Half Year Financial Review

January 1 – June 30, 2019

Valmet

Valmet's Half Year Financial Review January 1 – June 30, 2019

Orders received increased to EUR 1.1 billion and Comparable EBITA to EUR 69 million

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

April–June 2019: Orders received amounted to EUR 1.1 billion

- Orders received increased 25 percent to EUR 1,083 million (EUR 865 million).
  - Orders received increased in the Pulp and Energy, Paper, and Services business lines and remained at the previous year's level in the Automation business line.
  - Orders received increased in South America, North America, EMEA and Asia-Pacific, and decreased in China.
- Net sales increased 7 percent to EUR 901 million (EUR 844 million).
  - Net sales increased in the Services and Automation business lines and remained at the previous year's level in the Paper, and Pulp and Energy business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 69 million (EUR 61 million), and the corresponding Comparable EBITA margin was 7.7 percent (7.2%).
  - Profitability improved due to increased net sales and higher gross profit.
- Earnings per share were EUR 0.26 (EUR 0.23).
- Items affecting comparability amounted to EUR -5 million (EUR -4 million).
- Cash flow provided by operating activities was EUR -44 million (EUR 3 million).

January–June 2019: Orders received increased and profitability improved

- Orders received increased 9 percent to EUR 1,918 million (EUR 1,756 million).
  - Orders received increased in the Pulp and Energy, Automation and Services business lines and remained at the previous year's level in the Paper business line.
  - Orders received increased in South America and Asia-Pacific, remained at the previous year's level in EMEA, and decreased in China and North America.
- Net sales remained at the previous year's level at EUR 1,587 million (EUR 1,575 million).
  - Net sales increased in the Services and Automation business lines and decreased in the Pulp and Energy, and Paper business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 117 million (EUR 82 million), and the corresponding Comparable EBITA margin was 7.3 percent (5.2%).
  - Profitability improved due to higher gross profit.
- Earnings per share were EUR 0.47 (EUR 0.29).
- Items affecting comparability amounted to EUR -3 million (EUR -7 million).
- Cash flow provided by operating activities was EUR -14 million (EUR 22 million).

Guidance for 2019 unchanged

Valmet reiterates its guidance presented on February 26, 2019 and confirmed on April 1, 2019, in which Valmet estimates that net sales in 2019 will increase in comparison with 2018 (EUR 3,325 million) and Comparable EBITA in 2019 will increase in comparison with 2018 (EUR 257 million).

Short-term outlook

General economic outlook

Global economic growth is forecast to ease to a weaker-than-expected 2.6% in 2019 before inching up to 2.7% in 2020. Growth in emerging market and developing economies is expected to stabilize next year as some countries move past periods of financial strain, but economic momentum remains weak.

Emerging and developing economy growth is constrained by sluggish investment, and risks are tilted to the downside. These risks include rising trade barriers, renewed financial stress, and sharper-than-expected slowdowns in several major economies. Structural problems that misallocate or discourage investment also weigh on the outlook. Growth among advanced economies as a group is anticipated to slow in 2019, especially in the Euro Area, due to weaker exports and investment. (The World Bank Global Economic Prospects, June 2019)

Short-term market outlook

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

President and CEO Pasi Laine: Orders received exceeded EUR 1 billion and profitability improved

"In the second quarter of 2019, orders received increased in the Pulp and Energy, Paper, and Services business lines and remained at the previous year's level in the Automation business line. Valmet's orders received increased to over EUR 1 billion, lifting the order backlog to a new record-high level of EUR 3.2 billion. Net sales increased and Comparable EBITA improved. The Comparable EBITA margin was 7.7 percent in the second quarter, 0.5 percentage points higher than a year ago.

During the quarter, Valmet completed the acquisitions of GL&V and J&L Fiber Services Inc. These acquisitions strengthen Valmet's services business and complement our technology offering for the pulp and paper industry customers. They also further strengthen Valmet's capabilities globally and our local presence especially in North America. Following the acquisitions, the number of Valmet's employees has increased to a total of 13,622."

Key figures[1]

EUR million	Q2/2019[2]	Q2/2018	Change	Q1–Q2/ 2019[2]	Q1–Q2/ 2018	Change
Orders received	**1,083**	865	25%	**1,918**	1,756	9%
Order backlog[3]	**3,216**	2,621	23%	**3,216**	2,621	23%
Net sales	**901**	844	7%	**1,587**	1,575	1%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**69**	61	14%	**117**	82	41%
% of net sales	**7.7%**	7.2%		**7.3%**	5.2%	
Earnings before interest, taxes and amortization (EBITA)	**64**	57	13%	**113**	76	50%
% of net sales	**7.1%**	6.7%		**7.1%**	4.8%	
Operating profit (EBIT)	**56**	49	13%	**99**	61	61%
% of net sales	**6.2%**	5.9%		**6.2%**	3.9%	
Profit before taxes	**52**	48	8%	**93**	59	59%
Profit for the period	**39**	35	10%	**70**	43	62%
Earnings per share, EUR	**0.26**	0.23	9%	**0.47**	0.29	62%
Earnings per share, diluted, EUR	**0.26**	0.23	9%	**0.47**	0.29	62%
Equity per share, EUR[3]	**5.96**	5.63	6%	**5.96**	5.63	6%
Cash flow provided by operating activities	**-44**	3		**-14**	22	
Cash flow after investments	**-217**	-18		**-204**	-9	
Return on equity (ROE) (annualized)				**15%**	10%	
Return on capital employed (ROCE) before taxes (annualized)				**17%**	11%	
Equity to assets ratio[3]				**38%**	41%	
Gearing[3]				**17%**	0%	

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

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

[3] *At the end of period.*

Orders received, EUR million	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
Services	**371**	344	8%	**729**	690	6%
Automation	**82**	84	-1%	**177**	166	7%
Pulp and Energy	**210**	85	>100%	**411**	278	48%
Paper	**419**	353	19%	**601**	623	-3%
Total	**1,083**	865	25%	**1,918**	1,756	9%

Order backlog, EUR million	As at June 30, 2019	As at June 30, 2018	Change	As at March 31, 2019
Total	**3,216**	2,621	23%	3,001

Net sales, EUR million	**Q2/2019**	Q2/2018	Change	**Q1–Q2/ 2019**	Q1–Q2/ 2018	Change
Services	**361**	325	11%	**637**	572	11%
Automation	**82**	76	7%	**145**	136	7%
Pulp and Energy	**212**	205	3%	**372**	408	-9%
Paper	**246**	237	4%	**432**	460	-6%
Total	**901**	844	7%	**1,587**	1,575	1%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English for analysts, investors, and media on Tuesday, July 23, 2019 at 4:00 p.m. Finnish time (EET). The news conference will be held at Valmet Head Office in Keilaniemi, Keilasatama 5, 02150 Espoo, Finland. The news conference can also be followed through a live webcast at www.valmet.com/webcasts.

It is also possible to take part in the news conference through a conference call. Conference call participants are requested to dial in at least five minutes prior to the start of the conference, at +44 2071 928000. The participants will be asked to provide the following conference ID: 2883129.

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

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

Valmet's Half Year Review January 1 – June 30, 2019

Orders received increased 25 percent to EUR 1.1 billion in Q2/2019

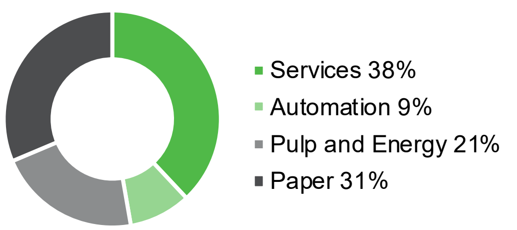
Orders received, EUR million	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
Services	**371**	344	8%	**729**	690	6%
Automation	**82**	84	-1%	**177**	166	7%
Pulp and Energy	**210**	85	>100%	**411**	278	48%
Paper	**419**	353	19%	**601**	623	-3%
Total	**1,083**	865	25%	**1,918**	1,756	9%

Orders received, comparable foreign exchange rates, EUR million[1]	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
Services	**367**	344	7%	**722**	690	5%
Automation	**82**	84	-2%	**176**	166	6%
Pulp and Energy	**213**	85	>100%	**415**	278	50%
Paper	**423**	353	20%	**604**	623	-3%
Total	**1,085**	865	25%	**1,917**	1,756	9%

