

Corporate
Governance
Statement

2018



Valmet Oyj Corporate Governance Statement

February 7, 2019

Valmet Oyj (Valmet or the Company) complies without deviation with the Finnish Corporate Governance Code 2015 (the Code) adopted by the Securities Market Association. The Code is available in its entirety on the internet at www.cgfinland.fi.

This Corporate Governance Statement is issued separately from the report of the Board of Directors. It has been prepared in accordance with the requirements for Corporate Governance reporting of the Code and it also covers other key corporate governance areas that Valmet wants to highlight to investors. The Audit Committee of the Board of Directors has reviewed this Corporate Governance Statement in its meeting on February 6, 2019. This Corporate Governance Statement and updated information on the governance and remuneration of the Company is available on the Company's website at www.valmet.com.

Regulatory Framework

The duties of Valmet's bodies are governed by Finnish legislation and the duties of its subsidiaries' bodies by the legislation of their respective places of business. In addition to the Code, Valmet complies with the Corporate Governance principles defined by the Board of Directors. These principles are based on the Finnish Companies Act and the Finnish Securities Markets Act. Valmet's decision-making and governance also complies with other Finnish

legislation and regulations, the Market Abuse Regulation, the Company's Articles of Association, the Guidelines for insiders of Listed Companies published by Nasdaq Helsinki Ltd (the Helsinki Stock Exchange) as well as the Helsinki Takeover Code published by the Securities Market Association.

Valmet prepares Consolidated Financial Statements and Interim Reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, the Finnish Securities Markets Act as well as the applicable Finnish Financial Supervision Authority's standards and the rules of the Helsinki Stock Exchange. The report of the Board of Directors of Valmet's Financial Statements is prepared in accordance with the Finnish Accounting Act and the guidelines and statements of the Finnish Accounting Board.

Valmet's Governing bodies

The Annual General Meeting is the highest governing body of Valmet in which the shareholders participate in the supervision, decision-making and control of the Company. The Board of Directors is responsible for the administration and the proper organization of the operations of the Company. The President and CEO, assisted by the Executive Team, oversees the day-to-day operative management of Valmet and its businesses.



Annual General Meeting of Shareholders

The Annual General Meeting is the highest governing body of Valmet in which all the shareholders of the Company can participate in the supervision, decision-making and control of the Company and exercise their right to speak and vote. The Annual General Meeting is held once a year before the end of June on a date determined by the Board of Directors. It decides on the matters stipulated in the Finnish Companies Act and the Articles of Association. Such issues include:

- Adoption of the financial statements;
- Use of the profit shown on the balance sheet;
- Election of the Chairman, Vice Chairman and members of the Board of Directors and the decision on their remuneration;
- Discharging the members of the Board of Directors and the President and CEO from liability; and
- Election of the Auditor and the decision on the Auditor's compensation.

Participation in the Annual General Meeting requires that the shareholder is registered in Valmet's shareholder register on the record date of the meeting, which is eight business days before the meeting, and that he/she registers for the meeting by the date mentioned in the meeting notice. The holder of a nominee-registered share may be entered temporarily in the shareholder register for participation in the Annual General Meeting, if the shareholder based on his/her holding has the right to be registered in the shareholder register on the record date. In addition, participation requires an advance notice of participation at the latest by the date mentioned in the meeting notice.

Valmet publishes a notice of the Annual General Meeting no more than three months and no less than three weeks before the meeting on the Company's website or in one or more widely circulated newspapers or delivers it directly to shareholders when required by law. Additionally, Valmet publishes the meeting notice as a stock exchange release immediately after the Board of Directors has decided on the convening of the Annual General Meeting. The agenda of the Annual General Meeting, decision-making proposals and meeting documents are available on Valmet's website at least three weeks prior to the meeting.

Shareholders are entitled to have an issue put on the agenda of the Annual General Meeting, provided that the issue can be decid-

ed upon by the Annual General Meeting according to the Finnish Companies Act. The request must be submitted in writing to the Board of Directors early enough so that the issue can be included in the meeting notice. The date by which the shareholder must notify the Board of Directors of an issue to be added to the agenda of the Annual General Meeting will be announced on Valmet's website. In 2018 this date was January 19, 2018. The request is always deemed submitted early enough if the Board of Directors has been notified about it at least four weeks prior to the delivery of the meeting notice.

Annual General Meeting in 2018

The Annual General Meeting was held in Helsinki on March 21, 2018. A total of 816 shareholders representing a total of 84,174,451 shares and votes were present at the meeting. All Board members, except Lone Fønss Schröder, all candidates for Board membership and the auditors of the Company were present at the meeting. The Annual General Meeting documents are available on the Company's website at www.valmet.com.

Board of Directors

The Board of Directors is responsible for the administration and the proper organization of the operations of the Company. The Board also decides on significant matters related to strategy, investments, organization and finances and ensures that the Company has established the corporate values applied to its operations.

