decrease and was 4.7 at the end of September (5.6 at the end of September 2017). In July-September 2018 Valmet continued to implement several global HSE procedures as part of the project to certify its operations under one global management system according to the ISO 9001, ISO 14001 and OSHAS 18001 standards.

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



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

Lawsuits and claims

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

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

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

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

Corporate Governance and Remuneration Statements

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

Shares and shareholders

Share capital, number of shares and shareholders

	As at September 30, 2018	As at September 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	**2,879**	2,492
Number of shareholders	**44,914**	45,860

Shareholder structure as at September 30, 2018

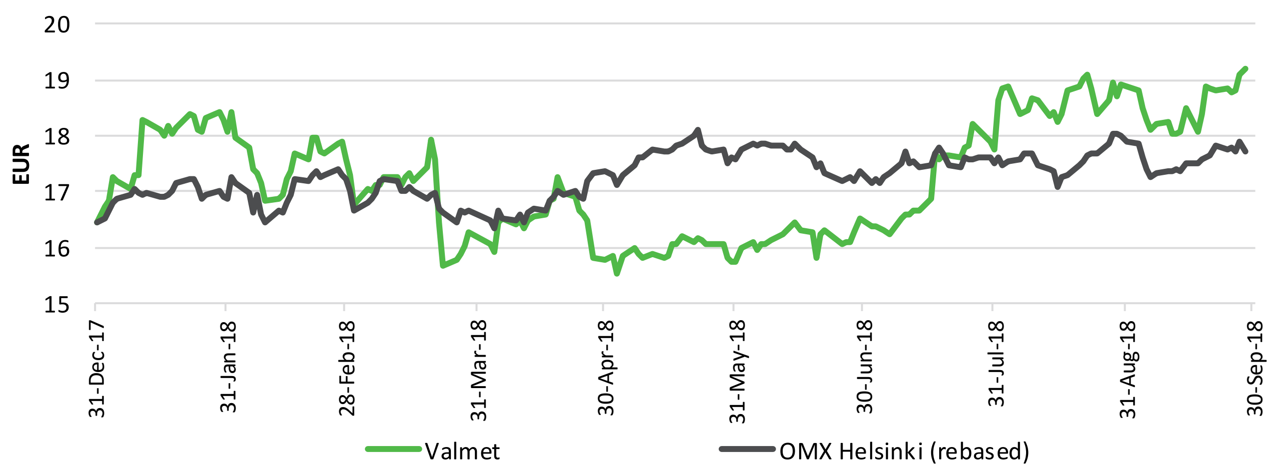
Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	**January 1 – September 30, 2018**	January 1 – September 30, 2017
Number of shares traded	**70,534,108**	69,568,432
Total value, EUR	**1,213,119,797**	1,113,665,137
High, EUR	**19.26**	18.44
Low, EUR	**15.50**	13.45
Volume-weighted average price, EUR	**17.19**	16.01
Closing price on the final day of trading, EUR	**19.21**	16.63

The closing price of Valmet's share on the final day of trading for the reporting period, September 28, 2018, was EUR 19.21, i.e. 17 percent higher than the closing price on the last day of trading in 2017 (EUR 16.44 on December 29, 2017).

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe BXE, Cboe CXE and Turquoise. A total of approximately 44 million of Valmet's shares were traded on alternative marketplaces in January–September 2018, which equals to approximately 38 percent of the share's total trade volume. (Source: Fidessa, October 8, 2018)

Development of Valmet's share price, December 31, 2017 – September 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 September 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 502,951

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 3.5 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 September 2018, Valmet had EUR 613 million (EUR 616 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

Valmet announced by press release on October 2, 2018 that it has acquired Enertechnix, a high-tech combustion diagnostics and monitoring technology company based in the USA. The acquisition is not expected to have material effect on Valmet's financial statements for the October-December 2018 period.

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

Guidance for 2018 unchanged

Valmet reiterates its guidance presented on July 17, 2018, in which 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).