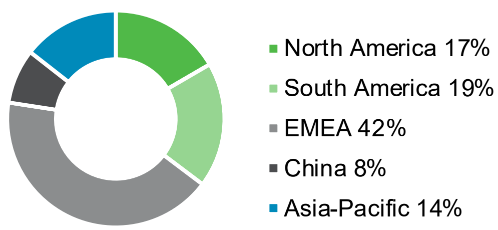
[1] *Indicative only. January to June 2019 orders received in euro calculated by applying January–June 2018 average exchange rates to the functional currency orders received values reported by entities.*

Orders received, EUR million	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
North America	**153**	130	17%	**318**	395	-19%
South America	**317**	60	>100%	**358**	107	>100%
EMEA	**484**	422	15%	**808**	789	2%
China	**68**	199	-66%	**156**	301	-48%
Asia-Pacific	**61**	55	12%	**277**	164	68%
Total	**1,083**	865	25%	**1,918**	1,756	9%

Orders received by business line, Q1–Q2/2019



Orders received by area, Q1–Q2/2019



April–June 2019: Orders received increased 25 percent

Orders received increased 25 percent to EUR 1,083 million in April–June (EUR 865 million). The Services and Automation business lines together accounted for 42 percent (49%) of Valmet's orders received. Orders received increased in the Pulp and Energy, Paper and Services business lines and remained at the previous year's level in the Automation business line. Orders received increased in South America, North America, EMEA and Asia-Pacific, and decreased in China. Measured by orders received, the top three countries were Brazil, Germany and Finland, which together accounted for 59 percent of total orders received. The emerging markets accounted for 44 percent (44%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased orders received by approximately EUR 2 million in April–June.

During April–June, Valmet received among others an order for a large pulp and paper technology delivery to Brazil, consisting of a kraftliner machine, a new fiberline, a new continuous cooking and a pulp dryer rebuild, valued at a total of around EUR 260–290 million, an order for a containerboard making line with an extensive scope to Germany, typically valued at around EUR 150–200 million, and an order for an extensive paper machine grade conversion rebuild in Finland.

January–June 2019: Orders received increased 9 percent to EUR 1.9 billion

Orders received increased 9 percent to EUR 1,918 million (EUR 1,756 million) in January–June. The Services and Automation business lines together accounted for 47 percent (49%) of Valmet's orders received. Orders received increased in the Pulp and Energy, Automation, and Services business lines and remained at the previous year's level in the Paper business line. Orders received increased in South America and Asia-Pacific, remained at the previous year's level in EMEA, and decreased in China and North America. Measured by orders received, the top three countries were Brazil, Finland and the USA, which together accounted for 42 percent of total orders received. The emerging markets accounted for 46 percent (38%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 1 million in January–June.

In addition to the above-mentioned, during the first half of the year, Valmet received among others an order for a containerboard machine to Malaysia, typically valued at around EUR 60–70 million, an order for a grade conversion rebuild in China, typically valued at around EUR 20–30 million, and an order for a wood handling line to Finland, typically valued at around EUR 10–15 million.

Order backlog at a record-high level

Order backlog, EUR million	**As at June 30, 2019**	As at June 30, 2018	Change	As at March 31, 2019
Total	**3,216**	2,621	23%	3,001

Order backlog amounted to EUR 3,216 million at the end of the reporting period, 7 percent higher than at the end of March 2019 and 23 percent higher than at the end of June 2018. Approximately 30 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 30% at the end of June 2018). Approximately 50 percent of the order backlog is currently expected to be realized as net sales during 2019 (at the end of June 2018, approximately 55% was expected to be realized as net sales during 2018).

Net sales increased in the Services and Automation business lines

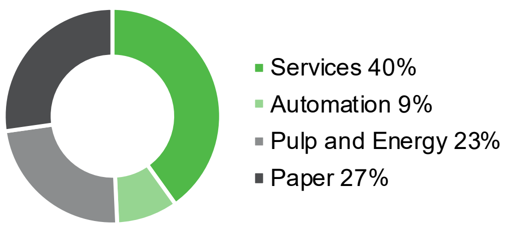
Net sales, EUR million	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
Services	**361**	325	11%	**637**	572	11%
Automation	**82**	76	7%	**145**	136	7%
Pulp and Energy	**212**	205	3%	**372**	408	-9%
Paper	**246**	237	4%	**432**	460	-6%
Total	**901**	844	7%	**1,587**	1,575	1%

Net sales, comparable foreign exchange rates, EUR million[1]	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
Services	**356**	325	10%	**629**	572	10%
Automation	**81**	76	6%	**144**	136	7%
Pulp and Energy	**213**	205	4%	**375**	408	-8%
Paper	**243**	237	3%	**426**	460	-7%
Total	**894**	844	6%	**1,574**	1,575	0%

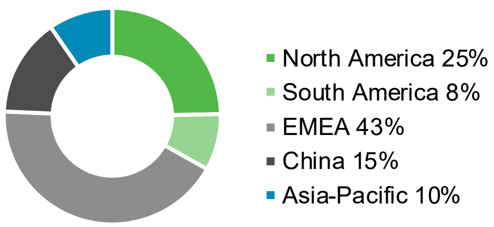
[1] *Indicative only. January to June 2019 net sales in euro calculated by applying January to June 2018 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
North America	**223**	177	26%	**392**	303	29%
South America	**82**	31	>100%	**134**	72	86%
EMEA	**377**	397	-5%	**675**	746	-9%
China	**132**	153	-14%	**233**	292	-20%
Asia-Pacific	**87**	86	1%	**153**	163	-6%
Total	**901**	844	7%	**1,587**	1,575	1%

Net sales by business line, Q1–Q2/2019



Net sales by area, Q1–Q2/2019



April–June 2019: Net sales increased 7 percent

Net sales increased 7 percent to EUR 901 million in April–June (EUR 844 million). The Services and Automation business lines together accounted for 49 percent (48%) of Valmet's net sales. Net sales increased in the Services and Automation business lines and remained at the previous year's level in the Paper, and Pulp and Energy business lines. Net sales increased in South America and North America, remained at the previous year's level in Asia-Pacific and EMEA, and decreased in China. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 43 percent of total net sales. Emerging markets accounted for 41 percent (44%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 7 million in April–June.

January–June 2019: Net sales increased in the stable business and decreased in the capital business

Net sales remained at the previous year's level and amounted to EUR 1,587 million (EUR 1,575 million) in January–June. The Services and Automation business lines together accounted for 49 percent (45%) of Valmet's net sales. Net sales increased in the Services and Automation business lines and decreased in the Pulp and Energy, and Paper business lines. Net sales increased in South America and North America and decreased in China, EMEA and Asia-Pacific. Measured by net sales, the top three countries were the USA, China and Finland, which together accounted for 43 percent of total net sales. Emerging markets accounted for 40 percent (45%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 13 million in January–June.

Comparable EBITA and operating profit

In April–June, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 69 million, i.e. 7.7 percent of net sales (EUR 61 million and 7.2%). Profitability improved due to increased net sales and higher gross profit. The positive impact arising from adoption of IFRS 16 was immaterial.

In the first half of the year, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 117 million, i.e. 7.3 percent of net sales (EUR 82 million and 5.2%). Profitability improved due to higher gross profit. The positive impact arising from adoption of IFRS 16 was approximately EUR 1 million.

Operating profit (EBIT) in April–June was EUR 56 million, i.e. 6.2 percent of net sales (EUR 49 million and 5.9%). Items affecting comparability amounted to EUR -5 million (EUR -4 million).

Operating profit (EBIT) in the first half of the year was EUR 99 million, i.e. 6.2 percent of net sales (EUR 61 million and 3.9%). Items affecting comparability amounted to EUR -3 million (EUR -7 million).

Net financial income and expenses

Net financial income and expenses in April–June were EUR -4 million (EUR -1 million). The interest expense recognized on lease liabilities had no material impact on net financial income and expenses.

Net financial income and expenses in the first half of the year were EUR -5 million (EUR -2 million). The interest expense recognized on lease liabilities amounted to EUR 1 million.

Profit before taxes and earnings per share

Profit before taxes for April–June was EUR 52 million (EUR 48 million). The profit attributable to owners of the parent in April–June was EUR 38 million (EUR 35 million), corresponding to earnings per share (EPS) of EUR 0.26 (EUR 0.23).

Profit before taxes in the first half of the year was EUR 93 million (EUR 59 million). The profit attributable to owners of the parent in the first half of the year was EUR 70 million (EUR 43 million), corresponding to earnings per share (EPS) of EUR 0.47 (EUR 0.29).

