Financial Statements 2018

and Information for investors

Valmet

Contents

Report of the Board of Directors January–December 2018

Governance

Current legislation, the company's Articles of Association and the rules and regulations of organizations regulating and supervising the activities of listed companies are complied with in Valmet Oyj and Valmet Group corporate governance. Valmet Oyj complies without deviation with the Finnish Corporate Governance Code for listed companies. The Code is publicly available at www.cgfinland.fi.

Corporate Governance and Remuneration Statements

Valmet has prepared a separate Corporate Governance Statement and a Remuneration Statement for 2018, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. The statements also cover other central areas of corporate governance. The statements have been published on Valmet's website, separately from the Board of Directors' Report, at www.valmet.com/governance.

Annual General Meeting

The Annual General Meeting is the company's highest decision-making body, and its tasks are defined according to the Articles of Association and the Finnish Limited Liability Companies Act. The Annual General Meeting decides on the adoption of the Financial Statements, the distribution of profit, discharging the members of the Board of Directors and the President and CEO from liability, appointing the members, Chairman and Vice-Chairman of the Board as well as the auditor, their remunerations, and other matters requiring a decision by the Annual General Meeting according to the Finnish Limited Liability Companies Act that are presented to the Annual General Meeting. The General Meeting convenes at least once a year. The Board of Directors convenes the Annual General Meeting.

The Board of Directors

The Board of Directors shall see to the administration of the company and the appropriate organization of its operations, and ensures that the monitoring of the company's accounting and asset management is arranged appropriately. The Board of Directors monitors the Group's activities, finances and risk management, and its task is to promote the interests of shareholders and the Group by ensuring the appropriate organization of the entire Group's governance and operations.

According to Valmet's Articles of Association, the Board of Directors shall include at least five (5) members and at most eight (8) members. The term of office of Board members ends at the end of the first Annual General Meeting following the elections. The Annual General Meeting selects the Chairman, Vice-Chairman and other members of the Board.

President and CEO

The Board of Directors selects a President and CEO for the company and decides on the salary and remunerations of the President and CEO as well as other terms related to the position. The Board of Directors monitors the work of the CEO.

The President and CEO is responsible for the company's daily administration according to the instructions and regulations of the Board of Directors. The President and CEO is responsible for ensuring the legality of the company's accounting and for the reliable organization of the company's asset management.

Valmet's results in 2018

Figures in brackets, unless otherwise stated, refer to the comparison period, i.e. the same period of the previous year. The figures for year 2017 have been restated following the adoption of IFRS 15 as of January 1, 2018.

Key figures[1]

EUR million	2018	2017	2016
Orders received	**3,722**	3,272	3,139
Order backlog[2]	**2,829**	2,458	2,283
Net sales	**3,325**	3,058	2,926
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**257**	218	196
% of net sales	**7.7%**	7.1%	6.7%
Earnings before interest, taxes and amortization (EBITA)	**241**	202	183
% of net sales	**7.2%**	6.6%	6.2%
Operating profit (EBIT)	**211**	170	147
% of net sales	**6.4%**	5.6%	5.0%
Profit before taxes	**205**	158	136
Profit for the period	**152**	121	82
Earnings per share, EUR	**1.01**	0.81	0.55
Earnings per share, diluted, EUR	**1.01**	0.81	0.55
Equity per share[2], EUR	**6.31**	6.09	5.88
Dividend per share, EUR	**0.65**[3]	0.55	0.42
Cash flow provided by operating activities	**284**	291	246
Cash flow after investments	**208**	227	188
Return on equity (ROE)[4]	**16%**	13%	9%
Return on capital employed (ROCE) before taxes[4]	**19%**	14%	12%
Equity to assets ratio[2]	**43%**	42%	37%
Gearing[2]	**-23%**	-11%	6%

[1] The calculation of key figures is presented in the section 'Formulas for Calculation of Indicators'.
[2] At the end of period
[3] Board of Directors' proposal
[4] In the calculation of 2017 figures, non-restated data points from 2016 have been used.

Orders received increased 14 percent to EUR 3,722 million in 2018

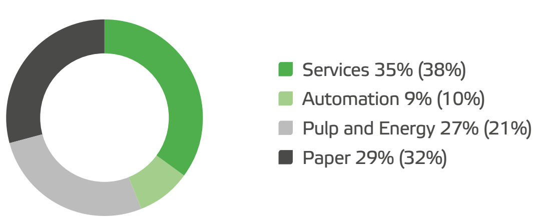
Orders received, EUR million	2018	2017	Change
Services	**1,315**	1,242	6%
Automation	**330**	317	4%
Pulp and Energy	**1,000**	678	47%
Paper	**1,077**	1,035	4%
Total	**3,722**	3,272	14%

Orders received, comparable foreign exchange rates, EUR million[1]	2018	2017	Change
Services	**1,361**	1,242	10%
Automation	**339**	317	7%
Pulp and Energy	**1,029**	678	52%
Paper	**1,103**	1,035	7%
Total	**3,832**	3,272	17%

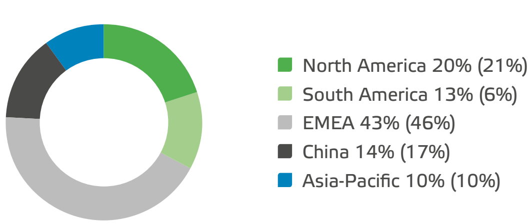
[1] Indicative only. 2018 orders received in euro calculated by applying 2017 average exchange rates to the functional currency orders received values reported by entities.

Orders received, EUR million	2018	2017	Change
North America	**730**	686	6%
South America	**480**	183	>100%
EMEA	**1,606**	1,508	6%
China	**523**	572	-9%
Asia-Pacific	**383**	323	18%
Total	**3,722**	3,272	14%

Orders received by business line, %



Orders received by area, %



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

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

In 2018, Valmet received among others an order for key pulp mill technology to a new pulp line in Chile, typically valued at EUR 250–300 million, an order for a containerboard making line to Germany, typically valued at EUR 70–90 million, an order for a multifuel boiler and a flue gas treatment plant to Finland, valued at around EUR 70 million, and an order for a paper machine grade conversion rebuild in Italy, typically valued at around EUR 40–60 million. Valmet also received marine scrubber orders valued at approximately EUR 190 million in total.

Order backlog increased to an all-time high level of EUR 2.8 billion

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

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

Net sales increased 9 percent in 2018

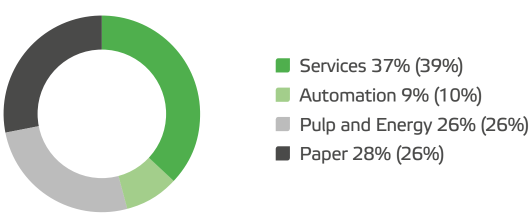
Net sales, EUR million	2018	2017	Change
Services	**1,219**	1,178	3%
Automation	**306**	296	3%
Pulp and Energy	**863**	800	8%
Paper	**937**	784	19%
Total	**3,325**	3,058	9%

Net sales, comparable foreign exchange rates, EUR million[1]	2018	2017	Change
Services	**1,261**	1,178	7%
Automation	**314**	296	6%
Pulp and Energy	**882**	800	10%
Paper	**960**	784	22%
Total	**3,416**	3,058	12%

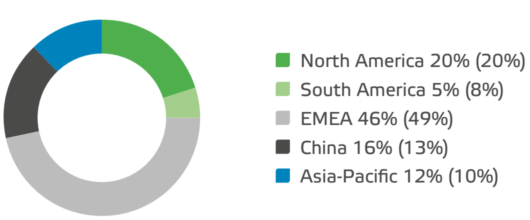
[1] Indicative only. 2018 net sales in euro calculated by applying 2017 average exchange rates to the functional currency net sales values reported by entities.

Net sales, EUR million	2018	2017	Change
North America	**679**	603	13%
South America	**169**	247	-31%
EMEA	**1,545**	1,507	3%
China	**535**	402	33%
Asia-Pacific	**396**	299	32%
Total	**3,325**	3,058	9%

Net sales by business line, %



Net sales by area, %



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

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

Comparable EBITA and operating profit increased, and profitability improved

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

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

Net financial income and expenses

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

Profit before taxes and earnings per share increased

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

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

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

Business lines

Services: Orders received EUR 1,315 million in 2018

Services business line	2018	2017	Change
Orders received (EUR million)	**1,315**	1,242	6%
Net sales (EUR million)	**1,219**	1,178	3%
Personnel (end of period)	**5,544**	5,472	1%

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

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

Automation: Orders received EUR 330 million in 2018

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

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

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

Pulp and Energy: Orders received EUR 1,000 million in 2018

Pulp and Energy business line	2018	2017	Change
Orders received (EUR million)	**1,000**	678	47%
Net sales (EUR million)	**863**	800	8%
Personnel (end of period)	**1,748**	1,727	1%

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

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

Paper: Orders received EUR 1,077 million in 2018

Paper business line	2018	2017	Change
Orders received (EUR million)	**1,077**	1,035	4%
Net sales (EUR million)	**937**	784	19%
Personnel (end of period)	**2,904**	2,822	3%

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

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

Cash flow and financing

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

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

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 376 million (EUR 296 million) and interest-bearing current financial assets totaling EUR 44 million (EUR 6 million). Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2024, and an uncommitted commercial paper program worth of EUR 200 million. In March 2018, Valmet signed a 5-year EUR 45 million loan agreement with the European Investment Bank. All the above facilities were undrawn at the end of the reporting period.

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

Capital expenditure

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

Acquisitions and disposals

Acquisitions

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

Disposals

Valmet made no disposals in 2018.

Research and development

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

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

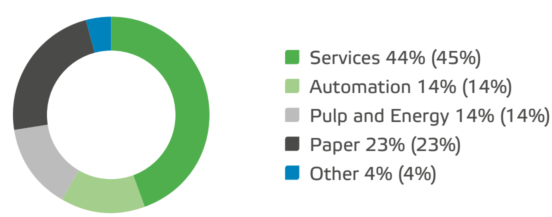
Valmet develops competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency in its customers' production processes, Valmet combines digitalization, process technology, automation and services. Valmet also develops solutions for replacing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

Number of personnel remained at the previous year's level

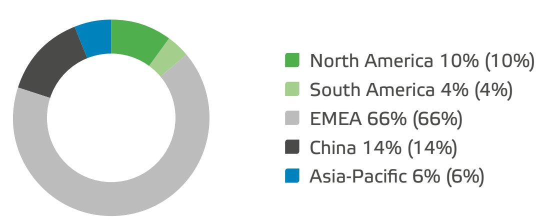
Personnel by business line	As at Dec 31, 2018	2017	Change
Services	**5,544**	5,472	1%
Automation	**1,802**	1,708	6%
Pulp and Energy	**1,748**	1,727	1%
Paper	**2,904**	2,822	3%
Other	**530**	539	-2%
Total	**12,528**	12,268	2%

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

Personnel by business line, %



Personnel by area, %



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

Changes in Valmet's Executive team

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

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

Strategic goals and their implementation

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

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

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

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

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

Financial targets

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

Continued focus on improving profitability

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

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

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

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

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

Disclosure of non-financial information

Business model and value creation

Valmet's mission is to convert renewable resources into sustainable results. Sustainability is at the core of all Valmet's operations. Valmet has an active and open dialogue with its stakeholders. Valmet's product and service portfolio consists of technologies increasing the value of its customers' end products. Valmet works closely with its customers throughout its key processes – from product development to commercialization of new solutions. Valmet has financial strength to invest in innovations and growth.

In addition to the value for its owners, Valmet also creates economic value as an employer and taxpayer. Valmet provides employment and business opportunities to a wide range of stakeholders and indirectly builds wealth in local societies.

Valmet's technology and services enable customers to produce their products with less resources and raw materials and to improve flexibility in fuel source selection to replace fossil fuels with renewable ones. In Valmet's own operations, more efficient processes enable the use of less natural resources and lower CO_2 emissions.

Valmet strives to develop the transparency and traceability of its entire value chain from the sourcing of raw materials to the recycling of its products. Valmet purchases raw materials, components, energy and services.

Valmet has estimated that around 4 percent of its environmental impact arises through its supply chain and around 1 percent through its own operations. The remaining 95 percent is caused when customers use Valmet's technologies over their entire life cycles.

Materiality assessment

Valmet has assessed the most significant topics of the non-financial disclosure by conducting an internal stakeholder review. All topics have been assessed based on their importance to Valmet and its stakeholders with key experts and management. As a result of the process Valmet has defined five sustainability focus areas covering the most material sustainability topics for Valmet: sustainable supply chain; health, safety and environment; people and performance; sustainable solutions and corporate citizenship.

Valmet has a systematic method for regularly assessing the probability and impact of risks and opportunities related to sustainability. Valmet has several group-wide policies in place to mitigate these risks.

The basis of Valmet's operations is its Code of Conduct, which creates a uniform and ethical foundation for all our business transactions and work assignments. We strive for globally consistent and transparent management practices so that all our stakeholders can reliably assess the company's sustainable operations and development.

Valmet's sustainability agenda, related goals, as well as all supporting policies are owned, driven and monitored by Valmet's Executive Team. Sustainability performance is reviewed annually by the Executive Team. All Valmet's operations are responsible for ensuring that group-wide initiatives are implemented to meet Valmet's sustainability goals. Valmet ties selected sustainability topics, such as health, safety and quality as well as sustainable supply chain KPIs, to remuneration.

Material topics

Environmental matters

Valmet has defined targets for the reduction of energy and water consumption, as well as CO_2 emissions and waste by 2030. Valmet provides customers with sustainable solutions that help to improve environmental performance and their safety. Valmet continuously improves the eco-efficiency in all production facilities based on global and operation-specific HSE action plans.

Social and employment related matters

Valmet's operations provide direct and indirect employment for a wide range of stakeholders. Valmet continuously improves employee skills and capabilities, and strives to ensure a healthy and safe working environment for both its own people and partners. Valmet participates in discussions regarding its operating environment and regulations. Valmet builds trust and reputation by operating in a sustainable and profitable manner.

Respect for human rights

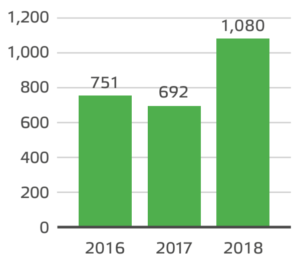
As a global technology and services supplier, Valmet operates in a highly multicultural environment. Valmet recognizes its responsibility to respect human rights and requires its business partners to do the same. Valmet is committed to international frameworks related to human rights, such as the UN Guiding Principles on Business and Human Rights. Valmet recognizes the business benefits of having a diverse workforce and aims to provide equal opportunities for everyone.

Anti-corruption and bribery

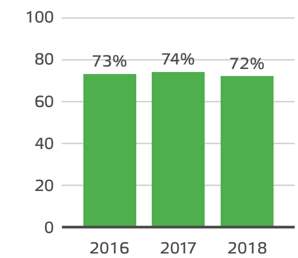
Valmet has several policies in place which guide its and its partners' operations regarding corruption, bribery and competition compliance. Valmet arranges regular training on its Code of Conduct, anti-corruption principles and competition compliance guidelines to enforce the principles set in the policies. All Valmet's suppliers are required to commit to the principles set in the sustainable supply chain policy, to which compliance is assessed by potential self-assessments and audits.

Non-financial indicators

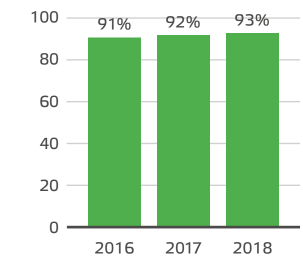
Orders received from new products and services, EUR million



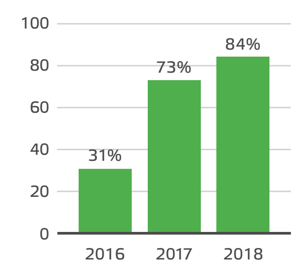
Employees covered by collective bargaining agreements, %



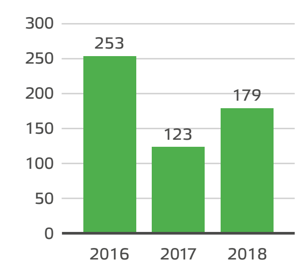
Workforce represented in formal management-worker health and safety committees, %



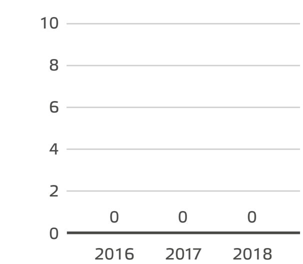
New suppliers screened over sustainability, %



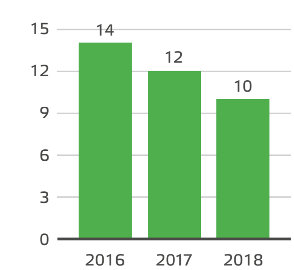
Sponsorships and donations, EUR thousand



Monetary value of significant fines for non-compliance with laws and regulations, EUR million



Number of corporate internal audits performed



Number of environmental compliance cases

There were no significant environmental incidents resulting from major permit violations, claims, compensations or media coverage in 2018. Two minor and short-term non-compliances with limited environmental impact resulted in administrative fines at the Shanghai workshop. These incidents were related to waste management and effluent control. Immediate improvement actions were taken into use to the satisfaction of local authorities in China. In 2017, Valmet had two minor environmental non-compliance cases, but no significant environmental non-compliance cases.

Breakdown of employees by contract type, employment type, region and gender

Number of employees by employment contract and gender

	Female		Male		Total	
	2018	2017	2018	2017	2018	2017
Permanent	**2,187**	2,132	**9,072**	8,889	**11,259**	11,021
Temporary	**362**	358	**907**	889	**1,269**	1,247
Total	**2,549**	2,490	**9,979**	9,778	**12,528**	12,268

Number of permanent employees by employment type and gender

	Female		Male		Total	
	2018	2017	2018	2017	2018	2017
Full-time	**2,070**	2,018	**8,966**	8,803	**11,036**	10,821
Part-time	**117**	114	**106**	86	**223**	200
Total	**2,187**	2,132	**9,072**	8,889	**11,259**	11,021

Workforce by region and gender

	Female		Male		Total	
	2018	2017	2018	2017	2018	2017
North America	**170**	167	**1,032**	1,056	**1,202**	1,223
South America	**87**	88	**423**	446	**510**	534
EMEA	**1,792**	1,748	**6,511**	6,340	**8,303**	8,088
China	**402**	393	**1,350**	1,303	**1,752**	1,696
Asia-Pacific	**98**	94	**663**	633	**761**	727
Total	**2,549**	2,490	**9,979**	9,778	**12,528**	12,268

Lost time incident frequency, total recordable incident frequency, number of fatalities and absentee rate, own personnel

	2018	2017
LTIF[1]	**2.3**	2.6
TRIF[2]	**4.4**	5.5
Fatalities	**0**	0
Absentee rate	**2.6%**	2.5%

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

[2] LTIF + medical treatment and restricted work cases

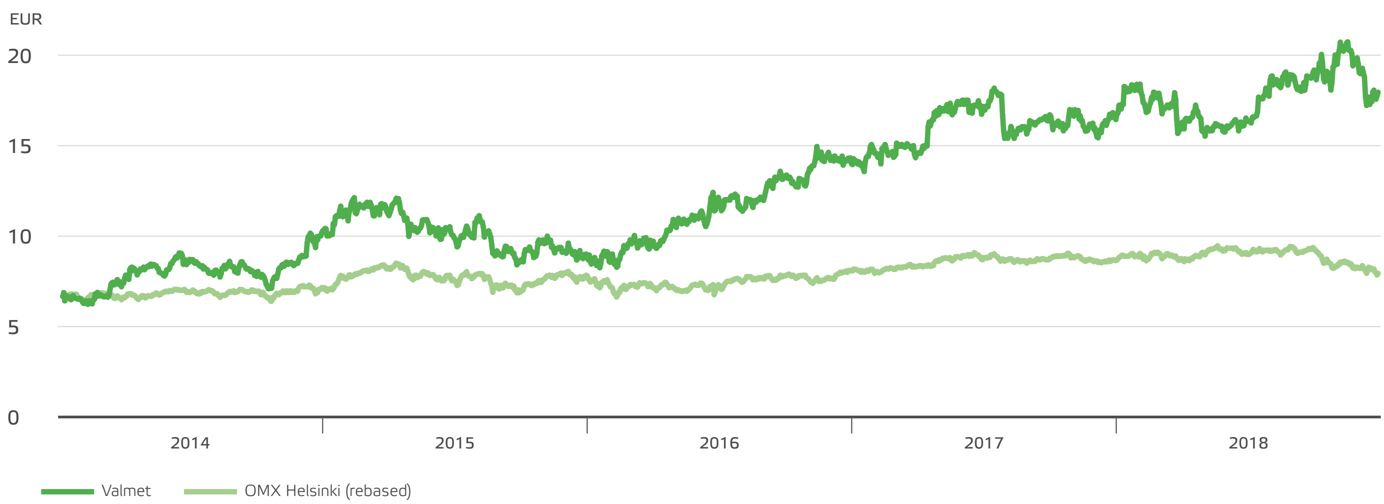
Valmet's management approach for non-financial impacts

	ENVIRONMENTAL MATTERS	SOCIAL AND EMPLOYMENT RELATED MATTERS
Policies and standards	**International frameworks covering all topics:**	• United Nations Universal Declaration of Human Rights • UN Guiding Principles on Business and Human Rights • UN Sustainable Development Goals • Global Compact
	• Health, Safety and Environment Policy: Defines Valmet's approach and demonstrates commitment to managing health, safety and environmental issues at Valmet • Sustainable Supply Chain Policy: Describes Valmet's requirements for sustainable operating principles for suppliers concerning environmental issues • Instructions on environmental principles: Support implementing Valmet's HSE policy • Instructions on sustainable and responsible research, product development and design: Support implementing Valmet's HSE policy	• Valmet's Human Rights Statement: States Valmet's commitment and respect to human rights • Health, Safety and Environment Policy: Defines Valmet's approach and demonstrates commitment to managing health, safety and environmental issues at Valmet • Sustainable Supply Chain Policy: Describes requirements for ethical standards and sustainable business practices for suppliers • HR Policy: Framework for the management of the human resources function, which is committed to developing an engaged and performance-driven community and to continuously driving the development of Valmet employees' capabilities globally • Minimum Safety Standards: Defines minimum requirements for safety at work for specific high-risk activities
Due diligence processes	• HSE incident reporting and management system is used to follow and prevent HSE related incidents and hazards • Compliance with HSE related laws and regulations is ensured by complying with Valmet's related processes • Valmet executes internal and external audits globally to evaluate compliance to internal, legal and other HSE requirements and correct non-conformities	• HSE incident reporting and management system is used to follow and prevent HSE related incidents and hazards • Compliance with laws and regulations is ensured by complying with Valmet's related processes • Valmet executes internal and external audits globally to evaluate compliance to internal, legal and other HSE requirements and correct non-conformities
Risks and risk management	Risks: • Risks related to Valmet's suppliers can cause significant reputation or business risks • Non-compliance with environmental regulation may result in fines and cause reputation and business risks Risk management: • ISO 14001 environmental management systems in all operations • Risk management is integrated into all activities to ensure hazards and impacts are proactively identified and mitigated	Risks: • Valmet's own personnel's and partners' health and safety risks are related to work related illnesses, injuries and occupational wellbeing • Varying competence levels and a slowing down of the resourcing process • Risks related to Valmet's suppliers can cause significant reputation or business risks Risk management: • OHSAS 18001 health and safety management systems in all operations • HSE incident management system • Development of global training portfolio and ensuring necessary competence in place across regions • Global process for supplier sustainability • Safety committees covering all personnel
Outcomes of policies and due diligence processes	• New products and services that meet environmental requirements and help customers produce sustainable products • Supplier audits conducted globally improving suppliers' sustainability approach • Environmental targets 2030 including targets for energy efficiency, water consumption and waste management	• Healthy and safe working places for own employees and partners • Operations free from life changing incidents, reduction in overall incident frequencies • Training programs developed to enhance skills