Valmet's Board of Directors consists of no less than five and no more than eight members. The members of the Board of Directors will be elected for a term expiring at the closing of the following Annual General Meeting.

The Board of Directors of Valmet will meet when a meeting is convened by the Chairman or, if the Chairman is unavailable, the Vice Chairman. The Board of Directors constitutes a quorum when more than one-half of its members are present and one of them is the Chairman or the Vice Chairman. A resolution of the Board of Directors will be the opinion which is supported by more than one-half of the members present or, in case of a tie vote, the opinion with which the chairman of the meeting concurs. The President and CEO and CFO of Valmet participate in the meetings of the Board of Directors, and the General Counsel acts as secretary of the Board of Directors. Other members of Valmet's Executive Team and other executives participate in the meetings when needed.

Main Duties

The duties of the Board are defined in the Finnish laws and regulations, Valmet's Articles of Association, Finnish Corporate Governance Code and Valmet's Corporate Governance and in the Charters of the Board. The main duties and working principles of the Board of Directors are defined in a written charter and include the following:

- To approve Valmet's long-term goals and strategy;
- To approve the annual business plan and other major action plans;
- To approve Valmet's organizational structure and the principles for the incentive systems;
- To appoint – and, if necessary, to dismiss – the President and CEO;
- To monitor and evaluate the performance of the President and CEO and to decide upon his/her remuneration and benefits;
- To ensure that the supervision of the accounting and financial matters is properly organized, and to ensure proper preparation of the interim and annual financial statements;
- To ensure the adequacy of planning, information and control systems for monitoring results and managing risks in operations;
- To make proposals for and convene the General Meetings of Shareholders;
- To decide upon other matters not belonging to the day-to-day operations, such as major investments, acquisitions and divestitures, and major joint ventures and loan agreements;
- To approve Valmet's corporate policies in key management areas, such as corporate governance, risk management, financial control, treasury, internal control, corporate communications, human resources, environment, code of conduct and disclosure policy;
- To conduct an annual evaluation of its operations and working methods; and
- To decide on other matters falling under the Board's responsibility by law.

Board of Directors in 2018

The 2018 Annual General Meeting elected seven members to Valmet's Board of Directors.

Board composition

Board member	Member since	Born	Nationality	Education	Main occupation
Bo Risberg	2015, Chairman since 2015	1956	Swedish	B.Sc. (Mech. Eng), MBA	Chairman of the Board of Directors
Aaro Cantell	2016, Vice Chairman since 2018	1964	Finnish	M.Sc. (Tech.)	Entrepreneur, Chairman of the Board of Normet Group Oy
Pekka Kempainen	2018	1954	Finnish	Lic.Sc. (Tech.)	Board professional
Monika Maurer	2018	1956	German	Diploma in Physics and Chemistry, Diploma in Pedagogy	Board professional
Eriikka Söderström	2017	1968	Finnish	M.Sc. (Econ.)	Chief Financial Officer in F-Secure Corporation
Tarja Tyni	2016	1964	Finnish	LL.M.	Senior Vice President, Corporate Clients and Private Wealth Management in Mandatum Life Insurance Company Limited
Rogério Ziviani	2014	1956	Brazilian	B.Sc. in Business Management, MBA	Board professional

Until March 21, 2018

Jouko Karvinen	2016, Vice Chairman since 2017	1957	Finnish	M.Sc. (Tech.)	Board professional
Lone Fønss Schrøder	2014	1960	Danish	M.Sc. (Econ.), Accounting; LL.M.	Board professional

Personnel representative

Eija Lahti-Jäntti	2014, until March 2018	1963	Finnish		Customer Services Coordinator at Valmet Technologies Oy
Riina Vilander	Since March 2018	1978	Finnish	M.Sc. (Eng)	QHSE Training Specialist

In its organizing meeting, all elected Board members were assessed by the Board of Directors to be independent of the company and of the significant shareholders, except Aaro Cantell, who was assessed to be independent of the Company and not-independent of a significant shareholder in accordance with the recommendation in the Code.

Jouko Karvinen, born 1957, main occupation to act as a board professional, served as the Vice Chairman of the Board until the

Annual General Meeting in 2018. Lone Fønss Schrøder, born 1960, main occupation to act as a board professional, served as a Board member and Audit Committee Chairman until the Annual General Meeting in 2018.

In 2018 the Board convened 9 times with a total attendance rate of 95.9 %.