Short-term outlook

General economic outlook

The steady expansion under way since mid-2016 continues, with global growth for 2018–19 projected to remain at its 2017 level (3.7 percent). At the same time, however, the expansion has become less balanced and may have peaked in some major economies. Downside risks to global growth have risen in the past six months and the potential for upside surprises has receded. While financial market conditions remain accommodative in advanced economies, they could tighten rapidly if, for example, trade tensions and policy uncertainty were to intensify. (International Monetary Fund, October 2018)

Short-term market outlook

Valmet estimates that the short-term market outlook has improved to a satisfactory level in pulp (previously weak level).

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

In Espoo on October 23, 2018

Valmet's Board of Directors

Consolidated Statement of Income

EUR million	Q3/2018	Q3/2017[1]	Q1–Q3/ 2018	Q1–Q3/ 2017[1]
Net sales	**765**	715	**2,340**	2,091
Cost of goods sold	**-588**	-553	**-1,825**	-1,602
Gross profit	**177**	162	**515**	489
Selling, general and administrative expenses	**-118**	-114	**-386**	-377
Other operating income and expenses, net	**-11**	-7	**-21**	-4
Share in profits and losses of associated companies, operative investments	**-**	-	**1**	-
Operating profit	**48**	41	**109**	109
Financial income and expenses, net	**-2**	-3	**-3**	-10
Share in profits and losses of associated companies, financial investments	**-**	-	**-1**	1
Profit before taxes	**46**	38	**105**	100
Income taxes	**-12**	-11	**-27**	-28
Profit for the period	**35**	27	**78**	72
Attributable to:				
Owners of the parent	**34**	27	**77**	72
Non-controlling interests	**-**	-	**-**	-
Profit for the period	**35**	27	**78**	72
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.23**	0.18	**0.52**	0.48
Diluted earnings per share, EUR	**0.23**	0.18	**0.52**	0.48

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

Consolidated Statement of Comprehensive Income

EUR million	**Q3/2018**	Q3/2017[1]	**Q1–Q3/ 2018**	Q1–Q3/ 2017[1]
Profit for the period	**35**	27	**78**	72
Items that may be reclassified to profit or loss:				
Cash flow hedges	**-2**	2	**-22**	15
Currency translation on subsidiary net investments	**-2**	-4	**-12**	-17
Income tax relating to items that may be reclassified	**-**	-1	**5**	-3
Total items that may be reclassified to profit or loss	**-4**	-2	**-30**	-5
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**-3**	-10	**-1**	-1
Income tax on items that will not be reclassified	**-**	2	**-**	-
Total items that will not be reclassified to profit or loss	**-3**	-8	**-1**	-2
Other comprehensive income / expense	**-6**	-10	**-31**	-7
Total comprehensive income / expense	**28**	17	**47**	65
Attributable to:				
Owners of the parent	**28**	17	**47**	65
Non-controlling interests	**-**	-	**-**	-
Total comprehensive income / expense	**28**	17	**47**	65

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

Consolidated Statement of Financial Position

Assets

EUR million	As at September 30, 2018	As at September 30, 2017[1]	As at December 31, 2017[1]
Non-current assets			
Intangible assets			
Goodwill	**613**	616	614
Other intangible assets	**198**	201	200
Total intangible assets	**812**	817	814
Property, plant and equipment			
Land and water areas	**24**	26	25
Buildings and structures	**117**	122	124
Machinery and equipment	**163**	169	170
Assets under construction	**39**	41	35
Total property, plant and equipment	**343**	357	354
Other non-current assets			
Investments in associated companies	**14**	13	14
Non-current financial assets	**6**	25	24
Deferred tax asset	**69**	81	78
Non-current income tax receivables	**26**	26	24
Other non-current assets	**14**	12	10
Total other non-current assets	**129**	157	150
Total non-current assets	**1,284**	1,331	1,318
Current assets			
Inventories			
Materials and supplies	**60**	61	56
Work in progress	**324**	330	277
Finished products	**82**	83	82
Total inventories	**467**	474	415
Receivables and other current assets			
Trade receivables	**523**	502	546
Amounts due from customers under revenue contracts	**173**	185	164
Other current financial assets	**30**	45	29
Income tax receivables	**26**	31	25
Other receivables	**83**	110	116
Cash and cash equivalents	**282**	252	296
Total receivables and other current assets	**1,117**	1,124	1,175
Total current assets	**1,584**	1,598	1,590
Total assets	**2,868**	2,929	2,908