RESPECT FOR HUMAN RIGHTS	ANTI-CORRUPTION AND BRIBERY
• Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO) • OECD’s Guidelines for Multinational Enterprises • OHSAS 18001 Occupational health and safety management system • ISO 14001 Environmental management system • ISO 9001 Quality management system	
• Valmet's Human Rights Statement: States Valmet’s commitment and respect to human rights • Sustainable Supply Chain Policy: Describes Valmet's requirements for human rights for suppliers • Equal Opportunity and Diversity Policy: Defines Valmet's approach to promoting equal opportunities for all employees	• Anti-Corruption Policy: Defines Valmet's zero tolerance approach to bribery and corruption in more detail • Sustainable Supply Chain Policy: Describes Valmet's requirements for sustainable operating principles
• Valmet's comprehensive framework and monitoring system for human rights due diligence in own operations contains long-term action plans that are monitored and reported	• Risk management evaluation and audits help Valmet to find the best ways to manage risks and to train the unit’s personnel to use existing tools and procedures to manage risk
Risks: • Potential violations of human and labor rights and unethical business practices can impact Valmet’s reputation and thus financial position Risk management: • Valmet's comprehensive framework for human rights due diligence helps to identify and mitigate human rights risks	Risks: • Unethical business practices can impact Valmet’s reputation and thus financial position Risk management: • Internal risk management audits and global process for supplier sustainability
• Reporting system in place for violations of Code of Conduct • Human rights impact assessment carried out and improvement actions defined in one location, according to Valmet’s human rights due diligence process	• Valmet executes supplier sustainability audits globally. Business ethics are an integrated part of Valmet's audit checklist • Reporting system in place for violations of Code of Conduct

Shares and shareholders

Development of Valmet's share price since listing, January 2, 2014–December 31, 2018



Share capital and share data[1]

	2018	2017	2016
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,617,820**	149,864,220	149,864,220
Treasury shares held by the Parent Company	**246,799**	399	399
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,649,501**	149,864,220	149,864,220
Average number of diluted shares	**149,649,501**	149,864,220	149,864,220
Trading volume on Nasdaq Helsinki Ltd.[2]	**102,204,539**	89,279,591	103,423,288
% of total shares for public trading	**68.3**	59.6	69.0
Earnings per share, EUR	**1.01**	0.81	0.55
Earnings per share, diluted, EUR	**1.01**	0.81	0.55
Dividend per share, EUR	**0.65**[3]	0.55	0.42
Dividend, EUR million	**97**[3]	82	63
Dividend to earnings	**64%**[3]	68%	76%
Effective dividend yield	**3.6%**[3]	3.3%	3.0%
Price to earnings ratio (P/E)	**17.8**	20.4	25.4
Equity per share, EUR	**6.31**	6.09	5.88
Highest share price, EUR	**20.94**	18.44	15.06
Lowest share price, EUR	**15.50**	13.45	8.08
Volume-weighted average share price, EUR	**17.77**	16.08	11.52
Share price, December 31, EUR	**17.95**	16.44	13.98
Market capitalization, December 31, EUR million	**2,690**	2,464	2,095

[1] The formulas for calculation of the figures are presented in the section 'Formulas for Calculation of Indicators'.
[2] In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe BXE, Cboe CXE and Turquoise. A total of approximately 66 million of Valmet's shares were traded on alternative marketplaces in 2018, which equals to approximately 39 percent of the share's total trade volume. (Source: Fidessa)
[3] Board of Directors' proposal

Largest shareholders on December 31, 2018

		Shares	% of share capital
1	Solidium Oy[1]	16,695,287	11.14%
2	Varma Mutual Pension Insurance Company	4,165,465	2.78%
3	Elo Pension Company	3,600,000	2.40%
4	Ilmarinen Mutual Pension Insurance Company	3,040,000	2.03%
5	The State Pension Fund	1,545,000	1.03%
6	Keva	1,502,166	1.00%
7	Danske Invest funds	843,190	0.56%
8	Evli Funds	843,000	0.56%
9	Nordea Funds	742,705	0.50%
10	Mandatum Life Insurance Company Limited	739,656	0.49%
11	Odin Funds	674,945	0.45%
12	Sigrid Jusélius Foundation	610,865	0.41%
13	The Finnish Cultural Foundation	506,452	0.34%
14	Sijoitusrahasto Aktia Capital	500,000	0.33%
15	Evli Europe Fund	478,767	0.32%

[1] Solidium Oy is wholly owned by the Finnish state.

Holdings of the Board of Directors in Valmet Oyj on December 31, 2018

		Shares
Risberg, Bo	Chairman of the Board	12,554
Cantell, Aaro	Vice Chairman of the Board	4,448
Kemppainen, Pekka	Member of the Board	1,217
Maurer, Monika	Member of the Board	1,217
Söderström, Eriikka	Member of the Board	2,347
Tyni, Tarja	Member of the Board	4,143
Ziviani, Rogério	Member of the Board	8,330
Total		**34,256**
% of outstanding shares		**0.02%**

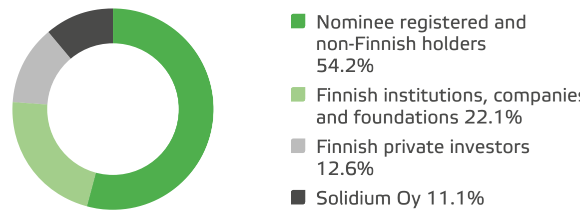
Holdings of the Executive Team in Valmet Oyj on December 31, 2018

		Shares
Laine, Pasi	President and CEO	116,244
Karlstedt, Bertel	Business Line President, Pulp and Energy	34,217
King, David	Area President, North America	18,691
Lappalainen, Juha	SVP, Strategy and Operational Development	29,444
Macharey, Julia	SVP, Human Resources	22,036
Niemi, Aki	Business Line President, Services	44,136
Riekkola, Sami	Business Line President, Automation	3,657
Saarinen, Kari	CFO	32,671
Salonsaari-Posti, Anu	SVP, Marketing and Communications	16,752
Simola, Vesa	Area President, EMEA	33,003
Tacla, Celso	Area President, South America	65,970
Tiitinen, Jukka	Area President, Asia-Pacific	70,760
Vähäpesola, Jari	Business Line President, Paper	41,116
Zhu, Xiangdong	Area President, China	11,480
Total		**540,177**
% of outstanding shares		**0.36%**

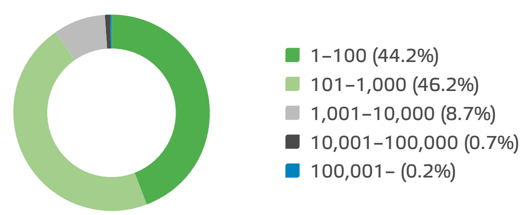
Number of shareholders

The number of registered shareholders at the end of December 2018 was 43,692 (45,890).

Distribution of shareholding by sector on December 31, 2018, %



Distribution of shareholders by number of shares held, %



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%	-	-	Below 5%
March 26, 2018	BlackRock, Inc.	Above 5%	4.15%	0.85%	5.00%
May 2, 2018	BlackRock, Inc.	Below 5%	-	-	Below 5%
May 3, 2018	BlackRock, Inc.	Above 5%	4.33%	0.69%	5.03%
May 7, 2018	BlackRock, Inc.	Below 5%	-	-	Below 5%
May 9, 2018	BlackRock, Inc.	Above 5%	4.33%	0.73%	5.06%
May 10, 2018	BlackRock, Inc.	Below 5%	-	-	Below 5%
May 14, 2018	BlackRock, Inc.	Above 5%	4.32%	0.67%	5.00%
May 15, 2018	BlackRock, Inc.	Below 5%	-	-	Below 5%

Trading of shares

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

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

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

Board authorizations regarding share repurchase and share issue

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

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

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

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

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

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

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

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

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

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

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

Share-based incentive plans

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

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

Long-term incentive plan 2015–2017

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

Discretionary 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 number of shares (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.

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

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

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

Resolutions of Valmet Oyj'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.

Lawsuits and claims

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

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

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

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

Risks and business uncertainties

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

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

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

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

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

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

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

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

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

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

Management of project business risks important

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

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

Availability of financing crucial

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

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

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

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

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

Events after the reporting period

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

Guidance for 2019

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

Short-term outlook

General economic outlook

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

Short-term market outlook

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

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

Board of Director's proposal for the distribution of profit

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

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

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

In Espoo on February 7, 2019
Valmet's Board of Directors

Financial Indicators

EUR million	Dec 31, 2018	Dec 31, 2017[1]	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
		As at and for the twelve months ended			
Net sales	**3,325**	3,058	2,926	2,928	2,473
Net sales change, %	**9%**	5%	0%	18%	-5%
Operating profit	**211**	170	147	120	72
% of net sales	**6.4%**	5.6%	5.0%	4.1%	2.9%
Profit before taxes	**205**	158	136	108	67
% of net sales	**6.2%**	5.2%	4.6%	3.7%	2.7%
Profit for the period	**152**	121	82	78	46
% of net sales	**4.6%**	4.0%	2.8%	2.7%	1.9%
Profit attributable to owners of the parent	**151**	121	83	77	46
Amortization	**-30**	-31	-35	-37	-22
Depreciation	**-46**	-49	-51	-55	-51
Depreciation and amortization	**-76**	-81	-87	-92	-72
% of net sales	**-2.3%**	-2.6%	-3.0%	-3.1%	-2.9%
Comparable EBITA	**257**	218	196	182	106
% of net sales	**7.7%**	7.1%	6.7%	6.2%	4.3%
EBITA	**241**	202	183	157	94
% of net sales	**7.2%**	6.6%	6.2%	5.3%	3.8%
Financial income and expenses, net	**-6**	-13	-12	-10	-5
% of net sales	**-0.2%**	-0.4%	-0.4%	-0.3%	-0.2%
Interest expenses	**-7**	-8	-9	-13	-12
% of net sales	**-0.2%**	-0.2%	-0.3%	-0.5%	-0.5%
Gross capital expenditure (excl. business combinations)	**-79**	-66	-60	-44	-46
% of net sales	**-2.4%**	-2.2%	-2.1%	-1.5%	-1.8%
Business combinations, net of cash acquired and loans repaid	**-2**	-	-	-323	-
Cash flow provided by operating activities	**284**	291	246	78	236
Cash flow after investments	**208**	227	188	-287	194
Research and development expenses, net	**-66**	-64	-64	-59	-42
% of net sales	**-2.0%**	-2.1%	-2.2%	-2.0%	-1.7%
Total assets	**2,988**	2,908	2,958	2,894	2,412
Equity attributable to owners of the parent	**944**	913	881	855	804
Total equity	**949**	918	886	860	809
Interest-bearing liabilities	**201**	219	310	371	68
Net interest-bearing liabilities	**-219**	-100	52	178	-166
Net working capital (NWC)	**-474**	-387	-294	-238	-353
Return on equity (ROE), %[2]	**16%**	13%	9%	9%	6%
Return on capital employed (ROCE) before taxes, %[2]	**19%**	14%	12%	12%	9%
Equity to assets ratio, %	**43%**	42%	37%	36%	42%
Gearing, %	**-23%**	-11%	6%	21%	-21%
Orders received	**3,722**	3,272	3,139	2,878	3,071
Order backlog at end of year	**2,829**	2,458	2,283	2,074	1,998
Average number of personnel	**12,461**	12,208	12,261	11,781	10,853
Personnel at end of year	**12,528**	12,268	12,012	12,306	10,464

[1] 2017 financials have been presented on restated basis.
[2] In the calculation of 2017 figures, non-restated data points from 2016 have been used.

Formulas for Calculation of Indicators

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

EBITA:

Operating profit + amortization

Comparable EBITA:

Operating profit + amortization +/- items affecting comparability

Earnings per share:

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

Earnings per share, diluted:

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

Return on equity (ROE), %:

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

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

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

Comparable return on capital employed (ROCE) before taxes, %:

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

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

Dividend per share:

$$\frac{\text{Dividend for the financial period}}{\text{Number of shares at end of period}}$$

Dividend / earnings ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Dividend per share}}{\text{Closing share price at end of period}} \times 100$$

Price / earnings ratio:

$$\frac{\text{Closing share price at end of period}}{\text{Earnings per share}}$$

Consolidated Statement of Income

		Year ended Dec 31,	
EUR million	**Note**	**2018**	**2017[1]**
Net sales	2, 3	**3,325**	3,058
Cost of goods sold	4, 6, 13	**-2,561**	-2,362
Gross profit		**764**	696
Selling, general and administrative expenses	4, 13, 18	**-532**	-517
Other operating income	19	**14**	18
Other operating expenses	19	**-36**	-27
Share in profits and losses of associated companies, operative investments	22	**1**	1
Operating profit		**211**	170
Financial income	10	**3**	3
Financial expenses	10	**-9**	-16
Share in profits and losses of associated companies, financial investments	22	**-1**	1
Profit before taxes		**205**	158
Current tax expense		**-47**	-44
Deferred taxes		**-6**	7
Income taxes, total	16	**-53**	-36
Profit for the period		**152**	121
Attributable to:			
Owners of the parent		**151**	121
Non-controlling interests		**-**	-
Profit for the period		**152**	121
Earnings per share attributable to owners of the parent:			
Earnings per share, EUR		**1.01**	0.81
Diluted earnings per share, EUR		**1.01**	0.81

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

Consolidated Statement of Comprehensive Income

		Year ended Dec 31,	
EUR million	**Note**	**2018**	**2017[1]**
Profit for the period		**152**	121
Items that may be reclassified to profit or loss:			
Cash flow hedges	7, 9, 17	**-16**	14
Currency translation on subsidiary net investments	17	**-10**	-20
Income tax relating to items that may be reclassified	16	**4**	-3
Total items that may be reclassified to profit or loss		**-23**	-9
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans	15	**-15**	-4
Income tax relating to items that will not be reclassified[2]	16	**3**	-5
Total items that will not be reclassified to profit or loss		**-12**	-9
Other comprehensive income / expense		**-35**	-18
Total comprehensive income / expense		**117**	104
Attributable to:			
Owners of the parent		**116**	104
Non-controlling interests		**-**	-
Total comprehensive income / expense		**117**	104

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

[2] Change in income taxes related to remeasurement of defined benefit plans in 2017 primarily arises from the tax reform in USA.

Consolidated Statement of Financial Position

Assets

EUR million	Note	As at Dec 31, 2018	2017[1]
Non-current assets			
Intangible assets			
Goodwill		**617**	614
Other intangible assets		**201**	200
Total intangible assets	4	**818**	814
Property, plant and equipment			
Land and water areas		**24**	25
Buildings and structures		**117**	124
Machinery and equipment		**170**	170
Assets under construction		**36**	35
Total property, plant and equipment	4	**348**	354
Other non-current assets			
Investments in associated companies	22	**14**	14
Non-current financial assets	7, 8, 9	**9**	24
Deferred tax asset	16	**69**	78
Non-current income tax receivables		**27**	24
Other non-current assets		**14**	10
Total other non-current assets		**133**	150
Total non-current assets		**1,299**	1,318
Current assets			
Inventories			
Materials and supplies		**85**	56
Work in progress		**265**	277
Finished products		**69**	82
Total inventories	6	**419**	415
Receivables and other current assets			
Trade receivables	7	**555**	546
Amounts due from customers from revenue contracts	3	**169**	164
Other current financial assets	7, 8, 9	**58**	29
Income tax receivables		**17**	25
Other receivables		**95**	116
Cash and cash equivalents	7	**376**	296
Total receivables and other current assets		**1,271**	1,175
Total current assets		**1,690**	1,590
Total assets		**2,988**	2,908

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

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	Note	As at Dec 31, 2018	2017[1]
Equity			
Share capital		**100**	100
Reserve for invested unrestricted equity		**416**	413
Cumulative translation adjustments		**-18**	-8
Hedge and other reserves		**-5**	7
Retained earnings		**451**	400
Equity attributable to owners of the parent	17	**944**	913
Non-controlling interests		**5**	5
Total equity		**949**	918
Liabilities			
Non-current liabilities			
Non-current debt	7	**162**	201
Post-employment benefits	15	**163**	150
Provisions	11	**30**	20
Other non-current liabilities	7, 9	**7**	3
Deferred tax liability	16	**50**	58
Total non-current liabilities		**412**	432
Current liabilities			
Current portion of non-current debt	7	**39**	18
Trade payables	7	**286**	287
Provisions	11	**119**	117
Advances received	3	**219**	261
Amounts due to customers under revenue contracts	3	**552**	455
Other current financial liabilities	7, 9	**25**	11
Income tax liabilities		**42**	48
Other current liabilities	12	**344**	361
Total current liabilities		**1,628**	1,558
Total liabilities		**2,039**	1,990
Total equity and liabilities		**2,988**	2,908

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

Consolidated Statement of Cash Flows

		Year ended Dec 31,	
EUR million	**Note**	**2018**	**2017[1]**
Cash flows from operating activities			
Profit for the period		**152**	121
Adjustments			
Depreciation and amortization	4	**76**	81
Financial income and expenses	10	**6**	13
Income taxes	16	**53**	36
Other non-cash items		**-39**	9
Change in net working capital	5	**86**	97
Interest paid		**-5**	-12
Interest received		**2**	4
Income taxes paid[2]		**-48**	-58
Net cash provided by (+) / used in (-) operating activities		**284**	291
Cash flows from investing activities			
Capital expenditures on fixed assets	4	**-79**	-66
Proceeds from sale of fixed assets		**6**	2
Business combinations, net of cash acquired and loans repaid	20	**-2**	-
Net cash provided by (+) / used in (-) investing activities		**-75**	-64
Cash flows from financing activities			
Redemption of own shares		**-4**	-2
Dividends paid		**-82**	-63
Principal payments of non-current debt		**-18**	-90
Financial investments		**-22**	-6
Net cash provided by (+) / used in (-) financing activities		**-127**	-161
Net increase (+) / decrease (-) in cash and cash equivalents		**82**	67
Effect of changes in exchange rates on cash and cash equivalents		**-2**	-10
Cash and cash equivalents at beginning of year	7	**296**	240
Cash and cash equivalents at end of year		**376**	296

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

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

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Hedge and other reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at January 1, 2017	100	407	11	-3	366	881	5	886
Change in accounting principles[1]	-	-	-	-	-9	-9	-	-9
Restated balance at January 1, 2017	**100**	**407**	**11**	**-3**	**356**	**871**	**5**	**876**
Profit for the period	-	-	-	-	121	121	-	121
Other comprehensive income / expense								
Cash flow hedges								
Fair value gains / losses, net of tax	-	-	-	10	-	10	-	10
Transferred to Other operating income / expenses in profit or loss, net of tax	-	-	-	1	-	1	-	1
Currency translation on subsidiary net investments	-	-	-19	-	-	-19	-	-20
Remeasurement of defined benefit plans, net of tax	-	-	-	-	-9	-9	-	-9
Other comprehensive income / expense total	-	-	-19	11	-9	-17	-	-18
Total comprehensive income / expense	-	-	-19	11	112	104	-	104
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-63	-63	-	-63
Purchase of treasury shares	-	-	-	-	-2	-2	-	-2
Share-based payments, net of tax	-	6	-	-	-3	3	-	3
Balance at December 31, 2017	100	413	-8	7	400	913	5	918
Balance at January 1, 2018	**100**	**413**	**-8**	**7**	**400**	**913**	**5**	**918**
Change in accounting principles[2]	-	-	-	-	-2	**-2**	-	**-2**
Restated balance at January 1, 2018	**100**	**413**	**-8**	**7**	**398**	**911**	**5**	**916**
Profit for the period	-	-	-	-	151	**151**	-	**152**
Other comprehensive income / expense								
Cash flow hedges								
Fair value gains / losses, net of tax	-	-	-	-6	-	**-6**	-	**-6**
Transferred to Other operating income / expenses in profit or loss, net of tax	-	-	-	-7	-	**-7**	-	**-7**
Currency translation on subsidiary net investments	-	-	-10	-	-	**-10**	-	**-10**
Remeasurement of defined benefit plans, net of tax	-	-	-	-	-12	**-12**	-	**-12**
Other comprehensive income / expense total	-	-	-10	-13	-12	**-35**	-	**-35**
Total comprehensive income / expense	-	-	-10	-13	139	**116**	-	**117**
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-82	**-82**	-	**-82**
Purchase of treasury shares	-	-	-	-	-4	**-4**	-	**-4**
Share-based payments, net of tax	-	3	-	-	-1	**3**	-	**3**
Balance at December 31, 2018	**100**	**416**	**-18**	**-5**	**451**	**944**	**5**	**949**

[1] Impact arising from the adoption of IFRS 15.
[2] Net impact arising from the adoption of IFRS 9, EUR -5 million, and amendments to IFRS 2, EUR 3 million, as of January 1, 2018.

Notes to the Consolidated Financial Statements

1 Basis of preparation

General information

Valmet Oyj (the "Company" or the "parent company"), a public limited liability company, and its subsidiaries (together "Valmet," "Valmet Group" or the "Group") is a global developer and supplier of sustainable technologies, automation and services for process industries. The main customers of Valmet operate in 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 the Nasdaq Helsinki Ltd as of January 2, 2014. The copies of the consolidated financial statements are available at www.valmet.com or the parent company's head office, Keilasatama 5, 02150 Espoo, Finland.

The consolidated financial statements were authorized for issue by Valmet's Board of Directors on February 7, 2019 after which, in accordance with Finnish Limited Liability Company Act, the financial statements are either approved, amended or rejected in the Annual General Meeting. The consolidated financial statements have been prepared in accordance with the basis of presentation set out below and accounting principles described in connection with each note.

Basis of presentation

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union. In the financial statements figures are presented in millions of euros subject to rounding, which may cause some rounding inaccuracies in aggregate column and row totals. Comparative financials for 2017 have been presented on restated basis due to adoption of IFRS 15 – Revenue from contracts with customers -standard.

Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which Valmet Group has control. Control over an entity exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When the Group has less than a majority of the voting or similar rights of an entity, the Group considers all relevant facts and circumstances in assessing whether it has control over an entity, including the contractual arrangement with the other vote holders of the entity, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains and losses arising from transactions between Group companies are eliminated.

Associated companies

The consolidated financial statements include associated companies in which Valmet either holds between 20 percent to 50 percent of the voting rights or in which Valmet otherwise has significant influence but not control. Investments in associated companies are accounted for using the equity method of accounting. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased to recognize Valmet's share of changes in net assets of the associates after the date of the acquisition. The Group's investment in associates includes goodwill identified on acquisition. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired.

Valmet's share of post-acquisition profit or loss is recognized in Consolidated Statement of Income and its share of post-acquisition movements in other comprehensive income (OCI) is recognized in Consolidated Statement of Comprehensive Income with a corresponding adjustment to the carrying amount of the investment. The share of results of associated companies is presented in Consolidated Statement of Income either included in Operating profit or adjacent to Financial income and expenses below Operating profit depending on the nature of the investment.

Foreign currency translation

Items included in the financial statements of each of Valmet Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in euros, which is the Group's presentation currency. The statements of income of foreign Group companies are translated into euros using the average exchange rate for the reporting period. The statements of financial position are translated at the closing exchange rate of the reporting date. Translating the net income for the period using different exchange rates in the Consolidated Statement of Income and in the Consolidated Statement of Financial Position, results in a translation difference, which is recognized in the Consolidated Statement of Comprehensive Income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange rate differences arising are recognized in the Consolidated Statement of Comprehensive Income.

When a foreign subsidiary is disposed of or sold, exchange rate differences that were recorded in equity are recognized in profit or loss as part of the gain or loss on sale.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of transaction. Non-monetary items that are measured at fair value are translated into functional currency using the exchange rate of the transaction date. Foreign exchange gains and losses resulting from the settlement of such balances and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognized in Consolidated Statement of Income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in Consolidated Statement of Income within Financial income and expenses. All other foreign exchange gains and losses are presented in Other operating income and expenses.