Board attendance in 2018

	Number of meetings	Attendance %
Bo Risberg	9/9	100
Aaro Cantell	9/9	100
Pekka Kemppainen	7/7	100
Monika Maurer	7/7	100
Eriikka Söderström	8/9	88.9
Tarja Tyni	9/9	100
Rogério Ziviani	8/9	88.9
Until March 21, 2018		
Jouko Karvinen	2/2	100
Lone Fønss Schrøder	1/2	50
Total attendance rate %		95.9

In 2018 the main focus of the Board of Directors continued to be on Valmet’s long-term strategy and succession planning of Valmet in order to ensure sustainable value creation. In addition, the Board of Directors has focused on the strategic growth accelerators. The Board also makes annual visits to Valmet locations around the world, to further gain understanding of and insight into Valmet’s global operations. In 2018 the Board visited Valmet’s operations in Atlanta, USA.

Board evaluation

The Valmet Board of Directors undertakes annual evaluations of the Board’s work, its committees and directors, with the aim of

further developing and enhancing Board procedures and efficiency and identifying future focus areas of the Board. In 2018 an external follow-up evaluation was conducted to the externally supported Board evaluations done in 2016 and 2017. The Board of Directors have internally reviewed and discussed the evaluation results and based on the evaluation findings, the previously determined development areas were also reviewed. The evaluation concluded that the Board felt there had been positive improvements in their work and performance on the key issues and challenges arising from the previous evaluation. The evaluation results will be used to further improve the Board’s performance, processes and effectiveness.

Board diversity principles

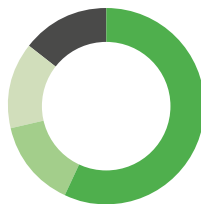
Valmet recognizes the importance of diversity, including gender, nationality, age, background and education, at the board and all levels of the group and is committed to increasing diversity across all its operations.

The Valmet Nomination Board has reviewed and confirmed the principles for Board diversity and takes the diversity principles into consideration in its work and proposals. Valmet’s principles of board diversity include, amongst others, promoting experience and varied educational background, relevant qualifications, balanced gender diversity and adequate commitment with regards to time contribution, availability and engagement. The Board members shall have sufficient expertise, knowledge of and competence in the Company’s field of business and industry. These objectives can be achieved with thorough and early preparation when considering the Board composition. The objectives regarding diversity are considered to be met in sufficient quantity. Sufficient diversity at the Board of Directors level is relevant for ensuring the efficient and optimal work and performance of the Board of Directors. The principles of Board diversity are available on the Company’s website at www.valmet.com.

Board diversity



Gender:
 ■ Male 57%
 ■ Female 43%



Nationality:
 ■ Finnish 57.1%
 ■ Swedish 14.3%
 ■ German 14.3%
 ■ Brazilian 14.3%



Age:
 ■ 41-50 14.3% (1/7)
 ■ 51-60 28.6% (2/7)
 ■ 61-70 57.1% (4/7)



Tenure:
 ■ less than 1 year 28.6% (2/7)
 ■ 1-3 yrs 42.8% (3/7)
 ■ 3-5 yrs 28.6% (2/7)

Valmet Board competence matrix

	Industry expertise	Financial/ Accounting	Corporate risk management	Corporate governance	Corporate strategy development	Corporate acquisitions	Corporate HR	CEO experience	International experience
Bo Risberg	■	■	■	■	■	■	■	■	■
Aaro Cantell	■	■	■	■	■	■	■	■	■
Pekka Kemppainen	■	■	■	■	■	■	■	■	■
Monika Maurer		■	■	■	■	■	■	■	■
Eriikka Söderström		■	■	■	■	■	■	■	■
Tarja Tyni		■	■	■	■	■	■	■	■
Rogério Ziviani	■	■	■	■	■	■	■	■	■

Committees

The Board of Directors has two permanent committees: the Audit Committee and the Remuneration and HR Committee. The Board of Directors elects the members of the committees from among its members at its annual organizing meeting and monitors the activities of the committees. Both committees have charters approved by the Board of Directors and report to the Board on their activities after each Committee meeting.

Audit Committee

The Audit Committee monitors the Company's financial reporting and prepares issues for the Board of Directors related to the monitoring of Valmet's financial situation, financial reporting, auditing, and risk management. Based on the Corporate Governance Policy and the charter, the Audit Committee, among other things:

- Assesses Valmet's draft financial statements and interim reports, accounting policies, accounting principles of significant or exceptional business transactions, management forecasts and statements relating to Valmet's short-term outlook;
- Assesses compliance with laws and provisions and with internal instructions, as well as assesses the efficiency of internal control and risk management;
- Approves the audit plans of internal and external auditors and follows up reporting related to these plans;
- Prepares for the election of external auditors, monitors the statutory auditing of the financial statements and consolidated financial statements, assesses and reviews the auditors' reports with the auditors, and assesses the quality and scope of the audit. Additionally, it assesses the independence of the auditors, particularly any impact on independence arising from other services they offer to Valmet. Pre-approves all non-audit services provided by the external auditors;

- Assesses Valmet's financial reporting and reporting methods in collaboration with the Company's management, internal audit and an external auditor or other external experts;
- Reviews Valmet's Corporate Governance Statement
- Approves the procurement principles for external auditing services and external auditor's annual auditing fees under the guidance given by the shareholders at the Annual General Meeting and;
- Maintains procedures enabling the receipt and processing of complaints related to accounting, internal control and internal auditing, and the potential anonymous and confidential reporting by employees and third parties of misconduct, fraud, and accounting and auditing issues.