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

In January–June, the annualized return on capital employed (ROCE) before taxes was 17 percent (11%) and return on equity (ROE) 15 percent (10%). Recognition of leased assets following adoption of IFRS 16 increased capital employed, however only having a minor impact on ROCE for the reporting period.

Business lines

Services: Orders received and net sales increased in Q2/2019

Services business line	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
Orders received (EUR million)	**371**	344	8%	**729**	690	6%
Net sales (EUR million)	**361**	325	11%	**637**	572	11%
Personnel (end of period)				**6,446**	5,627	15%

In April–June, orders received by the Services business line increased 8 percent to EUR 371 million (EUR 344 million). Services accounted for 34 percent of all orders received (40%). Orders received increased in South America and North America, remained at the previous year's level in Asia-Pacific and EMEA, and decreased in China. Orders received increased in Performance Parts, remained at the previous year's level in Energy and Environmental, and Fabrics and decreased in Mill Improvements, and Rolls. The acquired businesses contributed EUR 43 million to the orders received by the Services business line in April–June. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 4 million.

In the first half of the year, orders received by the Services business line increased 6 percent to EUR 729 million (EUR 690 million). Services accounted for 38 percent of all orders received (39%). Orders received increased in South America, North America and Asia-Pacific, remained at the previous year's level in EMEA, and decreased in China. Orders received increased in Energy and Environmental, remained at the previous year's level in Performance Parts, Fabrics, and Rolls, and decreased in Mill Improvements. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 7 million.

In April–June, net sales for the Services business line amounted to EUR 361 million (EUR 325 million), corresponding to 40 percent (38%) of Valmet's net sales. The acquired businesses contributed EUR 38 million to net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 5 million.

In the first half of the year, net sales for the Services business line amounted to EUR 637 million (EUR 572 million), corresponding to 40 percent (36%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 8 million.

Automation: Orders received remained at the previous year's level and net sales increased in Q2/2019

Automation business line	**Q2/2019**	Q2/2018	Change	**Q1–Q2/ 2019**	Q1–Q2/ 2018	Change
Orders received (EUR million)	**82**	84	-1%	**177**	166	7%
Net sales (EUR million)	**82**	76	7%	**145**	136	7%
Personnel (end of period)				**1,894**	1,772	7%

In April–June, orders received by the Automation business line remained at the previous year's level and amounted to EUR 82 million (EUR 84 million). Automation business line accounted for 8 percent (10%) of Valmet's orders received. Orders received increased in South America and North America, remained at the previous year's level in Asia-Pacific and EMEA, and decreased in China. Orders received increased in Pulp and Paper, and decreased in Energy and Process. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 had no material impact on orders received.

In first half of the year, orders received by the Automation business line increased 7 percent to EUR 177 million (EUR 166 million) and accounted for 9 percent (9%) of Valmet's orders received. Orders received increased in South America, North America and EMEA, remained at the previous year's level in Asia-Pacific and decreased in China. Orders received increased in Pulp and Paper, and remained at the previous year's level in Energy and Process. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased orders received by approximately EUR 1 million.

In April–June, net sales for the Automation business line amounted to EUR 82 million (EUR 76 million), corresponding to 9 percent (9%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 1 million.

In first half of the year, net sales for the Automation business line amounted to EUR 145 million (EUR 136 million), corresponding to 9 percent (9%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 1 million.

Pulp and Energy: Orders received increased and net sales remained at the previous year's level in Q2/2019

Pulp and Energy business line	**Q2/2019**	Q2/2018	Change	**Q1–Q2/ 2019**	Q1–Q2/ 2018	Change
Orders received (EUR million)	**210**	85	>100%	**411**	278	48%
Net sales (EUR million)	**212**	205	3%	**372**	408	-9%
Personnel (end of period)				**1,804**	1,768	2%

In April–June, orders received by the Pulp and Energy business line more than doubled to EUR 210 million (EUR 85 million). Pulp and Energy accounted for 19 percent of all orders received (10%). Orders received increased in all areas, and in both Pulp and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased orders received by approximately EUR 3 million.

In first half of the year, orders received by the Pulp and Energy business line increased 48 percent to EUR 411 million (EUR 278 million). Pulp and Energy accounted for 21 percent of all orders received (16%).

Orders received increased in China, South America, North America and Asia-Pacific and decreased in EMEA. Orders received increased in both Pulp and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased orders received by approximately EUR 5 million.

In April–June, net sales for the Pulp and Energy business line amounted to EUR 212 million (EUR 205 million), corresponding to 24 percent (24%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased net sales by approximately EUR 1 million.

In the first half of the year, net sales for the Pulp and Energy business line amounted to EUR 372 million (EUR 408 million), corresponding to 23 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased net sales by approximately EUR 3 million.

Paper: Orders received increased and net sales remained at the previous year's level in Q2/2019

Paper business line	Q2/2019	Q2/2018	Change	Q1–Q2/ 2019	Q1–Q2/ 2018	Change
Orders received (EUR million)	**419**	353	19%	**601**	623	-3%
Net sales (EUR million)	**246**	237	4%	**432**	460	-6%
Personnel (end of period)				**2,949**	2,939	0%

In April–June, orders received by the Paper business line increased 19 percent to EUR 419 million (EUR 353 million) and accounted for 39 percent of all orders received (41%). Orders received increased in South America, Asia-Pacific and EMEA, and decreased in China and North America. 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 2018 decreased orders received by approximately EUR 4 million.

In the first half of the year, orders received by the Paper business line remained at the previous year's level at EUR 601 million (EUR 623 million) and accounted for 31 percent of all orders received (35%). Orders received increased in Asia-Pacific, South America and EMEA, and decreased in China and North America. Orders received remained at the previous year's level in Board and Paper, and decreased in Tissue. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 decreased orders received by approximately EUR 3 million.

In April–June, net sales for the Paper business line amounted to EUR 246 million (EUR 237 million), corresponding to 27 percent (28%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 3 million.

In the first half of the year, net sales for the Paper business line amounted to EUR 432 million (EUR 460 million), corresponding to 27 percent (29%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2018 increased net sales by approximately EUR 6 million.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR -44 million (EUR 3 million) in April–June and EUR -14 million (EUR 22 million) in the first half of the year. Net working capital totaled EUR -342 million (EUR -362 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR -93 million (EUR -27 million) in April–June and EUR -113 million (EUR -30 million) in the first half of the year. Payment schedules of large capital projects have a significant impact on net working capital development.

During April–June, Valmet completed the acquisitions of GL&V and J&L Fiber Services Inc., with a cash flow impact of EUR -154 million. Cash flow after investments totaled EUR -217 million (EUR -18 million) in April–June and EUR -204 million (EUR -9 million) in the first half of the year.

At the end of June, gearing was 17 percent (0%) and equity to assets ratio was 38 percent (41%). Interest-bearing liabilities amounted to EUR 297 million (EUR 201 million), and net interest-bearing liabilities totaled EUR 152 million (EUR -4 million) at the end of the reporting period. The adoption of IFRS 16 increased financial liabilities by EUR 55 million, which had a negative impact on the above key performance indicators.

The average maturity of Valmet's non-current debt was 3.5 years, and average interest rate was 1.0 percent at the end of June. Lease liabilities, which are discussed in detail in the notes to Consolidated Interim Financial Statements, have been excluded from calculation of these two key performance indicators.

Valmet's liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 125 million (EUR 183 million) and interest-bearing current financial assets totaling EUR 20 million (EUR 5 million). Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2024 and was undrawn at the end of the reporting period, and an uncommitted commercial paper program worth of EUR 200 million, of which EUR 25 million was outstanding at the end of the reporting period.

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

Capital expenditure

Gross capital expenditure excluding business combinations and leased assets totaled EUR 19 million (EUR 20 million) in April–June, of which maintenance investments were EUR 6 million (EUR 12 million).

Gross capital expenditure excluding business combinations and leased assets totaled EUR 38 million (EUR 36 million) in the first half of the year, of which maintenance investments were EUR 21 million (EUR 23 million).

Acquisitions and disposals

Acquisitions

GL&V

On February 26, 2019, Valmet announced the acquisition of North American-based GL&V, a global provider of technologies and services to the pulp and paper industry. The enterprise value of the acquisition was approximately EUR 113 million on a cash and debt free basis subject to ordinary post-closing adjustments.