Key exchange rates:

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

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and exercise judgment in the application of the accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting principles applied and critical accounting estimates and judgments made are described adjacent to each note as follows:

- Revenue — Note 3
- Intangible assets and property, plant and equipment — Note 4
- Inventories — Note 6
- Financial assets and liabilities — Note 7
- Derivative financial instruments — Note 9
- Provisions — Note 11
- Post-employment benefit obligations — Note 15
- Income taxes — Note 16

2 Reporting segments and geographic information

Accounting principles

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

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

Reconciliation between Comparable EBITA, EBITA and operating profit:

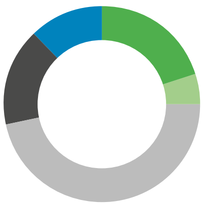
	Year ended Dec 31,	
EUR million	**2018**	**2017**
Comparable EBITA	**257**	218
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**-**	-2
Other items affecting comparability	**-1**	-7
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	**-**	-3
Other items affecting comparability	**-1**	-1
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	**-**	-4
Income and expenses arising from unused facilities	**-5**	1
Other items affecting comparability[1]	**-9**	-2
EBITA	**241**	202
Amortization included in cost of sales		
Other intangibles	**-1**	-2
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-18**	-23
Other intangibles	**-10**	-7
Operating profit	**211**	170

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

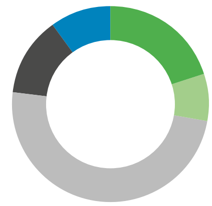
Entity-wide information

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

Net sales by destination 2018, EUR 3,325 million



Net sales by destination 2017, EUR 3,058 million



Non-current assets by location:

EUR million	Finland	North America	South America	EMEA excluding Finland	China	Asia-Pacific	Non-allocated	Total
2018	**197**	**96**	**18**	**91**	**78**	**20**	**707**	**1,207**
2017	202	90	19	83	83	20	709	1,206

Non-current assets comprise intangible assets, property, plant and equipment and investments in associated companies and joint ventures. Non-allocated assets include mainly goodwill, non-current income tax receivables and other fair value adjustments arising from business combinations that have not been pushed down to adjust the value of assets in the subsidiaries' books.

Gross capital expenditure (excluding business combinations) by location:

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

Major customers

Valmet enters into large long-term capital projects, which however individually rarely contribute more than 10 percent of annual revenue. In 2018 and 2017 there were no single customer with revenue exceeding 10 percent of net sales.

3 Revenue recognition

Changes in accounting principles, implementation of IFRS 15 – Revenue from contracts with customers

Valmet has adopted IFRS 15 – Revenue from contracts with customers, effective January 1, 2018. The standard was adopted by applying the full retrospective method with practical expedients with 2017 financials restated as if the new guidance had always been applied. The cumulative effect of applying IFRS 15 was therefore recognized in opening balance of Retained earnings as at January 1, 2017. Under practical expedients permitted by the standard, contracts that began and ended within 2017, and contracts that were completed prior to January 1, 2017, were not restated. For contracts completed by the end of 2017, management used the transaction price at the date when the contract was completed when restating revenues across comparative periods, rather than estimating revenue amounts for historic dates. The aggregated effect of all the modifications that occurred before January 1, 2017, was reflected in adjustment of the opening balance of Retained earnings as at January 1, 2017.

Performance obligations typically involve deliveries by several Valmet entities, across different countries. The impact of the change in revenues and profits on the tax expense was estimated by applying the long-term average historic Group tax rate into applicable pre-tax profits.

Arising primarily from the change in the method of measuring project progress in capital projects where revenue is recognized over time and transition into recognizing revenue at a performance obligation level, a transition adjustment amounting to EUR -9 million was recognized in opening balance of Retained earnings as at January 1, 2017. This decrease in net equity was split between a decrease in Profit before taxes and a reduction in tax expense of EUR 13 million and EUR 4 million, respectively. Decline in Profit before taxes was the net effect of revenue deferred in projects where revenue based on the cost-to-cost method of measuring progress towards complete satisfaction of the performance obligation remained behind that recognized based on the milestone-method, and acceleration of revenue recognition in projects where based on the cost-to-cost method revenue recognition was ahead of that based on the milestone-method.

Restatement of project revenues and costs across 2017 increased the Retained earnings impact by EUR 6 million by January 1, 2018 to negative EUR 15 million. This development was driven by revenue deferral in customer contracts entered into in 2017 exceeding revenue for restated customer contracts initiated earlier, with several customer contracts entered into before 2017 already completed during first half of 2017. In terms of nature of revenue, restatement only had an impact on the revenue arising from sale of projects, equipment and goods.

Main balance sheet items affected by application of the standard are Other current liabilities, Amounts due from customers under revenue contracts, Amounts due to customers under revenue contracts and Work in progress.

Following tables present the impact of transition to IFRS 15 on each key line item in 2017 statement of income and financial position.

Condensed statement of income on restated basis:

	Year ended Dec 31, 2017		
EUR million	**Reported**	**IFRS 15 impact**	**Restated**
Net sales	3,159	**-100**	3,058
Cost of goods sold	-2,455	**93**	-2,362
Gross profit	704	**-8**	696
Other operating items	-526	**-**	-526
Financial items	-12	**-**	-12
Profit before taxes	165	**-8**	158
Income taxes, total	-39	**2**	-36
Profit for the period	127	**-6**	121
Earnings per share attributable to owners of the parent:			
Earnings per share, EUR	0.84		0.81
Diluted earnings per share, EUR	0.84		0.81

Condensed statement of financial position on restated basis:

	As at Jan 1, 2017			As at Dec 31, 2017		
EUR million	**Reported**	**IFRS 15 impact**	**Restated**	**Reported**	**IFRS 15 impact**	**Restated**
Assets						
Intangible assets	837	**-**	837	814	**-**	814
Property, plant and equipment	374	**-**	374	354	**-**	354
Other non-current assets	151	**5**	156	142	**7**	150
Inventories	471	**-70**	401	442	**-27**	415
Receivables and other current assets	1,125	**-7**	1,118	1,222	**-46**	1,175
Total assets	2,958	**-72**	2,886	2,974	**-66**	2,908
Liabilities						
Equity	886	**-9**	876	933	**-15**	918
Non-current liabilities	501	**2**	503	431	**1**	432
Current liabilities	1,572	**-64**	1,507	1,610	**-53**	1,558
Total equity and liabilities	2,958	**-72**	2,886	2,974	**-66**	2,908

Accounting principles

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

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

Step 1: Identification of the contract(s) with a customer
Step 2: Identification of the performance obligations in the contract
Step 3: Determination of the transaction price attached to the contract
Step 4: Allocation of the transaction price to the performance obligations identified in the contract
Step 5: Recognition of revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

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

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

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

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

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

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

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

Critical accounting estimates and judgments

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

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

Revenue reporting 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	2018	2017
Services	**1,219**	1,178
Automation	**306**	296
Pulp and Energy	**863**	800
Paper	**937**	784
Total	**3,325**	3,058

Timing of revenue recognition:

EUR million	2018	2017
Performance obligations satisfied at a point in time	**1,503**	1,545
Performance obligations satisfied over time	**1,822**	1,513
Total	**3,325**	3,058

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

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

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

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

Amounts due from customers under revenue contracts:

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

Amounts due to customers under revenue contracts and advances received:

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

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

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

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

4 Intangible assets and property, plant and equipment

Accounting principles

Fixed assets consist of intangible assets and property, plant and equipment. Intangible assets, which comprise mainly goodwill, software, patents and licenses, are stated at historical cost less accumulated amortization and impairment losses, if any. Goodwill is not amortized, but tested for impairment.

Property, plant and equipment is stated at historical cost, less accumulated depreciation and impairment losses, if any. Land and water areas are not depreciated.

Subsequent improvement costs related to an asset are included in the carrying value of such an asset or recognized as a separate asset, as appropriate, only when the future economic benefits associated with the costs are probable, and the related costs can be separated from normal maintenance costs.

Depreciation and amortization

Amortization of intangible assets with a definite useful life is calculated on a straight-line basis over the expected economic lives of the assets, being the following:

Patents and licenses	5–10 years
Software	3–5 years
Technology	3–15 years
Customer relationships	3–15 years
Other intangibles (e.g. legal rights)	3–15 years

Depreciation of property, plant and equipment is calculated on a straight-line basis over the expected useful lives of the assets, being the following:

Buildings and structures	15–40 years
Machinery and equipment	3–20 years

Expected useful lives are reviewed at each balance sheet date and if they differ significantly from previous estimates the remaining depreciation periods are adjusted accordingly.

Impairment

The carrying value of fixed assets subject to amortization or depreciation is reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverable amount of an asset is the higher of its fair value and its value in use. An asset is impaired if its carrying amount exceeds its recoverable amount, at which time an impairment loss is recognized in the Consolidated Statement of Income in Other operating expenses. The previously recognized impairment loss may be reversed if, and only if, there is exceptional and significant improvement in the circumstances having initially caused the impairment.

The carrying value of goodwill is reviewed for impairment annually or more frequently, if the facts and circumstances, such as decline in sales, operating profit or cash flows or material adverse changes in the business environment, suggest that carrying value may not be recoverable. Valmet has three cash generating units (CGUs) that establish the first aggregation levels at which impairment testing can be done. The testing of goodwill for impairment is performed at the CGU level as goodwill does not generate cash flows independent from the CGUs. Valmet uses value in use method to measure the recoverable amount of goodwill subject to testing. Value in use is estimated through discounted cash flow method. A previously recognized impairment loss on goodwill is not reversed even if there is significant improvement in circumstances having initially caused the impairment.

Critical accounting estimates and judgments

Impairment testing

Preparation of impairment analysis requires use of numerous estimates. The valuation is inherently judgmental and highly susceptible to change from period to period, because it requires management to make assumptions about future supply and demand related to its individual business units, future sales prices and achievable cost levels.

The value of the benefits and savings expected from the efficiency improvement programs are inherently subjective. All outsized improvements are excluded from future cash inflows and outflows. The value in use of a cash generating unit is determined by discounting estimated future cash flows with a discount rate approximating the weighted average cost of capital (WACC).

The WACC is based on comparable peer industry betas and capital structure. It is additionally adjusted with specific risks associated with the estimated cash flows and therefore the rate may not be indicative of actual rates obtained in the market.

Triggering events for impairment reviews at Valmet include the following:

- Material permanent deterioration in the economic or political environment of the customers' or of own activity
- Business's or asset's significant under-performance relative to historical or projected future performance
- Significant changes in Valmet's strategic orientations affecting the business plans and previous investment policies.

Intangible assets:

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
2017					
Acquisition cost at beginning of year	624	34	74	436	1,168
Translation differences	-10	-	-	-3	-14
Capital expenditure	-	-	-	19	19
Acquired in business combinations	-	-	-	-	-
Retirements	-	-3	-	-1	-5
Reclassifications	-	2	4	-5	-
Other changes and disposals	-	-	-	-	-
Acquisition cost at end of year	614	33	77	446	1,169
Accumulated amortization at beginning of year	-	-25	-61	-245	-331
Translation differences	-	-	-	2	3
Amortization charges for the year	-	-2	-5	-24	-31
Impairment losses	-	-1	-	-	-1
Retirements	-	3	-	1	5
Other changes and accumulated amortization of disposals	-	-	-	-	-
Accumulated amortization at end of year	-	-25	-65	-266	-355
Carrying value at end of year	614	8	12	180	814

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
2018					
Acquisition cost at beginning of year	614	33	77	446	**1,169**
Translation differences	-	-	-	-3	**-2**
Capital expenditure	-	-	-	26	**26**
Acquired in business combinations	3	-	-	2	**4**
Retirements	-	-2	-3	-	**-5**
Reclassifications	-	2	26	-28	**-**
Other changes and disposals	-	3	-	-	**3**
Acquisition cost at end of year	617	36	101	443	**1,196**
Accumulated amortization at beginning of year	-	-25	-65	-266	**-355**
Translation differences	-	-	-	2	**2**
Amortization charges for the year	-	-2	-8	-20	**-30**
Impairment losses	-	-1	-	-	**-1**
Retirements	-	2	3	-	**5**
Other changes and accumulated amortization of disposals	-	-	-	-	**-**
Accumulated amortization at end of year	-	-25	-70	-283	**-378**
Carrying value at end of year	**617**	**11**	**30**	**160**	**818**

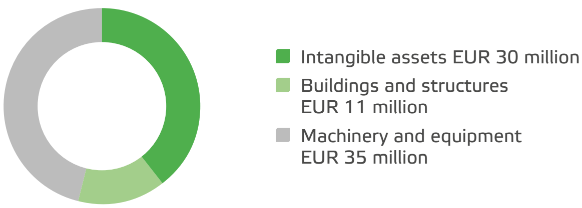
Property, plant and equipment:

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2017					
Acquisition cost at beginning of year	26	399	906	32	1,363
Translation differences	-	-11	-24	-3	-38
Capital expenditure	-	-	5	41	46
Acquired in business combination	-	-	-	-	-
Disposals	-	-1	-7	-	-8
Retirements	-	-1	-34	-	-35
Reclassifications	-	11	23	-34	-
Other changes	-	-	-2	-	-2
Acquisition cost at end of year	25	398	867	35	1,325
Accumulated depreciation at beginning of year	-	-266	-723	-	-989
Translation differences	-	6	18	-	24
Depreciation charges for the year	-	-13	-37	-	-49
Impairment losses	-	-	-	-	-
Disposals	-	-	6	-	6
Retirements	-	1	34	-	35
Other changes	-	-2	4	-	1
Accumulated depreciation at end of year	-	-274	-697	-	-971
Carrying value at end of year	25	124	170	35	354

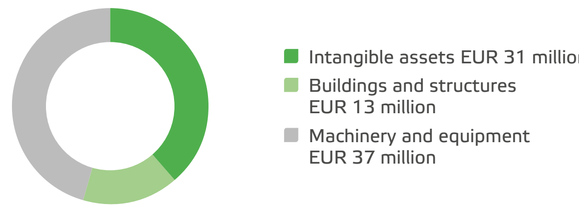
EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2018					
Acquisition cost at beginning of year	25	398	867	35	**1,325**
Translation differences	-	-3	-4	-	**-7**
Capital expenditure	1	2	4	47	**53**
Acquired in business combination	-	-	-	-	**-**
Disposals	-4	-29	-5	-	**-39**
Retirements	-	-3	-16	-	**-19**
Reclassifications	2	9	33	-44	**-**
Other changes	-	-	-7	-1	**-8**
Acquisition cost at end of year	24	373	873	36	**1,306**
Accumulated depreciation at beginning of year	-	-274	-697	-	**-971**
Translation differences	-	1	2	-	**3**
Depreciation charges for the year	-	-11	-35	-	**-46**
Impairment losses	-	-1	-	-	**-1**
Disposals	-	27	5	-	**32**
Retirements	-	3	16	-	**19**
Other changes	-	-	7	-	**7**
Accumulated depreciation at end of year	-	-256	-703	-	**-958**
Carrying value at end of year	**24**	**117**	**170**	**36**	**348**

As at December 31, 2018 and 2017 there were no material assets leased under financial lease arrangements included in Property, plant and equipment.

Depreciation and amortization 2018, EUR 76 million



Depreciation and amortization 2017, EUR 81 million



Depreciation and amortization by function are as follows:

	Year ended Dec 31,	
EUR million	**2018**	**2017**
Cost of goods sold	**-36**	-39
Selling, general and administrative expenses		
Marketing and selling	**-7**	-11
Research and development	**-4**	-4
Administrative	**-29**	-26
Total	**-76**	-81

Goodwill impairment testing

At the acquisition date goodwill arising from business acquisitions is allocated to the cash generating unit or cash generating units expected to benefit from the synergies of the combination, irrespective of whether other assets and/or liabilities of the acquiree are assigned to the CGU or CGUs.

In both 2018 and 2017 Valmet has identified three CGUs. The first CGU comprises of Valmet's Paper business line and the paper business related part of Valmet's service business. The second CGU comprises of Valmet's Pulp and Energy business line and the pulp and energy related part of Valmet's service business. The third CGU consists of Valmet's Automation business line.

Valmet assesses the value of its goodwill for impairment annually or more frequently, if facts and circumstances indicate, that a risk of impairment exists. If any such indication exists, then the carrying value of the CGU is compared to its recoverable amount, which is determined based on a value in use calculation. This calculation uses pre-tax cash flow projections based on financial budgets approved by Valmet's management and Board of Directors covering a three-year period.

The following table sets out the allocation of goodwill as at December 31, 2018 and 2017 and the key assumptions applied in the value in use calculations (in both financial years, testing was performed as at September 30).

Allocation of Goodwill:

EUR million	As at Dec 31, 2018	2017
Paper business line and the paper business related part of Valmet's service business	**166**	163
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**285**	287
Automation business line	**166**	164
Total	**617**	614

Key assumptions applied:

	2018	2017
Long-term growth rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**1.7%**	1.7%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**1.2%**	1.2%
Automation business line	**1.0%**	1.0%
Pre-tax discount rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**9.8%**	9.4%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**10.4%**	10.3%
Automation business line	**9.4%**	8.7%

The key assumptions are based on past performance and management's and Board of Directors' expectations on market development. Assumptions on product mix are in line with the Group's financial targets with stable business growth exceeding that of capital business. Profitability margin assumptions are reflecting improvement similarly in line with the Group's financial targets as communicated. External sources are also used to obtain data on growth and demand, as well as price development in establishing the assumptions. The discount rate used in testing is derived from the weighted average cost of capital based on comparable peer industry betas and capital structure. The assumptions requiring most judgment are the market development and product mix.

As a result of the annual impairment tests, no impairment loss was recognized on goodwill in 2018, or in 2017.

Sensitivity analysis

Valmet's management has assessed that no reasonably possible change in any of the key assumptions would cause any of the CGU's carrying amount to exceed its recoverable amount.

A change in a key assumption that would cause the recoverable amount to equal the carrying amount of each one of the CGU is presented in the table below.

Sensitivities on key assumptions:

	Change
EBITDA	
Paper business line and the paper business related part of Valmet's service business	decrease more than 60 percent
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	decrease more than 35 percent
Automation business line	decrease more than 55 percent
Pre-tax discount rate, (%)	
Paper business line and the paper business related part of Valmet's service business	increase to more than 57 percent
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	increase to more than 21 percent
Automation business line	increase to more than 23 percent

5 Net working capital

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

[1] Included in non-current and/or current financial assets in the Consolidated Statement of Financial Position.
[2] Included in other non-current liabilities and other current financial liabilities in the Consolidated Statement of Financial Position.
[3] Includes opening balance adjustment to allowances due to implementation of IFRS 9.

6 Inventories

Accounting principles

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated amount that can be realized from the sale of the asset in the normal course of business after allowing for the costs of sale. For materials and supplies and finished products, cost is determined on a first in, first out (FIFO) basis.

Critical accounting estimates and judgments

Valmet's policy is to maintain a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. The estimate is based on a systematic ongoing review and evaluation of inventory balances. As part of this evaluation, Valmet also considers the composition and age of the inventory compared to anticipated future needs.

Specification of changes in inventory obsolescence provision:

EUR million	2018	2017
Balance at beginning of year	**29**	21
Translation differences	**-**	-1
Additions charged to profit / loss	**9**	12
Used reserve	**-4**	-
Reversals	**-6**	-5
Other changes	**-**	3
Balance at end of year	**28**	29

The cost of inventories recognized as expense was EUR 2,525 million and EUR 2,323 million for the years ended December 31, 2018 and 2017, respectively.

The Work in progress balance includes specific costs identified for ongoing capital and service projects, for which revenue is recognized at a point in time, as of the balance sheet date. These costs usually include direct inventory costs and costs for absorption of engineering, supplies, manufacturing and project management costs. As of December 31, 2018, the Work in progress amounted to EUR 265 million (EUR 277 million) and Total inventories amounted to EUR 419 million (EUR 415 million).

7 Financial assets and liabilities

Changes in accounting principles, implementation of IFRS 9 – Financial instruments

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

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

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

[1] Fair Value Through Profit or Loss (FVTPL), Fair Value Through Other Comprehensive Income (FVTOCI).
[2] Valmet applies fair value through other comprehensive income option to a certain equity investment.

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

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

Valmet's management decided not to restate prior periods due to the implementation of IFRS 9, and the total adjustment of EUR -5 million was recognized to the opening balance of Retained earnings at transition as at January 1, 2018. More detailed description of IFRS 9 based accounting principles applied from January 1, 2018 onwards is provided below.

Accounting principles

Valmet classifies its financial assets into the following categories: At amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. Measurement category of financial assets is determined based on related business model and contractual cash flow characteristics of a given instrument. Financial assets are derecognized when the contractual rights to cash flows have expired, or the rights to cash flows together with substantially all risks and rewards of ownership, have transferred.

Financial liabilities are classified either at amortized cost or at fair value through profit or loss. Financial liabilities are derecognized when they are extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires.

For other financial assets and liabilities than derivatives, settlement date accounting is applied. Both financial assets and liabilities are presented as non-current when their maturity exceeds 12 months.

Financial assets at amortized cost

The Group's financial assets measured at amortized cost include trade, loan and other receivables together with cash and cash equivalents. These assets are recognized initially at fair value including transaction costs. Trade receivables are the most significant of these assets, and for them the fair value equals to the original amount invoiced to customers, net of allowance for expected credit losses. Subsequently the assets are recognized at amortized cost using the effective interest rate method. If extended payment terms exceeding one year are offered to counterparty, the receivable is discounted to present value and interest income is recognized over the credit term.

As required by general impairment guidelines set out in IFRS 9, Valmet evaluates changes in credit risk associated with different financial assets at each reporting date. If credit risk has not changed significantly since initial recognition, allowance amounting to expected credit losses for next 12 months is recognized. Should the credit risk have changed significantly, valuation of allowance is based on lifetime expected credit losses.

For trade receivables and contract assets arising from customer contracts for which revenue is recognized over time, simplified impairment model is applied and valuation of allowance is based on lifetime expected credit losses which are recognized at the time of the initial recognition of an asset. Valmet's application of the simplified impairment model considers historical credit loss experience, time value of money and forward-looking information relevant to estimate future credit losses and the inputs used in the model are updated on a regular basis. The model applied includes statistical model together with an option to apply case-by-case analysis for significant trade receivables overdue more than 90 days. Final bad debts are written off when official announcement of receivership, liquidation or bankruptcy is received confirming that the receivable will not be honored by the customer. Changes in allowance together with final bad debts are reported under Other operating income and expenses.

Financial assets at fair value through other comprehensive income

Majority of Valmet's financial assets measured at fair value through other comprehensive income are interest-bearing investments managed centrally by the Group treasury. Business model for these investments involves both holding until maturity and selling before maturity date approaches, depending on prevailing market circumstances and Group treasury's operational requirements. Gains and losses from these investments are recognized in the fair value reserve of Equity and at derecognition these are recycled through OCI to Consolidated Statement of Income.

Valmet also applies fair value through other comprehensive income option to a certain equity investment in a publicly traded company, due to strategic nature of the ownership. Change in fair value of the related shares is also recognized in the fair value reserve of Equity. Should the investment be divested in the future, any cumulative gain or loss remains in Equity, and is not recycled through OCI to Consolidated Statement of Income. Any dividend income arising from this equity investment is recognized in Consolidated Statement of Income. Fair value of the equity investment classified at fair value through other comprehensive income as at December 31, 2018 was EUR 1 million.

Financial assets and liabilities at fair value through profit or loss

Majority of the Group's financial assets and liabilities classified as at fair value through profit or loss are derivative financial instruments and the related accounting principles are covered in Note 9. Valmet's other equity holdings, excluding one strategic equity investment, include various industrial participations, shares in real estate holdings and other shares which are measured at fair value through profit or loss. For these other equity ownerships, if reliable market value does not exist, historical cost is considered best available estimate of fair value. Valmet has not voluntarily assigned any financial assets or liabilities to be measured at fair value in addition to items designated to this category mandatorily in accordance with IFRS 9.

Financial liabilities at amortized cost

Valmet's financial liabilities measured at amortized cost consist of loans from financial institutions and trade payables. Loans from financial institutions are initially recognized at fair value as at the settlement date, net of transaction costs incurred. Subsequently these liabilities are measured at amortized cost by using the effective interest rate method. Loans from financial institutions are classified as current liabilities unless Valmet has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Fair value estimation

For those financial assets and liabilities, which have been recognized at fair value in the Consolidated Statement of Financial Position, the measurement hierarchy and valuation methods described below have been applied. There have been no transfers between fair value levels.

Level 1

Quoted unadjusted prices at reporting date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market data provider, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include equity and interest-bearing investments classified as financial assets at fair value through other comprehensive income.

Level 2

The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market data provider, pricing service or regulatory agency. Level 2 financial instruments include over-the-counter (OTC) derivatives classified as financial assets and liabilities at fair value through profit or loss or OCI, when these qualify for hedge accounting.