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

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	As at September 30, 2018	As at September 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	**-20**	-5	-8
Hedge and other reserves	**-10**	8	7
Retained earnings	**386**	358	400
Equity attributable to owners of the parent	**872**	874	913
Non-controlling interests	**5**	5	5
Total equity	**877**	878	918
Liabilities			
Non-current liabilities			
Non-current debt	**162**	215	201
Post-employment benefits	**146**	153	150
Provisions	**23**	19	20
Other non-current liabilities	**4**	3	3
Deferred tax liability	**48**	61	58
Total non-current liabilities	**383**	451	432
Current liabilities			
Current portion of non-current debt	**39**	47	18
Trade payables	**239**	243	287
Provisions	**103**	94	117
Advances received	**279**	262	261
Amounts due to customers under revenue contracts	**565**	524	455
Other current financial liabilities	**21**	13	11
Income tax liabilities	**39**	49	48
Other current liabilities	**322**	368	361
Total current liabilities	**1,608**	1,600	1,558
Total liabilities	**1,990**	2,051	1,990
Total equity and liabilities	**2,868**	2,929	2,908

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

Condensed Consolidated Statement of Cash Flows

EUR million	Q3/2018	Q3/2017[1]	Q1–Q3/ 2018	Q1–Q3/ 2017[1]
Cash flows from operating activities				
Profit for the period	**35**	27	**78**	72
Adjustments				
Depreciation and amortization	**19**	20	**57**	61
Financial income and expenses	**2**	3	**3**	10
Income taxes	**12**	11	**27**	28
Other non-cash items	**-**	-9	**-18**	6
Change in net working capital	**65**	37	**36**	84
Net interests and dividends received	**-2**	-2	**-3**	-7
Income taxes paid[2]	**-11**	-9	**-39**	-51
Net cash provided by (+) / used in (-) operating activities	**119**	78	**141**	203
Cash flows from investing activities				
Capital expenditure on fixed assets	**-21**	-16	**-57**	-46
Proceeds from sale of fixed assets	**-**	-	**6**	-
Net cash provided by (+) / used in (-) investing activities	**-21**	-16	**-52**	-45
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-4**	-2
Dividends paid	**-**	-	**-82**	-63
Principal payments of non-current debt	**-**	-15	**-18**	-47
Financial investments	**3**	-	**4**	-22
Net cash provided by (+) / used in (-) financing activities	**3**	-15	**-100**	-135
Net increase (+) / decrease (-) in cash and cash equivalents	**101**	47	**-11**	23
Effect of changes in exchange rates on cash and cash equivalents	**-2**	-1	**-3**	-10
Cash and cash equivalents at beginning of period	**183**	206	**296**	240
Cash and cash equivalents at end of period	**282**	252	**282**	252

[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	-	-	-	-	77	**77**	-	**78**
Other comprehensive income / expense	-	-	-12	-17	-1	**-31**	-	**-31**
Total comprehensive income / expense	-	-	-12	-17	76	**47**	-	**47**
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-82	**-82**	-	**-82**
Purchase of treasury shares	-	-	-	-	-4	**-4**	-	**-4**
Share-based payments, net of tax	-	3	-	-	-2	**1**	-	**1**
Balance at September 30, 2018	**100**	**416**	**-20**	**-10**	**386**	**872**	**5**	**877**
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	-	-	-	-	72	72	-	72
Other comprehensive income / expense	-	-	-17	12	-2	-7	-	-7
Total comprehensive income / expense	-	-	-17	12	70	65	-	65
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	-	-	-4	2	-	2
Balance at September 30, 2017	100	413	-5	8	358	874	5	878

[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 October 23, 2018.