The acquisition was completed on April 1, 2019. GL&V supplies technologies, upgrades and optimization services, rebuilds, and spare parts for the pulp and paper industry globally. Net sales of the acquired operations were approximately EUR 160 million and EBITA margin was around 11 percent in calendar year 2018. The acquired operations employ about 630 people of whom approximately 65 percent are in North America and the rest mainly in Europe, South America and India. GL&V's washing, oxygen delignification and bleaching operations with Compact Press®, pumps and mixers technology for chemical pulping as well as the related Product Center in Karlstad Sweden were not included in the transaction scope. The acquired operations formed a new business unit within the Services business line called Mill Process Solutions.

J&L Fiber Services Inc.

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

Disposals

Valmet made no disposals during January–June 2019.

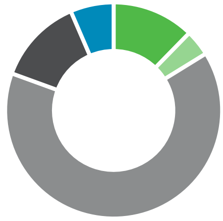
Number of personnel

Personnel by business line	**As at June 30, 2019**	As at June 30, 2018	Change	As at March 31, 2019
Services	**6,446**	5,627	15%	5,576
Automation	**1,894**	1,772	7%	1,816
Pulp and Energy	**1,804**	1,768	2%	1,762
Paper	**2,949**	2,939	0%	2,881
Other	**529**	562	-6%	504
Total	**13,622**	12,668	8%	12,539

Personnel by area	**As at June 30, 2019**	As at June 30, 2018	Change	As at March 31, 2019
North America	**1,673**	1,203	39%	1,197
South America	**532**	524	2%	503
EMEA	**8,771**	8,478	3%	8,317
China	**1,765**	1,714	3%	1,753
Asia-Pacific	**881**	749	18%	769
Total	**13,622**	12,668	8%	12,539

Personnel by business line as at June 30, 2019

Personnel by area as at June 30, 2019



During the first half of the year, Valmet employed an average of 12,935 people (12,393). The number of personnel at the end of June was 13,622 (12,668). Personnel expenses totaled EUR 452 million (EUR 417 million) in January–June, of which wages, salaries and remuneration amounted to EUR 356 million (EUR 326 million).

Changes in Valmet’s Executive Team

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

Strategic goals and their implementation

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

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

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

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

Valmet has an annual strategy process, where, among others, Valmet’s strategy, Must-Wins and financial targets are reviewed. Valmet has the following financial targets:

Financial targets

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

Continued focus on improving profitability

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

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

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

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

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

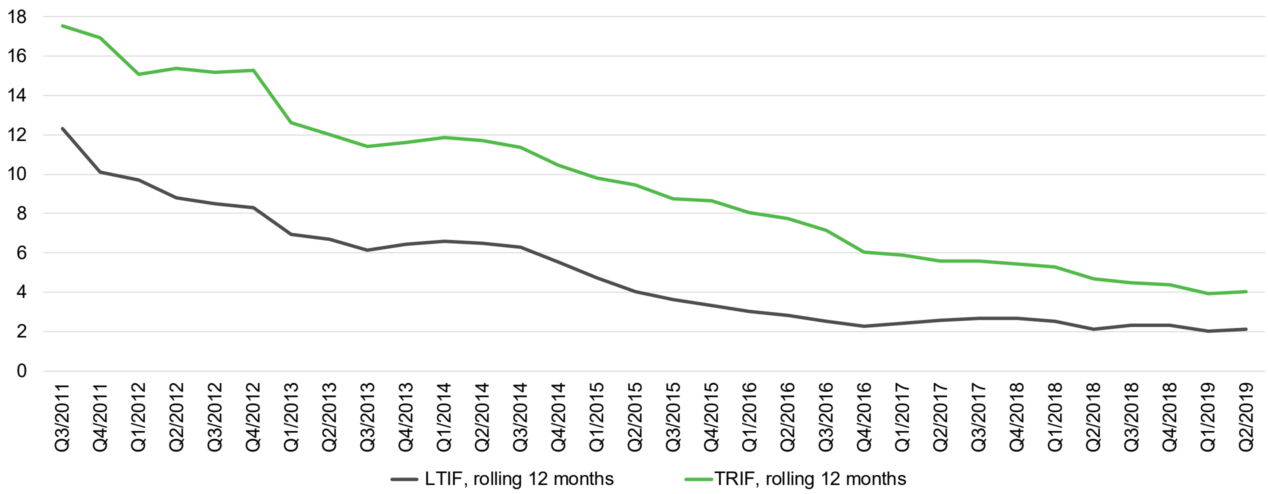
Progress in sustainability

During the first half of 2019, Valmet progressed with the actions defined in its Sustainability360˚ agenda. Valmet continued to further strengthen its sustainable supply chain by conducting 38 supplier sustainability audits globally. Valmet has the target to conduct at least 40 supplier sustainability audits annually.

Valmet successfully kicked off its new global Excellence in Project Management program in May 2019. In total, 20 project management professionals attended the training program, which focuses on themes such as contract and claim management, risk and opportunity management, and planning and scheduling. Other programs during the first half of the year included Innovation Pathways, Leading through Lean, Champion in Services and Sales Journey.

Valmet's lost time incident frequency rate (LTIF) for own employees was 2.1 at the end of June (2.1 at the end of June 2018). Valmet's total recordable incident frequency rate (TRIF) for own employees was 4.0 at the end of June (4.8 at the end of June 2018). During the spring Valmet organized Safety Days in Asia-Pacific and North America areas to strengthen the collaboration between Valmet and its customers' health, safety and environment professionals. Valmet also renewed its Health, Safety and Environment (HSE) Policy and completed the first audit period for global management system certification.

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



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

Lawsuits and claims

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

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

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

Corporate Governance and Remuneration Statements

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

Shares and shareholders

Share capital, number of shares and shareholders

	As at June 30, 2019	As at June 30, 2018
Share capital, EUR	**100,000,000**	100,000,000
Number of shares	**149,864,619**	149,864,619
Treasury shares	**245,235**	246,799
Shares outstanding	**149,619,384**	149,617,820
Market capitalization, EUR million	**3,285**	2,476
Number of shareholders	**43,421**	45,828

Shareholder structure as at June 30, 2019

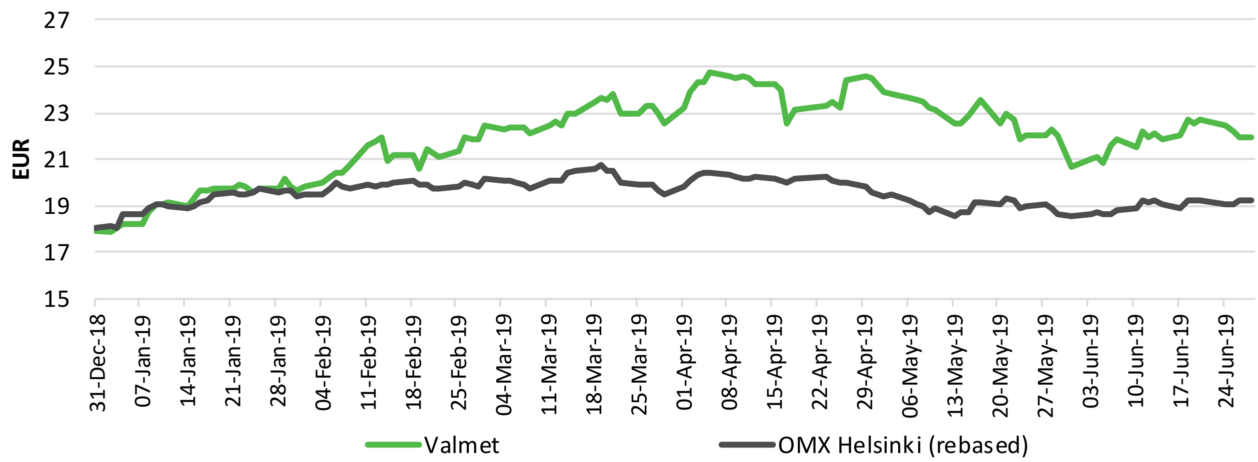
Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	**January 1 – June 30, 2019**	January 1 – June 30, 2018
Number of shares traded	**71,629,973**	46,590,834
Total value, EUR	**1,585,027,063**	777,290,622
High, EUR	**25.14**	18.66
Low, EUR	**17.55**	15.50
Volume-weighted average price, EUR	**22.14**	16.69
Closing price on the final day of trading, EUR	**21.92**	16.52

The closing price of Valmet's share on the final day of trading for the reporting period, June 28, 2019, was EUR 21.92, i.e. 22 percent higher than the closing price on the last day of trading in 2018 (EUR 17.95 on December 28, 2018).