Level 3

A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. There were no changes in Level 3 instruments for the 12 months ended December 31, 2018.

Critical accounting estimates and judgments

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

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

Classification of financial assets and liabilities as at December 31:

EUR million	At amortized cost	At fair value through other comprehensive income	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2018							
Non-current financial assets							
Equity investments	-	3	-	-	3	3	1, 3
Loan receivables	-	-	-	-	1	1	2
Derivative financial instruments	-	-	-	5	5	5	2
Total	**-**	**3**	**1**	**5**	**9**	**9**	
Current financial assets							
Interest-bearing investments	-	41	3	-	44	44	1, 2
Trade receivables	555	-	-	-	555	555	2
Derivative financial instruments	-	-	5	9	14	14	2
Cash and cash equivalents	376	-	-	-	376	376	1, 2
Total	**931**	**41**	**8**	**9**	**989**	**989**	

EUR million	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2018						
Non-current financial liabilities						
Loans from financial institutions	162	-	-	162	164	2
Derivative financial instruments[1]	-	-	3	4	4	2
Total	**162**	**-**	**3**	**166**	**168**	
Current financial liabilities						
Loans from financial institutions	39	-	-	39	39	2
Trade payables	286	-	-	286	286	2
Derivative financial instruments	-	8	17	25	25	2
Total	**326**	**8**	**17**	**351**	**351**	

[1] Included in Other non-current liabilities in the Consolidated Statement of Financial Position.

EUR million	Loans and receivables	Available-for-sale	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2017							
Non-current financial assets							
Equity investments	-	3	-	-	3	3	1, 3
Loan receivables	17	-	-	-	17	17	2
Trade receivables	2	-	-	-	2	2	2
Derivative financial instruments	-	-	-	1	2	2	2
Total	19	3	-	1	24	24	
Current financial assets							
Interest-bearing investments	-	6	-	-	6	6	1
Trade receivables	546	-	-	-	546	546	2
Derivative financial instruments	-	-	7	16	23	23	2
Cash and cash equivalents	-	-	296	-	296	296	2
Total	546	6	303	16	871	871	

EUR million	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2017						
Non-current financial liabilities						
Loans from financial institutions	201	-	-	201	203	2
Derivative financial instruments	-	-	2	2	2	2
Total	201	-	2	203	206	
Current financial liabilities						
Loans from financial institutions	18	-	-	18	18	2
Trade payables	287	-	-	287	287	2
Derivative financial instruments	-	3	7	11	11	2
Total	305	3	7	316	316	

Non-current equity investments comprise EUR 1 million listed shares (EUR 1 million) and various industrial participations, shares in real estate holdings and other shares amounting to EUR 2 million as at December 31, 2018 (EUR 2 million). Current interest-bearing investments managed centrally by the Group treasury amount to EUR 44 million (EUR 6 million).

Valmet manages its cash by investing in financial assets with varying maturities. Interest-bearing investments with maturities at the date of acquisition exceeding three months are classified as Other current financial assets and assets with maturities of three months or less are classified as Cash and cash equivalents in the Consolidated Statement of Financial Position. Cash and cash equivalents comprise cash at bank and in hand EUR 274 million (EUR 221 million), investments to commercial paper EUR 33 million (EUR 26 million) and other short-term investments with maturity of three months or less EUR 68 million (EUR 49 million). For more information on derivative financial instruments, see Note 9.

Analysis of trade receivables by age:

EUR million	As at Dec 31, 2018	2017
Trade receivables, not due at reporting date	**380**	364
Trade receivables 1–30 days overdue	**80**	100
Trade receivables 31–60 days overdue	**30**	24
Trade receivables 61–90 days overdue	**18**	17
Trade receivables 91–180 days overdue	**11**	9
Trade receivables more than 180 days overdue	**37**	35
Total	**555**	548

Allowance for trade receivables and contract assets has changed as follows:

EUR million	Year ended Dec, 31 2018	2017
Balance at beginning of year	**16**	14
Change in accounting principles[1]	**6**	-
Translation differences	**-**	-1
Additions charged to profit / loss	**4**	5
Used reserve	**-1**	-1
Reversals	**-4**	-5
Other changes	**-2**	3
Balance at end of year	**18**	16

[1] Gross impact arising from the adoption of IFRS 9 as of January 1, 2018.

8 Interest-bearing financial instruments

EUR million	As at Dec 31, 2018	2017
Non-current financial assets		
Interest-bearing	**-**	17
Non-interest-bearing	**8**	7
Total	**9**	24
Other current financial assets		
Interest-bearing	**44**	6
Non-interest-bearing	**14**	23
Total	**58**	29

Setting aside loans from financial institutions, the Group does not carry any other interest-bearing liabilities.

9 Derivative financial instruments

Accounting principles

Derivative financial instruments

Derivative financial instruments are used to hedge the Group's exposure to interest rate, foreign currency exchange rate and commodity price risks arising from operational, financing and investment activities in accordance with Valmet's treasury policy, which is discussed further in Note 21.

Trade date accounting is applied to Group's derivative financial instruments and these are measured at initial recognition and at each reporting date at fair value in balance sheet. Fair value of open derivative contracts is calculated as present value of future cash flows using currency, interest and commodity price quotations at reporting date. The instruments are classified as non-current assets or liabilities when the remaining maturities exceed 12 months and as current assets or liabilities when the remaining maturities are 12 months or less.

When hedge accounting is applied derivatives are designated at inception either as hedges of firm commitments or highly probable forecasted sale and purchase transactions. When hedge accounting criteria are not met derivatives are classified at fair value through profit or loss.

Application of hedge accounting

Valmet has designated certain forward exchange contracts, interest rate swaps, and electricity forward contracts to cash flow hedge accounting relationships. When hedge accounting is applied, the relationship between the hedging instrument and the hedged item is documented, including related risk management strategy and objectives. Both at hedge inception and at each reporting date a forward-looking assessment is performed to ensure that changes in cash flows of the hedging instrument are expected to offset changes in cash flows from the hedged item. When performing this assessment, if critical terms of hedging instrument and hedged item match, economic relationship exists, and hedge accounting relationship is considered effective. In Group's hedge accounting relationships hedge ratio is 1:1 (i.e. the relationship between the quantity of hedging instrument and quantity of hedged risk in their relative weighting).

For derivatives that have been designated to a cash flow hedge accounting relationship, the effective portion of change in fair value is recognized through OCI in the hedge reserve under Equity and reclassified to profit or loss concurrently with the underlying hedged transaction. The gain or loss relating to the ineffective portion of derivatives hedging operative items is reported under Other operating income and expenses in profit or loss. Respectively, the ineffective portion of derivatives hedging non-operative items is reported under Financial income and expenses in profit or loss. Ineffectiveness arising from application of hedge accounting during the reporting period was insignificant. Should a hedged transaction no longer be expected to occur, any cumulative gain or loss previously recognized under Equity is reclassified through OCI to profit or loss.

When hedging for changes in foreign currency denominated firm commitments or highly probable forecasted sale and purchase transactions, currency component of forward exchange contracts has been designated as hedging instrument in hedge accounting relationships. The interest component of forward exchange contracts is not part of Valmet's hedge accounting relationships and is recognized in Consolidated Statement of Income under Other operating income and expenses as incurred.

Valmet has designated all open interest rate swaps as hedging instruments to hedge future changes in cash flows arising from Valmet's floating rate loans from financial institutions. Interest arising from interest rate swaps is reported under Financial income and expenses concurrently with interest expense arising from hedged floating rate loans from financial institutions.

For highly probable forecasted purchases of electricity, the Group has designated system-price component of electricity purchases as hedged risk and electricity forward contracts as hedging instruments to hedge accounting relationships. The realized gains and losses related to effective portion of the electricity forward contracts are recognized in Consolidated Statement of Income under Cost of goods sold, whereas the ineffective portion of both realized and unrealized electricity forward contracts is recognized in Other operating income and expenses.

Derivatives at fair value through profit or loss

Certain forward exchange contracts and commodity derivatives do not qualify for hedge accounting and change in fair value is recorded through profit or loss. Gains or losses arising from derivatives hedging operative items are recognized in Other operating income and expenses. However, when the forward exchange contracts hedge exchange rate risk arising from foreign currency denominated non-operative financial items such as loans from financial institutions, loans receivable and cash, gains and losses are recognized in Financial income and expenses in profit or loss.

Critical accounting estimates and judgments

Financial instruments

In accordance with the disclosure requirements on financial instruments, the management is obliged to make certain assumptions of the future cash inflows and outflows arising from such instruments. The management has to assume that the fair values of derivatives, especially foreign currency denominated derivatives at reporting date, materially reflect the future cash inflows or outflows to be realized from such instruments.

Hedging of foreign currency denominated firm commitments or highly probable forecasted sale and purchase transactions

Under Valmet's treasury policy, all Valmet entities are required to hedge their foreign currency risk when they have become engaged in a firm commitment denominated in a currency different from their functional currency. The commitment can be between Valmet entities or external to Valmet Group. In addition, certain highly probable forecasted sales and purchases are hedged in co-operation with the Group treasury. When revenue for a customer contract is recognized over time, the entity applies cash flow hedge accounting to both foreign currency denominated sales and purchases and recognizes the effect from the hedging instruments in the OCI until the hedged sales and/or purchases are recognized in Consolidated Statement of Income. Although the exposure hedged by Valmet entities has been clearly defined in Valmet treasury policy, the final realization of the hedged items depends also on factors beyond management control, which cannot be foreseen when initiating the hedge relationship. Such factors include change in the market environment causing the other party to postpone or cancel the commitment or highly probable forecasted sale or purchase. Management tries to the extent possible to include in the contracts clauses reducing the impact of such adverse events to the Consolidated Statement of Income.

Notional amounts and fair values of derivative financial instruments as at December 31 are as follows:

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
2018				
Forward exchange contracts[1]				
Under hedge accounting	1,567	12	-19	-8
Not qualifying for hedge accounting	804	5	-8	-3
Total	2,371	17	-28	-11
Electricity forward contracts[2]				
Under hedge accounting	158	2	-	2
Interest rate swaps[1]				
Under hedge accounting	30	-	-1	-1
Total		**19**	**-29**	**-10**
Netting fair values of derivative financial instruments subject to ISDAs[3]		-17	17	**-**
Total, net		**2**	**-12**	**-10**
2017				
Forward exchange contracts[1]				
Under hedge accounting	907	17	-8	9
Not qualifying for hedge accounting	632	7	-4	3
Total	1,539	24	-12	12
Electricity forward contracts[2]				
Under hedge accounting	82	-	-	-
Not qualifying for hedge accounting	77	-	-	-
Total	159	-	-	-
Nickel commodity swaps[4]				
Not qualifying for hedge accounting	18	-	-	-
Interest rate swaps[1]				
Under hedge accounting	30	-	-1	-1
Total		24	-13	11
Netting fair values of derivative financial instruments subject to ISDAs[3]		-12	12	-
Total, net		12	-1	11

[1] Notional amount in EUR million.

[2] Notional amount in GWh.

[3] Group's derivatives are carried out under International Swaps and Derivatives Association's Master Agreements (ISDA). In case of an event of default under these agreements the non-defaulting party may request early termination and set-off of all outstanding transactions. These agreements do not meet the criteria for offsetting in the Consolidated Statement of Financial Position.

[4] Notional amount in metric tons.

As at December 31, the maturities of financial derivatives are the following:

	2019	2020	2021	2022	2023 and later
2018					
Notional amounts					
Forward exchange contracts[1]	**1,969**	**374**	**23**	**6**	**-**
Electricity forward contracts[2]	**83**	**48**	**26**	**-**	**-**
Interest rate swaps[1]	**-**	**-**	**-**	**-**	**30**
Fair values, EUR million					
Forward exchange contracts	**-13**	**2**	**-**	**-**	**-**
Electricity forward contracts	**1**	**1**	**-**	**-**	**-**
Interest rate swaps	**-**	**-**	**-**	**-**	**-1**

	2018	2019	2020	2021	2022 and later
2017					
Notional amounts					
Forward exchange contracts[1]	1,424	111	3	-	-
Electricity forward contracts[2]	84	57	18	-	-
Interest rate swaps[1]	-	-	-	-	30
Nickel commodity swaps[3]	18	-	-	-	-
Fair values, EUR million					
Forward exchange contracts	12	-	-	-	-
Electricity forward contracts	-	-	-	-	-
Interest rate swaps	-	-	-	-	-1
Nickel commodity swaps	-	-	-	-	-

[1] Notional amount in EUR million.
[2] Notional amount in GWh.
[3] Notional amount in metric tons.

10 Financial income and expenses

EUR million	Year ended Dec 31, 2018	2017
Interest income on financial assets at amortized cost	**2**	3
Financial income total	**3**	3
Interest expenses on financial liabilities at amortized cost	**-3**	-4
Net interest from defined benefit plans	**-4**	-4
Net loss from foreign exchange	**-**	-2
Interest component from forward contracts	**-**	-5
Other financial expenses	**-1**	-2
Financial expenses total	**-9**	-16
Financial income and expenses, net	**-6**	-13

Interest expenses on financial liabilities at amortized cost include interest expenses on interest-bearing loans and interest rate swaps. In 2018 Financial income and expenses includes EUR 1 million exchange rate gains and losses from non-operative items (EUR -6 million) and EUR -2 million from derivatives measured at fair value through profit or loss (EUR 4 million), net balance of these amounting to EUR 0 million (EUR -2 million).

11 Provisions

Accounting principles

Restructuring and capacity adjustment costs

A provision for restructuring and capacity adjustment costs is recognized only after management has developed and approved a formal plan to which it is committed, and it has raised a valid expectation in those affected by the measures that it will carry out the restructuring by starting to implement that plan or announcing its main features.

The costs included in a provision for capacity adjustment are those costs that are either incremental or incurred as a direct result of the plan or are the result of a continuing contractual obligation with no continuing economic benefit to Valmet or a penalty incurred to cancel the contractual obligation. Restructuring and capacity adjustment expenses are recognized in either Cost of goods sold or Selling, general and administrative expenses depending on the nature of the expense. Restructuring costs can also include other costs incurred as a result of the plan, which are recorded under Other operating income and expenses, such as asset impairment charges.

Warranties

The Group generally offers warranties ranging from 12 to 24 months on its equipment deliveries. A provision for warranty is recognized for the estimated warranty claims for each project. The main principle in measuring the warranty provision is to book a certain percentage, based on past experience, of a project's total revenue as a provision for expected warranty work. For sales involving new technology and long-term delivery contracts, additional warranty provision may be established on a case-by-case basis to take into account the potentially increased risk. The actual warranty costs of each project are booked against the warranty provision and thus the remaining warranty provision of each project can be followed.

Actual warranty costs incurred on projects are monitored regularly in order to assess the need for amending the percentage based on which warranty provisions are recognized going forward.

Provisions, for which the expected settlement date exceeds one year from the moment of their recognition, are discounted to their present value and adjusted in subsequent periods for the time effect.

Provisions for expected contract losses

Onerous contract provision is recognized when the Group has a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is either the cost of fulfilling contractual obligations or penalties arising from the failure to fulfill those obligations.

Other provisions

Other provisions comprise provisions related to environment, personnel, legal and tax related processes.

Specification of changes in provisions:

	Year ended Dec 31, 2018				
EUR million	Warranty and guarantee liabilities	Restructuring provisions	Provisions for expected contract losses	Other provisions	Total
Balance at beginning of year	110	6	11	10	**137**
Translation differences	-2	-	-	-	**-2**
Addition charged to profit / loss	99	4	10	-	**114**
Used reserve	-65	-3	-12	-3	**-83**
Reversal of reserve / other changes	-14	-	-1	-2	**-17**
Balance at end of year	**128**	**6**	**9**	**6**	**149**
Non-current	26	1	-	3	**30**
Current	102	5	9	3	**119**

Provisions for expected contract losses relate primarily to long-term capital projects. The Group has no material environmental and product liabilities as at December 31, 2018 or December 31, 2017.

Critical accounting estimates and judgments

Under contractual warranty clauses, Valmet generally guarantees the performance of products delivered for a certain warranty period or term. The warranty provision is based on historical realized warranty costs for deliveries of standard products. The warranty period typically commences from the date of customer acceptance of the delivered equipment. For more complex contracts, including long-term projects, the warranty reserve is calculated contract by contract and updated regularly to ensure its sufficiency.

Provisions for capacity adjustments and restructuring costs are recognized when the requirements for recognition are satisfied. For reasons beyond the control of management the final costs may differ from the initial amount for which provision has been established.

Valmet recognizes a provision for losses associated with environmental remediation obligations when such losses are probable and reasonably calculable. Following initial recognition, the amount of provision may need to be adjusted later as further information is obtained or circumstances change.

12 Other current liabilities

EUR million	As at Dec 31, 2018	2017
Accrued personnel costs	**125**	122
Accrued project costs	**119**	133
Accrued interest	**1**	2
Other payables	**98**	105
Other current liabilities total	**344**	361

The maturity of payables is largely determined by local trade practices and individual agreements between Valmet and its suppliers and rarely exceeds six months. Accrued personnel costs, which include holiday pay, are settled in accordance with local laws and stipulations.

13 Personnel expenses and the number of personnel

Personnel expenses:

EUR million	Year ended Dec 31, 2018	2017
Salaries and wages	**-632**	-625
Pension costs, defined contribution plans[1]	**-69**	-62
Pension costs, defined benefit plans[2]	**-7**	-8
Other post-employment benefits[2]	**-3**	-4
Share-based payments[3]	**-6**	-5
Other indirect employee costs[1]	**-96**	-102
Total	**-812**	-807

[1] In 2018 EUR 7 million of social security costs, previously presented in other indirect employee costs, has been reclassified to pension costs to align presentation to follow the nature of costs.

[2] For more information, see Note 15.

[3] For more information, see Note 14.

Number of personnel:

	2018	2017
Personnel at end of year	**12,528**	12,268
Average number of personnel during the year	**12,461**	12,208

14 Share-based payments

Changes in accounting principles, amendments to IFRS 2 – Share-based Payment

Valmet has adopted amendments to IFRS 2 – Share-based Payment effective January 1, 2018. Following adoption of the amendments EUR 3 million was reclassified from Other current liabilities to Equity in relation to share-based payment transactions that carry a net settlement feature. As the amended measurement guidance applied only to share-based payment transactions that were unvested as at January 1, 2018, there was no adjustment to prior periods. The change in the measurement of the cash-settled share-based payment transactions did not have a material impact on compensation expense recognized in the reporting period.

Accounting principles

Valmet's share-based incentive plans are part of the remuneration and retention program for Valmet's key personnel. In majority of jurisdictions where key employees participating in the Group's long-term incentive (LTI) 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. Thus, the arrangements carry net settlement feature and both equity and cash settled portions of the plans are accounted for against equity.

The compensation expense for the shares is recognized as an employee benefit expense evenly during the required service period whereas the compensation expense resulting from the cash portion is recognized as an employee benefit expense on accrual basis between grant and payment date. Valuation of the related expenses is based on the market price of Valmet share on the grant date.

Non-market vesting conditions, such as operating profit, and services business growth, are included in assumptions about the amount of share-based payments that are expected to vest. At each balance sheet date, Valmet revises its estimates on the amount of share-based payments that are expected to vest. The impact of the revision to previous estimate is recognized through profit or loss with corresponding adjustment to equity.

Granted share amounts of the share-based incentive plans:

	2018
Plan 2015–2017	
At beginning of year	390,820
Paid	-390,820
Forfeited	-8,861
Expired	8,861
At end of year	-
Plan 2018–2020	
Granted	513,115
Forfeited	-10,530
Expired	-144,645
At end of year	357,940

Long-term incentive plan for 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 performance period. The plan has been directed to approximately 80 key employees.

The rewards from the plan were paid partly in Company shares and partly in cash. The cash portion was dedicated to cover taxes and tax-related payments arising from the reward to the key employee. The reward of the plan from one performance period could not exceed 120 percent of the key employee's annual base salary. As a rule, no reward was paid, if the key employee's employment or service ended before the reward payment. The shares paid as reward may not be transferred during the restriction period, which will end two years after the end of each performance period (Transfer Restriction). Should a key employee's employment or service end during the restriction period, as a rule, he or she must gratuitously return the shares given as reward to Valmet.

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. Reward receipt was tied to continued employment or service of the Valmet Executive Team member upon reward payment.

The Board has the right to cancel the reward or recollect paid rewards that are subject to the Transfer Restriction, fully or partly, if the LTI plan participant has acted against the law or against the ethical guidance of the Company or otherwise unethically.

Long-term incentive plan for 2018–2020

The Board of Directors of Valmet Oyj decided in December 2017 on 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 performance 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.

For all plan participants the maximum reward is capped at grant to a fixed number of shares. For the President and CEO, the reward is capped at grant to a maximum number of shares calculated based on 130% of his annual base salary. For maximum reward calculation purposes, other Executive Team members are allocated into two groups based on the position each one of them holds. For both groups, a fixed maximum number of shares is calculated based on 110% of the groups' internal average annual base salary.

The potential reward is purely performance based for all plan participants. The rewards from the plan are paid partly in Company shares and partly in cash. The cash portion is dedicated to cover taxes and tax-related payments arising from the reward to the plan participants. The rewarded shares may not be transferred during the restriction period, which will end two years after the end of the performance period. As a rule, no reward is paid if the plan participant's employment or service at Valmet ends before the reward payment. Should a plan participant's employment or service end during the restriction period, he or she must, as a rule, gratuitously return the shares given as reward to the Company.

The Board has the right to cancel the reward or recollect paid rewards that are subject to the Transfer Restriction, fully or partly, if the LTI plan participant has acted against the law or against the ethical guidance of the Company or otherwise unethically.

The below table summarizes the key attributes of the 2015–2017 and 2018–2020 long-term incentive plans.

Performance period	2015	2016	2017	2018	2019
Incentive based on	EBITA % and Services orders received growth %	Comparable EBITA % and orders received growth % of the stable business	Comparable EBITA % and orders received growth % of the stable business	Comparable EBITA % and orders received growth % of the stable business	Comparable EBITA % and orders received growth % of the stable business
Reward payment	In spring 2016	In spring 2017	In spring 2018	In spring 2019	In spring 2020
Total gross number of shares earned (including the matching share rewards)	540,035 shares	556,049 shares	390,820 shares	As at December 31, 2018 a total of 357,940 shares were allotted to participants.	The rewards to be paid are capped to an approximate maximum of 465,000 shares in Valmet.
Valmet's closing share price as at the grant date	EUR 11.40	EUR 9.14	EUR 14.39	EUR 18.33	
Vesting period	February 2015 to December 2017	February 2016 to December 2018	February 2017 to December 2019	February 2018 to December 2020	February 2019 to December 2021

Restricted Shares Pool

As part of total remuneration, for example for retention purposes, the Board of Directors decided on an additional incentive element for 2019, the Restricted Shares Pool, from which shares can be granted to selected key employees. Restricted share pools are intended to be annually commencing, but any future restricted shares pool is subject to separate approval by the Board of Directors. In 2019 a maximum of 70,000 Company shares can be allocated to possible participants in the Restricted Shares Pool. As a rule, the restriction period for these shares is 3 years. Plan nominations as well as detailed terms of allocation will be proposed by the President and CEO to the Remuneration and HR Committee Chairman for approval. A precondition for the payment of the share reward based on the Restricted Shares Pool is that the employment relationship of the individual participant with Valmet continues until the payment date of the reward.

Share ownership recommendation

To recognize and highlight the importance and value of having the members of Valmet's Executive Team own and hold Company shares, the Board of Directors has approved in December 2017 a share ownership recommendation for Valmet's Executive Team members. All members of Valmet's Executive Team are recommended to own and hold 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.

Costs recognized for the share ownership plans

The compensation expense for the shares is recognized as an employee benefit expense evenly during the required service period with corresponding entry in equity. The compensation expense resulting from the cash portion is recognized as an employee benefit expense on accrual basis between grant and payment date with a corresponding entry made to equity. Valuation of the related expenses is based on the market price of Valmet share on the grant date.