The Audit Committee convenes at least four times a year, and consists of members elected by the Board of Directors from among its members. The majority of the members must be independent of the Company and at least one member shall be independent of the Company's significant shareholders. The members of the Audit Committee must have the qualifications necessary to perform the responsibilities of the committee and at least one member must have expertise specifically in accounting, bookkeeping or auditing.

Audit Committee in 2018

The Audit Committee comprised of Lone Fønss Schrøder (Chairman, until the 2018 Annual General Meeting), Eriikka Söderström (Chairman, as of the Board organizing meeting), Tarja Tyni and Pekka Kemppainen (as of the Board organizing meeting) as members. The Audit Committee held five meetings in 2018 and the total attendance rate was 100%.

Audit Committee attendance in 2018

	Number of meetings	Attendance %
Eriikka Söderström	5/5	100
Tarja Tyni	5/5	100
Pekka Kempainen	4/4	100
Until March 21, 2018		
Lone Fønss Schrøder	1/1	100
Total attendance rate %		100

All committee members were independent of the company and of the significant shareholders.

As in previous years, the Audit Committee has conducted a self-assessment survey of the Audit Committee work and performance and will utilize the survey results to further improve and develop the identified development areas and processes.

In 2018 the Audit Committee's main focus was on monitoring the new IFRS16 regulations, the execution and progress of the new Enterprise Resource Planning (ERP) system and critical project management.

Remuneration and HR Committee

The Remuneration and HR Committee focuses on the development of remuneration plans of the President and CEO and the other executives as well as the remuneration principles in general observed by the Company and in accordance with its charter, the Remuneration and HR Committee among other things:

- Reviews and monitors the competitiveness of Valmet's remuneration and incentive systems and the development of personnel related issues, such as competence and talent development and successor planning of Valmet's senior management;
- Evaluates the performance and compensation of the President and CEO;
- Prepares and makes proposals to the Board of Directors for the compensation and benefits of the President and CEO;
- Makes proposals to the Board of Directors for the appointment of the Executive Team members, based on the President and CEO's preparation; and
- Decides upon the remuneration and benefits of the Executive Team members.

The committee convenes at least twice a year and consists of the committee chairman and at least two members. All the members are independent of the Company. The President and CEO participates in the meetings, excluding those situations, in which the agenda item relates to him.

Remuneration and HR Committee in 2018

The Remuneration and HR Committee comprised of Bo Risberg (Chairman), Jouko Karvinen (until the Annual General Meeting), Aaro Cantell and Monika Maurer (as of the Board organizing meeting) as members. The committee had 5 meetings in 2018 with a total attendance rate of 100%.

Remuneration and HR Committee attendance in 2018

	Number of meetings	Attendance %
Bo Risberg	5/5	100
Aaro Cantell	5/5	100
Monika Maurer	4/4	100
Until March 21, 2018		
Jouko Karvinen	1/1	100
Total attendance rate %		100

The committee members were independent of the company and of significant shareholders, except for Aaro Cantell who is assessed to be independent of the Company and not independent of a significant shareholder in accordance with the recommendation in the Corporate Governance Code.

In 2018 the main focus of the Remuneration and HR Committee was on succession planning.

Nomination Board

Valmet has a Nomination Board, which annually prepares a proposal regarding the composition and remuneration of the Board for the Annual General Meetings. According to the Nomination Board charter, the Nomination Board shall also seek prospective successor candidates for the members of the Board of Directors. The Nomination Board takes into account the principles of Board diversity in its work and proposals.

The Nomination Board consists of the representatives of Valmet's four largest shareholders, registered in Euroclear on September 1, who accept the assignment. In addition, the Nomination Board

includes the Chairman of the Board who acts as an expert member of the Nomination Board. The Chairman of the Board of Directors shall convene the first meeting of the Nomination Board and the Nomination Board shall elect a chairman from among its members. The Nomination Board shall give its proposal to the Board of Directors annually no later than January 31 preceding the next Annual General Meeting.

The Nomination Board shall constitute a quorum when more than half of its members are present. No decision shall be made unless all members have been reserved the possibility to consider the matter and to participate in the meeting. Decisions of the Nomination Board shall be made unanimously.

The actions of the Board of Directors will be evaluated annually and the results of such evaluation will be disclosed to the Nomination Board. The results of the evaluation shall be appropriately taken into account in the work of the Nomination Board. The Nomination Board may also use external experts.