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 41 million of Valmet's shares were traded on alternative marketplaces in January–June, which equals to approximately 37 percent of the share's total trade volume. (Fidessa, July 10, 2019)

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



Flagging notifications

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

Transaction date	Shareholder	Threshold	Direct holding, %	Indirect holding, %	Total holding, %
January 16, 2019	BlackRock, Inc	Above 5%	4.33%	0.74%	5.08%
February 6, 2019	BlackRock, Inc	Above 5%	5.23%	0.82%	6.05%
March 21, 2019	BlackRock, Inc	Below 5%	4.96%	0.66%	5.62%
March 27, 2019	BlackRock, Inc	Above 5%	5.77%	0.69%	6.46%

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

Board authorizations regarding share repurchase and share issue

Valmet Oyj's Annual General Meeting on March 21, 2019 authorized Valmet's Board of Directors to decide on the repurchase of the Company's own shares in one or several tranches. The maximum number of shares to be repurchased shall be 10,000,000 shares, which corresponds to approximately 6.7 percent of all the shares in the Company.

The Company's own shares may be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase). Company's own shares may be repurchased using the unrestricted equity of the Company at a price formed on a regulated market on the stock exchange main list upheld by Nasdaq Helsinki Ltd on the date of the repurchase.

Company's own shares may be repurchased for reasons of developing the Company's capital structure, financing or carrying out acquisitions, investments or other business transactions, or for the shares to be used in an incentive scheme.

The Board of Directors decides on all other terms related to the repurchasing of the Company's own shares.

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

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

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

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

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

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

The authorizations shall remain in force until the next Annual General Meeting, and they cancel the authorizations granted in the Annual General Meeting of March 21, 2018.

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

Share-based incentive plans

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

Long-term incentive plan 2018–2020

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

Performance period	2018	2019
Incentive based on	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)	Comparable EBITA % and orders received growth % of the stable business (Services and Automation business lines)
Potential reward payment	Was paid partly in Valmet shares and partly in cash in spring 2019	Will be paid partly in Valmet shares and partly in cash in spring 2020
Total number of shares	356,624	Approximate maximum of 449,516 shares

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

In its meeting on December 20, 2018, the Board of Directors of Valmet decided to use the authorization granted by the General Meeting held on March 21, 2018 to acquire the Company's own shares. Based on the authorization, the Board decided to initiate a fixed-term share buy-back program for the purpose of acquiring the Company's own shares to meet part of the obligations arising from the LTI Plan and the Restricted Pool incentive plans. The share acquisitions began on February 11, 2019 and ended on February 21, 2019. The number of shares acquired was 194,600. The shares were acquired at market price in public trading on Nasdaq Helsinki Ltd. In the end of the reporting period, the Company held 245,235 treasury shares related to the share-based incentive programs.

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

Resolutions of Valmet’s Annual General Meeting

The Annual General Meeting of Valmet Oyj was held in Helsinki on March 21, 2019. The Annual General Meeting adopted the Financial Statements for 2018 and discharged the members of the Board of Directors and the President and CEO from liability for the 2018 financial year. The Annual General Meeting approved the Board of Directors' proposals concerning authorizing the Board to decide on repurchasing Company shares and to resolve on the issuance of shares and the issuance of special rights entitling to shares.

The Annual General Meeting confirmed the number of Board members as seven and appointed Mikael Mäkinen as Chairman of Valmet Oyj's Board and Aaro Cantell as Vice-Chairman. Pekka Kemppainen, Monika Maurer, Eriikka Söderström, Tarja Tyni and Rogério Ziviani will continue as members of the Board. The term of office of the members of the Board of Directors expires at the close of the Annual General Meeting 2020.

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

Valmet published a stock exchange release on March 21, 2019 concerning the resolutions of the Annual General Meeting and the organizing meeting of the Board of Directors. The stock exchange release and an introduction of the new Chairman can be viewed on Valmet’s website at www.valmet.com/agm.

In compliance with the resolution of the Annual General Meeting, on April 4, 2019 Valmet paid out dividends of EUR 97 million for 2018, corresponding to EUR 0.65 per share.

Risks and business uncertainties

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

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

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

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

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

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

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

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

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

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

Management of project business risks important

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

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

Availability of financing crucial

Securing the continuity of Valmet's operations requires sufficient available funding under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure its immediate liquidity and to ensure the flexibility of financing. The average maturity of Valmet's non-current debt, excluding lease liabilities, is 3.5 years. Loan facilities include customary covenants, and Valmet is in clear compliance with the covenants at the balance sheet date.

Net working capital and capital expenditure levels have a key impact on the adequacy of Valmet's financing. 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 (IFRS 16).

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

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

At the end of June 2019, Valmet had EUR 676 million (EUR 612 million) of goodwill on its statement of financial position. Valmet assesses the value of its goodwill for impairment annually, or more frequently if facts and circumstances indicate that a risk of impairment exists. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Financial Statements.

Events after the reporting period

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

Guidance for 2019 unchanged

Valmet reiterates its guidance presented on February 26, 2019 and confirmed on April 1, 2019, in which Valmet estimates that net sales in 2019 will increase in comparison with 2018 (EUR 3,325 million) and Comparable EBITA in 2019 will increase in comparison with 2018 (EUR 257 million).

Short-term outlook

General economic outlook

Global economic growth is forecast to ease to a weaker-than-expected 2.6% in 2019 before inching up to 2.7% in 2020. Growth in emerging market and developing economies is expected to stabilize next year as some countries move past periods of financial strain, but economic momentum remains weak.

Emerging and developing economy growth is constrained by sluggish investment, and risks are tilted to the downside. These risks include rising trade barriers, renewed financial stress, and sharper-than-expected slowdowns in several major economies. Structural problems that misallocate or discourage investment also weigh on the outlook. Growth among advanced economies as a group is anticipated to slow in 2019, especially in the Euro Area, due to weaker exports and investment. (The World Bank Global Economic Prospects, June 2019)

Short-term market outlook

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

In Espoo on July 23, 2019

Valmet's Board of Directors

Consolidated Statement of Income

EUR million	Q2/2019[1]	Q2/2018	Q1–Q2/ 2019[1]	Q1 -Q2/ 2018
Net sales	**901**	844	**1,587**	1,575
Cost of goods sold	**-690**	-653	**-1,201**	-1,237
Gross profit	**211**	191	**386**	338
Selling, general and administrative expenses	**-156**	-137	**-287**	-268
Other operating income and expenses, net	**1**	-6	**-**	-10
Share in profits and losses of associated companies, operative investments	**-**	1	**-**	-
Operating profit	**56**	49	**99**	61
Financial income and expenses, net	**-4**	-1	**-5**	-2
Share in profits and losses of associated companies, financial investments	**-**	-1	**-**	-1
Profit before taxes	**52**	48	**93**	59
Income taxes	**-14**	-13	**-23**	-15
Profit for the period	**39**	35	**70**	43
Attributable to:				
Owners of the parent	**38**	35	**70**	43
Non-controlling interests	**-**	-	**-**	-
Profit for the period	**39**	35	**70**	43
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.26**	0.23	**0.47**	0.29
Diluted earnings per share, EUR	**0.26**	0.23	**0.47**	0.29

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

Consolidated Statement of Comprehensive Income

EUR million	Q2/2019	Q2/2018	Q1–Q2/ 2019	Q1–Q2/ 2018
Profit for the period	**39**	35	**70**	43
Items that may be reclassified to profit or loss:				
Cash flow hedges	**1**	-17	**4**	-20
Currency translation on subsidiary net investments	**-5**	-3	**-**	-10
Income tax relating to items that may be reclassified	**-**	4	**-1**	4
Total items that may be reclassified to profit or loss	**-4**	-16	**3**	-26
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**-15**	-1	**-25**	2
Income tax relating to items that will not be reclassified	**4**	-	**6**	-1
Total items that will not be reclassified to profit or loss	**-12**	-1	**-19**	1
Other comprehensive income / expense	**-16**	-17	**-16**	-24
Total comprehensive income / expense	**23**	18	**54**	19
Attributable to:				
Owners of the parent	**23**	18	**54**	18
Non-controlling interests	**-**	-	**-**	-
Total comprehensive income / expense	**23**	19	**54**	19