Costs arising from share-based payments plans:

EUR thousand	2018	2017
Plan 2012–2014	**-**	-289
Plan 2015–2017	**-2,435**	-5,048
Plan 2018–2020	**-3,711**	-
Total	**-6,147**	-5,338

15 Post-employment benefit obligations

Accounting principles

Pensions and coverage of pension liabilities

Valmet has various post-employment benefit schemes in place in line with local regulations and practices in countries in which Group operates. In certain countries, the schemes involve defined benefit plans with retirement, disability, death, and other post-retirement benefits, such as health benefits, and termination income benefits. Defined benefit plans are post-employment benefit plans other than defined contribution plans. In defined benefit plans the benefits are usually based on the number of service years and the salary levels of the final service year. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations.

In addition, certain entities within Valmet Group have multiemployer pension arrangements classified as defined contribution plans. The contributions to defined contribution plans and to multi-employer and insured plans are charged to profit or loss concurrently with the payment obligations. In defined contribution plans, the Group pays fixed contributions into a separate entity and the Group will have no legal or constructive obligation to pay further contributions.

In the case of defined benefit plans, the net defined benefit liability recognized from the plan is the present value of the defined benefit obligation as of the balance sheet date, reduced by the fair value of the plan assets. Independent actuaries calculate the defined benefit obligation by applying the projected unit credit method under which the estimated future cash flows are discounted to their present value using a duration specific discount rate. The cost of providing pension and other post-retirement benefits is charged to profit or loss concurrently with the service rendered by the employees. The service cost is recorded as part of personnel expenses in profit or loss and the net interest is recorded under financial income and expenses. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and actual return on plan assets (excluding interest income on plan assets) are recognized through OCI into Equity.

Critical accounting estimates and judgments

The benefit expense and liabilities arising from defined benefit arrangements are calculated based on assumptions that include the following:

- The discount rates used to discount post-employment benefit obligations (both funded and unfunded): These rates are determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds have been used. The currency and term of the corporate bonds or government bonds are consistent with the currency and duration of the post-employment benefit obligations.
- Estimated rates of future pay increases which include general pay rise expectations as well as merit increases. Actual increases may not reflect estimated future increases.

Due to the significant uncertainty of the global economy, these estimates are difficult to project.

The amounts recognized as at December 31 in the statement of financial position are as follows:

	2018			2017		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Present value of funded obligation	179	-	**179**	183	-	183
Fair value of plan assets	-136	-	**-136**	-146	-	-146
Net surplus (-) / deficit (+) of funded plans	42	-	**42**	36	-	36
Present value of unfunded obligation	-	121	**121**	-	114	114
Asset (-) / liability (+) recognized in the statement of financial position	**42**	**121**	**163**	36	114	150
Amounts in the statement of financial position						
Liabilities	42	121	**163**	36	114	150
Assets	-	-	**-**	-	-	-
Net liability	**42**	**121**	**163**	36	114	150

The amounts recognized in the statement of income are as follows:

	Year ended Dec 31,					
		2018			2017	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Employer's current service cost	2	5	**7**	2	6	8
Net interest on net surplus / deficit	1	3	**4**	2	3	4
Expense recognized in the statement of income	**4**	**7**	**11**	4	8	12

The changes in the present value of the defined benefit obligation are as follows:

		2018			2017	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of obligation at beginning of year	183	114	**296**	194	104	298
Other adjustments	-	-2	**-2**	-	1	1
Employer's current service cost	2	5	**7**	2	6	8
Interest expense	6	3	**8**	6	3	9
Actuarial gain (-) / loss (+) due to change in financial assumptions	-9	4	**-5**	10	7	17
Actuarial gain (-) / loss (+) due to change in demographic assumptions	1	-	**1**	-1	-	-1
Actuarial gain (-) / loss (+) due to experience	-1	6	**4**	-4	1	-3
Benefits paid from the arrangements	-7	-	**-8**	-8	-	-8
Benefits paid directly by employer	-	-4	**-4**	-	-4	-4
Translation differences	5	-3	**2**	-17	-4	-21
Present value of defined benefit obligation at end of year	**179**	**121**	**300**	183	114	296
- of which related to active members			**120**			114
- of which related to deferred members			**58**			60
- of which related to pensioner members			**122**			123

The changes in the fair value of the plan assets during the year are as follows:

		2018			2017	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Fair value of plan assets at beginning of year	146	-	**146**	147	-	147
Interest income on assets	5	-	**5**	5	-	5
Return on plan assets excluding interest income	-14	-	**-14**	9	-	9
Employer contributions	4	-	**4**	6	4	10
Benefits paid from the arrangements	-7	-	**-8**	-8	-	-8
Benefits paid directly by employer	-	-	**-**	-	-4	-4
Translation differences	4	-	**4**	-13	-	-13
Fair value of plan assets at end of year	**136**	**-**	**136**	146	-	146

Remeasurements of the net defined benefit liability / asset reported in other comprehensive income are as follows:

	Year ended Dec 31,					
	2018			2017		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Experience gain (-) / loss (+) on assets	14	-	**14**	-9	-	-9
Actuarial gain (-) / loss (+) on liabilities due to change in financial assumptions	-9	4	**-5**	10	7	17
Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions	1	-	**1**	-1	-	-1
Actuarial gain (-) / loss (+) on liabilities due to experience	-1	6	**4**	-4	1	-3
Total gain (-) / loss (+) recognized in OCI	**5**	**10**	**15**	-4	8	4

The major categories of plan assets as a percentage of total plan assets of Valmet's defined benefit plans are as follows:

	2018			2017		
As at Dec 31	**Quoted**	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Equities	30%	-	**30%**	45%	-	45%
Bonds	46%	-	**46%**	30%	-	30%
Other	2%	22%	**24%**	2%	23%	25%
Total	**78%**	**22%**	**100%**	77%	23%	100%

At December 31, 2018 there were no plan assets invested in affiliated companies or property occupied by affiliated companies.

The principal actuarial assumptions used to determine the defined benefit obligation (expressed as weighted averages) are as follows:

	2018			2017		
As at Dec 31	**Funded**	**Unfunded**	**All plans**	**Funded**	**Unfunded**	**All plans**
Discount rate	3.5%	2.5%	**3.1%**	3.2%	2.6%	2.9%
Salary increase	2.7%	2.7%	**2.7%**	2.5%	2.7%	2.6%
Pension increase	2.0%	2.7%	**2.5%**	2.0%	2.6%	2.5%
Medical cost trend rates	-	6.3%	**6.3%**	-	6.7%	6.7%

The weighted average life expectancy used for the major defined benefit plans are as follows:

	Life expectancy at age 65 for a male participant currently aged 65		Life expectancy at age 65 for a male participant currently aged 45	
Expressed in years	**2018**	**2017**	**2018**	**2017**
Sweden	**22**	22	**23**	22
Canada	**21**	21	**23**	22
USA	**21**	21	**22**	22
Finland	**21**	21	**24**	24

Life expectancy is allowed for in the assessment of the defined benefit obligation using mortality tables, which are generally based on experience within the country in which the arrangement is located with (in many cases) an allowance made for anticipated future improvements in longevity.

Sensitivity analysis on present value of defined benefit obligation:

	2018			2017		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Discount rate						
Increase of 0.25%	-5	-5	**-10**	-6	-5	-11
Decrease of 0.25%	6	5	**11**	6	5	11
Salary increase rate						
Increase of 0.25%	1	3	**4**	1	3	4
Decrease of 0.25%	-1	-3	**-3**	-1	-3	-4
Pension increase rate						
Increase of 0.25%	1	-	**1**	1	3	4
Decrease of 0.25%	-1	-	**-1**	-1	-3	-4
Medical cost trend						
Increase of 1%	-	1	**1**	-	1	1
Decrease of 1%	-	-1	**-1**	-	-1	-1
Life expectancy						
Increase of one year	5	6	**11**	6	4	10
Decrease of one year	-4	-3	**-7**	-5	-4	-9

The table above presents value of the defined benefit obligation when major assumptions are changed while holding the others constant.

Weighted average duration of defined benefit obligation:

	2018			2017		
Expressed in years	**Funded**	**Unfunded**	**All plans**	**Funded**	**Unfunded**	**All plans**
As at December 31	12	17	**14**	14	18	15

Valmet sponsors both defined contribution and defined benefit arrangements. Valmet operates various defined benefit pension and other long-term employee benefit arrangements pursuant to local conditions, practices and collective bargaining agreements in the countries in which it operates. The majority of Valmet's defined benefit liabilities relate to arrangements that are funded through payments to either insurance companies or to independently administered funds based on periodic actuarial calculations. Other arrangements are unfunded with benefits being paid directly by Valmet as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions.

Valmet's defined benefit pension arrangements in the USA, Canada and Sweden together represent 84% of Valmet's defined benefit obligation and 77% of its pension assets. These arrangements provide income in retirement, which is substantially based on salary and service at or near retirement.

In the USA and Canada annual valuations are carried out to determine whether cash funding contributions are required in accordance with local legislation.

Defined benefit pension arrangements in Sweden are offered in accordance with collective labor agreements and are unfunded. The liability recorded on Valmet's balance sheet and cash contributions to funded arrangements are sensitive to the assumptions used to measure the liabilities, the extent to which actual experience differs to the assumptions made and the returns on plan assets. Therefore, Valmet is exposed to the risk that balance sheet liabilities and/or cash contributions increase based on these influences.

Assets of Valmet's funded arrangements are managed by external fund managers. The allocation of assets is reviewed regularly by those responsible for managing Valmet's arrangements based on local legislation, professional advice and consultation with Valmet, based on acceptable risk tolerances.

The expected contributions to defined benefit type arrangements in 2019 are EUR 0.5 million in respect of Finnish plans and EUR 9 million in respect of foreign plans. Valmet paid contributions of EUR 69 million (EUR 62 million) to defined contribution arrangements during 2018.

16 Income taxes

Accounting principles

Tax expenses in the profit or loss comprise current and deferred taxes. Taxes are recognized in the profit or loss except when they are associated with items recognized in Consolidated Statement of Comprehensive Income or directly in Equity. Current taxes are calculated on the taxable income on the basis of the tax rates stipulated for each country as at the balance sheet date. Additionally, non-recoverable foreign taxes on financing transactions or transactions with shareholders, which are not based on taxable profits, are reported in Current tax expenses. Non-recoverable withholding taxes and foreign taxes on operative items are reported in Other operating income and expenses. These non-recoverable foreign taxes include for example taxes paid under circumstances where Double Tax Treaties are not in force. Taxes are adjusted for the taxes of previous financial periods, if applicable. Interest that is calculated based on unpaid tax amounts, is reported as part of Financial expenses. Management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. No liability is recognized when it is considered probable that items reported to tax authorities can be sustained on examination. The tax provisions recognized in such situations are based on evaluations by the management.

Deferred taxes are calculated on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes have been calculated using the statutory tax rates or the tax rates enacted or substantively enacted by the balance sheet date. Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The most significant temporary differences arise from different revenue recognition method applied for tax purposes to customer contracts for which revenue is recognized over time, depreciation differences relating to property, plant and equipment, treatment of costs arising from defined benefit pension plans, provisions deductible at a later date, fair value measurement of assets and liabilities in connection with business combinations and unused tax losses. No deferred taxes are calculated on goodwill impairment that is non-deductible in taxation and no deferred taxes are recognized on the undistributed profits of subsidiaries to the extent that the difference is unlikely to be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Critical accounting estimates and judgments

Deferred tax assets and liabilities are recognized for all temporary items. They are expected to be realized through the income statement over extended periods of time in the future. Valmet management has made certain assumptions regarding future tax consequences and used certain estimates when calculating differences between carrying amounts of assets and liabilities and their tax basis. Key assumptions underlying tax calculations include e.g. estimate on that recoverability periods for tax loss carryforwards will not change, and that existing tax laws and rates remain unchanged into foreseeable future. At each balance sheet date deferred tax assets are assessed for recoverability and when circumstances indicate that it is no longer probable that deferred tax assets can be recovered, balances are revised accordingly.

Liabilities and assets are recognized with respect to income tax amounts management is expecting to pay and recover, respectively. Management has chosen not to discount non-current tax balances. Valmet entities are subject to tax audits on an ongoing basis. 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.

The differences between income tax expense computed at the Finnish statutory rate (20.0% in 2018 and 2017) and income tax expense recognized in profit or loss are as follows:

	Year ended Dec 31,	
EUR million	**2018**	**2017**
Profit before taxes	**205**	158
Taxes calculated according to tax rate in Finland	**-41**	-32
Impact of changes in tax rates	**2**	5
Income tax for prior years	**-2**	-2
Effect of different tax rates in foreign subsidiaries	**-4**	-
Utilization of tax losses carried forward	**1**	-1
Non-recoverable foreign taxes	**-4**	-4
Effect of tax-free income and non-deductible expenses	**-4**	-2
Other	**-2**	-
Income tax expense	**-53**	-36
Effective tax rate, (%)	**25.9%**	23.1%
Effective tax rate, (%) excluding income tax for prior years	**25.0%**	21.8%

Tax effects of components in other comprehensive income:

	Year ended Dec 31,					
	2018			2017		
EUR million	**Before taxes**	**Tax**	**After taxes**	**Before taxes**	**Tax**	**After taxes**
Hedge and other reserves	-16	4	**-13**	14	-3	11
Remeasurement of defined benefit plans[1]	-15	3	**-12**	-4	-5	-9
Currency translation on subsidiary net investments	-10	-	**-10**	-20	-	-20
Total comprehensive income / expense	**-42**	**7**	**-35**	-10	-8	-18
Deferred tax	-	7	**-**	-	-8	-
Total	**-**	**7**	**-**	-	-8	-

[1] Change in income taxes related to remeasurement of defined benefit plans in 2017 primarily arises from the tax reform in the USA.

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Change in accounting principles[2]	Charged to income statement	Charged to other comprehensive income	Translation differences	Balance at end of year
2018						
Deferred tax assets						
Tax losses carried forward	11	-	-2	-	-1	**8**
Fixed assets	14	-	-3	-	-	**11**
Inventory	-	-	4	-	1	**5**
Provisions	22	1	-	-	-1	**23**
Accruals	10	-	-3	-	-1	**6**
Employee benefits	19	-	-1	3	-1	**21**
Other	14	-	-3	4	-2	**12**
Total deferred tax assets	89	1	-8	7	-4	**86**
Offset against deferred tax liabilities[1]	-12	-	-5	-	-	**-17**
Net deferred tax assets	**78**	**1**	**-12**	**7**	**-4**	**69**
Deferred tax liabilities						
Purchase price allocations	61	-	-4	-	7	**64**
Fixed assets	-	-	-	-	-	**-**
Other	9	-	-10	-	3	**2**
Total deferred tax liabilities	69	-	-13	-	10	**66**
Offset against deferred tax assets[1]	-12	-	-5	-	-	**-17**
Net deferred tax liabilities	**58**	**-**	**-18**	**-**	**10**	**50**
2017						
Deferred tax assets						
Tax losses carried forward	13	-	-	-	-2	11
Fixed assets	15	-	-2	-	-	14
Inventory	2	6	-7	-	-	-
Provisions	23	-1	1	-	-1	22
Accruals	16	1	-5	-	-1	10
Employee benefits	25	-	-	-5	-1	19
Other	6	-	10	-3	1	14
Total deferred tax assets	99	5	-4	-8	-3	89
Offset against deferred tax liabilities[1]	-19	-	7	-	-	-12
Net deferred tax assets	80	5	3	-8	-3	78
Deferred tax liabilities						
Purchase price allocations	71	-	-5	-	-5	61
Fixed assets	1	-	-	-	-	-
Other	10	2	8	-	-10	9
Total deferred tax liabilities	82	2	3	-	-16	70
Offset against deferred tax assets[1]	-19	-	7	-	-	-12
Net deferred tax liabilities	62	2	10	-	-16	58

[1] Deferred tax assets and liabilities are offset when there is legally enforceable right to offset tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority.

[2] Impact arising from implementation of IFRS 9 in 2018 and IFRS 15 in 2017.

A deferred tax liability on undistributed profits of Valmet's legal entities located in countries where distribution generates tax consequences is recognized when it is likely that earnings will be distributed in the near future. For the years ended December 31, 2018 and 2017, earnings of EUR 20 million and EUR 21 million, respectively, would have been subject to recognition of a deferred tax liability, had Valmet regarded a distribution in the near future as likely. A deferred tax asset is recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. There were no material tax loss carryforwards for which a deferred tax asset had not been recognized. Valmet has tax loss carryforwards of EUR 12 million that will expire within the following five years.

17 Equity

Share capital and number of shares

Valmet Oyj's registered share capital was EUR 100,000,000 both as at December 31, 2018 and as at December 31, 2017. The share capital is fully paid.

Valmet's total number of shares is 149,864,619 and the number of outstanding shares as at December 31, 2018 was 149,617,820 (149,864,220). The number of shares held by Valmet Oyj was 246,799 (399).

The average number of shares outstanding amounted to 149,649,501 (149,864,220) during the financial year ended at December 31, 2018.

Valmet Oyj has one series of shares. The shares of Valmet Oyj do not have a nominal value.

Treasury shares

As at December 31, 2018 Valmet Oyj held 246,799 (399) of its own shares. These shares were acquired through a purchase on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd) as follows: in April 2014, 399 shares for a price of EUR 7.5880 per share, and in February 2018, 246,400 shares for average price of EUR 17.4070 per share. The total amount paid to acquire the shares in the reporting period, including transaction costs, was EUR 4 million and it has been deducted from Retained earnings in Equity.

Own shares have been acquired for the purposes of Valmet's long-term incentive plans. Shares issued to employees under these plans are recognized on first-in-first-out basis. All shares issued to key employees under long-term incentive plans in 2018, were issued out of a plan administrated by a third-party service provider. At the end of the reporting period, Valmet no longer had an arrangement with a third party concerning the administration of the share-based incentive programs.

Dividends

The Board of Directors proposes that a dividend of EUR 0.65 per share will be paid out based on the Consolidated Statement of Financial Position to be adopted for the financial year ended December 31, 2018, and that the remaining part of the Retained earnings will be carried forward in Valmet Oyj's unrestricted equity. These financial statements do not reflect this dividend payable of EUR 97 million. Dividends paid relating to the year ended December 31, 2017 were EUR 0.55 per share totaling EUR 82 million.

Hedge and other reserves

Hedge reserve includes effective portion of fair value movements related to derivative financial instruments, which qualify for hedge accounting.

Fair value reserve includes the change in fair values of financial assets classified as fair value through other comprehensive income.

Legal reserve consists of restricted equity, which has been transferred from distributable funds under the Articles of Association, local company law or by a decision of the shareholders.

Reserve for invested unrestricted equity

Reserve for invested unrestricted equity includes other equity-related investments and share subscription prices to the extent not designated to be included in share capital. The reserve for invested non-restricted equity fund in Valmet's Consolidated Statement of Financial Position consists of the fund held by the parent company Valmet Oyj.

Cumulative translation adjustments

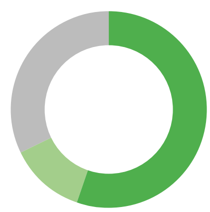
Cumulative translation adjustments consist of currency translation differences, which relate to translation of foreign operations from their functional currencies to Valmet Group's reporting currency euro.

18 Selling, general and administrative expenses

Selling, general and administrative expenses 2018, EUR 532 million

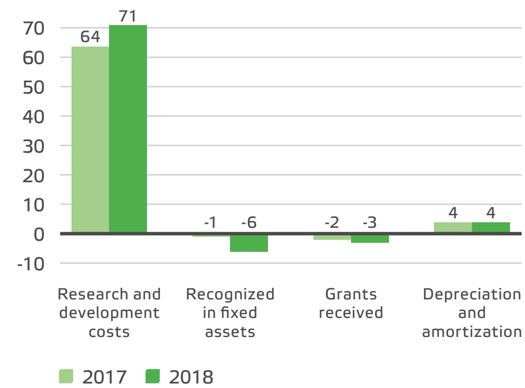
- Marketing and selling expenses EUR 290 million
- Research and development expenses, net EUR 66 million
- Administrative expenses EUR 176 million

Selling, general and administrative expenses 2017, EUR 517 million



- Marketing and selling expenses EUR 287 million
- Research and development expenses, net EUR 64 million
- Administrative expenses EUR 166 million

Research and development expenses, EUR million



19 Other operating income and expenses

EUR million	Year ended Dec 31, 2018	2017
Gain on sale of fixed assets	**-**	2
Rental income	**-**	1
Reversal of allowance for doubtful receivables and contract assets[1]	**6**	5
Other income[2]	**6**	10
Other operating income, total	**14**	18
Loss on sale of subsidiaries and businesses	**-**	-3
Loss on sale of fixed assets	**-1**	-1
Impairment of fixed assets	**-2**	-1
Expenses from unused facilities	**-3**	-
Foreign exchange losses[3]	**-3**	-
Interest component from forward contracts	**-3**	-3
Non-recoverable foreign taxes	**-5**	-3
Allowance for doubtful receivables and contract assets[1]	**-6**	-6
Other expenses[2]	**-12**	-10
Other operating expenses, total	**-36**	-27
Other operating income and expenses, net	**-22**	-10

[1] For more information, see Note 7.
[2] Includes income and expenses arising from registration fees and legal disputes.
[3] In 2018 net foreign exchange gains and losses includes exchange rate gains and losses arising from revaluation of accounts receivable and payable amounting to EUR 3 million (EUR -7 million) and exchange gains and losses from derivatives to EUR -6 million (EUR 8 million).

20 Business combinations

Valmet acquired 100 percent 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. Purchase price paid at closing on cash and debt free basis was EUR 2 million and final goodwill recognized EUR 3 million. The acquisition had no material effect on Valmet's financial statements for 2018.

21 Financial risk management

As a global Group, Valmet is exposed to a variety of business and financial risks. Financial risks are managed centrally by the Group treasury (hereafter the Treasury) under annually reviewed written policies approved by Valmet's Board of Directors. The Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries. The Treasury functions as counterparty to the subsidiaries, manages centrally external funding and is responsible for the management of financial assets and appropriate hedging measures. The objective of financial risk management is to mitigate potential adverse effects of financial risks on Valmet's financial performance.

Sensitivity analysis

Sensitivity analysis presented in connection with various financial risks is based on the risk exposures at the balance sheet date.

Sensitivities are calculated by assuming a change in one of the risk factors of a financial instrument, such as interest or currency rate. When calculating the sensitivity, commonly used market conventions have been chosen in assuming a variation of 1 percentage point (100 basis points) in interest rates, a 10 percent change in foreign exchange rates and in commodity prices.

Liquidity and refinancing risk management

Liquidity or refinancing risk arises when a company is not able to arrange funding at terms and conditions corresponding to its creditworthiness. Cautious maturity distribution of debt portfolio and sufficient cash, short-term investments and committed and uncommitted credit facilities are maintained to protect short-term liquidity and to manage refinancing risk. Diversification of funding among different markets and an adequate number of financial institutions are used to safeguard the availability of liquidity at all times. The Treasury monitors bank account structures, cash balances and forecasts of the subsidiaries and manages the utilization of the consolidated cash resources.

At the end of 2018 Cash and cash equivalents amounted to EUR 376 million (EUR 296 million) and interest-bearing investments managed centrally by the Treasury to EUR 44 million (EUR 6 million). Due to the global nature of operations, some of the Valmet subsidiaries are located in countries in which currency is subject to limited exchangeability or capital controls. Given Valmet's total liquidity position, related balances are considered to be immaterial.

Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2024, committed overdraft limits of EUR 14 million and an uncommitted domestic 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.

Net working capital management is an integral part of the liquidity risk management. The Treasury monitors and forecasts net working capital fluctuations in close co-operation with the subsidiaries. Net working capital decreased to EUR -474 million (EUR -387 million) as at December 31, 2018 due to e.g. large capital projects' milestone payments.

The Group's refinancing risk is managed by balancing the proportion of current and non-current debt and average maturity of non-current debt including committed undrawn credit facility. The average maturity of non-current debt, including current portion, and committed undrawn credit facility as at December 31, 2018, was 3.7 years (4.0 years). The amount of current debt, including current portion of non-current debt, was 19 percent (8%) of total debt portfolio. The tables below present undiscounted cash flows on the repayments and interests on Valmet's debt by the remaining maturities from the balance sheet date to the contractual maturity date. The maturities of derivatives are presented in Note 9.

As at December 31, 2018 Valmet's debt portfolio consists of loans from financial institutions, and there were no material liabilities related to finance lease obligations.