Basis of presentation

These Condensed Consolidated Interim Financial Statements for the nine months ended September 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 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.

New accounting standards

Starting January 1, 2019, Valmet will adopt IFRS 16 – Leases. IFRS 16, issued in January 2016 will replace IAS 17 and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the distinction between operating and finance leases and introduces a single lessee accounting model resulting in almost all leases being recognized on the balance sheet.

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

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

Majority of Valmet's lease arrangements consist of operating leases and concern real estate, vehicles, and machinery and equipment located either on Valmet's own premises or at customer sites. Valmet expects to apply an exemption provided by the standard not to recognize a right-of-use asset and corresponding lease liability for leases with a contract term of 12 months or less, and for assets of low value. Further, Valmet intends not to separate non-lease component from lease components for asset classes in which the amount of non-lease components is assessed as immaterial.

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

Valmet expects to apply IFRS 16 with the cumulative catch-up method without restating comparatives when adopting the new lease guidance as of January 1, 2019. Any difference between right-of-use asset and lease liability at the time of transition is recognized in opening balance of retained earnings.

Management is in process of preparing a quantification of the impact of the new standard as at the transition. Management expects that following adoption of the standard, operating profit will increase while periodic leasing charges are replaced by depreciation and interest expense. Fixed assets and financial liabilities will increase when right-of-use asset and corresponding financial liability are recognized in balance sheet.

Key exchange rates

		Average rates		Period-end rates	
		Q1–Q3/ 2018	Q1–Q3/ 2017	**Q3/2018**	Q3/2017
USD	(US dollar)	**1.1938**	1.1151	**1.1576**	1.1806
SEK	(Swedish krona)	**10.2392**	9.5803	**10.3090**	9.6490
BRL	(Brazilian real)	**4.2903**	3.5506	**4.6535**	3.7635
CNY	(Chinese yuan)	**7.7934**	7.5828	**7.9662**	7.8534

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	**Q3/2018**	Q3/2017	**Q1–Q3/ 2018**	Q1–Q3/ 2017
Net sales	**765**	715	**2,340**	2,091
Comparable EBITA	**61**	56	**144**	138
% of net sales	**8.0%**	7.8%	**6.2%**	6.6%
Operating profit	**48**	41	**109**	109
% of net sales	**6.3%**	5.8%	**4.7%**	5.2%
Amortization	**-7**	-8	**-22**	-24
Depreciation	**-11**	-12	**-35**	-37
Gross capital expenditure	**-21**	-16	**-57**	-46
Non-cash write-downs	**-3**	-1	**-7**	-3
Capital employed, end of period			**1,079**	1,141
Orders received	**940**	743	**2,696**	2,544
Order backlog, end of period			**2,791**	2,720

Reconciliation between Comparable EBITA, EBITA and operating profit

EUR million	Q1–Q3/2018	Q1–Q3/2017
Comparable EBITA	**144**	138
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**-**	-1
Other items affecting comparability	**-1**	-
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	**-**	-
Other items affecting comparability	**-**	-
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	**-**	-6
Other items affecting comparability[1]	**-12**	3
EBITA	**131**	133
Amortization included in cost of sales		
Other intangibles	**-1**	-1
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-14**	-17
Other intangibles	**-7**	-5
Operating profit	**109**	109

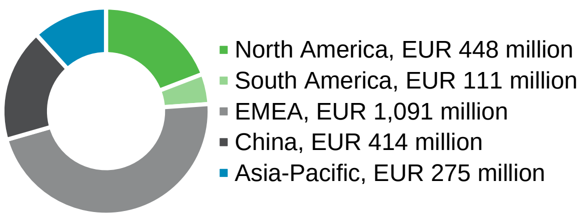
[1] *Includes losses on sale of non-current assets, impairments incurred outside of Valmet's normal course of business, expenses arising from settlements of lawsuits and indirect taxes.*