Consolidated Statement of Financial Position

Assets

EUR million	**As at June 30, 2019**[1]	As at June 30, 2018	As at December 31, 2018
Non-current assets			
Intangible assets			
Goodwill	**676**	612	617
Other intangible assets	**260**	200	201
Total intangible assets	**936**	812	818
Property, plant and equipment			
Land and water areas	**25**	21	24
Buildings and structures	**116**	115	117
Machinery and equipment	**170**	161	170
Leased assets	**59**	-	-
Assets under construction	**52**	46	36
Total property, plant and equipment	**421**	343	348
Other non-current assets			
Investments in associated companies	**14**	14	14
Non-current financial assets	**5**	24	9
Deferred tax asset	**95**	73	69
Non-current income tax receivables	**30**	26	27
Other non-current assets	**14**	13	14
Total other non-current assets	**158**	149	133
Total non-current assets	**1,516**	1,304	1,299
Current assets			
Inventories			
Materials and supplies	**97**	57	85
Work in progress	**362**	331	265
Finished products	**89**	82	69
Total inventories	**548**	471	419
Receivables and other current assets			
Trade receivables	**578**	530	555
Amounts due from customers under revenue contracts	**234**	198	169
Other current financial assets	**41**	22	58
Income tax receivables	**21**	28	17
Other receivables	**105**	124	95
Cash and cash equivalents	**125**	183	376
Total receivables and other current assets	**1,103**	1,085	1,271
Total current assets	**1,651**	1,556	1,690
Total assets	**3,167**	2,860	2,988

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

Consolidated Statement of Financial Position

Equity and liabilities

EUR million	As at June 30, 2019[1]	As at June 30, 2018	As at December 31, 2018
Equity			
Share capital	**100**	100	100
Reserve for invested unrestricted equity	**421**	416	416
Cumulative translation adjustments	**-18**	-18	-18
Hedge and other reserves	**-2**	-8	-5
Retained earnings	**391**	353	451
Equity attributable to owners of the parent	**892**	843	944
Non-controlling interests	**5**	5	5
Total equity	**898**	848	949
Liabilities			
Non-current liabilities			
Non-current debt	**169**	173	162
Non-current lease liabilities	**34**	-	-
Post-employment benefits	**197**	144	163
Provisions	**25**	19	30
Other non-current liabilities	**7**	4	7
Deferred tax liability	**72**	47	50
Total non-current liabilities	**504**	387	412
Current liabilities			
Current portion of non-current debt	**48**	29	39
Current debt	**25**	-	-
Current lease liabilities	**21**	-	-
Trade payables	**305**	282	286
Provisions	**125**	111	119
Amounts due to customers under revenue contracts	**807**	781	771
Other current financial liabilities	**23**	31	25
Income tax liabilities	**57**	45	42
Other current liabilities	**354**	346	344
Total current liabilities	**1,766**	1,625	1,628
Total liabilities	**2,269**	2,012	2,039
Total equity and liabilities	**3,167**	2,860	2,988

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

Condensed Consolidated Statement of Cash Flows

EUR million	Q2/2019[1]	Q2/2018	Q1–Q2/ 2019[1]	Q1–Q2/ 2018
Cash flows from operating activities				
Profit for the period	**39**	35	**70**	43
Adjustments				
Depreciation and amortization	**26**	19	**49**	38
Financial income and expenses	**4**	1	**5**	2
Income taxes	**14**	13	**23**	15
Other non-cash items	**-19**	-23	**-18**	-18
Change in net working capital	**-93**	-27	**-113**	-30
Net interests and dividends received	**-1**	1	**-3**	-1
Income taxes paid	**-13**	-15	**-28**	-28
Net cash provided by (+) / used in (-) operating activities	**-44**	3	**-14**	22
Cash flows from investing activities				
Capital expenditure on fixed assets	**-19**	-20	**-38**	-36
Proceeds from sale of fixed assets	**-**	-	**1**	6
Business combinations, net of cash acquired and loans repaid	**-154**	-	**-154**	-
Net cash provided by (+) / used in (-) investing activities	**-173**	-20	**-191**	-30
Cash flows from financing activities				
Redemption of own shares	**-**	-	**-4**	-4
Dividends paid	**-97**	-82	**-97**	-82
Proceeds from non-current debt	**-**	-	**45**	-
Repayments of non-current debt	**-**	-	**-29**	-18
Repayments of leasing liabilities	**-6**	-	**-11**	-
Change in current debt	**-65**	-	**25**	-
Financial investments	**27**	5	**24**	1
Net cash provided by (+) / used in (-) financing activities	**-141**	-77	**-48**	-103
Net increase (+) / decrease (-) in cash and cash equivalents	**-358**	-95	**-252**	-112
Effect of changes in exchange rates on cash and cash equivalents	**-3**	1	**1**	-1
Cash and cash equivalents at beginning of period	**486**	277	**376**	296
Cash and cash equivalents at end of period	**125**	183	**125**	183

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

Consolidated Statement of Changes in Equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Hedge and other reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at January 1, 2019	**100**	**416**	**-18**	**-5**	**451**	**944**	**5**	**949**
Change in accounting principles[1]	-	-	-	-	-4	**-4**	-	**-4**
Restated balance at January 1, 2019	**100**	**416**	**-18**	**-5**	**447**	**940**	**5**	**945**
Profit for the period	-	-	-	-	70	**70**	-	**70**
Other comprehensive income / expense	-	-	-	3	-19	**-16**	-	**-16**
Total comprehensive income / expense	-	-	-	3	51	**54**	-	**54**
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-97	**-97**	-	**-97**
Purchase of treasury shares	-	-	-	-	-4	**-4**	-	**-4**
Share-based payments, net of tax	-	5	-	-	-5	**-**	-	**-**
Balance at June 30, 2019	**100**	**421**	**-18**	**-2**	**391**	**892**	**5**	**898**
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	-	-	-	-	43	43	-	43
Other comprehensive income / expense	-	-	-10	-16	1	-25	-	-24
Total comprehensive income / expense	-	-	-10	-16	44	18	-	19
Transactions with owners in their capacity as owners								
Dividends	-	-	-	-	-82	-82	-	-82
Purchase of treasury shares	-	-	-	-	-4	-4	-	-4
Share-based payments, net of tax	-	3	-	-	-4	-1	-	-1
Balance at June 30, 2018	100	416	-18	-8	353	843	5	848

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

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

Accounting principles

General information

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

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

These Condensed Consolidated Interim Financial Statements were approved for issue on July 23, 2019.

Basis of presentation

These Condensed Consolidated Interim Financial Statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34 – Interim financial reporting, and in conformity with IFRS as adopted by the European Union. The financial information presented in these Condensed Consolidated Interim Financial Statements has not been audited. These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group's Annual Consolidated Financial Statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS.

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

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

Except for the above, the accounting policies applied in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with those followed in the preparation of the Group's Annual Consolidated Financial Statements for the year ended December 31, 2018.

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

In April–June 2019, the Group effected two business combinations with the new businesses consolidated into the Group financials from the acquisition dates onwards.

Key exchange rates

		Average rates		Period end rates	
		Q1–Q2/2019	Q1–Q2/2018	**Q2/2019**	Q2/2018
USD	(US dollar)	**1.1334**	1.2060	**1.1380**	1.1658
SEK	(Swedish krona)	**10.4782**	10.1722	**10.5633**	10.4530
BRL	(Brazilian real)	**4.3580**	4.1441	**4.3511**	4.4876
CNY	(Chinese yuan)	**7.6891**	7.7119	**7.8185**	7.7170

Business combinations

Acquisition of GL&V

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

Acquisition of J&L Fiber Services Inc.