EUR million	2019	2020	2021	2022	2023 and later
Loans from financial institutions					
Repayments	39	39	30	55	38
Interests	2	2	1	1	-
Trade payables and other current liabilities	631	-	-	-	-
Total	**672**	**41**	**31**	**56**	**38**

EUR million	2018	2019	2020	2021	2022 and later
Loans from financial institutions					
Repayments	18	39	39	30	93
Interests	2	2	2	1	1
Trade payables and other current liabilities	648	-	-	-	-
Total	668	41	41	31	94

Capital structure management

The capital structure management seeks to safeguard the ongoing business operations, to ensure flexible access to capital markets and to secure adequate funding at a competitive rate. Capital structure management at Valmet comprises both equity and total debt. As of December 31, 2018, the Total equity was EUR 949 million (EUR 918 million) and the amount of Total debt was EUR 201 million (EUR 219 million).

Valmet has not disclosed any long-term financial ratio target for its capital structure. However, the objective of Valmet is to maintain strong capital structure in order to secure customers', investors', creditors' and market confidence. The capital structure is assessed regularly by the Board of Directors and managed operationally by the Treasury. Loan facility agreements include customary covenants and Valmet is in clear compliance with the covenants at the balance sheet date. Valmet has no credit rating at December 31, 2018.

EUR million	As at Dec 31, 2018	2017
Total interest-bearing liabilities	**201**	219
Cash and cash equivalents	**376**	296
Interest-bearing investments	**44**	6
Other interest-bearing receivables	**-**	17
Interest-bearing net debt	**-219**	-100
Total equity	**949**	918
Gearing ratio	**-23%**	-11%

Interest rate risk

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest-bearing items. The interest rate risk is managed and controlled by the Treasury. The interest rate risks are managed through balancing the ratio between fixed and floating interest rates and duration of debt and investment portfolios. Additionally, Valmet may use derivative instruments such as forward rate agreements, swaps, options and futures contracts to mitigate the risks arising from interest-bearing assets and liabilities. The ratio of fixed rate debt of the total debt is required to stay within the 10–60 percent range including the interest rate derivatives. The duration of the non-current debt, including the current portion, and the interest rate derivatives is allowed to deviate between 6–42 months.

The fixed rate interest proportion of total debt portfolio was 36 percent (38%), the duration was 1.5 years (1.7 years) and the EUR denominated debt was 100 percent (100%) of the entire gross debt at the end of 2018. The basis for the interest rate risk sensitivity analysis is an aggregate Group level interest rate exposure, composed of interest-bearing assets, interest-bearing liabilities and interest rate swaps, which are used to hedge the underlying exposures. The sensitivity analysis does not include interest component of foreign exchange derivatives since the impact of a one percentage point change in interest rates is not significant, assuming similar change in all currency pairs at the same time. For all interest-bearing debt, assets and interest rate derivatives to be fixed during the next 12 months a change of one percentage point upwards or downwards in interest rates with all other variables held constant would have following effect, net of taxes:

EUR million	2018	2017
Profit / loss	**+/- 1.1**	+/- 0.9
Equity	**+/- 1.5**	+/- 1.7

Valmet has used the interest rate derivatives to hedge the interest rate risk of debt portfolio. All interest rate swaps have been designated to cash flow hedge accounting relationships. The nominal and fair values of the outstanding interest rate derivative contracts are presented in Note 9.

Foreign exchange risk

Valmet operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decreases the significance of any individual currency. Substantial proportion of Valmet's net sales and costs are generated in euros (EUR), US dollars (USD), Swedish kronas (SEK) and Chinese yuans (CNY).

Transaction exposure

Foreign exchange transaction exposure arises when a subsidiary has commercial or financial transactions and payments in another currency than its own functional currency and when related cash inflow and outflow amounts are not equal or concurrent.

In accordance with Valmet's treasury policy, subsidiaries are required to hedge in full the foreign currency exposures on Consolidated Statement of Financial Position and other firm commitments. Cash flows denominated in a currency other than the functional currency of the subsidiary are hedged with internal forward exchange contracts with the Treasury for periods, which do not usually exceed two years. Subsidiaries also carry out hedging directly with the banks in countries, where the regulation does not allow corporate internal cross-border contracts. The Treasury monitors the net position of each currency and decides to what extent a currency position is to be closed. The Treasury is responsible for entering an external forward transaction corresponding to the internal forward whenever a subsidiary applies hedge accounting. Valmet's treasury policy defines upper limits on the open currency exposures managed by the Treasury; limits have been calculated on the basis of their potential profit or loss impact. To manage the foreign currency exposure the Treasury may use forward exchange contracts and foreign exchange options. Valmet is exposed to foreign currency risk arising from both on and off-balance sheet items. The foreign currency exposure is composed of all assets and liabilities denominated in foreign currencies and their counter values in local currencies. Calculation includes external and internal short and long-term sales and purchase contracts, projected cash flows for unrecognized firm commitments and financial items, net of respective hedges. The table below illustrates the Group's outstanding foreign currency risk at the end of the reporting period:

	As at Dec 31, 2018				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	-53	-191	371	-145	17
of which trade and other receivables	-40	-90	99	30	1
of which trade and other payables	-33	17	14	-14	15
Financial items	28	20	-37	-46	35
Hedges	28	165	-326	188	-55
under hedge accounting	33	117	-321	162	10
not qualifying for hedge accounting	-5	48	-5	26	-65
Total exposure	**4**	**-7**	**8**	**-3**	**-2**

	As at Dec 31, 2017				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	21	-181	218	-34	-23
of which trade and other receivables	13	-89	60	11	4
of which trade and other payables	-36	42	-1	-12	7
Financial items	121	-105	-4	-39	28
Hedges	-150	280	-205	79	-5
under hedge accounting	-37	107	-161	50	40
not qualifying for hedge accounting	-113	173	-44	29	-45
Total exposure	-8	-6	9	5	-

This Group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. Assuming euro to appreciate or depreciate 10 percent against all other currencies, the impact on cash flows, net of taxes, would be:

	As at Dec 31, 2018				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	**+/- 0.5**	**-/+ 0.6**	**+/- 0.2**	**+/- 0.2**	**+/- 0.3**

	As at Dec 31, 2017				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	+/- 0.5	-/+ 0.7	-/+ 0.4	+/- 0.0	-/+ 0.6

The sensitivity analysis as required by IFRS 7, includes financial instruments, such as trade and other receivables, trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents and derivative financial instruments.

The table below presents the effects, net of taxes, of a +/- 10 percent change in EUR against all other currencies:

EUR million	2018	2017
Profit / loss	**-/+ 4.0**	-/+ 1.2
Equity	**+/- 2.6**	-/+ 2.9

The effect in equity is the fair value change in derivative contracts qualifying as cash flow hedges for firm sales and purchase contracts. The effect in profit or loss is the fair value change for all other financial instruments exposed to foreign exchange risk. With respect to sales and purchase contracts, this includes derivatives, which qualify for cash flow hedge accounting, to the extent the underlying sales contract has been recognized as revenue with the over time method.

The nominal and fair values of the outstanding forward exchange contracts are presented in Note 9.

Translation or equity exposure

Foreign exchange translation exposure arises when the equity, goodwill and fair value step up of a subsidiary is denominated in currency other than the functional currency of the parent company. As at December 31, 2018 the total non-EUR denominated equity, goodwill and fair value step up of the subsidiaries were EUR 364 million (EUR 382 million). The major translation exposures were EUR 120 million (EUR 164 million) in SEK and EUR 97 million (EUR 88 million) in CNY. Valmet is currently not hedging any equity exposure.

Commodity risk

Valmet is exposed to risk in variations of the prices of raw materials and of supplies including energy. Subsidiaries have identified their commodity price hedging needs and hedges have been executed through the Treasury using approved counterparties and instruments. For commodity risks separate overall hedging limits are defined and approved. Hedging is done on a rolling basis with a declining hedging level over time. Electricity exposure in the Nordic subsidiaries has been hedged with electricity forwards and fixed price physical contracts, which are designated as hedges of highly probable future electricity purchases. Hedging is focused on the estimated energy consumption for the next two-year period with some contracts extended to approximately five years. The execution of electricity hedging has been outsourced to an external broker. As at December 31, 2018 Valmet had outstanding electricity forwards amounting to 158 GWh (159 GWh) and 206 GWh (206 GWh) under fixed price purchase agreements.

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Valmet may enter into average-price swap agreements for nickel. The Alloy Adjustment factor is based on monthly average-prices of its components of which nickel is the most significant. As at December 31, 2018 Valmet had no outstanding average-price swap agreements for nickel (18 metric tons).

The following table presenting the sensitivity analysis of the commodity prices comprises the net aggregate amount of commodities bought through forward contracts and swaps but excludes the anticipated future consumption of raw materials and electricity.

A 10 percent change upwards or downwards in commodity prices would have the following effects, net of taxes:

EUR million	2018	2017
Electricity – effect in profit / loss	**+/- 0.0**	+/- 0.1
Electricity – effect in equity	**+/- 0.5**	+/- 0.2
Nickel – effect in profit / loss	**-**	+/- 0.0

Cash flow hedge accounting has been applied to electricity forward contracts. The effective portion of derivatives is recognized in Equity and the ineffective portion is recognized through Consolidated Statement of Income. Hedge accounting is not applied to nickel agreements and the change in the fair value is recorded through Consolidated Statement of Income.

Credit and counterparty risk

Credit or counterparty risk is defined as the possibility of a customer, subcontractor or a financial counterparty not fulfilling its commitments towards Valmet. Subsidiaries are primarily responsible for credit risks pertaining to sales and procurement activities. The subsidiaries assess the credit standing of their customers, by taking into account their financial position, past experience and other relevant factors. Advance payments, letters of credit and third-party guarantees are actively used to mitigate credit risks. The Treasury provides centralized services related to trade, project and customer financing and seeks to ensure that the principles of the treasury policy are adhered to with respect to terms of payment and required collateral. Valmet has no significant concentrations of credit risks due to the large number and geographic dispersion of companies that comprise the Group's customer base.

The maximum credit risk equals the carrying value of trade and other receivables, together with contract assets related to contracts for which revenue is recognized over time. The credit risk quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in Note 7. Counterparty risk arises also from financial transactions agreed upon with banks, financial institutions and corporations. The risk is managed by careful selection of banks and other counterparties and by applying counterparty specific limits and netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association), see Note 9. When measuring the financial credit risk exposure, all open exposures such as cash at bank accounts, investments, deposits and other financial transactions, for example derivative contracts, are included. The compliance with financial counterparty limits is regularly monitored by the management.

22 Investments in associates and joint ventures

Valmet Group has the following associated companies and joint ventures:

Company name	Place of incorporation and principal place of business	Share of ownership Dec 31, 2018	Dec 31, 2017	Measurement method
Allimand S.A.	France	**35.8%**	35.8%	Equity
Valpro gerenciamento de obras Ltda	Brazil	**51.0%**	51.0%	Equity
Nanjing SAC Valmet Automation Co., Ltd.	China	**21.95%**	21.95%	Equity

Allimand S.A. is a French company that provides products and services for the paper industry and its main focus is on specialty paper and midsize board machines. Allimand S.A. is established in 1850 and Valmet has been a shareholder since 1979. Allimand S.A. is an associated company that management has classified as financial investment since 2015.

Valpro gerenciamento de obras Ltda is a joint venture between Valmet and Progen, with the company attending exclusively to Valmet's projects in the South American pulp, paper and energy market. Valpro gerenciamento de obras Ltda was established in 2013 in order to strengthen and diversify activities in Brazil. The joint venture supplies specialized technical services in the field of construction and erection management.

Valpro gerenciamento de obras Ltda is classified as joint venture, because Valmet has, together with the other shareholder, joint power to govern the company.

Nanjing SAC Valmet Automation Co., Ltd. is a company established in 2011 between Metso Automation Co., Ltd. and Guodian Nanjing Automation Co., Ltd. Guodian Nanjing Automation Co., Ltd is a public company majority owned by Huadian Power International Corporation Limited, one of the five biggest power producing companies in China. The ownership of Metso Automation Co., Ltd. transferred to Valmet when the Group completed its acquisition of Process Automation Systems on April 1, 2015. Nanjing SAC Valmet Automation Co., Ltd. concentrates on developing new technology, products and solutions to the digital power plant concepts by combining the resources of the parties. The associated company is focusing especially on the Chinese market.

Allimand S.A., Valpro gerenciamento de obras Ltda and Nanjing SAC Valmet Automation Co., Ltd. are private companies and there are no quoted market prices available for their shares. There are no contingent liabilities relating to Valmet's interest in Allimand S.A., Valpro gerenciamento de obras Ltda or Nanjing SAC Valmet Automation Co., Ltd. Summarized financial information for Allimand S.A. and Nanjing SAC Valmet Automation Co., Ltd. is set out below.

The summarized financial information below represents amounts shown in Allimand S.A.'s and Nanjing SAC Valmet Automation Co., Ltd.'s financial statements. The current and non-current assets and liabilities, revenues and results of Valpro gerenciamento de obras Ltda are not material.

EUR million	Allimand S.A. As at Aug 31, 2018	2017	SAC As at Dec 31, 2018	2017
Non-current assets	**10**	10	**12**	13
Current assets	**40**	36	**77**	81
Non-current liabilities	**9**	14	**-**	-
Current liabilities	**33**	22	**43**	52
Net assets	**8**	9	**46**	42
Valmet's share of net assets	**3**	3	**10**	9

EUR million	Allimand S.A. Year ended Dec 31, 2018[1]	2017[2]	SAC Year ended Dec 31, 2018	2017
Revenue	**44**	49	**62**	64
Profit or loss	**-2**	2	**6**	5

[1] Period Sep 2017 – Aug 2018.
[2] Period Sep 2016 – Aug 2017.

Carrying value of investments in associates and joint ventures:

EUR million	Year ended Dec 31, 2018	2017
Investments in associated companies and joint ventures		
Acquisition cost at beginning and end of year	**8**	8
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	**5**	4
Share of results, operative investments	**1**	1
Share of results, financial investments	**-1**	1
Dividend income	**-**	-
Equity adjustments at end of year	**6**	5
Carrying value at end of year	**14**	14

23 Audit fees

In 2018, the Annual General Meeting of Valmet Oyj elected Authorised Public Accountants PricewaterhouseCoopers Oy as Valmet Oyj's auditor. The below table presents fees for audit and other services provided by PricewaterhouseCoopers Oy and its affiliates (PwC) to Valmet Group.

	Year ended Dec 31,			
	2018		2017	
EUR million	**Paid to PwC**	**Paid to other auditors**	**Paid to PwC**	**Paid to other auditors**
Audit	**-1.7**	**-0.2**	-1.5	-0.2
Tax consulting	**-0.2**	**-0.5**	-0.4	-0.5
Other services	**-0.3**	**-0.3**	-0.5	-0.1
Total	**-2.2**	**-1.0**	-2.3	-0.8

In 2018 PricewaterhouseCoopers Oy has provided non-audit services to entities of Valmet Group in total of EUR 0.3 million (EUR 0.4 million) with the services consisting of auditors' statements, tax and other services.

24 Lease contracts

Minimum annual rental expenses for leases in effect at December 31 are shown in the table below:

EUR million	**2018**	**2017**
Not later than 1 year	**24**	26
Later than 1 year and not later than 2 years	**14**	16
Later than 2 years and not later than 3 years	**9**	10
Later than 3 years and not later than 4 years	**5**	5
Later than 4 years and not later than 5 years	**3**	3
Later than 5 years	**2**	2
Total minimum lease payments	**57**	63

Valmet leases vehicles, machines, offices, manufacturing and warehouse space under various non-cancellable leases. Certain contracts contain renewal options for various periods of time. Total rental expenses amounted to EUR 33 million in 2018 and EUR 33 million in 2017.

As at December 31, 2018 and 2017 there were no material assets leased under financial lease arrangements. Payments under operating leases are expensed as incurred.

25 Contingencies and commitments

Valmet Oyj, with its subsidiaries, and financial institutions have guaranteed commitments arising from the ordinary course of business of Valmet Group up to a maximum of EUR 876 million and EUR 872 million as at December 31, 2018 and 2017, respectively.

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

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

26 Related party information

Valmet's related parties include Valmet Group companies (see Note 27 and associated companies and joint ventures (see Note 22) as well as the members of Valmet's Board of Directors and Executive Team.

Remuneration of Chief Executive Officer and other Executive Team members

The table below presents the expenses related to management compensation that have been recognized in profit or loss. More information about share-based payments is presented in Note 14.

EUR thousand	Salaries and other short-term benefits	Performance bonuses	Share-based payments	Post-retirement benefits	Total
2018					
President and CEO	-664	-290	-566	-289	**-1,808**
Other Executive Team members	-3,190	-1,023	-2,479	-1,231	**-7,924**
Total	**-3,854**	**-1,313**	**-3,045**	**-1,520**	**-9,732**
2017					
President and CEO	-638	-280	-446	-265	-1 629
Other Executive Team members	-3,176	-1,019	-2,134	-1,253	-7,581
Total	-3,814	-1,299	-2,580	-1,519	-9,211

The President and CEO is entitled to retire when reaching 63 years of age. All other Executive Team members belong to the pension systems of their country of residence and have a statutory retirement age. The President and CEO and members of the Executive Team belong to supplementary defined contribution pension plans. Contributions to the plans are 15–20 percent of the employee's annual salary. Expenses are included in the post-retirement benefits together with statutory pension benefits presented in the table above. The final benefit received by the employee depends on the return on the plan's investments.

Remuneration paid to members of the Board of Directors

EUR thousand	2018
Bo Risberg, Chairman	-123
Aaro Cantell, member until March 21, 2018 and Vice Chairman since March 21, 2018	-73
Pekka Kemppainen, Member since March 21, 2018	-62
Monika Maurer, Member since March 21, 2018	-65
Eriikka Söderström, Member	-70
Tarja Tyni, Member	-64
Rogério Ziviani, Member	-68
Jouko Karvinen, Vice Chairman until March 21, 2018	-4
Lone Fønss Schrøder, Member until March 21, 2018	-1
Riina Vilander, Personnel Representative since March 21, 2018	-4
Eija Lahti-Jäntti, Personnel Representative until March 21, 2018	-1
Total	**-535**

As at December 31, 2018, the aggregate shareholding of the Board of Directors, the President and CEO and other Executive Team members was 574,433 shares (505,350 shares as at December 31, 2017).

Valmet has no loan receivables from the Executive Team or the members of the Board of Directors. No pledges or other commitments have been given on behalf of management or shareholders.

27 Group companies

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
Valmet Automation Pty Ltd[1]	Australia	Sales	-	100.0
Valmet Pty Ltd	Australia	Sales	-	100.0
Valmet GesmbH	Austria	Sales	-	100.0
Valmet Celulose Papel e Energia Ltda	Brazil	Manufacturing	-	100.0
Valmet Fabrics Tecidos Técnicos Ltda	Brazil	Manufacturing	-	100.0
Valmet Ltd.	Canada	Sales	-	100.0
Valmet S.A.	Chile	Sales	-	100.0
Valmet (China) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Automation (Shanghai) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Fabrics (China) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Paper (Shanghai) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Paper Technology (China) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Paper Technology (Guangzhou) Co., Ltd.	China	Manufacturing	-	100.0
Valmet Paper Technology (Xi'an) Co., Ltd.	China	Manufacturing	-	75.0
Valmet Technologies Co., Ltd.	China	Sales	-	100.0
Valmet d.o.o.	Croatia	Manufacturing	-	100.0
Valmet s.r.o.	Czech Republic	Manufacturing	-	100.0
Valmet Technologies Oü	Estonia	Sales	-	100.0
Valmet Automation Oy	Finland	Manufacturing	100.0	100.0
Valmet Kauttua Oy	Finland	Manufacturing	-	100.0
Valmet Technologies Oy	Finland	Manufacturing	100.0	100.0
Valmet Automation SAS	France	Sales	-	100.0
Valmet SAS	France	Manufacturing	-	100.0
Valmet Automation GmbH	Germany	Sales	-	100.0
Valmet Deutschland GmbH	Germany	Holding	-	100.0
Valmet GmbH	Germany	Sales	-	100.0
Valmet Plattling GmbH	Germany	Sales	-	100.0
Valmet Automation Private Limited	India	Manufacturing	-	100.0
Valmet Chennai Pvt. Ltd.	India	Manufacturing	-	100.0

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
PT Valmet	Indonesia	Sales	-	100.0
PT Valmet Automation Indonesia	Indonesia	Sales	-	100.0
PT Valmet Technology Center	Indonesia	Sales	-	100.0
Valmet Como S.r.l[1]	Italy	Manufacturing	-	100.0
Valmet SpA	Italy	Manufacturing	-	100.0
Valmet K.K.	Japan	Sales	-	100.0
Valmet Technologies Sdn. Bhd.	Malaysia	Sales	-	100.0
Valmet Technologies S. de R.L. de C.V.	Mexico	Sales	-	100.0
Valmet B.V.	Netherlands	Sales	-	100.0
Valmet AS	Norway	Sales	-	100.0
Valmet Automation Sp. z o.o.	Poland	Manufacturing	-	100.0
Valmet Technologies Sp. z o.o.[1]	Poland	Manufacturing	-	100.0
Valmet Lda	Portugal	Manufacturing	-	100.0
Valmet Inc.	Republic of Korea	Sales	-	100.0
AO Valmet	Russia	Sales	-	100.0
Valmet Automation JSC	Russia	Sales	-	100.0
Valmet Pte. Ltd.	Singapore	Sales	-	100.0
Valmet South Africa (Pty) Ltd	South Africa	Sales	-	100.0
Valmet Technologies, S.A.U.	Spain	Manufacturing	-	100.0
Valmet Technologies Zaragoza, S.L.	Spain	Manufacturing	-	81.0
Valmet AB	Sweden	Manufacturing	100.0	100.0
Valmet Automation Co., Ltd.	Thailand	Sales	-	100.0
Valmet Co. Ltd.	Thailand	Sales	-	100.0
Valmet Selüloz Kagit Enerji Teknolojileri A.S.	Turkey	Sales	-	100.0
Valmet Process Technologies and Services LLC[2]	United Arab Emirates	Sales	-	49.0
Valmet Automation Limited	United Kingdom	Sales	-	100.0
Valmet Ltd	United Kingdom	Manufacturing	-	100.0
Valmet, Inc.	USA	Sales	90.0	100.0
Allimand S.A.	France	Manufacturing	-	35.8
Valpro gerenciamento de obras Ltda	Brazil	Manufacturing	-	51.0
Nanjing SAC Valmet Automation Co., Ltd.	China	Manufacturing	-	21.95

[1] Under liquidation.

[2] Based on contractual arrangement, the Group has full control of the company and is consolidating the entity 100%.

28 Events after the reporting period

There were no subsequent events after the reporting period that required recognition or disclosure.

29 New accounting standards

New and amended standards adopted by the Group

In the current year, the Group has adopted new standards and interpretations into its accounting and reporting, including but not limited to IFRS 15 – Revenue from contracts with customers, IFRS 9 – Financial instruments, and amendments to IFRS 2 – Share-based payments. The impact of adoption of these new standards and amendments has been described in connection with related notes. The requirements of IFRIC 22 – Foreign Currency Transactions and Advance Considerations effective January 1, 2018, did not have a material impact on the results or financial position of the Valmet Group.

New standards and interpretations not yet adopted

The following new standards and interpretations issued by IASB are expected to be relevant to the Group's operations and financial position:

IFRS 16 – Leases

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

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

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

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

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

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

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

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

IFRIC 23 – Uncertainty over income tax treatments

IFRIC 23 – Uncertainty over Income Tax Treatments provides guidance on recognition and measurement of deferred and current income tax assets and liabilities under circumstances when there is uncertainty over a tax treatment. The interpretation, issued in June 2017, is effective for annual periods beginning on or after January 1, 2019.

When uncertainty in tax treatment is identified, the probability of tax authorities accepting the treatment must be assessed and when not considered probable, the uncertainty is reflected in the accounting for income taxes for the financial period. The uncertainty is measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty. When assessing whether uncertainty exists or no, it should be assumed that tax authorities will examine income tax returns and have full knowledge of all relevant information when doing so.

Valmet has selected to apply the interpretation retrospectively with the cumulative impact of initial application recognized as an adjustment to the opening balance of Retained earnings as of January 1, 2019. Adoption of the interpretation is not expected to result in material change of tax asset or liability balances.