Entity-wide information

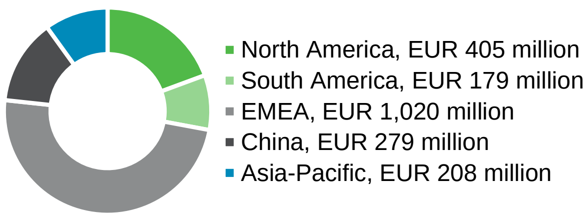
Valmet has operations in over 35 countries, on all continents. Measured by net sales, the top three countries in January-September 2018 were China, the USA and Finland, which together accounted for 42 percent of total net sales. In January-September 2017, the top three countries were the USA, China and Finland, accounting for 41 percent of total net sales. Net sales for Finland (the country of domicile) amounted EUR 188 million in January-September 2018 (EUR 237 million).

Net sales to unaffiliated customers by destination:

Q1–Q3/2018: EUR 2,340 million



Q1–Q3/2017: EUR 2,091 million



Gross capital expenditure by location:

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q3/2018	**3**	**2**	**44**	**4**	**4**	**57**
Q1–Q3/2017	2	1	33	5	6	46

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 contracts, and largely follows the level at which quotes are being requested by the customers on capital projects.

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

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

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

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

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

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

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

Variable elements are generally allocated proportionately to all performance obligations in the contract, or when terms of the variable payments relate to satisfying a specific performance obligation and allocated amount depicts the amount of consideration to which Valmet expects to be entitled in exchange for transferring related goods or services, variable consideration is allocated to that specific performance obligation, 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–Q3/2018

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	**Q3/2018**	Q3/2017	**Q1–Q3/2018**	Q1–Q3/2017
Services	**282**	284	**854**	838
Automation	**64**	60	**200**	192
Pulp and Energy	**223**	200	**631**	581
Paper	**196**	170	**657**	480
Total	**765**	715	**2,340**	2,091

Timing of revenue recognition:

EUR million	**Q3/2018**	Q3/2017	**Q1–Q3/2018**	Q1–Q3/2017
Performance obligations satisfied at a point in time	**336**	338	**1,053**	1,038
Performance obligations satisfied over time	**429**	377	**1,288**	1,053
Total	**765**	715	**2,340**	2,091

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

The creditworthiness of a customer is verified before engaging into a contract. However, if a risk of non-payment arises after contract inception, the probability of collection of consideration is re-evaluated and if assessed improbable, recognition of revenue is discontinued. An allowance for non-collectability 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. Significant part of amounts due to customers relate to advance consideration received from customer in long-term capital contracts for which revenue is recognized over time. These amounts are recognized as revenue as (or when) Valmet performs under the contracts.

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

Amounts due from customers under revenue contracts:

EUR million	**Q1–Q3/2018**	Q1–Q3/2017	2017
Balance at the beginning of the period	**164**	190	190
Translation differences	**-6**	-9	-4
Revenue recognized in the period	**520**	510	663
Transfers to trade receivables	**-505**	-507	-686
Balance at the end of period	**173**	185	164

Amounts due to customers under revenue contracts and advances received:

EUR million	**Q1–Q3/2018**	Q1–Q3/2017	2017
Balance at the beginning of the period	**716**	635	635
Translation differences	**-5**	-23	-25
Revenue recognized in the period	**-1,041**	-784	-1,197
Consideration invoiced and/or received	**1,175**	957	1,302
Balance at the end of period	**845**	785	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 September 30, 2018, the aggregate amount of transaction price allocated to unsatisfied or partially satisfied performance obligation is EUR 2,791 million. Approximately 31 percent of this amount is currently expected to be recognized as revenue during 2018.