Nomination Board in 2018

Shareholder representatives on the Nomination Board in 2018 were Solidium Oy, Varma Mutual Pension Insurance Company, Elo Mutual Pension Insurance Company, and Ilmarinen Mutual Pension Insurance Company represented by the following individuals: Antti Mäkinen (Chairman), Managing Director of Solidium Oy; Risto Murto, CEO of Varma Mutual Pension Insurance Company; Satu Huber, CEO of Elo Mutual Pension Insurance Company; Jouko Pölönen, CEO of Ilmarinen Mutual Pension Insurance Company and Bo Risberg, Chairman of the Valmet Board of Directors, served as an expert member.

Upon its appointment, the Nomination Board convened 4 times.

Nomination Board attendance in 2018

	Number of meetings	Attendance %
Antti Mäkinen	4/4	100
Risto Murto	3/4	75
Satu Huber	2/4	50
Jouko Pölönen	4/4	100
Bo Risberg	3/4	75
Total attendance rate %		80

The Nomination Board has submitted its proposals regarding Board composition and remuneration to the Valmet's Board, and the Board has incorporated these proposals into the notice announcing the Valmet 2019 Annual General Meeting to be held on March 21, 2019.

Operational Management

President and CEO

The President and CEO manages Valmet's operations in accordance with the Finnish Companies Act, corporate governance rules and the instructions given by the Board of Directors. The President and CEO guides and supervises the operations of Valmet and its businesses. The President and CEO is appointed – and, if necessary, dismissed – by the Board of Directors, and he reports to the Board of Directors about, for example, Valmet's financial situation, business environment and other significant issues. The President and CEO prepares the matters on the agenda of the Board of Directors and its committees and implements their decisions. Additionally, the President and CEO acts as chairman of the Executive Team.

Valmet's Operating model

Valmet's operating model consists of four business lines, five areas, and four support functions. The business lines are Services, Automation, Pulp and Energy and Paper; and the geographical areas are North America, South America, EMEA (Europe, Middle-East and Africa), China and Asia-Pacific. The four main support functions are Finance, HR, Strategy and Operational Development, and Marketing and Communications.



Pasi Laine, born 1963, serves as the President and CEO of Valmet. Mr. Laine holds a Master of Science degree in Engineering.

Executive Team

The President and CEO and other members appointed by the Board of Directors constitute the Executive Team of Valmet. The Executive Team assists the President and CEO in the preparation of mat-

ters, such as Valmet's business plan, strategies, policies and other operative matters of joint importance.

In 2018 Valmet's Executive Team consisted of:

Valmet's Executive Team in 2018

Executive Team member	Team member since	Born	Nationality	Education	Executive Team position
Pasi Laine	2014	1963	Finnish	M.Sc. (Eng.)	President and CEO
Kari Saarinen	2014	1961	Finnish	M.Sc. (Accounting and Finance)	Chief Financial Officer
Aki Niemi	2014	1969	Finnish	M.Sc. (Eng.)	Business Line President, Services
Sami Riekkola	Since September 2018	1974	Finnish	M.Sc. (Eng.)	Business Line President, Automation
Sakari Ruotsalainen	2015, until September 2018	1955	Finnish	M.Sc. (Eng.)	Business Line President, Automation
Bertel Karlstedt	2015	1962	Finnish	M.Sc. (Eng.)	Business Line President, Pulp and Energy
Jari Vähäpesola	2014	1959	Finnish	M.Sc. (Eng.) Diploma in International Marketing Management	Business Line President, Paper
David King	2016	1956	US	B.Sc. (Eng.)	Area President, North America
Celso Tacla	2014	1964	Brazilian	MBA Production Engineer Chemical Engineer	Area President, South America
Vesa Simola	2015	1967	Finnish	M.Sc. (Eng.)	Area President, EMEA
Xiangdong Zhu	2017	1967	Chinese	B.Sc. (Eng.) MBA	Area President China
Jukka Tiitinen	2014	1965	Finnish	M.Sc. (Eng.)	Area President, Asia Pacific
Julia Macharey	2014	1977	Finnish	M.Sc. (Econ.) B.A. (Intercultural Communication)	Senior Vice President, Human Resources
Juha Lappalainen	2015	1962	Finnish	M.Sc. (Eng.)	Senior Vice President, Strategy and Operational Development
Anu Salonsaari-Posti	2014	1968	Finnish	MBA M.Sc. (Econ.)	Senior Vice President, Marketing and Communications

Main features of internal control and risk management related to the Financial Reporting Process

Valmet's internal control mechanism seeks to ensure the Company's compliance with the Code, applicable EU laws, regulations and the Company's operating principles as well as the reliability of financial and operational reporting. Furthermore, the internal control mechanism seeks to safeguard the Company's assets and to ensure overall effectiveness and efficiency of operations to meet Valmet's strategic, operational and financial targets.