Parent Company Statement of Income, FAS

		Year ended Dec 31,	
EUR	**Note**	**2018**	**2017**
Other operating income		**15,856,973.09**	12,127,238.74
Personnel expenses	2	**-14,204,347.47**	-15,028,538.93
Depreciation and amortization		**-739,682.02**	-728,168.27
Other operating expenses	3, 4	**-9,882,753.46**	-8,243,227.63
Operating profit / loss		**-8,969,809.86**	-11,872,696.09
Financial income and expenses, net	5	**108,034,096.02**	48,188,595.51
Profit before appropriations and taxes		**99,064,286.16**	36,315,899.42
Group contributions		**84,822,000.00**	70,740,000.00
Income taxes	7	**-15,830,576.41**	-11,519,260.08
Profit for the period		**168,055,709.75**	95,536,639.34

Parent Company Statement of Financial Position, FAS

Assets

EUR	Note	As at Dec 31, 2018	2017
Non-current assets			
Intangible assets	8	**17,365.91**	77,952.30
Property, plant and equipment	8	**5,344,892.12**	5,978,494.88
Equity investments	9	**1,406,969,358.09**	1,407,511,428.81
Non-current receivables	11, 12	**89,439,141.69**	90,430,344.35
Total non-current assets		**1,501,770,757.81**	1,503,998,220.34
Current assets			
Current receivables	11, 12	**224,654,553.38**	146,337,422.75
Cash and cash equivalents		**255,022,420.86**	165,443,618.85
Total current assets		**479,676,974.24**	311,781,041.60
Total assets		**1,981,447,732.05**	1,815,779,261.94

Equity and liabilities

EUR	Note	As at Dec 31, 2018	2017
Equity	13		
Share capital		**100,000,000.00**	100,000,000.00
Reserve for invested unrestricted equity		**421,486,120.98**	418,279,316.60
Hedge and other reserves		**-1,134,188.30**	-904,179.28
Retained earnings		**476,964,301.39**	467,565,188.43
Profit for the period		**168,055,709.75**	95,536,639.34
Total equity		**1,165,371,943.82**	1,080,476,965.09
Liabilities			
Non-current liabilities	12, 14	**165,540,127.00**	203,472,159.01
Current liabilities	12, 15	**650,535,661.23**	531,830,137.84
Total liabilities		**816,075,788.23**	735,302,296.85
Total equity and liabilities		**1,981,447,732.05**	1,815,779,261.94

Parent Company Statement of Cash Flows, FAS

EUR thousand	Year ended Dec 31, 2018	2017
Cash flows from operating activities:		
Profit before appropriations and taxes	**99,064**	36,316
Adjustments		
Depreciation and amortization	**740**	728
Financial income and expenses, net	**-108,034**	-48,189
Other non-cash items	**-2,732**	1,904
Total adjustments	**-110,026**	-45,557
Change in working capital	**-187**	78
Interest and other financial expenses paid	**-10,493**	-12,121
Dividends received	**107,752**	50,067
Interest and other financial income received	**11,288**	23,081
Income taxes paid	**-19,677**	-7,311
Group contribution received	**70,740**	55,732
Net cash provided by (+) / used in (-) operating activities	**148,462**	100,285
Cash flows from investing activities:		
Investments in tangible and intangible assets	**-45**	-313
Proceeds from sale of tangible and intangible assets	**-**	4
Net increase (-) / decrease (+) in loan receivables from Group companies	**-6,879**	6,365
Proceeds from sale of subsidiary shares	**1,024**	-
Other investments	**-**	-137
Net cash provided by (+) / used in (-) investing activities	**-5,901**	5,920
Cash flows from financing activities:		
Net borrowings (+) / payments (-) of debt from Group companies	**15,895**	21,126
Net borrowings (+) / payments (-) of non-current debt	**-18,000**	-89,429
Issue of treasury shares to Group companies	**2,475**	4,609
Purchase of treasury shares	**-3,859**	-1,954
Dividends paid	**-82,279**	-62,859
Financial investments	**-41,135**	-
Net increase (+) / decrease (-) in Group pool accounts	**73,920**	65,358
Net cash provided by (+) / used in (-) financing activities	**-52,983**	-63,150
Net increase (+) / decrease (-) in cash and cash equivalents	**89,578**	43,055
Cash and cash equivalents at beginning of year	**165,444**	122,389
Cash and cash equivalents at end of year	**255,022**	165,444

Notes to Parent Company Financial Statements

1 Accounting principles

The parent company's financial statements have been prepaid in accordance with the Finnish Accounting Standards (FAS).

Non-current assets

Tangible and intangible assets are measured at historical cost, less accumulated depreciation according to plan. Land and water areas are not depreciated.

Depreciation and amortization is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Other intangible assets	10 years
Buildings and structures	12–30 years
Machinery and equipment	5–10 years
Other tangible assets	20 years

Investments in subsidiaries and other companies are measured at acquisition cost, or fair value in case the fair value is lower than cost.

Financial instruments

Valmet's financial risk management is carried out by a central treasury department (the Group treasury) under the policies approved by the Board of Directors. The Group treasury functions in co-operation with the operating units to minimize financial risks to both the parent company and the Group.

Forward exchange contracts are measured at fair value. The change in the fair value of the instruments used in hedging of operational activities is recognized as Other income and expenses in the Statement of Income. The change in the fair value of the instruments used in hedging of the foreign currency financial items is recognized in the Financial income and expenses in the Statement of Income. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The derivative contracts used to hedge the commodity risk related to electricity and nickel are measured at fair value, and the change in fair value is recognized in Other operating income and expenses in the Statement of Income. The fair value of commodity derivatives is based on quoted market prices at the balance sheet date.

Cash flow hedge accounting is applied to interest rate swaps hedging future changes in cash flows arising from floating rate debt. The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows arising from the contract. The gain or loss related to the ineffective portion of hedging instrument is expensed immediately and is reported under Financial income and expenses. Interest arising from interest rate swaps is reported under Financial income and expenses concurrently with interest expense arising from hedged floating rate debt.

Interest-bearing financial investments are measured at fair value. The change in the fair value is recognized in the fair value reserve of Equity in the Statement of Financial Position. The fair value of the interest-bearing financial investments is determined using market rates as at the balance sheet date.

Pensions

An external pension insurance company manages the parent company's statutory and voluntary pension plans that are all of defined contribution in nature. Contributions are expensed to the Statement of Income as incurred.

Deferred taxes

A deferred tax liability or asset has been calculated for all temporary differences between tax bases of assets and liabilities and their amounts in financial reporting, using the tax rates enacted or substantially enacted by the balance sheet date. The deferred tax liabilities are recognized in the Statement of Financial Position in full, and the deferred tax assets are recognized when it is probable that there will be sufficient taxable profit against which the asset can be utilized.

Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the individual transaction. Foreign currency denominated monetary items recognized in the Statement of Financial Position have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains and losses related to business operations are recognized as Other operating income and expenses in the Statement of Income. Exchange gains and losses related to financing operations are recognized under Financial income and expenses.

Receivables

Receivables are initially recognized at nominal amounts. Subsequently they are measured at amortized cost, less provision for impairment.

Share-based incentive plan

Rewards arising from share-based incentive plans are settled partly in shares and partly in cash. The shares to be transferred as part of the plan are obtained in public trading. The acquisition of shares is recognized as decrease in Retained earnings and transfer of shares as increase in Reserve for invested unrestricted equity and Personnel expenses. The part settled in cash is recognized in the Statement of Income under Personnel expenses at the time of payment.

2 Personnel expenses

	Year ended Dec 31,	
EUR thousand	**2018**	**2017**
Salaries and wages	**-11,505**	-12,601
Pension costs	**-2,154**	-2,017
Other indirect employee costs	**-545**	-411
Total	**-14,204**	-15,029

Remuneration to management:

	Year ended Dec 31,	
EUR thousand	**2018**	**2017**
Chief Executive Officer	**-1,808**	-1,629
Members of the Board	**-535**	-559
Total	**-2,343**	-2,188

The President and CEO is entitled to retire when reaching 63 years of age. The President and CEO belongs to a supplementary defined contribution plan. The contribution to the plan is 20 percent of his annual salary. Expenses are included in the remuneration to management table above. Additional information on management remuneration is presented in Note 26 of the Consolidated Financial Statements.

Number of personnel:

	2018	**2017**
Personnel at end of year	**95**	94
Average number of personnel during the year	**95**	93

3 Other operating expenses

	Year ended Dec 31,	
EUR thousand	**2018**	**2017**
Consulting and other services	**-7,629**	-6,522
IT	**-1,536**	-1,499
Valuation of derivatives	**3,181**	1,759
Other	**-3,899**	-1,981
Total	**-9,883**	-8,243

4 Audit fees

EUR thousand	Year ended Dec 31, 2018	2017
Audit	**-575**	-430
Tax consulting	**-19**	-47
Other services	**-268**	-286
Total	**-862**	-763

5 Financial income and expenses

EUR thousand	Year ended Dec 31, 2018	2017
Dividends received		
Group companies	**107,752**	49,714
Others	**-**	353
Interest income		
Group companies	**7,481**	9,378
Others	**3,657**	1,389
Other financial income		
Group companies	**5,137**	5,286
Others	**43,274**	53,113
Interest expenses		
Group companies	**-3,362**	-1,500
Others	**-6,408**	-9,301
Other financial expenses		
Group companies	**-3,108**	-22,607
Others	**-46,390**	-37,636
Total	**108,034**	48,189

6 Changes in fair value recognized in income statement

EUR thousand	Year ended Dec 31, 2018	2017
Other operating expenses		
Changes in fair value of derivatives	**3,181**	1,759
Other financial expenses		
Changes in fair value of derivatives	**-2,162**	-1,030

7 Income taxes

EUR thousand	Year ended Dec 31, 2018	2017
Income tax for the financial period	**-15,497**	-11,334
Income tax for prior years	**-355**	-188
Change in deferred taxes	**21**	3
Total	**-15,831**	-11,519

8 Intangible assets and property, plant and equipment

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2017							
Acquisition cost at beginning of year	331	809	8,160	682	557	10,209	10,540
Additions	-	-	313	-	-	313	313
Disposals	-	-	-	-90	-	-90	-90
Acquisition cost at end of year	331	809	8,473	592	557	10,432	10,763
Accumulated depreciation at beginning of year	-187	-	-3,330	-422	-129	-3,881	-4,068
Depreciation charges for the year	-65	-	-520	-117	-25	-662	-728
Disposals	-	-	-	90	-	90	90
Accumulated depreciation at end of year	-252	-	-3,850	-449	-154	-4,453	-4,705
Carrying value at end of year	78	809	4,623	143	403	5,978	6,056

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2018							
Acquisition cost at beginning of year	331	809	8,473	592	557	10,432	**10,763**
Additions	-	-	45	-	-	45	**45**
Disposals	-	-	-	-	-	-	**-**
Acquisition cost at end of year	331	809	8,518	592	557	10,477	**10,808**
Accumulated depreciation at beginning of year	-252	-	-3,850	-449	-154	-4,453	**-4,705**
Depreciation charges for the year	-61	-	-536	-119	-25	-680	**-740**
Disposals	-	-	-	-	-	-	**-**
Accumulated depreciation at end of year	-314	-	-4,386	-568	-180	-5,132	**-5,445**
Carrying value at end of year	**17**	**809**	**4,133**	**25**	**378**	**5,345**	**5,362**

9 Investments

	Shares		
EUR thousand	**Group companies**	**Others**	**Investments total**
2017			
Acquisition cost at beginning of year	1,406,013	1,362	1,407,375
Additions	-	137	137
Acquisition cost at end of year	1,406,013	1,498	1,407,511
Carrying value at end of year	1,406,013	1,498	1,407,511

	Shares		
EUR thousand	**Group companies**	**Others**	**Investments total**
2018			
Acquisition cost at beginning of year	1,406,013	1,498	**1,407,511**
Disposals	-542	-	**-542**
Acquisition cost at end of year	1,405,471	1,498	**1,406,969**
Carrying value at end of year	**1,405,471**	**1,498**	**1,406,969**

10 Shareholdings in Group companies

Company name	Domicile	Ownership %
Valmet Technologies Oy	Finland, Helsinki	100.0
Valmet AB	Sweden, Sundsvall	100.0
Valmet, Inc.	USA, Duluth	90.0
Valmet Automation Oy	Finland, Helsinki	100.0

11 Specification of receivables

Non-current receivables:

EUR thousand	As at Dec 31, 2018	2017
Loan receivables from Group companies	**83,946**	88,189
Deferred tax asset	**752**	674
Derivatives	**4,741**	1,567
Non-current receivables total	**89,439**	90,430

Current receivables:

EUR thousand	As at Dec 31, 2018	2017
Trade receivables from		
Group companies	**11,371**	7,011
Others	**79**	-
Total	**11,450**	7,011
Loan receivables from		
Group companies	**35,205**	21,800
Group pool accounts	**8,630**	8,051
Total	**43,836**	29,851
Prepaid expenses and accrued income from		
Group companies	**112,198**	85,580
Others	**56,591**	23,822
Total	**168,789**	109,402
Other receivables	**580**	74
Current receivables total	**224,655**	146,337
Current receivables from Group companies total	**167,404**	122,441

Specification of prepaid expenses and accrued income:

EUR thousand	As at Dec 31, 2018	2017
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	**84,822**	70,740
Accrued interest income	**2,685**	3,058
Derivatives	**24,501**	11,627
Other	**190**	154
Total	**112,198**	85,580
Other prepaid expenses and accrued income		
Derivatives	**55,187**	22,474
Other accrued items	**1,404**	1,349
Total	**56,591**	23,822

12 Financial assets and liabilities recognized at fair value

2017

EUR thousand	Notional amount	Fair value Dec 31	Changes in fair value recognized in profit or loss	Changes in fair value recognized in hedge reserve
Forward exchange contracts[1]				
With Group companies	1,338	-9,042	-21,997	-
Others	1,528	12,394	22,600	-
Interest rate swaps[1]				
Others	30	-1,130	-418	-1,130
Electricity forward contracts[2]				
Others	159	-161	544	-
Nickel commodity swaps[3]				
With Group companies	18	-37	-37	-
Others	18	37	37	-

2018

EUR thousand	Notional amount	Fair value Dec 31	Changes in fair value recognized in profit or loss	Changes in fair value recognized in hedge reserve
Forward exchange contracts[1]				
With Group companies	**2,072**	**9,656**	**35,132**	**-**
Others	**2,333**	**-10,966**	**-36,390**	**-**
Interest rate swaps[1]				
Others	**30**	**-1,438**	**-141**	**-1,438**
Electricity forward contracts[2]				
Others	**158**	**2,257**	**2,418**	**-**

[1] Notional amount in EUR million.
[2] Notional amount in GWh.
[3] Notional amount in metric tons.

13 Statement of changes in equity

EUR thousand	Year ended Dec 31, 2018	2017
Share capital at beginning of year	**100,000**	100,000
Share capital at end of year	**100,000**	100,000
Reserve for invested unrestricted equity at beginning of year	**418,279**	412,236
Share-based payments	**3,207**	6,044
Reserve for invested unrestricted equity at end of year	**421,486**	418,279
Hedge and other reserves at beginning of year	**-904**	-1,281
Changes in fair value	**-230**	377
Hedge and other reserves at end of year	**-1,134**	-904
Retained earnings at beginning of year	**563,102**	532,379
Dividends paid	**-82,279**	-62,859
Purchase of treasury shares	**-3,859**	-1,954
Retained earnings at end of year	**476,964**	467,565
Profit for the period	**168,056**	95,537
Total equity at end of year	**1,165,372**	1,080,477

Statement of distributable funds:

EUR	As at Dec 31, 2018	2017
Reserve for invested unrestricted equity	**421,486,120.98**	418,279,316.60
Retained earnings	**476,964,301.39**	467,565,188.43
Profit for the period	**168,055,709.75**	95,536,639.34
Total distributable funds	**1,066,506,132.12**	981,381,144.37

14 Non-current liabilities

EUR thousand	As at Dec 31, 2018	2017
Loans from financial institutions	**161,889**	201,000
Derivatives	**3,651**	2,472
Non-current liabilities total	**165,540**	203,472

15 Current liabilities

EUR thousand	As at Dec 31, 2018	2017
Current portion of non-current loans	**39,111**	18,000
Trade payables to		
Group companies	**1,235**	795
Others	**1,969**	1,680
Total	**3,204**	2,474
Accrued expenses and deferred income to		
Group companies	**15,375**	20,822
Others	**34,191**	22,670
Total	**49,566**	43,492
Other current interest-bearing debt to Group companies	**64,740**	48,935
Group pool accounts	**493,166**	418,666
Other liabilities	**749**	264
Current liabilities total	**650,536**	531,830
Current liabilities to Group companies total	**574,515**	489,217

Specification of accrued expenses and deferred income:

EUR thousand	As at Dec 31, 2018	2017
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	**279**	116
Derivatives	**14,845**	20,706
Other accrued items	**251**	-
Total	**15,375**	20,822
Accrued expenses and deferred income to others		
Accrued interest expenses	**1,432**	1,557
Derivatives	**25,289**	10,429
Accrued salaries, wages and social costs	**3,076**	2,617
Accrued income taxes	**3,749**	7,574
Other accrued items	**645**	8,067
Total	**34,191**	22,670

16 Other contingencies

Guarantees:

	As at Dec 31,	
EUR thousand	**2018**	**2017**
Guarantees on behalf of subsidiaries	**809,048**	863,840

Lease commitments:

	As at Dec 31,	
EUR thousand	**2018**	**2017**
Payments in the following year	**662**	734
Payments later	**1,312**	145
Total	**1,974**	879

List of Account Books Used in Parent Company

Voucher description	Voucher class[1]	Voucher format
General journal and general ledger		In electronic format
Specifications of accounts receivable and payable		In electronic format
Fixed assets transactions	778, 786	In electronic format
Bank transactions	425, 500–692, 730, 950	In electronic format
Sales invoices	300, 310, 491, 493, 802, 930	In electronic format
Purchase invoices	100, 110, 140, 290, 291, 293, 801	In electronic format
Travel invoices	755	In electronic format
Salary transactions	750	In electronic format
Journal vouchers	700, 710, 715, 720, 740, 900	In electronic format
Financing transactions	760	In electronic format

[1] Following change in accounting and reporting systems in 2018, voucher classes used by the Parent Company have changed. The voucher classes in the table are as at end of year 2018.

Signatures of Board of Directors' Report and Financial Statements

Espoo, February 7, 2019

Bo Risberg
Chairman of the Board

Aaro Cantell
Vice Chairman of the Board

Pekka Kemppainen
Member of the Board

Monika Maurer
Member of the Board

Eriikka Söderström
Member of the Board

Tarja Tyni
Member of the Board

Rogério Ziviani
Member of the Board

Pasi Laine
President and CEO

The Auditor's Note

Our auditor's report has been issued today.

Helsinki, February 7, 2019

PricewaterhouseCoopers Oy
Authorised Public Accountant Firm

Jouko Malinen
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Valmet Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Valmet Oyj (business identity code 2553019-8) for the year ended 31 December, 2018. The financial statements comprise:

- the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

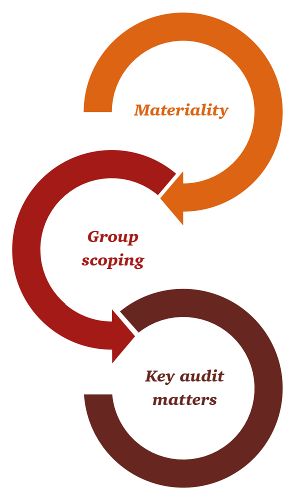
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 23 to the Financial Statement.

Our Audit Approach

Overview



- Overall group materiality: € 10 million, which represents 5% of adjusted profit before tax
- We conducted audit work in all major countries covering all key reporting units. The focus of our work was on the most significant reporting units in Finland, Sweden, USA, Brazil and China.
- Accounting for long-term capital projects and long-term service contracts
- Timing of revenue recognition for service contracts and automation business related contracts
- Goodwill valuation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 10 million (previous year € 8 million)
How we determined it	5% of adjusted profit before tax
Rationale for the materiality benchmark applied	Profit before tax is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We conducted audit work in all key countries covering all key reporting units. The group audit scope was focused on the most significant reporting units in Finland, Sweden, USA, Brazil, and China, where we performed an audit of the complete financial information due to their size and their risk characteristics. We also carried out specific audit procedures over group functions and areas of significant judgement, including taxation, goodwill and material litigation. For the remaining reporting units, we performed other procedures to confirm there were no significant risks of material misstatement in the group financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group

Accounting for long-term capital projects and long-term service contracts

Refer to note 3 to the consolidated financial statements for the related disclosures.

Over time revenue recognition for long-term capital projects and long-term service contracts is significant to the financial statements based on the quantitative materiality and the degree of management judgment required to account for revenue recognition. The complexity and judgments are mainly related to the estimation of project cost, which serves as a basis for the determination of the percentage of completion which the group applies for recognizing revenues and for the assessment of provisions for projects and potential loss-making contracts.

The total amount of revenue and profit to be recognized under long-term capital projects and long-term service contracts can be affected by changes in conditions and circumstances over time, such as:

- modifications and scope changes to the original contract due to changes in client specifications
- uncertainties and risks relating to assumptions utilized in the estimation of project cost components delays, overruns or other circumstances that impacts the project cost of completion.

This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.

How our audit addressed the key audit matter

Our procedures included understanding of the end-to-end revenue recognition process relating to long-term capital projects and long-term service contracts. We identified and tested certain key internal controls and IT systems supporting revenue recognition and project management and accounting.

We have met and discussed regularly with business line and corporate management to identify new significant and high-risk projects, existing projects with significant fluctuations in gross margins, and potentially loss-making projects, including those with ongoing disputes and litigations.

We have performed detailed procedures on individually significant and high-risk projects. This includes assessing the reasonableness of estimated project cost of completion by obtaining a detailed understanding of the cost model and key assumptions utilized in the estimates, and challenging management's judgments and estimates. In addition, we have also inspected pricing and sales forecasts, and other relevant supporting evidences utilized in the development of cost estimates such as historical data, price quotations, and engineering specifications.

In addition, we have discussed the progress of projects with business line management and certain project management representatives.

Further, we have performed a lookback analysis by comparing actual project outcomes to their related cost estimates to obtain perspective on the accuracy of the estimation process.

With the outcome of those discussions and the results of our audit procedures, we assessed management's assumptions in the determination of the project cost estimate.

Timing of revenue recognition for service contracts and automation business related contracts

Refer to note 3 to the consolidated financial statements for the related disclosures.

The company has several revenue streams relating to service and automation contracts.

We focused on this area because the significant portion of the group net sales arising from these businesses and the level management judgment required in regards of timing the net sales for certain of these revenue streams. Uncertainties relates to in determining whether revenue transactions have been recorded in the correct period in relation to the point in time when the control has transferred to the customer based on delivery or shipping terms.

How our audit addressed the key audit matter

Our procedures included understanding of the end-to-end revenue recognition process underlying revenue recognition process.

Through this, we have identified the appropriate period before and after year-end wherein risk of misstatement is likely to arise, and tested revenue transactions in these periods and inspected supporting evidences including customer contracts and sales orders, invoices, delivery and freight documents, and collection supports.

We have also tested credit notes issued subsequent to year-end to identify potential indicators of premature revenue recognition in relation to billing goods or services that do not meet the agreed delivery terms.

Goodwill valuation

Refer to note 4 to the consolidated financial statements for the related disclosures.

At 31 December 2018 the group's goodwill balance is valued at 617 million euro. Under IFRS the company is required to annually test goodwill for impairment. Goodwill valuation was important to our audit due to the size of the goodwill balance and because the assessment of the value in use of the group's Cash Generating Units s is complex, involving judgement about the future results of the business by estimating future, EBITDAs and inflation rates and determining the discount rate for the calculations. We focused on the risk that goodwill may be overstated.

Based on the annual goodwill impairment test management concluded that no goodwill impairment was needed.