Net working capital

EUR million	As at September 30, 2018	As at September 30, 2017	As at December 31, 2017	Q1–Q3/2018 impact
Non-current trade receivables[1]	**1**	2	2	**1**
Other non-current assets	**14**	12	10	**-3**
Inventories	**467**	474	415	**-52**
Trade receivables	**523**	502	546	**23**
Amounts due from customers under revenue contracts	**173**	185	164	**-9**
Derivative financial instruments (assets)[1]	**14**	25	24	**10**
Other receivables	**83**	110	116	**33**
Post-employment benefits	**-146**	-153	-150	**-3**
Provisions	**-126**	-114	-137	**-11**
Other non-current non-interest-bearing liabilities[2]	**-1**	-1	-1	**-**
Trade payables	**-239**	-243	-287	**-48**
Advances received	**-279**	-262	-261	**18**
Amounts due to customers under revenue contracts	**-565**	-524	-455	**111**
Derivative financial instruments (liabilities)[2]	**-24**	-15	-13	**11**
Other current liabilities	**-321**	-367	-361	**-39**
Total net working capital	**-427**	**-370**	**-387**	**40**
Effect of foreign exchange rates				**6**
Change in allowance and inventory obsolescence provision[3]				**-11**
Other				**1**
Change in net working capital in the Statement of Cash Flows				**36**

[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–Q3/2018	Q1–Q3/2017	2017
Carrying value at beginning of period	**814**	837	837
Capital expenditure	**18**	12	19
Amortization	**-22**	-24	-31
Impairment losses	**-**	-	-1
Translation differences and other changes	**2**	-8	-11
Carrying value at end of period	**812**	817	814

Property, plant and equipment

EUR million	Q1–Q3/2018	Q1–Q3/2017	2017
Carrying value at beginning of period	**354**	374	374
Capital expenditure	**39**	34	46
Depreciation	**-35**	-37	-49
Impairment losses	**-1**	-	-
Translation differences and other changes	**-14**	-13	-17
Carrying value at end of period	**343**	357	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[1]	Classification under IFRS 9[1]
Equity investments[2]	Available-for-sale	FVTPL or FVTOCI
Interest-bearing investments	Available-for-sale	FVTOCI
Trade and other receivables	Loans and receivables	Amortized cost
Derivatives	FVTPL	FVTPL
Cash and cash equivalents	FVTPL	Amortized cost

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

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

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

Valmet applies hedge accounting to certain foreign exchange rate, interest rate and commodity price hedging relationships. When hedging for future changes in commodity prices, Valmet has designated one or more risk components of non-financial items as hedged risks as allowed by IFRS 9, which has enabled both expanded utilization of hedge accounting and decreased volatility in profit or loss due to increased hedge effectiveness. Implementation of IFRS 9 did not have a material impact to accounting 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 September 30, 2018	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts[1]	**1,670**	**13**	**-23**	**-10**
Interest rate swaps[1]	**30**	**-**	**-1**	**-1**
Electricity forward contracts[2]	**163**	**1**	**-**	**1**
Nickel forward contracts[3]	**-**	**-**	**-**	**-**

As at September 30, 2017	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts[1]	1,655	25	-14	11
Interest rate swaps[1]	30	-	-1	-1
Electricity forward contracts[2]	134	-	-	-
Nickel forward contracts[3]	24	-	-	-

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

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

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

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

Interest-bearing and non-interest-bearing financial instruments

EUR million	**As at September 30, 2018**	As at September 30, 2017	As at December 31, 2017
Non-current financial assets			
Interest-bearing	**-**	17	17
Non-interest-bearing	**6**	8	7
Total	**6**	25	24

EUR million	**As at September 30, 2018**	As at September 30, 2017	As at December 31, 2017
Other current financial assets			
Interest-bearing	**17**	23	6
Non-interest-bearing	**13**	22	23
Total	**30**	45	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–Q3/2018	Q1–Q3/2017	2017
Balance at beginning of period	**137**	127	127
Translation differences	**-3**	-3	-4
Addition charged to profit / loss	**51**	56	106
Used reserve	**-45**	-41	-53
Reversal of reserve / other changes	**-14**	-25	-39
Balance at end of period	**126**	114	137
Non-current	**23**	19	20
Current	**103**	94	117

Contingencies and commitments

EUR million	As at September 30, 2018	As at September 30, 2017	As at December 31, 2017
Guarantees on behalf of Valmet Group	**782**	816	872
Lease commitments	**57**	62	63

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

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

As at September 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.