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

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

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

EUR million	GL&V as at April 1, 2019	J&L Fiber Services Inc. as at May 1, 2019	Total
Non-current assets			
Goodwill	40	21	**60**
Other intangible assets	53	22	**75**
Property, plant and equipment	6	5	**11**
Leased assets	7	1	**7**
Deferred tax assets	3	-	**3**
Total non-current assets	109	48	**157**
Current assets			
Inventories	27	3	**31**
Trade receivables	29	4	**33**
Amounts due from customers under revenue contracts	8	-	**8**
Other current assets	5	-	**5**
Cash and cash equivalents	7	-	**8**
Total current assets	76	8	**84**
Non-current liabilities			
Non-current lease liabilities	5	-	**5**
Other non-current liabilities	2	-	**2**
Deferred tax liability	12	-	**13**
Total non-current liabilities	19	1	**20**
Current liabilities			
Current debt	18	-	**19**
Current lease liabilities	2	-	**2**
Trade payables	16	2	**18**
Amounts due to customers under revenue contracts	13	-	**13**
Other current liabilities	24	1	**25**
Total current liabilities	73	4	**77**
Net assets acquired	93	51	**144**

Cash flows associated with the acquisitions

EUR million	GL&V as at April 1, 2019	J&L Fiber Services Inc. as at May 1, 2019	Total
Consideration transferred[1]	-92	-51	**-144**
Cash and cash equivalents acquired	7	-	**8**
Loan repayment at closing	-18	-	**-18**
Net cash outflow	-103	-51	**-154**

[1]*Final consideration associated with both acquisitions is subject to ordinary post-closing adjustments, which have not been finalized as at June 30, 2019. The consideration transferred for GL&V includes impact of foreign exchange hedging amounting to EUR 1 million.*

From the date of acquisition, the two acquired businesses have contributed EUR 40 million of revenue and EUR 1 million of profit to the Group, including EUR -2 million amortization of intangibles and inventory fair-value step-up recognized at acquisition.

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

Reporting segment and geographic information

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

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

EUR million	**Q2/2019[1]**	Q2/2018	**Q1–Q2/ 2019[1]**	Q1–Q2/ 2018
Net sales	**901**	844	**1,587**	1,575
Comparable EBITA	**69**	61	**117**	82
% of net sales	**7.7%**	7.2%	**7.3%**	5.2%
Operating profit	**56**	49	**99**	61
% of net sales	**6.2%**	5.9%	**6.2%**	3.9%
Amortization	**-8**	-7	**-15**	-15
Depreciation, property, plant and equipment (excl. leased assets)	**-12**	-12	**-24**	-24
Depreciation, leased assets	**-6**	-	**-11**	-
Gross capital expenditure (excl. business combinations and leased assets)	**-19**	-20	**-38**	-36
Additions to leased assets	**-4**	-	**-8**	-
Business combinations, net of cash acquired and loans repaid	**-154**	-	**-154**	-
Capital employed, end of period			**1,195**	1,049
Orders received	**1,083**	865	**1,918**	1,756
Order backlog, end of period			**3,216**	2,621

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

Reconciliation between Comparable EBITA, EBITA and operating profit

EUR million	Q1–Q2/ 2019	Q1–Q2/ 2018
Comparable EBITA	**117**	82
Items affecting comparability in cost of sales		
Expensing of fair value adjustments recognized in business combinations	**-1**	-
Other items affecting comparability	**-4**	-3
Items affecting comparability in selling, general and administrative expenses		
Costs related to acquisitions	**-2**	-
Other items affecting comparability	**-**	-
Items affecting comparability in other operating income and expenses		
Other items affecting comparability[1]	**3**	-3
EBITA	**113**	76
Amortization included in cost of sales		
Other intangibles	**-**	-1
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-9**	-9
Other intangibles	**-6**	-5
Operating profit	**99**	61

[1] *Includes income and expenses arising from settlements of lawsuits and expenses arising from unused facilities.*

Entity-wide information

Valmet has operations in over 35 countries, on all continents. Measured by net sales, the top three countries in January–June 2019 were the USA, China and Finland, which together accounted for 43 percent of total net sales. In January–June 2018, the top three countries were China, the USA and Finland, accounting for 43 percent of total net sales. Net sales for Finland (the country of domicile) amounted to EUR 125 million in January–June 2019 (EUR 124 million).

Net sales by destination:

Q1–Q2/2019: EUR 1,587 million

Q1–Q2/2018: EUR 1,575 million

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

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q2/2019	**2**	**3**	**27**	**5**	**1**	**38**
Q1–Q2/2018	2	-	28	2	3	36

Revenue

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

Net sales by business lines:

EUR million	Q2/2019	Q2/2018	Q1–Q2/2019	Q1–Q2/2018
Services	**361**	325	**637**	572
Automation	**82**	76	**145**	136
Pulp and Energy	**212**	205	**372**	408
Paper	**246**	237	**432**	460
Total	**901**	844	**1,587**	1,575

Timing of revenue recognition:

EUR million	Q2/2019	Q2/2018	Q1–Q2/2019	Q1–Q2/2018
Performance obligations satisfied at a point in time	**394**	406	**692**	717
Performance obligations satisfied over time	**507**	438	**895**	859
Total	**901**	844	**1,587**	1,575

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

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

Amounts due from customers under revenue contracts:

EUR million	Q1–Q2/2019	Q1–Q2/2018	2018
Balance at the beginning of the period	169	164	164
Translation differences	-2	-8	-4
Acquired in business combinations	7	-	-
Revenue recognized in the period	355	375	594
Transfers to trade receivables	-296	-333	-585
Balance at the end of period	**234**	198	169

Amounts due to customers under revenue contracts:

EUR million	Q1–Q2/2019	Q1–Q2/2018	2018
Balance at the beginning of the period	771	716	716
Translation differences	-3	-5	-4
Acquired in business combinations	13	-	-
Revenue recognized in the period	-716	-688	-1,680
Consideration invoiced and/or received	742	758	1,739
Balance at the end of period	**807**	781	771

EUR million	As at June 30, 2019	As at June 30, 2018	As at December 31, 2018
Amounts due to customers under revenue contracts for which revenue is recognized			
Point in time	258	317	219
Over time	549	464	552
Carrying value at the end of period	**807**	781	771

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

As of June 30, 2019, Valmet had no costs to obtain or fulfill contracts capitalized under IFRS 15.

The aggregate amount of transaction price allocated to unsatisfied or partially satisfied performance obligations as of June 30, 2019 is EUR 3,216 million.

Net working capital

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

EUR million	As at June 30, 2019	As at June 30, 2018	As at December 31, 2018	Q1–Q2/2019 impact
Assets included in net working capital				
Non-current trade receivables	**-**	2	-	**-**
Other non-current assets	**14**	13	14	**-**
Inventories	**548**	471	419	**-130**
Trade receivables	**578**	530	555	**-22**
Amounts due from customers under revenue contracts	**234**	198	169	**-64**
Derivative financial instruments (assets)	**22**	19	19	**-3**
Other receivables	**105**	124	95	**-10**
Liabilities included in net working capital				
Post-employment benefits	**-197**	-144	-163	**33**
Provisions	**-150**	-131	-149	**1**
Other non-current non-interest-bearing liabilities	**-3**	-1	-3	**-**
Trade payables	**-305**	-282	-286	**19**
Amounts due to customers under revenue contracts	**-807**	-781	-771	**36**
Derivative financial instruments (liabilities)	**-27**	-35	-29	**-2**
Other current liabilities	**-353**	-345	-343	**10**
Total net working capital	**-342**	-362	-474	**-132**
Effect of foreign exchange rates				**2**
Change in allowance and inventory obsolescence provision				**-3**
Acquired in business combinations				**21**
Change in net working capital in the Consolidated Statement of Cash Flows				**-113**

Intangible assets and property, plant and equipment

Intangible assets

EUR million	Q1–Q2/2019	Q1–Q2/2018	2018
Carrying value at beginning of period	**818**	814	814
Capital expenditure	**11**	12	26
Acquired in business combinations	**134**	-	4
Amortization	**-15**	-15	-30
Impairment losses	**-**	-	-1
Translation differences and other changes[1]	**-12**	1	4
Carrying value at end of period	**936**	812	818

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

Property, plant and equipment (excl. leased assets)

EUR million	Q1–Q2/2019	Q1–Q2/2018	2018
Carrying value at beginning of period	**348**	354	354
Capital expenditure	**27**	24	53
Acquired in business combinations	**11**	-	-
Depreciation	**-24**	-24	-46
Impairment losses	**-**	-1	-1
Translation differences and other changes	**1**	-10	-12
Carrying value at end of period	**363**	343	348

Leases

Accounting policies

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

Valmet applies an exemption provided by the standard not to recognize a right-of-use asset and corresponding lease liability for leases with a contract term of 12 months or less, and for assets of low value. Further, Valmet separates non-lease component from lease components only for asset classes in which the amount of non-lease components is significant.

Critical accounting estimates and judgments

Valmet has a significant volume of open-ended real estate related lease contracts, which carry a short notice period only. When it is considered likely that the termination option will not be exercised in near future, management is required to make an estimate of the likely lease term for each one of these contracts. Same applies to leases that have initial fixed term but carry extension options. Significant amount of judgment needs to be exercised in estimating likely lease term. The estimates are updated regularly.