How our audit addressed the key audit matter

We evaluated management's future cash flow forecasts and the process by which they were drawn up, including comparing them to the latest Board approved budgets, and testing the underlying calculations. We evaluated and challenged the company's future cash flow forecasts in a discussion with management of the business involved, and the process by which they were drawn up, and tested the underlying value in use calculations. We compared the current year actual results to the figures for the financial year ended 31 December 2018 included in the prior year impairment models to consider whether any forecasts included assumptions that, have proven to be optimistic.

We evaluated and challenged the discount rate used.

We assessed the sensitivity analysis that had been performed by management around the key drivers of the cash flow forecasts, which were:

- the discount rate
- the projected EBITDAs

to identify how much each of these key drivers needed to change, either individually or collectively, before the goodwill was impaired.

We also evaluated the likelihood of such a movement in those key assumptions that would require for goodwill to be impaired.

We assessed the adequacy of the disclosures in note 4, by checking that they were compliant with IFRSs and that their presentation was consistent with our understanding of the key issues and sensitivities in the valuation.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 26 March 2014. Our appointment represents a total period of uninterrupted engagement of 5 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises in the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 7 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant (KHT)

Board of Directors

Bo Risberg
born 1956, Swedish citizen

Valmet Board Member and Chairman of the Board since 2015
Chairman of the Board's Remuneration and HR Committee
Independent of the company and independent of significant shareholders
BSc (Mech. Eng.), MBA
Chairman of the Board in Piab Management AB
Vice Chairman of the Board in Grundfos Holding A/S
Board Member of Trelleborg AB and Stäubli Holding AG

Aaro Cantell
born 1964, Finnish citizen

Valmet Board Member since 2016
Vice Chairman of the Board since 2017
Member of the Board's Remuneration and HR Committee
Independent of the company and not independent of significant shareholders due to board membership in Solidium Oy
M.Sc. (Tech.)
Chairman of the Board in Normet Group Oy and VTT Technical Research Centre of Finland Ltd
Board Member of Solidium Oy

Pekka Kemppainen
born 1954, Finnish citizen

Valmet Board Member since 2018
Member of the Board's Audit Committee
Independent of the company and independent of significant shareholders
Lic.Sc. (Tech.)
Board Member of Junttan Oy

Monika Maurer
born 1956, German citizen

Valmet Board member since 2018
Member of the Board's Remuneration and HR Committee
Independent of the company and independent of significant shareholders
Diploma in Physics and Chemistry, the University of Stuttgart, Germany
Diploma in Pedagogy, State University for Pedagogic, Stuttgart, Germany
Vice Chairman of the Board in Nokia Shanghai Bell, Co. Ltd.

Eriikka Söderström
born 1968, Finnish citizen

Valmet Board Member since 2017
Member of the Board's Audit Committee
Independent of the company and independent of significant shareholders
M.Sc. (Econ.)

Tarja Tyni
born 1964, Finnish citizen

Valmet Board member since 2016
Member of the Board's Audit Committee
Independent of the company and independent of significant shareholders
LL.M.
Chairman of the Board of Mandatum Life Investment Services Ltd

Rogério Ziviani
born 1956, Brazilian citizen

Valmet Board Member since 2013
Independent of the company and independent of significant shareholders
B.Sc. in Business Management, MBA
Board Member of Innovatech Negócios Florestais

Personnel representative

Riina Vilander
born 1978, Finnish citizen

Personnel representative since 2018
M.Sc. (Eng.)
HQSE Training Specialist
Personnel representative will participate as an invited expert in meetings of the Board of Directors.
Employed by Valmet since 2002

Jouko Karvinen was Member of Valmet's Board, Vice Chairman of the Board and Member of the Board's Remuneration and HR Committee until March 21, 2018.

Lone Fønss Schrøder was Member of Valmet's Board and Chairman of the Board's Audit Committee until March 21, 2018.

More information about Valmet's Board of Directors: **www.valmet.com/management**

Executive Team

Pasi Laine
born 1963

President and CEO

M.Sc. (Eng.)

Finnish citizen

Aki Niemi
born 1969

Business Line President, Services
from October 1, 2017
(previously Area President, China)

M.Sc. (Eng.)

Finnish citizen

Sami Riekkola
born 1974

Business Line President,
Automation

M.Sc. (Eng.)

Finnish citizen

Bertel Karlstedt
born 1962

Business Line President,
Pulp and Energy

M.Sc. (Eng.)

Finnish citizen

Jari Vähäpesola
born 1959

Business Line President,
Paper

M.Sc. (Eng.)

Diploma in International
Marketing Management

Finnish citizen

Dave King
born 1956

Area President, North America

B.Sc. (Eng.)

US citizen

Celso Tacla
born 1964

Area President,
South America

MBA

Production Engineer
Chemical Engineer

Brazilian citizen

Vesa Simola
born 1967

Area President, EMEA

M.Sc. (Eng.)

Finnish citizen

Jukka Tiitinen
born 1965

Area President, Asia Pacific from October 1, 2017 (previously Business Line President, Services)

M.Sc. (Eng.)

Finnish and US citizen

Xiangdong Zhu
born 1967

Area President, China from October 1, 2017

B.Sc. (Eng.)

MBA

Chinese citizen

Juha Lappalainen
born 1962

Senior Vice President, Strategy and Operational Development

M.Sc. (Eng.)

Finnish citizen

Julia Macharey
born 1977

Senior Vice President, Human Resources

B.A. (Intercultural Communication)

M.Sc. (Econ.)

Finnish citizen

Kari Saarinen
born 1961

CFO

M.Sc. (Accounting and Finance)

Finnish citizen

Anu Salonsaari-Posti
born 1968

Senior Vice President, Marketing and Communications

M.Sc. (Econ.)

MBA

Finnish citizen

Sakari Ruotsalainen was Business Line President, Automation until August 31, 2018.

More information about Valmet's Executive Team: **www.valmet.com/management**

Information for investors

WHY INVEST IN VALMET

1. Strong position in the growing market of converting renewables
2. Widest offering combining process technology, services and automation in a unique way
3. Large stable business offering growth and profitability
4. Strong capital business with high market share and flexible cost structure
5. Systematically building the future

BASIC INFORMATION ON VALMET SHARE

- Votes per share: 1
- Listed: Nasdaq Helsinki (since January 2, 2014)
- Trading currency: euro
- Segment: Large Cap
- Industry: Industrials
- Trading code: VALMT
- ISIN code: FI4000074984

Valmet is a global leader in sustainability

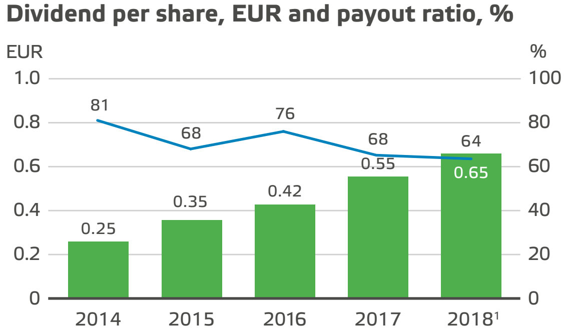
MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

CDP DISCLOSURE INSIGHT ACTION A LIST 2018 CLIMATE CHANGE

included in ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

THE GLOBAL COMPACT WE SUPPORT

Dividend per share, EUR and payout ratio, %



- Dividend
- Payout ratio, % of net profit

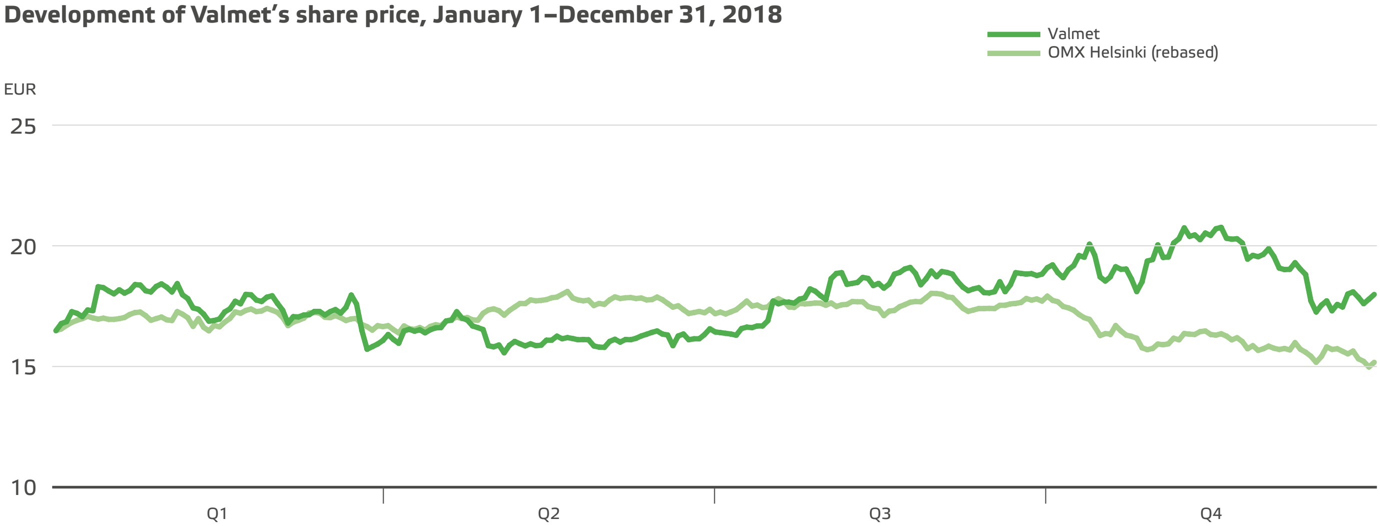
[1] Board of Directors' proposal.

Share capital and share data[1]

	2018	2017	2016
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,617,820**	149,864,220	149,864,220
Treasury shares held by the Parent Company	**246,799**	399	399
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,649,501**	149,864,220	149,864,220
Average number of diluted shares	**149,649,501**	149,864,220	149,864,220
Trading volume on Nasdaq Helsinki Ltd.[2]	**102,204,539**	89,279,591	103,423,288
% of total shares for public trading	**68.3**	59.6	69.0
Earnings per share, EUR	**1.01**	0.81	0.55
Earnings per share, diluted, EUR	**1.01**	0.81	0.55
Dividend per share, EUR	**0.65[3]**	0.55	0.42
Dividend, EUR million	**97[3]**	82	63
Dividend to earnings	**64%[3]**	68%	76%
Effective dividend yield	**3.6%[3]**	3.3%	3.0%
Price to earnings ratio (P/E)	**17.8**	20.4	25.4
Equity per share, EUR	**6.31**	6.09	5.88
Highest share price, EUR	**20.94**	18.44	15.06
Lowest share price, EUR	**15.50**	13.45	8.08
Volume-weighted average share price, EUR	**17.77**	16.08	11.52
Share price, December 31, EUR	**17.95**	16.44	13.98
Market capitalization, December 31, EUR million	**2,690**	2,464	2,095

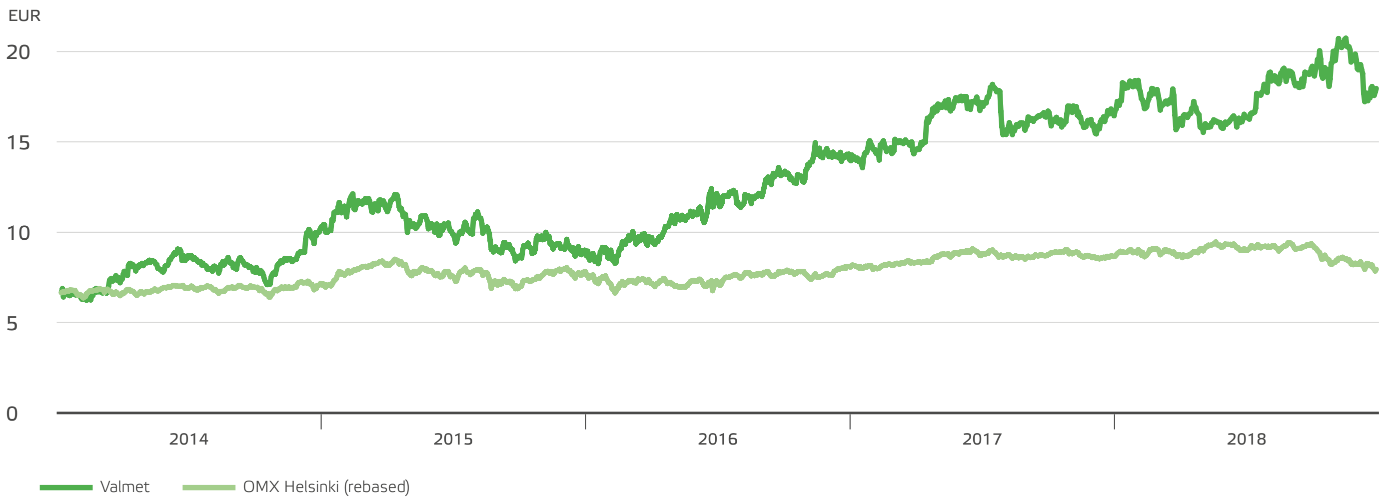
[1] The formulas for calculation of the figures are presented in the section 'Formulas for Calculation of Indicators'.
[2] In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe BXE, Cboe CXE and Turquoise. A total of approximately 66 million of Valmet's shares were traded on alternative marketplaces in 2018, which equals to approximately 39 percent of the share's total trade volume. (Source: Fidessa)
[3] Board of Directors' proposal

Development of Valmet's share price, January 1–December 31, 2018



Feb 6 Financial Statements Review 2017 **Mar 21** Annual General Meeting	**Apr 5** Dividend payout **Apr 27** Interim Review January–March 2018	**July 25** Half Year Financial Review January–June 2018 **Sep 13** Inclusion in Dow Jones Sustainability Index **Sep 18** Capital Markets Day	**Oct 23** Interim Review January–September 2018
Major orders: **Jan 17** OptiConcept M board production line to the USA **Jan 25** Multifuel boiler and flue gas treatment plant to Finland **Mar 19** Two containerboard machines with related automation systems to China	Major orders: **May 9** Containerboard making line to Germany **May 15** Containerboard making line to China **June 7** Multifuel boiler and a flue gas cleaning system to Japan	Major orders: **Aug 7** Tissue production line to Argentina **Aug 14** Containerboard making line to China **Aug 27** Paper machine grade conversion rebuild in Italy	Major orders: **Nov 15** Biomass-fired boiler plant to Finland **Nov 19** OCC and OptiConcept M containerboard making lines to Slovakia **Dec 19** Key pulp mill technology to a new pulp line in Chile

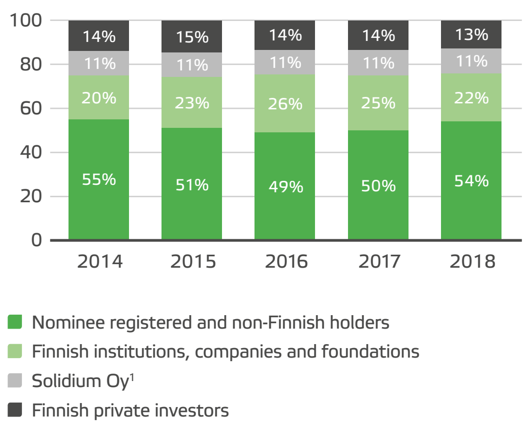
Development of Valmet's share price since listing, January 2, 2014–December 31, 2018



Shareholders

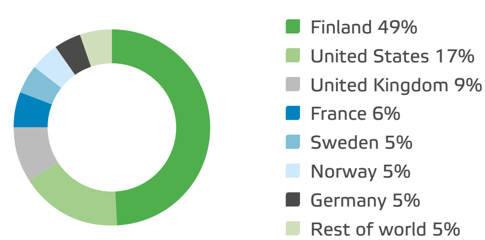
The number of registered shareholders at the end of December 2018 was 43,692 (45,890).

Distribution of shareholding by sector, %



[1] Solidium Oy is wholly owned by the Finnish state.

Distribution of shareholding by country (approximate)



VALMET'S SHAREHOLDER STRUCTURE AT THE END OF 2018

Largest shareholders on December 31, 2018

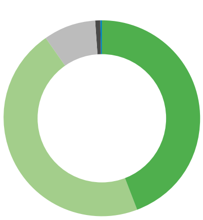
	Shares	% of share capital
1 Solidium Oy[1]	16,695,287	11.14%
2 Varma Mutual Pension Insurance Company	4,165,465	2.78%
3 Elo Pension Company	3,600,000	2.40%
4 Ilmarinen Mutual Pension Insurance Company	3,040,000	2.03%
5 The State Pension Fund	1,545,000	1.03%
6 Keva	1,502,166	1.00%
7 Danske Invest funds	843,190	0.56%
8 Evli Funds	843,000	0.56%
9 Nordea Funds	742,705	0.50%
10 Mandatum Life Insurance Company Limited	739,656	0.49%
11 Odin Funds	674,945	0.45%
12 Sigrid Jusélius Foundation	610,865	0.41%
13 The Finnish Cultural Foundation	506,452	0.34%
14 Sijoitusrahasto Aktia Capital	500,000	0.33%
15 Evli Europe Fund	478,767	0.32%

[1] Solidium Oy is wholly owned by the Finnish state.

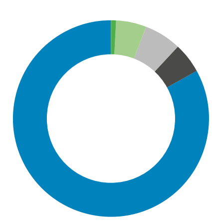
Flagging notifications in 2018

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%

Distribution of shareholders by number of shares held, %



Distribution of voting rights, shareholders grouped by number of shares held, %



Holdings of the Board of Directors in Valmet Oyj on December 31, 2018

		Shares
Risberg, Bo	Chairman of the Board	12,554
Cantell, Aaro	Vice Chairman of the Board	4,448
Kemppainen, Pekka	Member of the Board	1,217
Maurer, Monika	Member of the Board	1,217
Söderström, Eriikka	Member of the Board	2,347
Tyni, Tarja	Member of the Board	4,143
Ziviani, Rogério	Member of the Board	8,330
Total		**34,256**
% of outstanding shares		**0.02%**

Holdings of the Executive Team in Valmet Oyj on December 31, 2018

		Shares
Laine, Pasi	President and CEO	116,244
Karlstedt, Bertel	Business Line President, Pulp and Energy	34,217
King, David	Area President, North America	18,691
Lappalainen, Juha	SVP, Strategy and Operational Development	29,444
Macharey, Julia	SVP, Human Resources	22,036
Niemi, Aki	Business Line President, Services	44,136
Riekkola, Sami	Business Line President, Automation	3,657
Saarinen, Kari	CFO	32,671
Salonsaari-Posti, Anu	SVP, Marketing and Communications	16,752
Simola, Vesa	Area President, EMEA	33,003
Tacla, Celso	Area President, South America	65,970
Tiitinen, Jukka	Area President, Asia-Pacific	70,760
Vähäpesola, Jari	Business Line President, Paper	41,116
Zhu, Xiangdong	Area President, China	11,480
Total		**540,177**
% of outstanding shares		**0.36%**

Investor Relations

Valmet's Capital Markets Day was held in September 2018.


Site visit for investors to Jyväskylä, Finland in March 2018.

INVESTOR RELATIONS IN 2018

Investors met

~370

Meetings and events

~240

Roadshow days

30

Countries visited

14

Mission and goal

The main task of Valmet's Investor Relations is to ensure that the markets have correct and sufficient information for determining the value of Valmet's share. Investor Relations is responsible for planning and executing financial and investor communications and takes care of all investor inquiries.

In addition to Financial Statements, Interim Reviews, the investor website, stock exchange releases and press releases, Valmet's investor communication involves investor meetings, seminars, webcasts, news conferences of result publications, site visits and general meetings. Valmet also arranges Capital Markets Days for institutional investors and analysts.

Silent period

Valmet observes a 21-day silent period prior to the publication of financial results. During this time, Valmet does not comment on the company's financial situation, markets or outlook, and neither do Valmet's executives or employees meet with representatives of capital markets or financial media.

Valmet's investor website

Valmet's investor website provides a comprehensive set of information about Valmet's business environment, strategy, business lines and financial performance, among others. In addition to financial reports, presentations and webcast recordings, as well as interactive share and ownership monitors, the website features the IR Director's blog and an IR Video Gallery for more topics tailored to investors' interests.

FREQUENTLY ASKED QUESTIONS

How big is Valmet's market share?
Valmet has a leading market position: it is globally either #1, #2 or #3 in all markets it serves. As a provider of board and paper making technology, Valmet's market share is ca. 40 percent, and in tissue ca. 35 percent. In these businesses, Valmet is the global market leader. As a supplier of pulp manufacturing technology, Valmet has a ca. 40 percent market share, and in energy ca. 20 percent.

In automation, Valmet's market share is ca. 20 percent in the pulp and paper market, and ca. 10 percent in other process industries. In services, where the market is more fragmented, Valmet's market share is ca. 16 percent.

What are the market drivers for Valmet's businesses?
Increasing world trade and e-commerce as well as a shift away from plastic packaging drive an increase in board consumption, while rising purchasing power and living standards drive the demand for tissue. Pulp is a raw material for both board and tissue, so the demand for pulp is also growing over time. Growth in energy consumption as well as need for sustainable solutions drive growth in Valmet's energy business. In addition to increasing pulp, paper and energy production, demands for more efficient processes and industrial internet solutions drive growth in the services and automation businesses.

What are Valmet's long-term financial targets?
In stable business (Services and Automation business lines) Valmet targets net sales growth that is over two times the market growth. In capital business (Paper, and Pulp and Energy business lines), growth should exceed market growth. Valmet's profitability target is a comparable EBITA margin of 8–10 percent. The targeted comparable return on capital employed (pre-tax ROCE) is 15–20 percent. As for dividend, Valmet targets to pay out at least 50 percent of net profit.

Analyst coverage

Analyst contact information and consensus estimates are available on Valmet's investor website. Valmet does not take any responsibility for the content, accuracy or completeness of the views of the capital market representatives.

According to Valmet's knowledge, the following analysts have regular coverage on Valmet share:

Company	Analyst
Berenberg	Simon Toennessen
Carnegie Investment Bank	Tom Skogman
Danske Bank	Antti Suttelin
DNB Markets	Tomi Railo
Handelsbanken	Timo Heinonen
Inderes	Antti Viljakainen
Kepler Cheuvreux	Johan Eliason
Nordea Markets	Manu Rimpelä
OP Corporate Bank	Henri Parkkinen
SEB	Antti Kansanen
UBS	Sven Weier

Financial calendar 2019

February 7, 2019	Financial Statements Review 2018
March 21, 2019	Annual General Meeting
April 5, 2019	Silent period begins
April 26, 2019	Interim Review January–March 2019
July 2, 2019	Silent period begins
July 23, 2019	Half Year Financial Review January–June 2019
October 3, 2019	Silent period begins
October 24, 2019	Interim Review January–September 2019

The calendar is available on Valmet's investor website.

Valmet Investor Relations

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ir society BEST PRACTICE AWARDS 2018 AWARD WINNER

IR magazine Award nominee Europe 2018

Valmet reports 2018

ANNUAL REVIEW 2018

The report describes Valmet's market environment and the progress of its strategy, operations and sustainability in 2018.

FINANCIAL STATEMENTS 2018 AND INFORMATION FOR INVESTORS

The report includes Valmet's Financial Statements for 2018 and information about its shares, shareholders and management.

GRI SUPPLEMENT 2018

The report includes Valmet's sustainability reporting indicators and principles, and its alignment with the Global Reporting Initiative (GRI) Standards framework.

CORPORATE GOVERNANCE STATEMENT 2018

The report covers Valmet's governance principles and activities, Board and management in 2018.

REMUNERATION STATEMENT 2018

The report covers Valmet's remuneration principles and remuneration in 2018.

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About this report

This report is made from paper and pulp that were produced on Valmet machinery and equipment. It is printed on Maxioffset paper, which is certified according to the PEFC standard and the Nordic Ecolabel.

This report is from sustainably managed forests and controlled sources. PEFC certification requires that the forests are managed well with regard to biodiversity, forest health and maintenance, as well as recreational use. The PEFC logo promotes responsible consumption.

The Nordic Ecolabel ensures that products that are used in printed matter fulfill certain criteria. Inks are mineral-oil free, and for all other materials, those that are recyclable and environmentally friendly are preferred.

DESIGN AND PRODUCTION

Miltton Oy

PAPER

Maxioffset 300 g

Maxioffset 120 g

PRINTING

Grano Oy

PEFC/02-31-201

4041 0955

Printed matter

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