Events after the reporting period

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

The acquisition is not expected to have material effect on Valmet's financial statements for the October-December 2018 period.

Key ratios

	Q1–Q3/2018	Q1–Q3/2017
Earnings per share, EUR	**0.52**	0.48
Diluted earnings per share, EUR	**0.52**	0.48
Equity per share at end of period, EUR	**5.83**	5.83
Return on equity (ROE), % (annualized)[1]	**12%**	11%
Return on capital employed (ROCE) before taxes, % (annualized)[1]	**13%**	12%
Equity to assets ratio at end of period, %	**43%**	41%
Gearing at end of period, %	**-11%**	-3%
Cash flow provided by operating activities, EUR million	**141**	203
Cash flow after investments, EUR million	**89**	157
Gross capital expenditure, EUR million	**-57**	-46
Depreciation and amortization, EUR million	**-57**	-61
Amortization	**-22**	-24
Depreciation	**-35**	-37
Number of outstanding shares at end of period	**149,617,820**	149,864,220
Average number of outstanding shares	**149,660,177**	149,864,220
Average number of diluted shares	**149,660,177**	149,864,220
Interest-bearing liabilities at end of period, EUR million	**201**	262
Net interest-bearing liabilities at end of period, EUR million	**-98**	-30

[1] *In the calculation of 2017 figures, non-restated data points from 2016 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	Q3/2018	Q2/2018	Q1/2018	Q4/2017	Q3/2017
Net sales	**765**	844	732	967	715
Comparable EBITA	**61**	61	22	81	56
% of net sales	**8.0%**	7.2%	3.0%	8.4%	7.8%
Operating profit / loss	**48**	49	12	61	41
% of net sales	**6.3%**	5.9%	1.6%	6.3%	5.8%
Profit before taxes	**46**	48	11	57	38
% of net sales	**6.1%**	5.7%	1.4%	5.9%	5.3%
Profit for the period	**35**	35	8	49	27
% of net sales	**4.5%**	4.2%	1.1%	5.1%	3.8%
Earnings per share, EUR	**0.23**	0.23	0.05	0.33	0.18
Earnings per share, diluted, EUR	**0.23**	0.23	0.05	0.33	0.18
Amortization	**-7**	-7	-7	-8	-8
Depreciation	**-11**	-12	-12	-12	-12
Research and development expenses, net	**-13**	-16	-16	-20	-13
% of net sales	**-1.7%**	-1.9%	-2.2%	-2.1%	-1.8%
Items affecting comparability:					
in cost of goods sold	**3**	-3	-	-8	-
in selling, general and administrative expenses	**-**	-	-1	-3	-
in other operating income and expenses, net	**-9**	-1	-2	-1	-6
Total items affecting comparability	**-6**	-4	-3	-12	-6
Gross capital expenditure	**-21**	-20	-16	-20	-16
Non-cash write-downs	**-3**	-3	-1	-7	-1
Capital employed, end of period	**1,079**	1,049	1,033	1,137	1,141
Orders received	**940**	865	890	727	743
Order backlog, end of period	**2,791**	2,621	2,583	2,458	2,720

Valmet's financial reporting in 2019

February 7, 2019 - Financial Statements Review 2018
April 26, 2019 - Interim Review for January-March 2019
July 23, 2019 - Half Year Financial Review for January-June 2019
October 24, 2019 - Interim Review for January-September 2019

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