Risk management processes are aligned with Valmet's internal control practices. The goal of risk management is to support Valmet's strategy and the achievement of objectives by anticipating and managing potential business threats and opportunities.

Valmet's operating model of internal control and risk management related to financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with applicable laws and regulations, generally accepted accounting principles (IFRS) and other requirements for listed companies.

The overall system of internal control in Valmet is based upon the framework issued by the Committee of Sponsoring Organizations (COSO) and comprises five principal components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring.

Principal components of internal control:



Control Environment

The Board of Directors has established a written formal working order that clarifies its responsibilities and regulates the internal distribution of work of the Board of Directors and its committees. The Board of Directors bears the overall responsibility for the internal control over financial reporting. Furthermore, the Board of Directors has appointed the Audit Committee, the primary task of which is to ensure that established principles for financial reporting, risk management and internal control are adhered to and that appropriate relations are maintained with the Company's auditors. The responsibility for maintaining an effective control environment and the ongoing work on internal control as regards the financial reporting is delegated to the President and CEO. The Internal Audit function reports all relevant issues to the Audit Committee and the President and CEO.

The control environment sets the tone of internal control in Valmet, influencing the control awareness of its people. It provides discipline and structure for all the other components of internal control. Valmet's control environment is based on Valmet's corporate culture: the integrity, values, ethical behavior and competence of Valmet's personnel, as well as the attention and direction provided to the personnel by the Board of Directors. Valmet's values and control environment provide the Board of Directors and Valmet's management the basis for reasonable assurance of Valmet achieving the objectives for internal control. The President and CEO and the Executive Team define Valmet's values and ethical principles (reflected in the Code of Conduct) and set the example for the corporate culture, which create the basis for the control environment. The same parties, together with Services, Automation, Pulp and Energy and Paper business lines (the Businesses) are responsible for communicating Valmet's values to the organization.

Risk Assessment

Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Valmet's risk assessment as regards financial reporting aims to identify and evaluate the most significant threats affecting financial reporting at all levels. The risk assessment results in control targets through which Valmet seeks to ensure that the fundamental requirements placed on financial reporting are fulfilled. Information on the development of essential risk areas and the activities executed and planned in these areas as well as the measures to mitigate them are communicated regularly to the Audit Committee.

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks related to the achievement

of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Valmet Internal Control Standards are designed to ensure that local management in every Valmet unit designs and effectively implements the most important monitoring procedures related to selected key financial and business administration processes in all Valmet units. For each of these processes, the tasks that must be segregated are also listed. The units document the control activities in use for each of their respective key business process.

Internal Control and Risk Management in 2018

Internal control procedures and different audits were executed throughout the year. Operational audits focused on, among other things, supplier audits, the sales network, anti-bribery and sound business practices.

Coordinated Risk Management processes and practices were executed during the course of the year to ensure that enterprise risk management activities are performed in a consistent and an on-going manner in accordance with governance and business needs. Risk management evaluations were carried out to monitor the risk management performance in the most significant units globally. The evaluations emphasized strategic, operational, hazard and financial risks as well as business interruption, logistics and property damage risks.

Information and Communication

In order to secure an effective and efficient internal control environment, Valmet seeks to ensure that the Company's internal and external communication is open, transparent, accurate and timely. Information regarding internal steering instruments for financial reporting, that is, accounting principles, financial reporting instructions and the disclosure policy, are available on Valmet's intranet. Valmet arranges training for the Company's personnel regarding internal control issues and tools. In this way Valmet management gives a clear message to all personnel that the internal controls and related responsibilities are taken seriously. Valmet's CFO and the Head of Internal Audit report the results of the work on internal control as a standing item on the agenda of the Audit Committee. The results of the Audit Committee's work in the form of observations, recommendations and proposed decisions and measures are reported to the Board of Directors after every Audit Committee meeting.

Monitoring

The effectiveness of internal control related to financial reporting is monitored by the Board of Directors, the Audit Committee, the President and CEO, Corporate management and the management

of the reporting businesses and affiliates. Corporate Internal Audit provides a reasonable assurance regarding the effectiveness of internal control related to financial reporting.

Monitoring includes the follow up of monthly financial reports, review of the rolling estimates and plans, as well as reports from internal and external audit.

Internal Audit annually assesses the effectiveness of Valmet's operations and the adequacy of risk management. Internal Audit compiles an annual audit plan, the status and findings of which it regularly reports to Valmet management, external auditors and the Audit Committee. Furthermore, Valmet's Internal Audit and external auditors meet regularly to coordinate the assessment efforts.

Monitoring in 2018

Valmet has processes for monitoring projects with potential risks starting from the sales phase to project completion. Valmet management has actively and specifically monitored the key projects and the project related process development.