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

Impact of the new standard

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

Valmet management has applied the simplified transition method with practical expedients without restating comparatives when adopting the new standard on January 1, 2019. Right-of-use asset for all lease contracts was measured as if IFRS 16 had been applied from lease commencement. For leases that were assessed as onerous in accordance with IAS 37 − Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application, the right-of-use asset was adjusted by the amount of provision at transition. Lease liabilities were measured at the present value of the future unpaid lease payments, discounted using incremental borrowing rates at the date of initial application. Under practical expedients permitted by standard, Valmet applied IFRS 16 to contracts that were identified as leases under previous guidelines and used hindsight when assessing lease term for the contracts that contain options to extend or terminate the lease. Further, the likely lease terms for open-ended contracts were revised at transition. Exemptions provided for recognition of right-of-use asset and corresponding liability for low-value assets and short-term leases were also applied at transition.

Arising from the difference in the method of measuring right-of-use asset and lease liability at the time of transition, a transition adjustment amounting EUR -3 million was recognized to opening balance of retained earnings as at January 1, 2019. This adjustment to equity is the net impact of decrease in profit before taxes of EUR -5 million and reduction in tax expense of EUR 1 million. Property, plant and equipment increased by EUR 55 million, involving recognition of right-of-use assets of EUR 46 million and reclassification of EUR 8 million related to leases of land areas. Financial liabilities increased by EUR 53 million resulting from recognition of corresponding lease liabilities. The weighted average discount rate at transition was 3.3%.

Leased assets:

EUR million	Land and water areas[1]	Buildings and structures	Machinery and equipment	**Leased assets, total Q1–Q2/2019**
Carrying value at transition	9	34	12	**55**
Additions	-	3	5	**8**
Acquired in business combinations	-	6	1	**7**
Depreciation	-	-7	-4	**-11**
Translation differences and other changes	-	-	-	**-**
Carrying value at end of period	8	35	15	**59**

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

Lease liabilities by asset class:

EUR million	As at June 30, 2019
Land and water areas	1
Buildings and structures	39
Machinery and equipment	15
Total lease liabilities at end of period	**55**

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

EUR million	As at June 30, 2019
Not later than 1 year	22
Later than 1 year and not later than 2 years	16
Later than 2 years and not later than 3 years	10
Later than 3 years and not later than 4 years	6
Later than 4 years and not later than 5 years	2
Later than 5 years	2
Total future lease payments	**58**

In January–June 2019, aggregate expense recognized in the consolidated statement of income for short-term leases, variable lease payments and leases of low-value assets amounted to EUR 4 million. Interest expense on lease liabilities was EUR 1 million.

Impact of leased assets and lease liabilities to key ratios:

As at June 30, 2019	Excl. IFRS 16 impact[1]	Incl. IFRS 16 impact
Capital employed, EUR million	1,144	1,195
Interest-bearing liabilities, EUR million	242	297
Net interest-bearing liabilities, EUR million	97	152
Gearing, %	11%	17%
Equity to assets ratio, %	39%	38%

[1] *Excludes also impact of lease contracts assumed as part of business combinations effected in Q2.*

There was no material impact to other key ratios.

Financial instruments

Derivative financial instruments

As at June 30, 2019	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts[1]	**2,349**	**21**	**-25**	**-3**
Interest rate swaps[1]	**30**	**-**	**-2**	**-2**
Electricity forward contracts[2]	**145**	**1**	**-**	**1**
Nickel forward contracts[3]	**30**	**-**	**-**	**-**

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

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

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

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

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

Interest-bearing and non-interest-bearing financial instruments

EUR million	**As at June 30, 2019**	As at June 30, 2018	As at December 31, 2018
Non-current financial assets			
Interest-bearing	**-**	17	-
Non-interest-bearing	**5**	7	8
Total	**5**	24	9

EUR million	**As at June 30, 2019**	As at June 30, 2018	As at December 31, 2018
Other current financial assets			
Interest-bearing	**20**	5	44
Non-interest-bearing	**21**	17	14
Total	**41**	22	58

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

Provisions

EUR million	Q1–Q2/2019	Q1–Q2/2018	2018
Balance at beginning of period	**149**	137	137
Translation differences	**-**	-3	-2
Addition charged to profit / loss	**44**	35	114
Acquired in business combinations	**7**	-	-
Used reserve	**-32**	-34	-83
Reversal of reserve / other changes	**-18**	-5	-17
Balance at end of period	**150**	131	149
Non-current	**25**	19	30
Current	**125**	111	119

Contingencies and commitments

EUR million	As at June 30, 2019	As at June 30, 2018	As at December 31, 2018
Guarantees on behalf of Valmet Group	**843**	784	876

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

Key ratios

	Q1–Q2/2019[1]	Q1–Q2/2018
Earnings per share, EUR	**0.47**	0.29
Diluted earnings per share, EUR	**0.47**	0.29
Equity per share at end of period, EUR	**5.96**	5.63
Return on equity (ROE), % (annualized)	**15%**	10%
Return on capital employed (ROCE) before taxes, % (annualized)	**17%**	11%
Equity to assets ratio at end of period, %	**38%**	41%
Gearing at end of period, %	**17%**	0%
Cash flow provided by operating activities, EUR million	**-14**	22
Cash flow after investments, EUR million	**-204**	-9
Gross capital expenditure (excl. business combinations and leased assets), EUR million	**-38**	-36
Additions to leased assets, EUR million	**-8**	-
Business combinations, net of cash acquired and loans repaid, EUR million	**-154**	-
Depreciation and amortization, EUR million	**-49**	-38
Amortization	**-15**	-15
Depreciation, property, plant and equipment (excl. leased assets)	**-24**	-24
Depreciation, leased assets	**-11**	-
Number of outstanding shares at end of period	**149,619,384**	149,617,820
Average number of outstanding shares	**149,589,544**	149,681,707
Average number of diluted shares	**149,589,544**	149,681,707
Interest-bearing liabilities at end of period, EUR million	**297**	201
Net interest-bearing liabilities at end of period, EUR million	**152**	-4

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

Formulas for Calculation of Indicators

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

EBITA:
Operating profit + amortization

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

Earnings per share:

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

Earnings per share, diluted:

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

Return on equity (ROE), % (annualized):

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

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

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

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

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

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

Equity to assets ratio, %:

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

Gearing, %:

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

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

Quarterly information

EUR million	Q2/2019[1]	Q1/2019[1]	Q4/2018	Q3/2018	Q2/2018
Net sales	**901**	686	984	765	844
Comparable EBITA	**69**	47	113	61	61
% of net sales	**7.7%**	6.9%	11.5%	8.0%	7.2%
Operating profit / loss	**56**	43	102	48	49
% of net sales	**6.2%**	6.2%	10.4%	6.3%	5.9%
Profit before taxes	**52**	41	100	46	48
% of net sales	**5.8%**	6.0%	10.1%	6.1%	5.7%
Profit for the period	**39**	31	74	35	35
% of net sales	**4.3%**	4.6%	7.5%	4.5%	4.2%
Earnings per share, EUR	**0.26**	0.21	0.49	0.23	0.23
Earnings per share, diluted, EUR	**0.26**	0.21	0.49	0.23	0.23
Amortization	**-8**	-6	-8	-7	-7
Depreciation, property, plant and equipment (excl. leased assets)	**-12**	-12	-11	-11	-12
Depreciation, leased assets	**-6**	-5	-	-	-
Research and development expenses, net	**-18**	-17	-21	-13	-16
% of net sales	**-2.0%**	-2.5%	-2.1%	-1.7%	-1.9%
Items affecting comparability:					
in cost of goods sold	**-4**	-	-	3	-3
in selling, general and administrative expenses	**-1**	-1	-	-	-
in other operating income and expenses, net	**-**	3	-2	-9	-1
Total items affecting comparability	**-5**	2	-3	-6	-4
Gross capital expenditure (excl. business combinations and leased assets)	**-19**	-18	-22	-21	-20
Additions to leased assets	**-4**	-4	-	-	-
Business combinations, net of cash acquired and loans repaid	**-154**	-	-2	-	-
Capital employed, end of period	**1,195**	1,237	1,150	1,079	1,049
Orders received	**1,083**	835	1,026	940	865
Order backlog, end of period	**3,216**	3,001	2,829	2,791	2,621

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

Valmet's financial reporting in 2019

October 24, 2019 - Interim Review for January-September 2019

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