Compliance with Laws and the Code of Conduct

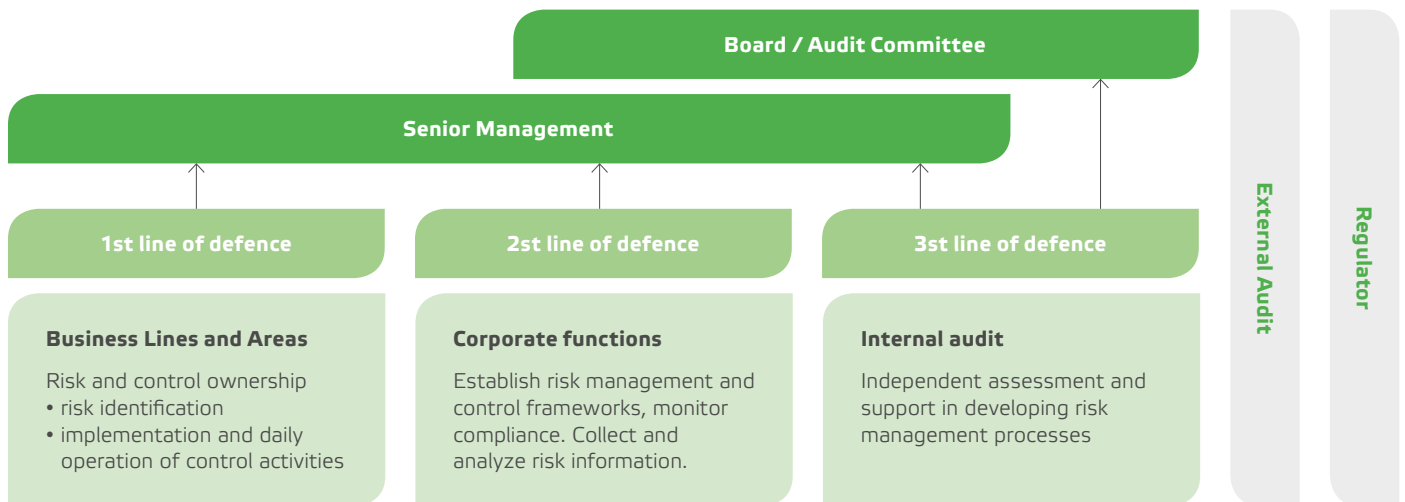
In all its operations Valmet seeks to comply with applicable laws and statutes as well as generally accepted practices. Additionally, the Company's operations are guided by Valmet's Code of Conduct, internal policies and guidelines as well as the Company values. Valmet's Code of Conduct describes the Company's corporate culture, commonly accepted practices and commitment to compliance with laws and regulations.

In addition to the laws and regulations, the foundation of Valmet's Code of Conduct is the UN Universal Declaration of Human Rights, the UN Global Compact initiative, which the Company has endorsed, and the International Labor Organization's (ILO) declaration on Fundamental Principles and Rights at Work. When applicable, the OECD's Guidelines for Multinational Enterprises are also incorporated into Valmet's Code of Conduct. Valmet requires that each one of the Company's employees is familiar with the legislation and operating guidelines of their own areas of responsibility. Business management is responsible for the internal control of the operations in their respective sector. Valmet strives to ensure that everyone in the Company is familiar with and compliant with the laws, regulations and principles relating to their own work. In addition to Valmet's management, the due course of operations is monitored by the Audit Committee, which reports any misconduct to the Board of Directors.

Reporting Suspected Misconduct

Valmet's guidelines on the prevention of misconduct define how suspected misconduct should be reported, how it is investigated and how the issue proceeds. Valmet employees are encouraged to report suspected misconduct to their own supervisors, the Hu-

Roles and responsibilities in risk management



man Resources function, to other management or, if necessary, directly to Legal Affairs and Corporate Internal Audit. Valmet employees and third parties can also report suspected misconduct anonymously either by telephone or through a web-based channel managed by an external service provider. Allegations are investigated confidentially without undue delay. In 2018 the Company was informed of 8 cases. None of the cases have a significant impact on Valmet’s financial result. Valmet has enforced a principle that there is no retaliation to the one who reports. This is monitored by the Audit Committee. The Head of Internal Audit reports the related cases regularly to the Audit Committee. The Legal Affairs and HR functions together implement any measures consequential to the misconduct.

Internal Audit

Valmet’s Internal Audit assists the company in achieving its objectives by providing a systematic and disciplined approach to evaluate and improve risk management, internal control and governance processes. This includes assessing efficiency and effectiveness of operational processes and compliance with Valmet policies and procedures, as well as providing advice and support in improving the processes. The purpose, authority and responsibilities of Internal Audit are defined in the Internal Audit Charter approved by the Audit Committee. Internal Audit work is risk based, independent, objective and based on the International Standards for the Professional Practice of Internal Auditing. The Head of Internal Audit reports administratively to the CFO and functionally to the CEO and to the Audit Committee. All significant audit findings are reported to the Audit Committee which also approves the annual audit plan.

Internal Audit in 2018

In 2018 Internal Audit completed the annual audit plan covering both a sample of Valmet locations and Valmet or Business Line level processes. Internal Audit also worked with internal stakeholders in consultative assignments and development initiatives and took part in investigating suspected misconduct cases. Improving the co-ordination and collaboration between the various teams performing audits in Valmet and increasing the maturity of Valmet’s audit processes is an on-going development and focus area for Internal Audit.

Related party transactions

During the financial period Valmet did not have material related party transactions or such transactions deviating from the Company’s normal business operations or that were not made on market or market equivalent terms taking into account the market practices generally observed and accepted by the industry in which Valmet operates.

Main procedures relating to insider administration

Valmet adheres to the Nasdaq Helsinki Ltd’s Guidelines for Insiders of Listed Companies, the Market Abuse Regulation, “MAR” (596/2014/EU) and other applicable laws and regulations relating to insiders. This is supplemented with internal insider guidelines approved by the Board of Directors. The internal insider guidelines include provisions on; what is inside information, insider groups, restrictions on trading, insider projects and on the management of insider issues, i.a. specifying tasks of management and the person in charge of the insider issues, advance evaluation and supervision of insider issues.

Valmet's insider guidelines are regularly maintained to reflect any changes in applicable laws, stock exchange guidelines and instructions by authorities and the guidelines are made available to all Valmet employees.

Valmet's insider administration provides guidance and support to Valmet's management and employees on the interpretation and application of insider guidelines.

Management transactions

Valmet's members of the Board of Directors, the CEO and members of the Executive Team ("Managers") have a duty to notify any transaction with Valmet's financial instruments. The Company maintains a list of the Managers and their closely associated persons (natural and legal). The Managers and their closely associated persons are obliged to notify Valmet and the Finnish Financial Supervisory Authority of every transaction conducted on their own account relating to Valmet's financial instruments (in excess of EUR 5,000 annually, without netting). Valmet will disclose each such transaction as a stock exchange release. While not legally obliged to do so but for the sake of transparency, Valmet has at the Managers' consent maintained an up-to-date list of Managers' shareholdings, available at <https://www.valmet.com/investors/shareholders/management-shareholding/>.

Closed window

Valmet's Managers, as defined above, are prohibited to trade in Valmet's issued securities during the "closed window", i.e. 30 days immediately prior to the publication of a Valmet interim review or financial statements release. By Valmet's decision, the closed window also applies to an extended group of certain named Valmet employees having continuous access to the company's financial reporting systems. The prohibition to trade applies, whether or not an individual subject to the closed window actually holds any inside information at that time.

Project-specific insiders

Valmet also maintains project-specific insider lists when necessary, by including any individuals having information of the project. For avoidance of doubt, also the Managers and persons subject to the closed window may be included in the project-specific insider lists, as well as external advisors and other third parties having knowledge of the project. Project-specific insiders are absolutely prohibited from trading with Valmet's financial instruments until the termination of the project. Inclusion to project-specific insiders lists will always be separately informed to affected individuals.

Auditors

According to the Articles of Association, Valmet has one auditor, which must be a firm of public accountants certified by the Finland Chamber of Commerce. The Audit Committee prepares the auditor selection process.

The auditor's statutory obligation is to audit the Company's accounting, the Board of Directors' report, financial statements and administration for the financial year. The Company's auditor must also audit the consolidated financial statements and other mutual relationships between group companies.

In conjunction with Valmet's Financial Statements, the auditor gives the Company's shareholders an Auditor's Report as required by law. The auditor reports primarily via the Audit Committee and at least once a year to the Board of Directors. The Audit Committee evaluates the performance and services of the independent auditors each year and decides if there is a need to arrange an open tender process.

Authorized Public Accountant PricewaterhouseCoopers Oy with Jouko Malinen as principal auditor was elected as Valmet's auditor by the Annual General Meeting 2018. Authorized Public Accountant PricewaterhouseCoopers Oy has been Valmet's auditor since the Annual General Meeting in 2014.

Audit fees 2018

Audit fees 2018 (paid to PricewaterhouseCoopers companies)

EUR million	Auditor's fees and services
Auditing	1.7
Non-audit related fees (tax and other consulting fees)	0.5
Total	2.2

Valmet reports 2018



ANNUAL REVIEW 2018

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



GRI SUPPLEMENT 2018

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



FINANCIAL STATEMENTS 2018 AND INFORMATION FOR INVESTORS

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



CORPORATE GOVERNANCE STATEMENT 2018

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



REMUNERATION STATEMENT 2018

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

About this report

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

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

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

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